

COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

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INTRODUCTORY SECTION



DEPARTMENT OF FINANCIAL & MANAGEMENT SERVICES MONTGOMERY COUNTY

ANGELA M. HILL, CPA, DIRECTOR

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

November 30, 2018

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, 2018, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unmodified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

THE REPORTING ENTITY

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

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

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

ORGANIZATION OF GOVERNMENT

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 393 square miles, and has a population of approximately 99,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth-largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

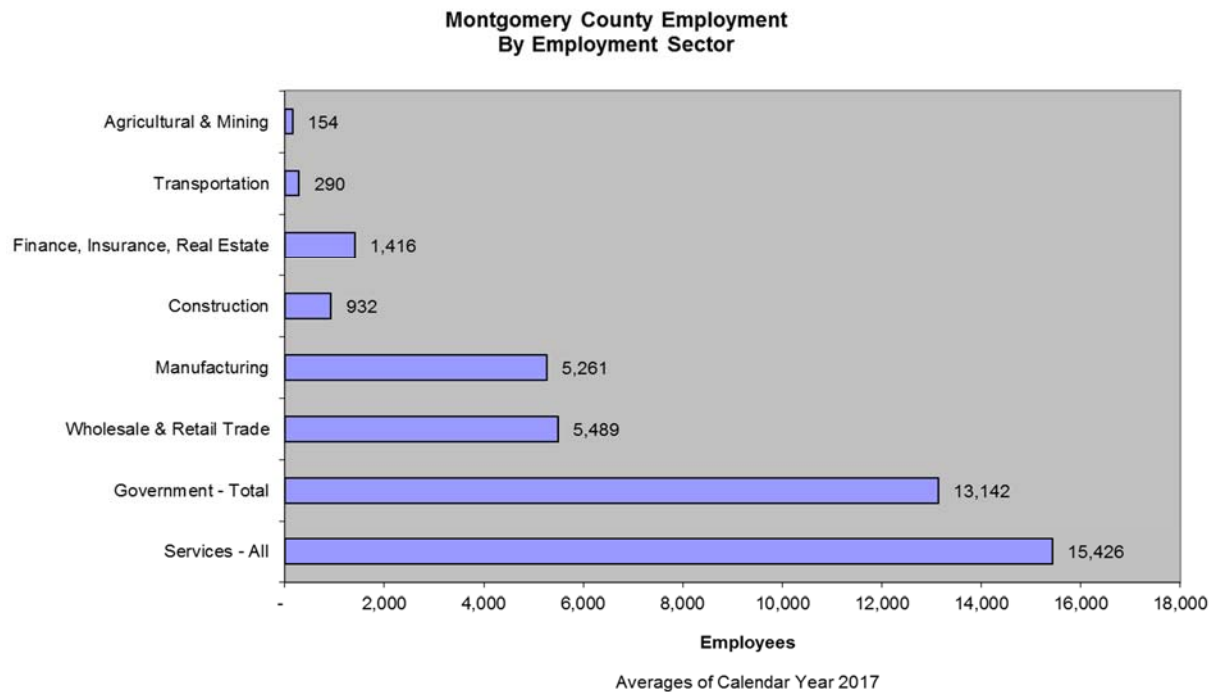
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market remains consistent with the state as a whole. The average unemployment rate in Montgomery County between July 2017 and June 2018 was 3.4%, which remains historically below the average in the New River Valley. The percentage ranged from a low of 2.7% in April and May 2018 to a high of 4.1% in July 2017. The unemployment rate for the County over the past 10 years (2008-2017) averaged 5.35%, reaching a high of 7.1% in 2010 and a low of 3.8% in 2017. The pool of available labor has also remained stable for the past decade in Montgomery County, which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities on average was higher than the statewide average of 3.8% for calendar year 2017, with Montgomery and Floyd Counties reporting the lowest rates of 3.8% and 3.7% for the year. The other localities of Giles, Pulaski, and the City of Radford averaged 5.0% unemployment during the same period. Employment within Montgomery County represented 55.2% 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 2017:



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

Slight increases in employment were broad based, covering several economic sectors. The total increase in the number of jobs was 253 across all sectors, resulting in an increase of .6% from the previous year. Only three areas experienced declines – wholesale and retail trade was down 2.1%, finance, insurance and real estate was down 4.7% and agricultural and mining was down (for the second straight year) 9.4%.

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

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 53 buildings, entailing more than 1.3 million square feet of office and lab space, and is home to over 180 high-tech companies and research facilities which collectively employ more than 3,000 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" – globally – by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development-oriented companies operating in the information technology, biotechnology, and advanced materials industries.

Montgomery County's second largest industry sector, government, provides 31.2% of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large number of state workers employed by Virginia Tech, one of the Commonwealth's largest public universities and the largest employer in the County with approximately 12,900 employees. Another 1,400 individuals are

employed through the Montgomery County Public School System, making education the largest employment sector in the County.

There were several new developments, both commercial and residential, underway in fiscal year 2018. In the Town of Christiansburg, the former Kmart property was redeveloped for a Hobby Lobby and Aldi with an expected investment of \$9,000,000. In downtown Blacksburg, a local developer purchased a 20-acre tract, which was the site of the former Blacksburg Middle School. At the corner of Prices Fork Road and University City Boulevard, a developer purchased 6.7 acres and developed 40,000 square feet of retail space and two six-story hotels. The former Prices Fork Elementary School property was sold to a developer who is converting the building into 32-apartment senior housing, a community kitchen, and restaurant.

Since January 2014, companies in Montgomery County have announced nearly \$52 million in new capital investment (industrial/commercial, non-retail) and the addition of 874 related jobs as shown in the chart below.

Business Announcements, Montgomery County, Virginia:

Company Name	Business Description	New Jobs	Investment (millions)
Block.One	Blockchain technology	344	\$7.00
Torc Robotics	Autonomous vehicles and robotics	60	\$3.00
Aeroprobe	Producer of air data measurement tools	10	\$0.30
Modea	Provider of web, application development, and marketing analytics solutions	55	\$0.10
Spectrum Brands	Pet, home, and garden division of consumer products manufacturer	0	\$7.28
Qualtrax, Inc.	Creator of compliance software	35	\$2.00
TORC Robotics LLC	Autonomous vehicles and robotics	8	\$2.70
Polymer Solutions Incorporated	Laboratory, chemical analysis, physical testing, research and development and litigation services	5	\$2.90
Luna Innovations	Research & Development for Biomedical	0	\$1.70
InMotion US	Electric Motors	24	\$5.00
Wolverine	Gaskets	93	\$10.00
Hubbell Lighting	LED Lighting Products	100	\$6.10
Corning	Manufacturers Catalytic Convertors for cars and heavy trucks	0	\$0.80
Polymer Solutions Incorporated	Laboratory and testing services for plastics and rubber manufacturers	19	\$0.65
Inorganic Ventures	Manufacturer of inorganic chemical standards	0	\$0.10
VPT, Inc.	Manufacturer of power components for use in avionics, military, and space	16	\$1.00

Company Name	Business Description	New Jobs	Investment (millions)
Ozmo App	Consulting to tech companies and their consumers solve any device issues quickly and effectively	55	\$0.56
Java Productions	Custom solutions for technology and business problems	20	\$0.10
ProChem Inc.	Industrial water and wastewater treatment	30	\$0.40

New expansions during FY 2018 included Aeroprobe Corporation, Modea, Spectrum Brands, and Qualtrax Inc., all existing industries in the County. Aeroprobe Corporation announced their plans to invest \$300,000 to expand operations in Montgomery County, through the addition of solid-state additive manufacturing machines that will increase capabilities and create 10 new jobs. Spectrum Brands announced plans to invest more than \$7.3 million in its Montgomery County operations to purchase equipment and upgrade its production processes. Modea and Qualtrax Inc. also announced expanded operations in 2017 including investments of \$100,000 and \$2 million, creating 55 and 35 new jobs, respectively.

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

MAJOR INITIATIVES

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

For the Year

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for 2018 include:

The 2018-2022 Capital Improvement Program

The Capital Improvement Program (CIP) for 2018 through 2022 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and the school system. The five-year Capital Improvement Program totals \$45.9 million and is comprised of County Capital Improvements of \$25.1 million and School Capital Improvements of \$20.8 million.

Since 2009, the Board of Supervisors has earmarked a portion 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. One and a half cents of the rate have been set aside annually since FY 2017. 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.

In FY 2017, the County added \$400,000 as an ongoing source of funding to address major capital repairs and large scale components that cannot be addressed within the General Fund. In FY 2018, an additional

\$100,000 was added to provide \$500,000 as an ongoing source of funding. Examples of projects include roofing replacements, heating ventilation and air conditioning (HVAC) upgrades, flooring, paving, and other major facility system upgrades.

Capital Projects Completed During the Year

Public safety remains a priority with \$866,417 in fire and rescue equipment purchases in fiscal year 2018 based on recommendations of the Fire and Rescue Commission. Equipment purchases included a new response vehicle and fire truck for the Christiansburg Fire Department and a new ambulance for the Christiansburg Rescue Squad.

For the Future

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

- In September 2016, the County purchased 45.3 acres in Riner at a cost of \$360,000 to build a new fire station and provide additional parks and recreation space. The new fire station is estimated to cost \$5.8 million. The 19,148 square foot station will be more than double the size of the current station and will have six fire apparatus bays; a work room for equipment; training and meeting space; offices; positive pressure turnout gear room and a decontamination room.
- The County has set aside cash-to-capital monies for future new school capital construction. In FY 2014, the County appropriated \$3 million and began earmarking 2 cents of the real estate tax rate on a yearly basis to add to the School Capital Fund. The County also sold surplus school properties and transferred the proceeds into the fund. The total accumulated monies from FY 2014 through FY 2018 is \$15 million. The majority of these funds have been allocated to project accounts as requested by the school board to cover various school capital projects:
 - Falling Branch Elementary School expansion project - \$10.3 million
 - Christiansburg Elementary School land - \$0.5 million
 - Christiansburg High School athletic facilities - \$3.9 million

Department Focus – Animal Care and Adoption Center

In the spring of 2017, the County completed construction of a new Animal Care and Adoption Center. Prompted by a needs assessment, feasibility study and building program by Shelter Planners of America completed in 2009, the foundation for the new 16,300-square-foot facility was set into motion. The facility includes enclosed space of 12,600 square feet and a 3,700 square foot covered space. A groundbreaking ceremony was held in December 2015. Interest earned on bond proceeds and cash-to-capital monies set aside by the Board provided the funds for this project. The total cost of the project was \$4.3 million.

The Montgomery County Animal Care and Adoption Center opened its doors to the public on April 29, 2017, replacing a 1970's era "pound" facility. With the opening of the new facility came increased animal capacity, expanded to include space for cats for the first time, and a new adoption oriented, no kill philosophy under which no healthy or treatable animal is euthanized. A key partnership with the Community Practice of the Virginia-Maryland College of Veterinary Medicine allows Center animals to be examined and tested for contagious and life threatening diseases, while providing an opportunity for vet students to learn in a lower stress environment.

The mission of the Montgomery County Animal Care and Adoption Center is to foster a culture of compassion within our community by being a valuable resource for health services, education and recreation for animals and their people. We are committed to finding every healthy and

treatable animal in our care a forever home, preventing all forms of cruelty to animals, and creating a happier and healthier animal population through spay/neuter, sheltering, adoption, education and community outreach.

During the first year of operation, the Animal Care and Adoption Center saw 1,607 animals come through its doors. Of those animals 60% were adopted, 22% were reclaimed by their owners, and 14% were transferred to other rescue facilities. These percentages equate to a 96% live release rate in the Center's first year of operation, well above the 2017 average of 77% for all publicly owned shelters in Virginia. Maintaining a consistent social media presence as well as attending and hosting special events throughout the year are the top contributors to this success. Almost 2,200 individuals have volunteered at the Center since its inception.

The Animal Care and Adoption Center hosted several events throughout the year including:

- The Center's Grand Opening Celebration
- Two Free Adoption Weekends Sponsored by the ASPCA and Subaru
- Black Cat Appreciation Week
- Shark Week
- Fluffy Cat Friday and Tom Cat Tuesday

These events highlight the Center's available animals, raise awareness of the Center's mission, and provide a draw for the community.

The Animal Care and Adoption Center provides open spaces for educational programing, volunteers, adoptions, and animal care. The Center looks to the future to build on this success, expanding current partnerships and forging new relationships to help the Center better serve the animals and the community as a whole.

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, 2018, reflect cash that will not be received or disbursed until fiscal year 2019.

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, 2017. 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.

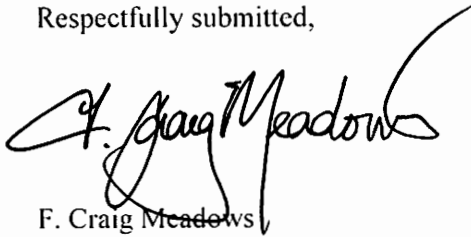
A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last 31 consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



F. Craig Meadows
County Administrator



Angela M. Hill
Director of Financial and Management
Services



Government Finance Officers Association

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

Presented to

**Montgomery County
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

BOARD OF SUPERVISORS

Christopher A. Tuck, Chair
April N. DeMotts, Vice Chair

Mary W. Biggs
Sara R. Bohn
Steve R. Fijalkowski

M. Todd King
Darrell O. Sheppard

COUNTY ADMINISTRATION

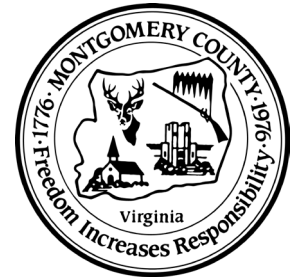
A. Michelle Dickerson	Virginia Cooperative Extension Unit Coordinator
L. Carol Edmonds	Deputy County Administrator
Robert C. Fronk	Director of Public Service Authority
Emily J. Gibson	Director of Planning
Brian T. Hamilton	Director of Economic Development
Jennifer T. Harris	Director of Public Information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

CONSTITUTIONAL OFFICERS

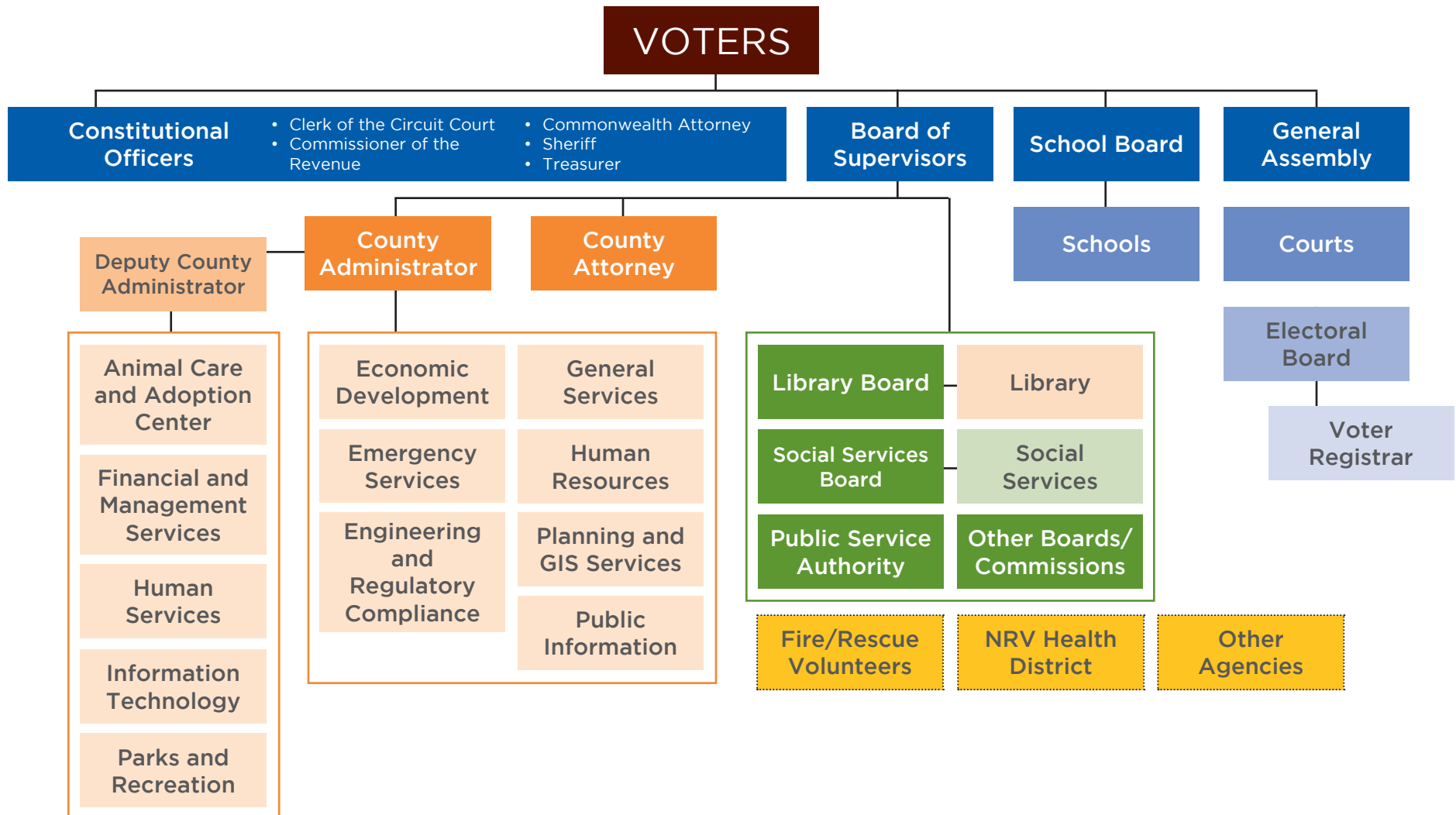
Charles H. Partin	Sheriff
Mary K. Pettitt	Commonwealth Attorney
Helen P. Royal	Commissioner of the Revenue
W. Richard Shelton	Treasurer
Erica W. Williams	Clerk of the Circuit Court

Montgomery County, Virginia

Organization Chart



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



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and each major fund of the County, as of June 30, 2018, 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 21 to the financial statements, in 2018, the County adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2018

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, 2018. 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 2018

- Total net position for governmental activities was \$158 million at June 30, 2018. This figure is based on assets and deferred outflows of \$372 million and liabilities and deferred inflows of approximately \$214 million.
- Total general fund revenues fell short of the final estimated amount by approximately \$1.7 million.

Grant funding does not follow the fiscal year, therefore funds appropriated during the year are often received the following year. As a result, intergovernmental revenues fell short of estimates by approximately \$3.3 million. This was partially offset by personal property tax revenue exceeding the estimate by \$1.4 million primarily from \$0.8 million in public service corporation taxes and \$0.6 million in real estate taxes.

- Actual expenditures were \$17.5 million less than the final expenditure appropriation. As always, the County received and included in the final approved budget various grant awards during the year; however, not all were expended before year-end. Orders had been placed, but goods not received at year-end of approximately \$1.4 million for the County and \$2.7 million for the Schools.

General government administration expenditures totaled \$2.6 million less than appropriated. Funds were appropriated and encumbered for the reassessment contract which comprised approximately \$277,000 of this amount. The Human Resources Department carried over funds for an employee career development program, which, when combine with the current year allocation, resulted in unspent funds totaling \$200,000. These funds will be used pending implementation of a career development program. Vehicles for the motor pool had been ordered but not received at June 30, which resulted in a balance of just over \$220,000. General and Special Contingencies had remaining balances of just over \$400,000 and \$800,000, respectively. The use of General Contingencies varies from year to year based on the amount of funding needed for unanticipated costs. The County's financial policies require one percent of the County's general fund be set aside for contingencies each year. Of the \$486,000 designated in fiscal year 2018, a balance of \$422,000 remained at year end. Of the Special Contingency amount, \$250,000 is for the Access to Community College Education program which began after June 30, and \$500,000 is for implementation of the County's Compensation and Classification plan which was effective July 1, 2018. The remaining difference results from vacancy savings and conservative fiscal management across all areas.

Public safety expenditures were approximately \$3 million less than budgeted. Public safety grants and related restricted funds were \$560,000 less than budgeted as the grants cycles did not follow the fiscal year. Similarly, fire and rescue departments had approximately \$150,000 in year-end funding that was allocated for projects that were not yet completed. The County's payments to the Western Virginia Regional Jail were more than \$1.1 million less than planned as the County's inmate population at the jail was less than expected. The County's contribution to the New River Detention Home was \$150,000 less than anticipated; however, these funds will be used in future years to provide the County's share of capital improvements at the facility. Other savings came from turnover and vacancy personnel savings combined with lower than budgeted health insurance expense.

Public works expenditures were almost \$940,000 less than budgeted due to personnel vacancy savings, lower than expected tipping fees for solid waste disposal and less maintenance costs than anticipated.

Health and welfare expenditures ended with a budgetary balance of \$1.3 million. Expenditures associated with the Children's Services Act vary based on cases referred to the program by judges and the schools. The current year budget exceeded expenditures in this program by \$890,000. Welfare expenditures were also lower than budgeted by almost \$200,000. These expenditures did not result in true savings for the County as a large portion of them were backed by state revenues rather than locally generated revenues. The state revenues were not collected since they were not needed to offset the expenditures.

Parks, recreation, and culture along with community development began grant and other special projects during the year that were not completed. This resulted in variances of \$438,000 and \$3.9 million, respectively. The community development projects are road projects that will be funded by the Virginia Department of Transportation and developers rather than the County. Parks, recreation, and culture also recognized vacancy and health insurance savings.

Finally, the Montgomery County School Board (the Schools) spent approximately \$4.5 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower. The schools had placed orders for goods that were not received by year end of approximately \$2.7 million.

Net position of the Public Service Authority at June 30, 2018 was up approximately \$559,000 from the previous year. This was the result of facility fees increasing \$704,000 from the prior year due to a residential development.

- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$25.5 million, or 13.2% of fiscal year 2018 general and school operating fund revenues less the general fund transfer to the school operating fund. The Board of Supervisors has adopted a policy to keep maintain this percentage at a minimum of 12%.
- In 2018, the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The overall effect of this new standard is to reflect the County's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability which has now been recorded, was only disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the County record a net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 21, and this has had a significant impact on the County's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of \$71.2 million, an increase of \$4.2 million in comparison with the prior year. The increase was due to higher than anticipated property tax revenue previously discussed (\$1.4 million), combined with lower than anticipated spending as described earlier. Ending fund balance was comprised of: \$7.2 million, nonspendable; \$4.8 million, restricted; \$22.8 million, committed; \$10.9 million, assigned; and \$25.5 million, unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22.3% of total general fund expenditures, while total fund balance represents 44.3% of that same amount.

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Component Units	
	2018	2017	2018	2017
Current and other assets	\$87.4	\$82.8	\$25.0	\$21.9
Capital assets	276.0	283.5	44.1	35.1
Total assets	<u>\$363.4</u>	<u>\$366.3</u>	<u>\$69.1</u>	<u>\$57.0</u>
Deferred outflows of resources	<u>\$8.5</u>	<u>\$10.8</u>	<u>\$12.7</u>	<u>\$13.9</u>
Long-term liabilities	\$194.8	\$213.8	\$120.4	\$120.4
Other liabilities	15.9	15.6	16.8	17.3
Total liabilities	<u>\$210.7</u>	<u>\$229.4</u>	<u>\$137.2</u>	<u>\$137.7</u>
Deferred inflows of resources	<u>\$3.1</u>	<u>\$1.7</u>	<u>\$10.5</u>	<u>\$2.5</u>
Net position:				
Net investment in capital assets	\$108.8	\$101.1	\$30.5	\$19.8
Restricted	2.7	3.4	-	-
Unrestricted	46.6	41.5	(96.4)	(89.1)
Total net position	<u>\$158.1</u>	<u>\$146.0</u>	<u>(\$65.9)</u>	<u>(\$69.3)</u>

Governmental Activities

Total net position shown above for governmental activities is \$158.1 million or \$12.1 million more than in 2017. Total assets decreased \$2.9 million, while long-term liabilities decreased \$18.7 million due to principal repayments. No debt was issued nor refunded in 2018.

Component Units

Total net position shown above for component units is \$(65.9 million) for 2018, relatively unchanged from \$(69.3 million) in 2017. This consists of a net position for the Public Service Authority of \$13.0 million, a deficit in net position of \$78.8 million for the School Board, and a deficit net position of \$75,000 for the Economic Development Authority.

Summary of Activities:

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

	Governmental Activities		Component Units	
	2018	2017	2018	2017
Revenues				
Program revenues:				
Charges for services	\$ 2.7	\$ 3.0	\$ 8.9	\$ 8.2
Operating grants and contributions	15.7	13.2	62.6	60.6
Capital grants and contributions	-	-	-	0.1
General revenues:				
Property taxes	88.9	86.6	-	-
Other taxes	13.2	12.7	-	-
Payments from Montgomery County	-	-	56.9	47.3
Grants and contributions not restricted to specific purposes	5.2	5.2	-	-
Contributions from other governments	-	-	-	-
Other	6.8	1.7	0.1	0.1
Total revenues	132.5	122.4	128.5	116.3
Expenses				
General government	7.0	6.7	-	-
Judicial administration	3.2	3.3	-	-
Public safety	15.0	15.6	-	-
Public works	7.8	7.0	-	-
Health and welfare	7.3	7.6	-	-
Education	61.3	53.8	107.8	110.0
Parks, recreation and cultural	3.2	3.2	-	-
Community development	6.5	2.2	1.3	1.9
Water	-	-	2.3	2.2
Waste water	-	-	1.8	2.0
Interest on long-term debt	7.5	8.2	-	-
Total expenses	118.8	107.6	113.2	116.1
Change in net position	13.7	14.8	15.3	0.2
Net position-beginning, restated	144.4	131.2	(81.2)	(69.5)
Net position-ending	<u>\$ 158.1</u>	<u>\$ 146.0</u>	<u>\$ (65.9)</u>	<u>\$ (69.3)</u>

Revenues

For the fiscal year ended June 30, 2018, revenues from governmental activities totaled \$132.5 million, an increase of \$10.1 million. The County sold the former Blacksburg Middle School and Blacksburg High School properties which resulted in revenue of more than \$5 million. Grants and developer contributions, primarily for community development projects provided an additional \$2.5 million, and while the real estate tax rate remained level at \$0.89, growth in property tax revenue also provided a \$2.3 million increase.

Component unit revenues total \$128.5 million, including a \$45.6 million transfer from the general fund to the schools. This includes \$45.4 million for operations and \$8.7 million for capital. 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 \$17.6 million, which brings the total provided for school purposes to \$63.2 million.

Expenses

Expenses for governmental activities totaled \$118.8 million in 2018, an increase of \$11.2 million from 2017. Education expenses under the full accrual basis of accounting increased \$7.5 million. Community development expenditures also increased by \$4.3 million for road projects and the renovation of the former Price's Fork Elementary School which is funded through grants and developer contributions. Funding for public safety decreased approximately \$600,000 due to a decrease in the County's share of the Western Virginia Regional Jail, which is based on usage. The County's original approved budget included an increased transfer to the schools of \$1 million more than 2017; however, the County provided additional funds of just under \$3.6 million during the year. School expenses decreased \$2.2 million on a full accrual basis. This includes adjustments for pension expenses.

Expenses for component unit – Public Service Authority expenses decreased slightly from \$4.2 million in the prior year to \$4.1 million in 2018.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$45.6 million to the operation of the schools. Depreciation expense related to the schools totaled \$6.4 million.

Total expenses for education were \$61.3 million. This amount represented about 51.6% of governmental activity expenses. When interest for school related projects is included, the County contributed \$67.9 million, or 63%. On the cash basis of accounting, total school expenses, including expenses funded through the state and federal government and debt service for school related projects, were equal to 70.6% of the general fund expenses (excluding payments to the schools), plus school operating fund expenses for 2018.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2018, the governmental funds reflect a combined fund balance of \$71.2 million, an increase of \$4.2 million from June 30, 2017. This consisted of \$50.6 million in the general fund and \$20.6 million in the county capital improvements fund. The general fund balance increased \$8.0 million in fiscal year 2018. The school operating fund spent \$4.2 million less than permitted by the revised budget, which resulted in a correspondingly lower than budgeted transfer to the schools from the general fund. The balance was transferred to the schools after year end for one-time uses. The county capital projects fund balance decreased \$3.9 million as funds transferred in previous years, primarily for the Riner Fire Department were used in the current year.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2018 in millions:

	Original Final		
	Original	Amended	
	Budget	Budget	Actual
Revenues			
Taxes	\$ 100.6	\$ 100.6	\$ 102.2
Intergovernmental	18.4	24.1	20.8
Other	2.7	5.3	5.2
Total	121.7	130.0	128.2
Expenditures and transfers	122.1	142.8	125.2
Change in fund balance	\$ (0.4)	\$ (12.8)	\$ 3.0

Increases in intergovernmental and other revenue categories made up the changes from the original to the final budget. Several significant grants, the sale of real estate and the commencement of several special projects were budgeted during the fiscal year to account for the \$5.7 million and \$2.6 million respective increases in these categories. Less significant budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

The increase in the final budget for expenditures over the original budget of \$20.7 million resulted primarily from:

- Encumbrances of \$1.7 million and \$2.0 million for the County and Schools, respectively;
- Carryovers from the fiscal year 2017 budget of \$756,000 for the general fund, and \$1.5 million for the schools;
- Funding for the new Riner Fire Station of \$2.0 million;
- Funding to purchase additional property for the Falling Branch Corporate Park of \$980,000;
- Funding for special road projects that will pass-through the County of \$3.7 million;
- Funding from the sale of the old Blacksburg Middle School that will be used future capital projects (\$1.25 million)
- Funding for County capital projects including fire and rescue radio upgrades (\$350,000), information technology projects (\$340,000)
- Funding for one-time needs for schools (\$540,000);
- Grant funding that will pass through the County for renovation to the former Price's Fork Elementary School (\$1.2 million);
- Funding for road maintenance projects to match state funds (\$200,000);
- Grants and various other one-time expenditures throughout the year account for the remaining difference.

Actual tax revenue exceeded the budgeted by \$1.6 million. The real estate tax rate remained level at \$0.89 per \$100 of assessed value. Prepaid property taxes and public service corporation taxes collected were \$600,000 and \$800,000 higher than budgeted, respectively, contributing to the variance. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Actual expenditures and transfers were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was \$4.5 million less than the budgeted amount. This is due in part to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The schools had \$2.2 million in outstanding purchase orders at June 30. The balance of the transfer to the schools and the funds associated with 2018 outstanding purchase orders for the schools were approved by the Board of Supervisors and transferred to the schools in fiscal year 2019.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the County had invested \$276.1 million, net of accumulated depreciation, in a variety of capital assets including buildings, park facilities, and sheriff and fire protection.

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

	Governmental Activities		Component Units	
	2018	2017	2018	2017
Non-depreciable assets				
Land	\$ 14.7	\$ 14.7	\$ 0.5	\$ 0.7
Intangible asset	-	-	0.9	0.9
Construction in progress	1.0	-	10.4	0.9
Depreciable capital assets				
Infrastructure	-	-	32.5	32.5
Buildings and improvements	318.1	317.8	33.9	33.0
Machinery and equipment	24.6	23.8	18.9	19.2
Accumulated depreciation	(82.3)	(72.8)	(61.9)	(61.4)
Total	\$ 276.1	\$ 283.5	\$ 35.3	\$ 25.8

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

	Balance June 30, 2017	Net Additions/ (Deletions)	Balance June 30, 2018
Non-depreciable assets			
Land	\$ 15.4	\$ (0.20)	\$ 15.2
Intangible assets	0.9	-	0.9
Construction in progress	0.9	10.5	11.4
Depreciable capital assets			
Infrastructure	32.5	-	32.5
Buildings and improvements	350.8	1.2	352.0
Machinery and equipment	43.0	0.5	43.5
Accumulated depreciation	(134.2)	(10.0)	(144.2)
Total	\$ 309.3	\$ 2.1	\$ 311.4

Governmental Activities

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

Long-Term Debt

The following table displays the Governmental and Component Unit outstanding debt at June 30, 2018, in millions of dollars:

	Governmental Activities		Component Units	
	2018	2017	2018	2017
General obligation bonds	\$ 38.6	\$ 44.1	\$ -	\$ -
Lease revenue bonds	7.5	12.4	-	-
Literary loans	1.0	1.3	-	-
Refunding bonds	111.5	115.8	-	-
Revenue bonds	-	-	4.9	5.2
Total	\$ 158.6	\$ 173.6	\$ 4.9	\$ 5.2

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

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

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

As of June 30, 2018, the County was in compliance with all debt policies.

ECONOMIC FACTORS

As of October 2018, the County's and state's average unemployment rate were both 2.9 percent, a decrease from the previous year's rates of 4.2 percent.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2018

	Primary Government	Component Units		
	Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Assets				
Cash and cash equivalents (Note 4)	\$ 66,798,734	\$ 3,073,890	\$ 4,106,714	\$ 56,115
Receivables, net (Note 5)	7,875,769	658,637	-	14,515
Due from primary government	-	18,202	7,769,282	35,603
Due from other governmental units (Note 6)	3,241,814	-	2,645,941	-
Prepays	148,628	-	605,675	-
Inventories	-	31,630	138,985	5,376,728
Advances to component units (Note 17)	5,631,254	-	-	-
Restricted assets:				
Cash and cash equivalents (Note 4)	484,059	74,520	-	-
Investments (Note 4)	2,653,992	-	-	-
Notes receivable (Note 17)	516,627	-	-	-
Lease incentives	-	-	-	321,568
Capital assets: (Note 8)				
Non-depreciable	15,644,099	1,246,524	10,568,543	6,784
Depreciable, net	260,412,333	15,419,481	8,022,927	8,903,199
Total assets	363,407,309	20,522,884	33,858,067	14,714,512
Deferred Outflows of Resources				
Deferred charge on refunding	6,519,955	-	-	-
Deferred outflows related to pensions (Notes 11 and 12)	1,905,558	89,373	11,570,980	-
Deferred outflows related to other postemployment benefits (Notes 13 and 14)	88,931	4,258	1,075,057	-
Total deferred outflows of resources	8,514,444	93,631	12,646,037	-
Liabilities				
Accounts payable and accrued expenses	3,191,557	255,660	1,793,591	115,281
Accrued payroll and related liabilities	986,368	46,779	8,749,646	-
Accrued interest payable	2,610,130	5,129	-	-
Amounts held for others	484,059	-	-	-
Advances from primary government (Note 17)	-	5,145	-	5,626,109
Due to other governmental units (Note 6)	753,622	-	-	-
Due to component units	7,819,683	-	-	-
Unearned revenue	-	-	74,877	-
Customer deposits	-	74,520	-	10,000
Long-term liabilities:				
Net pension liability (Notes 11 and 14)	10,948,169	513,482	81,462,436	-
Net other postemployment benefit liability (Notes 13 and 14)	3,411,280	274,730	18,959,534	-
Due within one year (Note 9)	16,936,502	438,834	2,796,634	407,745
Due in more than one year (Note 9)	163,554,153	5,850,878	1,155,788	8,630,558
Total liabilities	210,695,523	7,465,157	114,992,506	14,789,693
Deferred Inflows of Resources				
Property taxes (Note 5)	595,894	-	-	-
Deferred inflows related to pensions (Notes 11 and 12)	2,290,210	107,414	9,582,190	-
Deferred inflows related to other postemployment benefits (Notes 13 and 14)	237,539	14,856	768,024	-
Total deferred inflows of resources	3,123,643	122,270	10,350,214	-
Net Position				
Net investments in capital assets	108,865,524	11,741,294	18,591,470	388,307
Restricted:				
Debt service	2,653,992	-	-	-
Unrestricted	46,583,071	1,287,794	(97,430,086)	(463,488)
Total net position	\$ 158,102,587	\$ 13,029,088	\$ (78,838,616)	\$ (75,181)

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

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units		
					Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Primary Government:								
Governmental activities:								
General government administration	\$ 7,026,591	\$ 204,059	\$ 458,997	\$ -	\$ (6,363,535)			
Judicial administration	3,180,741	459,476	1,353,113	-	(1,368,152)			
Public safety	14,979,387	845,614	4,668,850	-	(9,464,923)			
Public works	7,771,908	380,295	29,694	-	(7,361,919)			
Health and welfare	7,261,426	202,973	5,176,353	-	(1,882,100)			
Education	61,309,632	-	1,258,516	-	(60,051,116)			
Parks, recreational, and cultural	3,261,183	401,787	479,643	-	(2,379,753)			
Community development	6,481,797	251,278	2,245,553	-	(3,984,966)			
Interest on long-term debt	7,551,364	-	-	-	(7,551,364)			
Total governmental activities	\$ 118,824,029	\$ 2,745,482	\$ 15,670,719	\$ -	(100,407,828)			
Component Units:								
Public Service Authority	\$ 4,085,673	\$ 4,624,423	\$ -	\$ -		\$ 538,750	\$ -	\$ -
School Board	107,760,829	3,218,036	62,605,007	-		-	(41,937,786)	-
Economic Development Authority	1,319,166	969,437	-	-		-	-	(349,729)
Total component units	\$ 113,165,668	\$ 8,811,896	\$ 62,605,007	\$ -		538,750	(41,937,786)	(349,729)
General Revenues:								
General property taxes (Note 5)					88,892,123	-	-	-
Sales and use tax					9,275,276	-	-	-
Utility tax					1,829,801	-	-	-
Motor vehicle license tax					749,074	-	-	-
Other local taxes					1,357,923	-	-	-
Intergovernmental revenue, unrestricted					5,235,422	-	-	-
Investment earnings, unrestricted					6,589,756	19,955	117,866	457
Investment earnings, restricted for capital projects					186,480	-	-	-
Payments from Montgomery County					-	-	54,124,959	2,810,624
Total general revenues					114,115,855	19,955	54,242,825	2,811,081
Change in net position					13,708,027	558,705	12,305,039	2,461,352
Net position – beginning, restated (Note 21)					144,394,560	12,470,383	(91,143,655)	(2,536,533)
Net position – ending					\$ 158,102,587	\$ 13,029,088	\$ (78,838,616)	\$ (75,181)

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 46,984,685	\$ 19,814,049	\$ 66,798,734
Receivables, net	7,875,769	-	7,875,769
Due from other governmental units	3,241,814	-	3,241,814
Advances to component unit	5,631,254	-	5,631,254
Restricted assets:			
Cash and cash equivalents	484,059	-	484,059
Investments	-	2,653,992	2,653,992
Notes receivable	516,627	-	516,627
Total assets	<u>\$ 64,734,208</u>	<u>\$ 22,468,041</u>	<u>\$ 87,202,249</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 1,353,614	\$ 1,837,943	\$ 3,191,557
Accrued payroll and related liabilities	986,368	-	986,368
Due to other governmental units	753,622	-	753,622
Due to component unit	7,819,683	-	7,819,683
Amounts held for others	484,059	-	484,059
Total liabilities	<u>11,397,346</u>	<u>1,837,943</u>	<u>13,235,289</u>
Deferred Inflows of Resources			
Unavailable/unearned property taxes	<u>2,757,882</u>	<u>-</u>	<u>2,757,882</u>
Fund Balances			
Nonspendable	7,147,881	-	7,147,881
Restricted	2,163,916	2,653,992	4,817,908
Committed	4,869,635	17,976,106	22,845,741
Assigned	10,895,212	-	10,895,212
Unassigned	25,502,336	-	25,502,336
Total fund balances	<u>50,578,980</u>	<u>20,630,098</u>	<u>71,209,078</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 64,734,208</u>	<u>\$ 22,468,041</u>	<u>\$ 87,202,249</u>

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

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

Ending fund balance – governmental funds	\$	71,209,078
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		276,056,432
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		148,628
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		2,161,988
Deferred premiums and charges on refunding are not financial resources and, therefore, are not reported in the funds.		6,519,955
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to:		
Pensions		1,905,558
Other postemployment benefits		88,931
Deferred inflows related to:		
Pensions		(2,290,210)
Other postemployment benefits		(237,539)
Net pension liability		(10,948,169)
Net other postemployment benefit liability		(3,411,280)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		<u>(183,100,785)</u>
Net position of governmental activities	\$	<u>158,102,587</u>

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

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2018

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 88,885,386	\$ -	\$ 88,885,386
Other local taxes	13,212,074	-	13,212,074
Permits, privilege fees, and regulatory licenses	713,849	-	713,849
Fines and forfeitures	45,564	-	45,564
Revenue from use of money and property	6,872,633	40,145	6,912,778
Charges for services	731,612	-	731,612
Recovered costs	1,210,889	43,568	1,254,457
Intergovernmental	20,906,141	-	20,906,141
Total revenues	132,578,148	83,713	132,661,861
EXPENDITURES			
Current operating			
General government administration	7,854,280	-	7,854,280
Judicial administration	3,289,505	-	3,289,505
Public safety	15,131,067	-	15,131,067
Public works	4,990,527	-	4,990,527
Health and welfare	7,575,530	-	7,575,530
Education	45,356,395	-	45,356,395
Parks, recreation, and cultural	3,245,857	-	3,245,857
Community development	3,970,487	-	3,970,487
Debt service			
Principal retirement	15,023,888	-	15,023,888
Interest and fiscal charges	7,768,871	-	7,768,871
Capital projects	-	14,290,730	14,290,730
Total expenditures	114,206,407	14,290,730	128,497,137
Excess (deficiency) of revenues over expenditures	18,371,741	(14,207,017)	4,164,724
OTHER FINANCING SOURCES (USES)			
Transfers in	-	10,325,691	10,325,691
Transfers out	(10,325,691)	-	(10,325,691)
Total other financing sources (uses)	(10,325,691)	10,325,691	-
Net changes in fund balances	8,046,050	(3,881,326)	4,164,724
FUND BALANCES AT JULY 1	42,532,930	24,511,424	67,044,354
FUND BALANCES AT JUNE 30	<u>\$ 50,578,980</u>	<u>\$ 20,630,098</u>	<u>\$ 71,209,078</u>

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

COUNTY OF MONTGOMERY, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

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

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

Net change in fund balances – total governmental funds		\$ 4,164,724
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation \$10,073,905 exceeded capital outlays \$2,746,265 in the current period.		(7,327,640)
In the statement of activities, only the <i>gain or loss</i> on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the <i>net book value</i> of the property sold.		(136,542)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		6,737
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions		1,905,558
Pension expense		(836,784)
Governmental funds report employer other postemployment benefit contributions as expenditures. However, in the statement of activities, the cost of other postemployment benefits earned, net of employee contributions, is reported as other postemployment benefit expense.		
Employer other postemployment benefit contributions		88,931
Other postemployment benefit expense		(128,978)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Principal repayments		
General obligation bonds	5,496,936	
Lease revenue bonds	4,930,952	
Literary fund loans	250,000	
Refunding bonds	4,346,000	
	<hr/>	15,023,888
Governmental funds report the effect of bond premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In statement of activities, interest is recognized as it accrues, regardless of when it is due. The net effect of those differences are as follows:		
Bond premiums and discounts	970,123	
Interest expense	217,508	
	<hr/>	1,187,631
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.		(239,498)
Change in net position of governmental activities		\$ 13,708,027

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

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, 2018

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 87,533,457	\$ 87,533,457	\$ 88,939,891	\$ 1,406,434
Other local taxes	13,026,031	13,026,031	13,298,381	272,350
Permits, privilege fees, and regulatory licenses	739,024	740,722	711,917	(28,805)
Fines and forfeitures	30,000	30,000	47,269	17,269
Revenue from use of money and property	626,495	1,978,685	2,548,413	569,728
Charges for services	638,094	670,276	708,822	38,546
Recovered costs	664,129	1,874,914	1,191,257	(683,657)
Intergovernmental	18,436,458	24,165,505	20,839,017	(3,326,488)
Total revenues	121,693,688	130,019,590	128,284,967	(1,734,623)
EXPENDITURES				
Current operating				
General government administration	10,152,396	10,685,386	8,071,322	2,614,064
Judicial administration	3,314,705	3,587,902	3,291,339	296,563
Public safety	16,587,545	18,251,201	15,298,213	2,952,988
Public works	5,316,308	5,824,917	4,885,205	939,712
Health and welfare	8,541,158	9,035,131	7,724,914	1,310,217
Education	46,522,010	50,110,648	45,619,476	4,491,172
Parks, recreation, and cultural	3,220,065	3,693,987	3,255,707	438,280
Community development	1,884,748	7,897,308	3,981,023	3,916,285
Debt service				
Principal retirement	15,023,888	15,023,888	15,023,888	-
Interest and fiscal charges	8,335,625	8,335,625	7,767,372	568,253
Total expenditures	118,898,448	132,445,993	114,918,459	17,527,534
Excess (deficiency) of revenues over expenditures	2,795,240	(2,426,403)	13,366,508	15,792,911
OTHER FINANCING USES				
Transfers out	(3,202,000)	(10,325,691)	(10,325,691)	-
Total other financing uses	(3,202,000)	(10,325,691)	(10,325,691)	-
Net change in fund balance	\$ (406,760)	\$ (12,752,094)	\$ 3,040,817	\$ 15,792,911

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Montgomery County School Board

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

Montgomery County Public Service Authority

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

Montgomery County Economic Development Authority

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 \$175,801 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 \$724,494 in tipping fees to the Waste Authority.

New River Valley Metropolitan Planning Organization

The County is a member of the New River Valley Metropolitan Planning Organization (“MPO”). In 2003, the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was created as a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. In 2012, the MPO was expanded to also include the City of Radford and a portion of Pulaski County. The Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was renamed and provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community’s vision. The County has three members within this organization, two of which are voting members. For the current year, the County paid \$19,800 toward operations of the MPO.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the current year, the County paid \$3,127,315 to the WVRJA.

New River Valley Emergency Communications Regional Authority

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority began providing 911 dispatch and emergency communication services to the community and agencies in these localities on July 1, 2016. The Board consist of 5 members, one from each member and all members jointly appoint a fifth member. For the current year, the County paid \$821,033 toward the operations of the Communications Authority.

Montgomery Tourism Development Council

The County, along with the Towns of Blacksburg and Christiansburg, is a member of the Montgomery Tourism Development Council (the "Council"). The Council was formed to stimulate economic opportunity and enhance quality of life by celebrating and sharing the region's culture, heritage, and natural beauty through authentic visitor experiences. The operating board consists of the County Administrator and Town Managers. For the current year, the County paid \$12,059 toward the operations of the Council.

NRV Regional Water Authority

The NRV Regional Water Authority (NRVRWA) operates and maintains a water supply system for the Town of Christiansburg, Town of Blacksburg, Virginia Tech, and Montgomery County. Each governing body appoints one member to the five person Board of Directors, and one at large member. Initially, until the term of one of the current at large members expires, the board will be comprised of six members. The board will then be reduced to five and the one at large member will be appointed by the members of the authority. All indebtedness of the NRVRWA is payable solely from the revenues of the water system. Although the Montgomery County Public Service Authority is one of NRVRWA's customers, neither the County nor the PSA have an obligation for any of its indebtedness. During fiscal year 2018, the PSA paid \$604,860 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 \$557,338 was for water purchases.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The County reports the following major governmental funds:

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

Receivables

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

Inventories

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

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.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

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.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present financial position report a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the County's Plans and the additions to/deductions from the County's Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Estimates

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

Net Position/Fund Balances

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

Net Position/Fund Balances (Continued)

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

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

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

Restricted Amounts

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

Minimum Fund Balance Policy

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2018 total \$1,376,807 in the general fund.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

Budgetary Information (Continued)

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

- Formal budgetary integration is employed as a management control device for the General and Capital Fund. Program and project budgets are utilized for the Capital Fund where funds remaining at the end of the year are reappropriated until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- The Board approved additional General Fund appropriations of \$20,671,236 during the current year primarily for public safety, education, special community development projects, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	Primary Government	Component Unit – School Board	
	General Fund	Operating	Cafeteria
Net change in fund balance (budgetary basis)	\$ 3,040,817	\$ 449,266	\$ (227,443)
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred/unearned revenue:			
June 30, 2018	14,507,582	10,415,223	(74,877)
June 30, 2017	(10,234,574)	(10,891,233)	77,249
Inventory:			
June 30, 2018	-	-	138,985
June 30, 2017	-	-	(139,928)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2018	(10,913,287)	(10,415,224)	(227,807)
June 30, 2017	11,645,512	10,891,234	253,814
Net change in fund balance (GAAP basis)	<u>\$ 8,046,050</u>	<u>\$ 449,266</u>	<u>\$ (200,007)</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-5)	\$ 110,377,888
Principal and other debt service expenditures included in primary Government (Exhibit 4)	17,567,495
Total expenditures for school activities	<u>\$ 127,945,383</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).

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Deposits and Investments (Continued)

Investments (Continued)

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

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

	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 67,282,793	NA	96%
Money market accounts	<u>2,653,992</u>	AAAm	<u>4</u>
Total	<u><u>\$ 69,936,785</u></u>		<u><u>100%</u></u>
Component Units			
PSA			
Demand deposits	<u>\$ 3,148,410</u>	NA	<u>100%</u>
School Board			
Demand deposits	<u>\$ 4,106,714</u>	NA	<u>100%</u>

Deposits and investments are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – PSA</u>	<u>Component Unit – School Board</u>
Deposits and investments			
Cash and cash equivalents	\$ 66,798,734	\$ 3,073,890	\$ 4,106,714
Investments, restricted	<u>2,653,992</u>	-	-
Cash and cash equivalents, restricted	<u>484,059</u>	<u>74,520</u>	<u>-</u>
	<u><u>\$ 69,936,785</u></u>	<u><u>\$ 3,148,410</u></u>	<u><u>\$ 4,106,714</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Deposits and Investments (Continued)

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

During the year, the County invested only in SNAP, which 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 were held in a bank's trust department in the County's name by the County's designated custodian. The County invested in SNAP during the year, but did not hold any SNAP investments at year end.

Restricted Amounts

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 5. Receivables

Receivables are as follows:

		Component Unit	
		Public Service Authority	
	General	Water	Wastewater
Taxes	\$ 4,831,853	\$ -	\$ -
Accounts	4,842,046	406,529	293,108
Gross receivables	9,673,899	406,529	293,108
Allowance for uncollectibles	(1,798,130)	(23,000)	(18,000)
Net receivables	<u>\$ 7,875,769</u>	<u>\$ 383,529</u>	<u>\$ 275,108</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 37% 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	\$ 2,161,988
Unearned	595,894
Total	<u>\$ 2,757,882</u>

Property Taxes

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

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5), less an allowance for uncollectible amounts. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2018 is \$0.89 per \$100 of assessed value.

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	103,320
<u>Town of Christiansburg:</u>	
Sales Tax	155,786
<u>Town of Blacksburg:</u>	
Sales Tax	114,516
	<u>\$ 753,622</u>

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,578,031	\$ -
State sales tax	-	1,432,592
Categorical aid	604,114	-
Categorical aid – schools	-	112,598
Non-categorical aid	354,298	71,207
Excess clerk fees	5,606	-
Virginia public assistance funds	150,363	-
Comprehensive services act	63,001	-
<u>Federal Government:</u>		
Virginia public assistance funds	246,921	-
Categorical aid	239,480	1,029,544
	<u>\$ 3,241,814</u>	<u>\$ 2,645,941</u>

Note 7. Interfund Balances and Transfers

Transfer In	Transfer Out	Amount
County Capital	General	\$ 10,325,691

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 14,679,564	\$ -	\$ -	\$ 14,679,564
Construction in progress	25,527	1,082,251	(143,243)	964,535
Total capital assets, not depreciated	14,705,091	1,082,251	(143,243)	15,644,099
Capital assets, depreciated:				
Buildings and improvements	317,780,826	397,599	(59,253)	318,119,172
Machinery and equipment	23,786,264	1,409,658	(588,326)	24,607,596
Total capital assets, depreciated	341,567,090	1,807,257	(647,579)	342,726,768
Less accumulated depreciation:				
Buildings and improvements	56,503,499	8,612,295	(59,253)	65,056,541
Machinery and equipment	16,248,068	1,461,610	(451,784)	17,257,894
Total accumulated depreciation	72,751,567	10,073,905	(511,037)	82,314,435
Total capital assets, depreciated, net	268,815,523	(8,266,648)	(136,542)	260,412,333
Capital assets, net	<u>\$283,520,614</u>	<u>\$ (7,184,397)</u>	<u>\$ (279,785)</u>	<u>\$276,056,432</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 205,872
Judicial administration	7,622
Public safety	958,724
Public works	2,385,154
Health and welfare	39,384
Education	6,375,507
Parks, recreation, and cultural	83,226
Community development	18,416
	<u>\$ 10,073,905</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

Project	Spent to Date	Remaining Balance
Riner Fire Station	\$ 981,125	\$ 4,601,039
Falling Branch Elementary Renovations	9,369,407	806,399
Christiansburg High School Athletic Renovations	1,016,872	1,915,478

Component Unit – Public Service Authority

	Beginning Balance, restated	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land, improvements, and rights	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	-	29,135	-	29,135
Intangible asset (Note 20)	877,000	-	-	877,000
Total capital assets, not depreciated	1,217,389	29,135	-	1,246,524
Capital assets, depreciated:				
Wastewater systems	17,264,639	-	-	17,264,639
Water systems	15,216,222	-	-	15,216,222
Buildings and improvements	267,622	-	-	267,622
Machinery and equipment	1,496,083	46,150	(43,155)	1,499,078
Total capital assets, depreciated	34,244,566	46,150	(43,155)	34,247,561
Less accumulated depreciation:				
Wastewater systems	9,955,974	414,142	-	10,370,116
Water systems	7,111,075	379,844	-	7,490,919
Buildings and improvements	126,702	14,294	(43,155)	97,841
Machinery and equipment	798,085	71,119	-	869,204
Less accumulated depreciation	17,991,836	879,399	(43,155)	18,828,080
Total capital assets, depreciated, net	16,252,730	(833,249)	-	15,419,481
Capital assets, net	<u>\$ 17,470,119</u>	<u>\$ (804,114)</u>	<u>\$ -</u>	<u>\$ 16,666,005</u>

Depreciation expense was charged to functions as follows:

Water	\$ 423,472
Wastewater	455,927
	<u>\$ 879,399</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Capital Assets (Continued)

Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 359,307	\$ -	\$ (139,010)	\$ 220,297
Construction in progress	876,114	9,804,147	(332,015)	10,348,246
Total capital assets, not depreciated	<u>1,235,421</u>	<u>9,804,147</u>	<u>(471,025)</u>	<u>10,568,543</u>
Capital assets, depreciated:				
Buildings and improvements	32,781,611	894,706	-	33,676,317
Machinery and equipment	17,715,213	1,447,741	(1,744,123)	17,418,831
Total capital assets, depreciated	<u>50,496,824</u>	<u>2,342,447</u>	<u>(1,744,123)</u>	<u>51,095,148</u>
Less accumulated depreciation:				
Buildings and improvements	31,689,978	194,466	-	31,884,444
Machinery and equipment	11,712,940	1,218,960	(1,744,123)	11,187,777
Total accumulated depreciation	<u>43,402,918</u>	<u>1,413,426</u>	<u>(1,744,123)</u>	<u>43,072,221</u>
Total capital assets, depreciated, net	<u>7,093,906</u>	<u>929,021</u>	<u>-</u>	<u>8,022,927</u>
Capital assets, net	<u><u>\$ 8,329,327</u></u>	<u><u>\$ 10,733,168</u></u>	<u><u>\$ (471,025)</u></u>	<u><u>\$ 18,591,470</u></u>

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Long-Term Liabilities

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

Primary Government

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	\$ 44,106,352	\$ -	\$ 5,496,936	\$ 38,609,416	\$ 5,753,156
Lease revenue bonds	12,407,928	-	4,930,952	7,476,976	1,236,043
Literary fund loans	1,250,000	-	250,000	1,000,000	250,000
Refunding bonds	115,812,000	-	4,346,000	111,466,000	7,596,000
Issuance premiums	19,473,957	-	1,661,494	17,812,463	-
Landfill post-closure (Note 10)	1,057,859	19,042	-	1,076,901	101,140
Compensated absences	2,857,376	2,325,752	2,134,229	3,048,899	2,000,163
Governmental activities long-term liabilities	<u>\$ 196,965,472</u>	<u>\$ 2,344,794</u>	<u>\$ 18,819,611</u>	<u>\$ 180,490,655</u>	<u>\$ 16,936,502</u>

Component Unit –

Public Service Authority

Revenue bonds	\$ 5,153,744	\$ -	\$ 279,588	\$ 4,874,156	\$ 286,516
Note Payable	55,000	-	4,445	50,555	4,652
Membership fee payable (Note 20)	1,211,293	-	23,297	1,187,996	23,763
Compensated absences	178,464	123,466	124,925	177,005	123,903

Component Unit –

Public Service Authority

long-term liabilities	<u>\$ 6,598,501</u>	<u>\$ 123,466</u>	<u>\$ 432,255</u>	<u>\$ 6,289,712</u>	<u>\$ 438,834</u>
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Component Unit – School Board

Compensated absences	\$ 3,734,270	\$ 3,014,786	\$ 2,796,634	\$ 3,952,422	\$ 2,796,634
Component unit – school board long-term liabilities	<u>\$ 3,734,270</u>	<u>\$ 3,014,786</u>	<u>\$ 2,796,634</u>	<u>\$ 3,952,422</u>	<u>\$ 2,796,634</u>

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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
2019	\$ 5,753,156	\$ 2,030,840	\$ 1,236,043	\$ 299,757	\$ 7,596,000	\$ 4,872,866	\$ 250,000	\$ 30,000
2020	7,157,376	1,858,115	1,288,249	247,550	6,997,000	4,586,185	250,000	22,500
2021	7,014,800	1,611,191	1,342,661	193,139	7,063,000	4,325,753	250,000	15,000
2022	4,232,614	1,366,377	1,399,370	136,428	10,260,000	4,063,675	250,000	7,500
2023	2,290,294	1,347,447	1,458,475	77,322	10,350,000	3,562,425	-	-
2024-2028	9,461,176	6,027,288	752,178	15,720	46,150,000	10,545,000	-	-
2029-2033	2,700,000	1,593,750	-	-	23,050,000	1,989,200	-	-
	<u>\$ 38,609,416</u>	<u>\$15,835,008</u>	<u>\$ 7,476,976</u>	<u>\$ 969,916</u>	<u>\$111,466,000</u>	<u>\$ 33,945,104</u>	<u>\$ 1,000,000</u>	<u>\$ 75,000</u>

Year Ended June 30	Component Unit – Public Service Authority					
	Revenue Bonds		Note Payable		Membership Fee Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 286,516	\$ 116,214	\$ 4,652	\$ 2,204	\$ 23,763	\$ 23,760
2020	293,613	109,115	4,868	1,988	24,238	23,285
2021	300,889	101,840	5,094	1,762	24,723	22,800
2022	308,344	94,385	5,331	1,525	25,217	22,305
2023	315,984	86,745	5,579	1,277	25,721	21,801
2024 – 2028	1,701,310	312,335	25,031	2,394	136,532	101,080
2029 – 2033	1,667,500	94,379	-	-	150,742	86,870
2034 – 2038	-	-	-	-	166,432	71,181
2039 – 2043	-	-	-	-	183,754	53,858
2044 – 2048	-	-	-	-	202,879	34,733
2049 – 2053	-	-	-	-	223,995	13,617
	<u>\$ 4,874,156</u>	<u>\$ 915,013</u>	<u>\$ 50,555</u>	<u>\$ 11,150</u>	<u>\$ 1,187,996</u>	<u>\$ 475,290</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Public Service Authority</u>
<u>General Obligation Bonds:</u>						
School Construction Bonds	4.1 - 5.4%	04/30/98	2019	\$ 5,300,000	\$ 265,000	\$ -
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	2,916,770	-
Qualified School Construction Bonds	-	11/13/09	2027	8,249,998	4,367,646	-
Qualified School Construction Bonds	-	07/08/11	2027	13,370,000	8,145,000	-
Qualified School Construction Bonds	-	12/15/11	2031	15,000,000	11,215,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	11,700,000	-
					<u>\$ 38,609,416</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 1,871,303	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	1,871,303	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	3,734,370	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	4,874,156
					<u>\$ 7,476,976</u>	<u>\$ 4,874,156</u>
<u>Refunding Bonds:</u>						
Refunding Bond	3.0 - 5.0%	07/09/09	2021	\$ 13,550,000	\$ 3,095,000	\$ -
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	5,730,000	-
Refunding Bond	1.6	02/26/15	2021	11,572,000	5,926,000	-
Refunding Bond	4.7	02/03/16	2029	32,835,000	32,835,000	-
Refunding Bond	4.3	11/10/16	2032	64,605,000	63,880,000	-
					111,466,000	-
Plus bond premium					17,812,463	-
					<u>\$ 129,278,463</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	\$ 1,000,000	\$ -

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 \$1,076,901 reported post-closure care liability represents what it would cost to perform all post-closure care in 2018. 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, 2018

Note 11. Defined Benefit Pension Plans

Primary Government – County

Plan Description

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

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

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

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
 - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.
- **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. Members also may be eligible to purchase periods of leave without pay.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier** – The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age** –
 - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
 - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility** –
 - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement** –
 - **Defined Benefit Component** – Same as Plan 2.
 - **Defined Contribution Component** – Not Applicable.
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>276</u>
Inactive members:	
Vested inactive members	85
Non-vested inactive members	62
Inactive members active elsewhere in VRS	<u>197</u>
Total inactive members	344
Active members	<u>372</u>
Total covered employees	<u><u>992</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 11.16% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,905,558 and \$1,853,796 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

- * The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	\$ 79,733,133	\$ 64,698,950	\$ 15,034,183
Changes for the year:			
Service cost	1,953,862	-	1,953,862
Interest	5,395,435	-	5,395,435
Benefit changes	-	-	-
Differences between expected and actual experience	(541,374)	-	(541,374)
Assumption changes	(495,327)	-	(495,327)
Contributions – employer	-	1,853,796	(1,853,796)
Contributions – employee	-	815,274	(815,274)
Net investment income	-	7,781,427	(7,781,427)
Benefit payments, including refunds of employee contributions	(3,560,255)	(3,560,255)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(44,966)	44,966
Other changes	-	(6,921)	6,921
Net changes	2,752,341	6,838,355	(4,086,014)
Balances at June 30, 2017	\$ 82,485,474	\$ 71,537,305	\$ 10,948,169

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	\$ 21,932,497	\$ 10,948,169	\$ 1,853,525

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$750,637. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 892,727
Change in assumptions	-	341,898
Net difference between projected and actual earnings on pension plan investments	-	1,055,585
Employer contributions subsequent to the measurement date	1,905,558	-
Total	\$ 1,905,558	\$ 2,290,210

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

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

The \$1,905,558 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	\$ (1,365,968)
2020	(196,243)
2021	(51,260)
2022	(676,739)
2023	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Component Unit – Public Service Authority

Plan Description

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

Contributions

The component unit's contractually required contribution rate for the year ended June 30, 2018 was 11.16% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the component unit were \$89,373 and \$114,713 for the years ended June 30, 2018 and June 30, 2017, respectively.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	\$ 4,004,380	\$ 3,238,055	\$ 766,325
Changes for the year:			
Service cost	120,905	-	120,905
Interest	333,871	-	333,871
Benefit changes	-	-	-
Differences between expected and actual experience	(33,500)	-	(33,500)
Assumption changes	(30,651)	-	(30,651)
Contributions – employer	-	114,713	(114,713)
Contributions – employee	-	50,449	(50,449)
Net investment income	-	481,516	(481,516)
Benefit payments, including refunds of employee contributions	(220,309)	(220,309)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(2,782)	2,782
Other changes	-	(428)	428
Net changes	<u>170,316</u>	<u>423,159</u>	<u>(252,843)</u>
Balances at June 30, 2017	<u>\$ 4,174,696</u>	<u>\$ 3,661,214</u>	<u>\$ 513,482</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Component Unit's net pension liability	\$ 1,028,659	\$ 513,482	\$ 86,932

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$35,206. At June 30, 2018, the component unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 41,870
Change in assumptions	-	16,036
Net difference between projected and actual earnings on pension plan investments	-	49,508
Employer contributions subsequent to the measurement date	<u>89,373</u>	<u>-</u>
Total	<u>\$ 89,373</u>	<u>\$ 107,414</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

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

The \$89,373 reported as deferred outflows of resources related to pensions resulting from the Component Unit's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	\$ (64,066)
2020	(9,204)
2021	(2,404)
2022	(31,740)
2023	-
Thereafter	-

School Nonprofessionals

Plan Description

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Defined Benefit Pension Plan (Continued)

School Nonprofessionals (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>155</u>
Inactive members:	
Vested inactive members	19
Non-vested inactive members	61
Inactive members active elsewhere in VRS	<u>37</u>
Total inactive members	117
Active members	<u>174</u>
Total covered employees	<u><u>446</u></u>

Contributions

The school division's contractually required contribution rate for the year ended June 30, 2018 was 10.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

Contributions to the pension plan from the school division were \$455,431 and \$598,779 for the years ended June 30, 2018 and June 30, 2017, respectively.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

School Nonprofessionals (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	\$ 24,656,597	\$ 18,869,090	\$ 5,787,507
Changes for the year:			
Service cost	581,565	-	581,565
Interest	1,681,115	-	1,681,115
Benefit changes	-	-	-
Differences between expected and actual experience	(580,451)	-	(580,451)
Assumption changes	(286,105)	-	(286,105)
Contributions – employer	-	598,779	(598,779)
Contributions – employee	-	292,491	(292,491)
Net investment income	-	2,288,302	(2,288,302)
Benefit payments, including refunds of employee contributions	(1,281,342)	(1,281,342)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(13,349)	13,349
Other changes	-	(2,028)	2,028
Net changes	114,782	1,882,853	(1,768,071)
Balances at June 30, 2017	\$ 24,771,379	\$ 20,751,943	\$ 4,019,436

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's net pension liability	\$ 7,132,657	\$ 4,019,436	\$ 1,421,533

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

School Nonprofessionals (Continued)

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

For the year ended June 30, 2018, the school division recognized pension expense of \$418,331. At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 187,177	\$ 390,761
Change in assumptions	-	192,607
Net difference between projected and actual earnings on pension plan investments	-	300,822
Employer contributions subsequent to the measurement date	<u>455,431</u>	<u>-</u>
Total	<u><u>\$ 642,608</u></u>	<u><u>\$ 884,190</u></u>

The \$455,431 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	\$ (332,752)
2020	(152,186)
2021	(15,742)
2022	(196,333)
2023	-
Thereafter	-

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

School Nonprofessionals (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

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

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

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$8,258,372 and \$7,263,185 for the years ended June 30, 2018 and June 30, 2017, respectively.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2018, the school division reported a liability of \$77,443,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.62972% as compared to 0.62082% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$6,123,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 5,483,000
Change in assumptions	1,130,000	-
Net difference between projected and actual earnings on pension plan investments	-	2,814,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,540,000	401,000
Employer contributions subsequent to the measurement date	<u>8,258,372</u>	<u>-</u>
Total	<u><u>\$ 10,928,372</u></u>	<u><u>\$ 8,698,000</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

The \$8,258,372 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	\$ (2,633,000)
2020	21,000
2021	(862,000)
2022	(2,398,000)
2023	(156,000)
Thereafter	-

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 45,417,520
Plan Fiduciary Net Position	<u>33,119,545</u>
Employers' Net Pension Liability (Asset)	<u>\$ 12,297,975</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Defined Benefit Pension Plan

Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Net Pension Liability (Continued)

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

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 115,648,000</u>	<u>\$ 77,443,000</u>	<u>\$ 45,840,000</u>

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Summary of Pension Elements

A summary of the pension-related financial statement elements is as follows:

	Governmental Activities	Public Service Authority	School Board
Net pension liability			
VRS Basic Pension Plan	\$ (10,948,169)	\$ (513,482)	\$ (81,462,436)
Deferred outflows of resources			
Difference between expected and actual experience	\$ -	\$ -	\$ 187,177
Change in assumptions	-	-	1,130,000
Change in proportion	-	-	1,540,000
Pension contributions subsequent to measurement date	1,905,558	89,373	8,713,803
Total deferred outflows of resources	\$ 1,905,558	\$ 89,373	\$ 11,570,980
Deferred inflows of resources			
Differences between expected and actual experience	\$ (892,727)	\$ (41,870)	\$ (5,873,761)
Changes of assumptions	(341,898)	(16,036)	(192,607)
Change in proportion	-	-	(401,000)
Net difference between projected and actual earnings on plan investments	(1,055,585)	(49,508)	(3,114,822)
Total deferred inflows of resources	\$ (2,290,210)	\$ (107,414)	\$ (9,582,190)

Note 13. Other Postemployment Benefits Liability

Local Plans – County and Public Service Authority

Plan Description and Benefits Provided

The County and Public Service Authority 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 becoming eligible for Medicare or death, whichever comes first, under a single-employer plan. The retiree pays the premium for these benefits. The County and Public Service Authority may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

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.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – County and Public Service Authority (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	
Currently receiving benefits	<u>13</u>
Total inactive employees	13
Active plan members	<u>410</u>
	<u><u>423</u></u>

Total OPEB Liability

The County and Public Service Authority's total OPEB liability of \$2,042,814 and \$209,196, respectively, were measured as of June 30, 2018 and were determined based on an actuarial valuation performed as of June 30, 2017.

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Healthcare cost trend rates	4.2% - 6.5%
Retirees' share of benefit-related costs	100%

Mortality rates: .016% -11.9%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of VRS experience studies for the period from July 1, 2012 through June 30, 2016.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – County and Public Service Authority (Continued)

Actuarial Assumptions and other inputs (Continued)

There were no changes in benefit terms in the current year.

Changes in assumptions and other inputs since the July 1, 2015 valuation include:

- The age-related claims costs used to estimate the true underlying cost of coverage for pre-65 retirees was updated to reflect medical changes since the prior valuation.
- The pre-Medicare healthcare trend assumption was changed from 5.10% for fiscal 2016, 6.20% for fiscal 2017, 6.80% for fiscal 2018, then grading to an ultimate rate of 4.40% for fiscal 2092 to 6.10% for fiscal 2018, 5.80% for fiscal 2019, 6.50% for fiscal 2019, then grading to an ultimate rate of 4.20% for fiscal 2100.
- The withdrawal, retirement, mortality, and disability assumptions were changed to be consistent with the assumptions used in the June 30, 2017 valuation of the Virginia Retirement System.
- The assumed percentage of future retirees electing to continue their medical coverage upon retirement was increased from 30% to 40%.
- The assumed percentage of future retirees electing to also cover their spouse was decreased from 30% to 25%.
- As required by GASB 75, the actuarial cost method was changed from projected unit credit to entry age normal (level percentage of pay).

Changes in the Total OPEB Liability

County

Balance at June 30, 2017	\$ 1,991,422
Changes for the year:	
Service cost	113,181
Interest	72,631
Assumption or other input changes	(75,059)
Benefit payments	(59,361)
	<u>51,392</u>
Net changes	
Balance at June 30, 2018	<u><u>\$ 2,042,814</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – County and Public Service Authority (Continued)

Changes in the Total OPEB Liability (Continued)

Public Service Authority

Balance at June 30, 2017	\$ 203,933
Changes for the year:	
Service cost	11,590
Interest	7,438
Assumption or other input changes	(7,686)
Benefit payments	(6,079)
Net changes	5,263
Balance at June 30, 2018	\$ 209,196

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the County and Public Service Authority, as well as what the County and Public Service Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

	<u>1.00% Decrease (2.87%)</u>	<u>Current Discount Rate (3.87%)</u>	<u>1.00% Increase (4.87%)</u>
County			
Total OPEB liability	\$ 2,253,184	\$ 2,042,814	\$ 1,855,345
Public Service Authority			
Total OPEB liability	\$ 230,739	\$ 209,196	\$ 189,998

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – County and Public Service Authority (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the County and the Public Service Authority, as well as what the County and Public Service Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
County			
Total OPEB liability	\$ 1,795,786	\$ 2,042,814	\$ 2,334,682
Public Service Authority			
Total OPEB liability	\$ 183,898	\$ 209,196	\$ 239,084

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the County and Public Service Authority recognized OPEB expense of \$174,609 and \$17,881, respectively. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

County	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 63,856
Total	\$ -	\$ 63,856
Public Service Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 6,539
Total	\$ -	\$ 6,539

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – County and Public Service Authority (Continued)

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

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

County:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (11,203)
2020	(11,203)
2021	(11,203)
2022	(11,203)
2023	(11,203)
Thereafter	(7,841)

Public Service Authority:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (1,147)
2020	(1,147)
2021	(1,147)
2022	(1,147)
2023	(1,147)
Thereafter	(804)

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – School Board

Plan Description and Benefits Provided

The School Board provides 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 becoming eligible for Medicare or death, whichever comes first, under a single-employer plan. The retiree pays the premium for these benefits. The School Board may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

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.

Retirees who participate in the Retiree Incentive Health Insurance Plan receive a subsidy from the Schools equal to 100% of the retiree-only premium cost for the HMO medical plan offering. If the retiree elects another medical plan offering (or tier of coverage), they are responsible for 100% of their premium cost in excess of the Schools-provided subsidy. Plan benefits are provided for 4 years or until the retiree attains age 65, whichever occurs first.

Plan participants are required to fulfill 25 days of work before June 1 in each year they participate. Retirees who do not participate in the Retiree Incentive Health Insurance Plan are responsible for 100% of their premium cost.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	
Currently receiving benefits	<u>39</u>
Total inactive employees	39
Active plan members	<u>1,328</u>
	<u><u>1,367</u></u>

Total OPEB Liability

The School Board's total OPEB liability of \$6,470,534 was measured as of June 30, 2018 and was determined based on an actuarial valuation performed as of June 30, 2017.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – School Board (Continued)

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Healthcare cost trend rates	4.3% - 6.4%
Retirees' share of benefit-related costs	0% - 100%

Mortality rates: .016% - 11.9%.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

There were no changes in benefit terms in the current year.

Changes in assumptions and other inputs since the July 1, 2015 valuation include:

- The age-related claims costs used to estimate the true underlying cost of coverage for pre-65 retirees was updated to reflect medical changes since the prior valuation.
- The pre-Medicare healthcare trend assumption was changed from 5.10% for fiscal 2016, 6.20% for fiscal 2017, 6.80% for fiscal 2018, then grading to an ultimate rate of 4.40% for fiscal 2097 to 6.00% for fiscal 2018, 5.80% for fiscal 2019, 6.40% for fiscal 2020, then grading to an ultimate rate of 4.30% for fiscal 2075.
- The withdrawal, retirement, mortality, and disability assumptions were changed to be consistent with the assumptions used in the June 30, 2017 valuation of the Virginia Retirement System.
- As required by GASB 75, the actuarial cost method was changed from projected unit credit to entry age normal (level percentage of pay).

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – School Board (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2017	\$ 6,465,566
Changes for the year:	
Service cost	284,444
Interest	230,841
Benefit changes	-
Differences between expected and actual experience	-
Assumption or other input changes	(198,574)
Benefit payments	<u>(311,743)</u>
Net changes	<u>4,968</u>
Balance at June 30, 2018	\$ <u>6,470,534</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the School Board , as well as what the School Board's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

	<u>1.00% Decrease (2.87%)</u>	<u>Current Discount Rate (3.87%)</u>	<u>1.00% Increase (4.87%)</u>
Total OPEB liability	\$ <u>7,021,533</u>	\$ <u>6,470,534</u>	\$ <u>5,964,666</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School Board, as well as what the School Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower, or one percentage point higher than the current healthcare cost trend rates:

	<u>1.00% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1.00% Increase</u>
Total OPEB liability	\$ <u>5,706,785</u>	\$ <u>6,470,534</u>	\$ <u>7,373,018</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – School Board (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School Board recognized OPEB expense of \$484,735. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 168,024
Total	\$ -	\$ 168,024

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (30,550)
2020	(30,550)
2021	(30,550)
2022	(30,550)
2023	(30,550)
Thereafter	(15,274)

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the County and Public Service Authority also participate in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution – County	\$ 88,931
June 30, 2017 Contribution – County	\$ 87,211
June 30, 2018 Contribution – Public Service Authority	\$ 4,258
June 30, 2017 Contribution – Public Service Authority	\$ 4,176

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program – County

June 30, 2018 proportionate share of liability	\$ 1,368,466
June 30, 2017 proportion	.09528 %
June 30, 2016 proportion	.09679 %
June 30, 2018 expense	\$ 11,452

Group Life Insurance Program – Public Service Authority

June 30, 2018 proportionate share of liability	\$ 65,534
June 30, 2017 proportion	.09528 %
June 30, 2016 proportion	.09679 %
June 30, 2018 expense	\$ 548

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

At June 30, 2018, the County and Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program – County

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 30,538
Change in assumptions	-	70,618
Net difference between projected and actual earnings on OPEB plan investments	-	51,532
Changes in proportion	-	20,995
Employer contributions subsequent to the measurement date	88,931	-
Total	<u>\$ 88,931</u>	<u>\$ 173,683</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

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

Group Life Insurance Program – Public Service Authority

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,462
Change in assumptions	-	3,382
Net difference between projected and actual earnings on		
OPEB plan investments	-	2,468
Changes in proportion	-	1,005
Employer contributions subsequent to the		
measurement date	4,258	-
Total	<u>\$ 4,258</u>	<u>\$ 8,317</u>

The deferred outflows of resources related to OPEB resulting from the County and Public Service Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program – County

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (35,774)
2020	(35,774)
2021	(35,774)
2022	(35,774)
2023	(21,094)
Thereafter	(9,493)

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

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

Group Life Insurance Program - Public Service Authority

<u>Year Ending June 30,</u>	<u>Increase (Reduction) to OPEB Expense</u>
2019	\$ (1,713)
2020	(1,713)
2021	(1,713)
2022	(1,713)
2023	(1,010)
Thereafter	(455)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI: 7.0%

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

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 11.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net OPEB liability (asset)	\$ 1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

Long-Term Expected Rate of Return

Group Life Insurance

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

- * The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – County and Public Service Authority (Continued)

Discount Rate

The discount rate used to measure the GLI OPEB liabilities was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability – County	\$ 1,769,970	\$ 1,368,466	\$ 1,042,986
GLI Net OPEB liability – Public Service Authority	<u>\$ 84,761</u>	<u>\$ 65,534</u>	<u>\$ 49,947</u>

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the School Board also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

Teacher Employee Health Insurance Credit Program

All full time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit (HIC) Program. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Specific information about the Teacher HIC is available at <https://www.varetire.org/retirees/insurance/healthinscredit/index.asp>

The GLI and Teacher HIC are administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Both of these plans are considered multiple employer, cost sharing plans.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.</i>
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution – Professionals	\$ 268,814
June 30, 2017 Contribution – Professionals	\$ 258,038
June 30, 2018 Contribution – Non-professionals	\$ 23,328
June 30, 2017 Contribution – Non-professionals	\$ 30,356

Teacher Health Insurance Credit Program

Governed by:	<i>Code of Virginia 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly.</i>
Total rate:	1.23% of covered employee compensation.
June 30, 2018 Contribution	\$ 633,915
June 30, 2017 Contribution	\$ 549,943

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities, except for LODA, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. LODA proportion was determined based on pay-as-you-go employer contributions instead of actuarially determined contributions.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

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

Group Life Insurance Program – Professionals

June 30, 2018 proportionate share of liability	\$ 4,049,000
June 30, 2017 proportion	0.26902 %
June 30, 2016 proportion	0.26378 %
June 30, 2018 expense	\$ 59,000

Group Life Insurance Program – Non-professionals

June 30, 2018 proportionate share of liability	\$ 476,000
June 30, 2017 proportion	.03165 %
June 30, 2016 proportion	.03183%
June 30, 2018 expense	\$ 2,000

Teacher Health Insurance Credit Program

June 30, 2018 proportionate share of liability	\$ 7,964,000
June 30, 2017 proportion	0.62778 %
June 30, 2016 proportion	0.62133%
June 30, 2018 expense	\$ 659,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

Group Life Insurance Program – Professionals

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 90,000
Change in assumptions	-	209,000
Net difference between projected and actual earnings on OPEB plan investments	-	152,000
Changes in proportion	78,000	-
Employer contributions subsequent to the measurement date	268,814	-
Total	<u>\$ 346,814</u>	<u>\$ 451,000</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

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

Group Life Insurance Program – Non-professionals

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,000
Change in assumptions	-	25,000
Net difference between projected and actual earnings on OPEB plan investments	-	18,000
Employer contributions subsequent to the measurement date	23,328	-
Total	<u>\$ 23,328</u>	<u>\$ 53,000</u>

Teacher Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 82,000
Net difference between projected and actual earnings on OPEB plan investments	-	14,000
Changes in proportion	71,000	-
Employer contributions subsequent to the measurement date	633,915	-
Total	<u>\$ 704,915</u>	<u>\$ 96,000</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

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

The deferred outflows of resources related to OPEB resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program – Professionals

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (79,000)
2020	(79,000)
2021	(79,000)
2022	(79,000)
2023	(41,000)
Thereafter	(16,000)

Group Life Insurance Program – Non-professionals

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (11,000)
2020	(11,000)
2021	(11,000)
2022	(11,000)
2023	(6,000)
Thereafter	(3,000)

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

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

Teacher Health Insurance Credit Program

<u>Year Ending June 30,</u>	<u>Increase (Reduction) to OPEB Expense</u>
2019	\$ (5,000)
2020	(5,000)
2021	(5,000)
2022	(5,000)
2023	(1,000)
Thereafter	(4,000)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality - general employees	3.5 – 5.35%
• Teachers	3.5 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%

Investment rate of return, net of expenses,
including inflation* GLI & HIC: 7.0%

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

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 11.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	Teacher Employee HIC OPEB Plan
Total OPEB Liability	\$ 2,942,426	\$ 1,364,702
Plan fiduciary net position	1,437,586	96,091
Employers' net OPEB liability (asset)	\$ 1,504,840	\$ 1,268,611
Plan fiduciary net position as a percentage of total OPEB liability	48.86%	7.04%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

Long-Term Expected Rate of Return

Group Life Insurance and Health Insurance Credit Programs

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

- * The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Other Postemployment Benefits Liability (Continued)

Virginia Retirement System Plans – School Board (Continued)

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liabilities of the School Board, as well as what the School Board's net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower (6.00% HIC; GLI/2.56% LODA) or one percentage point higher (8.00% HIC; GLI/4.56% LODA) than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability – Professionals	\$ 5,236,000	\$ 4,049,000	\$ 3,086,000
GLI Net OPEB liability – Non-professionals	\$ 616,000	\$ 476,000	\$ 363,000
Teacher HIC Net OPEB liability	\$ 8,889,000	\$ 7,964,000	\$ 7,178,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 14. Summary of Other Postemployment Benefit Elements

A summary of the other postemployment benefits-related financial statement elements is as follows:

	<u>Governmental Activities</u>	<u>Public Service Authority</u>	<u>School Board</u>
Net other post-employment benefits liability			
Local Sponsored Health Insurance	\$ (2,042,814)	\$ (209,196)	\$ (6,470,534)
VRS – Group Life Insurance	(1,368,466)	(65,534)	(4,525,000)
VRS – HIC	-	-	(7,964,000)
Total net other postemployment benefit liability	<u>\$ (3,411,280)</u>	<u>\$ (274,730)</u>	<u>\$ (18,959,534)</u>
Deferred outflows of resources			
Change in proportion –			
VRS – Group Life Insurance	\$ -	\$ -	\$ 78,000
VRS – HIC	-	-	71,000
Contributions subsequent to measurement date-			
VRS – Group Life Insurance	88,931	4,258	292,142
VRS – HIC	-	-	633,915
Total deferred outflows of resources	<u>\$ 88,931</u>	<u>\$ 4,258</u>	<u>\$ 1,075,057</u>
Deferred inflows of resources			
Differences between expected and actual experience –			
VRS – Group Life Insurance	\$ (30,538)	\$ (1,462)	\$ (100,000)
Net difference between projected and actual investment earnings –			
VRS – Group Life Insurance	(51,532)	(2,468)	(170,000)
VRS – HIC	-	-	(14,000)
Change in actuarial assumptions-			
Local Sponsored Health Insurance	(63,856)	(6,539)	(168,024)
VRS – Group Life Insurance	(70,618)	(3,382)	(234,000)
VRS – HIC	-	-	(82,000)
Change in proportion –			
VRS – Group Life Insurance	(20,995)	(1,005)	-
Total deferred inflows of resources	<u>\$ (237,539)</u>	<u>\$ (14,856)</u>	<u>\$ (768,024)</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 15. Risk Management

General Liability Insurance

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

Health Insurance

The County and School Board have a professionally administered self-insurance program that provides health coverage for employees on a cost-reimbursement basis. Retired employees and dependents of employees of the County and School Board are also covered by the program, provided they pay the entire premium. Under the program, the County and School Board are obligated for claims payments. A stop loss insurance contract executed with Blue Cross and Blue Shield covers claims in excess of \$200,000 per covered individual. During the current fiscal year, total claims expense of \$3,724,415 and \$12,639,034 for the County and School Board, respectively, which did not exceed the stop loss provisions, was incurred. This represents claims processed and an estimate, based on plan experience prior and subsequent to year end, for claims incurred but not reported (IBNR) as of June 30. The estimated liability, including reported and IBNR claims, was \$312,080 and \$2,531,491 for the County and School Board, respectively, at year end. This liability is included in accounts payable and accrued expenses. Changes in the reported liability are as follows:

County

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2018	\$ 414,445	\$ 3,724,415	\$ 3,826,780	\$ 312,080
June 30, 2017	363,272	3,293,875	3,242,702	414,445
June 30, 2016	543,796	2,760,775	2,941,299	363,272

School Board

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2018	\$ 1,150,000	\$ 12,639,034	\$11,257,543	\$ 2,531,491
June 30, 2017	2,273,049	10,150,587	11,273,636	1,150,000
June 30, 2016	969,000	11,570,078	10,266,029	2,273,049

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 16. Commitments and Contingencies

Litigation

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

Special Purpose Grants

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

Incentives

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

The EDA enters into performance agreement incentives with various companies. At year end, incentives not yet earned by recipient companies were \$1,829,879.

Note 17. 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>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 17. Transactions with Component Units (Continued)

Note receivable from Component Unit

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

Other

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

Note 18. 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 \$463,488 and \$97,209,789, respectively. The School Board deficit results primarily from the net pension and OPEB liabilities. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 18. Net Position/Fund Balance (Continued)

Fund Balance

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

	General Fund	Capital Fund
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	\$ 7,147,881	\$ -
Restricted:		
General government administration	62,018	-
Judicial administration	105,058	-
Public safety	116,201	-
Public works	411,286	-
Health and welfare	863,141	-
Parks, recreation, and culture	214,694	-
Community development	391,518	
Debt service reserves	-	2,653,992
Committed:		
General government administration – future projects	4,869,635	4,646,304
Public safety	-	1,295,973
Public works	-	5,940,320
Education – future projects to be determined	-	5,432,958
Parks, recreation, and culture	-	645,970
Community development	-	14,581
Assigned:		
General government administration	832,777	-
Judicial administration	16,149	-
Public safety	1,753,653	-
Public works	1,049,252	-
Health and welfare	38,780	-
Education	5,131,935	-
Parks, recreation, and culture	264,753	-
Community development	1,807,913	-
Unassigned:	25,502,336	-
Total fund balance	<u>\$ 50,578,980</u>	<u>\$ 20,630,098</u>

Note 19. Concentrations

Two Public Service Authority customers provide approximately nine percent each of the Authority's operating revenue.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 20. Service Contracts

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

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

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

During 2014, in accordance with joining the Water Authority, the Authority agreed to pay for a transitional meter setting with an estimated cost of \$120,000; however, this had not occurred at year end. The transitional meter setting is expected to be completed during fiscal year 2019. The Authority will also be responsible for capital upgrades with an estimated cost of \$4,221,000. The design work of the capital upgrades began in fiscal year 2018 and is still in process. \$29,135 in capital upgrades was included in Construction in Progress at June 30, 2018.

Note 21. Adoption of New Standard and Prior Period Restatement

In the current year the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment 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 plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 21. Adoption of New Standard and Prior Period Restatement (Continued)

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 67:

	<u>Primary Government</u>
Net position July 1, 2017, as previously reported	\$ 146,008,626
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75- Local	(85,647)
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75-VRS	<u>(1,528,419)</u>
Net position July 1, 2017, as restated	<u><u>\$ 144,394,560</u></u>

Public Service Authority – Component Unit

In the current year the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment 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 plans are determined, and assumptions and methods used to calculate the liability.

In the current year, the Authority determined that a Capital asset had been recorded in a prior year in error.

Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 21. Adoption of New Standard and Prior Period Restatement (Continued)

Public Service Authority (Continued)

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 67:

	Public Service Authority	Fund Statements	
		Water	Wasterwater
Net position July 1, 2017, as previously reported	\$ 12,571,090	\$ 8,509,803	\$ 5,272,580
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75- Local	(8,771)	(4,609)	(4,162)
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75-VRS	(73,194)	(40,841)	(32,353)
Change in capital assets	(18,742)	(18,742)	-
Net position July 1, 2017, as restated	<u>\$ 12,470,383</u>	<u>\$ 8,445,611</u>	<u>\$ 5,236,065</u>

School Board – Component Unit

In the current year the School Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment 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 plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 67:

	School Board
Net position July 1, 2017, as previously reported	\$ (79,340,121)
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75- Local	411,129
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75-VRS	(12,214,663)
Net position July 1, 2017, as restated	<u>\$ (91,143,655)</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 22. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 22. New Accounting Standards (Continued)

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

Note 23. Subsequent Events

Economic Development Authority

In July 2018, the Authority entered into a contract with a contractor to perform storm water pond repairs totaling \$62,500.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
PRIMARY GOVERNMENT
June 30, 2018

	Plan Year			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 2,074,767	\$ 2,038,842	\$ 2,065,492	\$ 1,987,518
Interest on total pension liability	5,729,306	5,529,177	5,278,174	5,014,694
Difference between expected and actual experience	(574,874)	(1,147,090)	(408,515)	-
Changes in assumptions	(525,978)	-	-	-
Benefit payments, including refunds of employee contributions	(3,780,564)	(3,343,304)	(3,355,504)	(3,120,914)
Net change in total pension liability	2,922,657	3,077,625	3,579,647	3,881,298
Total pension liability - beginning	83,737,513	80,659,888	77,080,241	73,198,943
Total pension liability - ending	86,660,170	83,737,513	80,659,888	77,080,241
Plan Fiduciary Net Position				
Contributions - employer	1,968,509	2,262,436	2,206,584	1,777,329
Contributions - employee	865,723	875,307	921,830	894,800
Net investment income	8,262,943	1,179,030	2,959,075	8,832,131
Benefit payments, including refunds of employee contributions	(3,780,564)	(3,343,304)	(3,355,504)	(3,120,914)
Administrative expenses	(47,748)	(41,456)	(40,120)	(47,509)
Other	(7,349)	(498)	(626)	465
Net change in plan fiduciary net position	7,261,514	931,515	2,691,239	8,336,302
Plan fiduciary net position - beginning	67,937,005	67,005,490	64,314,251	55,977,949
Plan fiduciary net position - ending	75,198,519	67,937,005	67,005,490	64,314,251
Net pension liability - ending	\$ 11,461,651	\$ 15,800,508	\$ 13,654,398	\$ 12,765,990
Plan fiduciary net position as a percentage of total pension liability	87%	81%	83%	83%
Covered payroll	\$ 17,508,356	\$ 17,375,145	\$ 16,814,775	\$ 16,910,837
Net pension liability as a percentage of covered payroll	65%	91%	81%	75%

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHOOLS - NONPROFESSIONAL EMPLOYEES
June 30, 2018

	Plan Year			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 581,565	\$ 559,551	\$ 552,067	\$ 525,743
Interest on total pension liability	1,681,115	1,587,055	1,510,044	1,455,818
Difference between expected and actual experience	(580,451)	419,588	297,904	-
Changes in assumptions	(286,105)	-	-	-
Benefit payments, including refunds of employee contributions	(1,281,342)	(1,163,631)	(1,356,068)	(1,057,738)
Net change in total pension liability	114,782	1,402,563	1,003,947	923,823
Total pension liability - beginning	<u>24,656,597</u>	<u>23,254,034</u>	<u>22,250,087</u>	<u>21,326,264</u>
Total pension liability - ending	<u>24,771,379</u>	<u>24,656,597</u>	<u>23,254,034</u>	<u>22,250,087</u>
Plan Fiduciary Net Position				
Contributions - employer	598,779	496,152	477,385	469,880
Contributions - employee	292,491	284,097	326,053	268,846
Net investment income	2,288,302	324,084	840,218	2,572,433
Benefit payments, including refunds of employee contributions	(1,281,342)	(1,163,631)	(1,356,068)	(1,057,738)
Administrative expenses	(13,349)	(11,872)	(11,870)	(13,997)
Other	(2,028)	(138)	(176)	136
Net change in plan fiduciary net position	1,882,853	(71,308)	275,542	2,239,560
Plan fiduciary net position - beginning	<u>18,869,090</u>	<u>18,940,398</u>	<u>18,664,856</u>	<u>16,425,296</u>
Plan fiduciary net position - ending	<u>20,751,943</u>	<u>18,869,090</u>	<u>18,940,398</u>	<u>18,664,856</u>
Net pension liability - ending	<u>\$ 4,019,436</u>	<u>\$ 5,787,507</u>	<u>\$ 4,313,636</u>	<u>\$ 3,585,231</u>
Plan fiduciary net position as a percentage of total pension liability	<u>84%</u>	<u>77%</u>	<u>81%</u>	<u>84%</u>
Covered payroll	<u>\$ 5,837,677</u>	<u>\$ 5,764,299</u>	<u>\$ 5,195,195</u>	<u>\$ 5,113,521</u>
Net pension liability as a percentage of covered payroll	<u>69%</u>	<u>100%</u>	<u>83%</u>	<u>70%</u>

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

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2018

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2018	\$ 1,994,931	\$ 1,994,931	\$ -	\$ 17,882,222	11.16%
2017	2,008,210	2,008,210	-	17,508,356	11.47%
2016	2,277,881	2,277,881	-	17,375,145	13.11%
2015	2,204,416	2,204,416	-	16,814,775	13.11%
Schools - Nonprofessional Employees					
2018	\$ 455,431	\$ 455,431	\$ -	\$ 4,486,110	10.15%
2017	610,621	610,621	-	5,837,677	10.46%
2016	501,494	501,494	-	5,764,299	8.70%
2015	451,982	451,982	-	5,195,195	8.70%

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

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
 VRS TEACHER RETIREMENT PLAN
 June 30, 2018

Plan Year	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.6297 %	\$ 77,443,000	\$ 49,544,236	156.31 %	72.92 %
2016	0.6208	87,003,000	45,839,476	189.80	68.28
2015	0.6211	78,178,000	44,501,414	175.68	70.68
2014	0.6271	75,783,000	43,163,352	175.57	70.88

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION CONTRIBUTIONS

VRS TEACHER RETIREMENT PLAN

June 30, 2017

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2018	\$ 8,258,372	\$ 8,258,372	\$ -	\$ 51,539,673	16.02 %
2017	7,263,185	7,263,185	-	49,544,236	14.66
2016	6,646,724	6,646,724	-	45,839,476	14.50
2015	6,452,705	6,452,705	-	44,501,414	14.50

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS – LOCAL PLAN

June 30, 2018

	Plan Year 2017	
	Primary	Schools
	Government	Schools
	Local Plan	Local Plan
Total OPEB Liability		
Service cost	\$ 124,771	\$ 284,444
Interest on total OPEB liability	80,069	230,841
Changes in assumptions	(82,745)	(198,574)
Benefit payments	(65,440)	(311,743)
Net change in total OPEB liability	56,655	4,968
Total OPEB liability - beginning	2,195,355	6,465,566
Total OPEB liability - ending	\$ 2,252,010	\$ 6,470,534
Covered payroll	#####	#####
Net OPEB liability as a percentage of covered payroll	12%	12%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

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

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – VRS
June 30, 2018

Plan Year	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Health Insurance Credit - Teachers					
2017	0.62778%	\$ 7,964,000	\$ 51,539,673	15.45%	7.04%
Virginia Retirement System - Group Life Insurance - General Employees					
2017	0.09528%	1,434,000	18,088,728	7.93%	48.86%
Virginia Retirement System - Group Life Insurance - School Professionals					
2017	0.26902%	4,049,000	51,535,678	7.86%	48.86%
Virginia Retirement System - Group Life Insurance - School Non-professionals					
2017	0.03165%	476,000	4,488,162	10.61%	48.86%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF OPEB CONTRIBUTIONS – VRS

June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Health Insurance Credit - Teachers					
2018	\$ 633,915	\$ 633,915	\$ -	\$ 51,539,673	1.23%
Virginia Retirement System - Group Life Insurance - General Employees					
2018	93,189	93,189	-	18,088,728	0.52%
Virginia Retirement System - Group Life Insurance - School Professionals					
2018	268,814	268,814	-	51,535,678	0.52%
Virginia Retirement System - Group Life Insurance - School Non-professionals					
2018	23,328	23,328	-	4,488,162	0.52%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

Teacher cost-sharing pool

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

OTHER SUPPLEMENTARY INFORMATION

DISCRETELY PRESENTED
COMPONENT UNIT – PUBLIC SERVICE AUTHORITY

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY

June 30, 2018

	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,609,202	\$ 464,688	\$ 3,073,890
Accounts receivables, net	383,529	275,108	658,637
Due from County	7,340	10,862	18,202
Inventories	30,961	669	31,630
Total current assets	3,031,032	751,327	3,782,359
Noncurrent assets:			
Cash and cash equivalents, restricted	44,370	30,150	74,520
Capital assets:			
Non-depreciable	1,228,524	18,000	1,246,524
Depreciable, net	8,244,188	7,175,293	15,419,481
Total noncurrent assets	9,517,082	7,223,443	16,740,525
Total assets	12,548,114	7,974,770	20,522,884
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	50,272	39,101	89,373
Deferred outflows related to other postemployment benefits	2,376	1,882	4,258
Total deferred outflows	52,648	40,983	93,631
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	179,726	75,934	255,660
Accrued payroll and related liabilities	26,330	20,449	46,779
Accrued interest payable	3,187	1,942	5,129
Due to County	5,145	-	5,145
Current portion of noncurrent liabilities	256,851	158,220	415,071
Total current liabilities	471,239	256,545	727,784
Noncurrent liabilities:			
Net pension liability	288,834	224,648	513,482
Net other postemployment benefit liability	145,902	128,828	274,730
Customer deposits	44,370	30,150	74,520
Due in more than one year	2,876,369	1,810,276	4,686,645
Total noncurrent liabilities	3,355,475	2,193,902	5,549,377
Total liabilities	3,826,714	2,450,447	6,277,161
DEFERRED INFLOWS OF RESOURCES			
Deferred outflows related to pensions	60,420	46,994	107,414
Deferred outflows related to other postemployment benefits	8,077	6,779	14,856
	68,497	53,773	122,270
NET POSITION			
Net investments in capital assets	6,450,205	5,291,089	11,741,294
Unrestricted	2,255,346	220,444	2,475,790
Total net position	\$ 8,705,551	\$ 5,511,533	14,217,084
Reconciliation with Pulic Service Authority activites in the statement of net position (Exhibit 1)			
Long-term membership fee payable to other New River Valley Regional Water Authority legally due from the County but financed by enterprise fund revenues			(1,187,996)
Net position of Public Service Authority			\$ 13,029,088

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2018

	Water	Wastewater	Total
OPERATING REVENUES			
Charges for services	\$ 1,861,703	\$ 1,402,386	\$ 3,264,089
Penalties and reconnection charges	44,638	19,691	64,329
Fees	267,059	125,713	392,772
Miscellaneous	13,126	2,485	15,611
Total operating revenues	2,186,526	1,550,275	3,736,801
OPERATING EXPENSES			
Salaries and wages	496,129	392,172	888,301
Employee benefits	170,452	106,388	276,840
Utilities and telephone	34,945	70,008	104,953
Water and wastewater services	734,331	490,516	1,224,847
Operating supplies, fees, permits	28,360	41,957	70,317
Professional services	140,343	35,375	175,718
Repairs and maintenance	91,680	97,424	189,104
Insurance	19,915	15,479	35,394
Vehicle supplies and miscellaneous	28,514	17,858	46,372
Bad debts	5,626	(1,143)	4,483
Office supplies and miscellaneous	37,944	2,522	40,466
Membership fees	47,523	-	47,523
Depreciation	423,472	455,927	879,399
Total operating expenses	2,259,234	1,724,483	3,983,717
Operating loss	(72,708)	(174,208)	(246,916)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	19,955	-	19,955
Facility fees	390,000	495,250	885,250
Gain/(loss) on sale of assets	-	2,372	2,372
Interest expense	(77,307)	(47,946)	(125,253)
Total nonoperating revenues	332,648	449,676	782,324
Change in net position	259,940	275,468	535,408
Total net position – beginning, as restated (Note 21)	8,445,611	5,236,065	13,681,676
Total net position – ending	<u>\$ 8,705,551</u>	<u>\$ 5,511,533</u>	<u>\$ 14,217,084</u>
Reconciliation with Public Service Authority in the statement of activities:			
Change in net position			\$ 535,408
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.			23,297
Change in net position of Public Service Authority			<u>\$ 558,705</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
For the Year Ended June 30, 2018

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,144,639	\$ 1,528,932	\$ 3,673,571
Payments to suppliers	(1,057,388)	(791,769)	(1,849,157)
Payments to employees	(690,598)	(565,957)	(1,256,555)
Payments to County for financial services	(71,771)	-	(71,771)
Net cash provided by operating activities	<u>324,882</u>	<u>171,206</u>	<u>496,088</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(29,135)	(46,150)	(75,285)
Facility fee payments from customers	390,000	495,250	885,250
Proceeds from the sale of capital assets	-	2,372	2,372
Principal payments on long-term debt	(174,921)	(109,112)	(284,033)
Interest payments on debt	(77,495)	(48,058)	(125,553)
Net cash provided by capital and related financing activities	<u>108,449</u>	<u>294,302</u>	<u>402,751</u>
INVESTING ACTIVITIES			
Interest received	19,955	-	19,955
Net increase in cash and cash equivalents	453,286	465,508	918,794
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,200,286	29,330	2,229,616
Ending at June 30	<u>\$ 2,653,572</u>	<u>\$ 494,838</u>	<u>\$ 3,148,410</u>
RECONCILIATION TO EXHIBIT 1			
Cash and cash equivalents	\$ 2,609,202	\$ 464,688	\$ 3,073,890
Cash and cash equivalents, restricted	44,370	30,150	74,520
	<u>\$ 2,653,572</u>	<u>\$ 494,838</u>	<u>\$ 3,148,410</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (72,708)	\$ (174,208)	\$ (246,916)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	423,472	455,927	879,399
Pension expense net of employer contributions	(34,681)	(65,932)	(100,613)
Other postemployment benefit expense net of employer contributions	4,192	4,008	8,200
(Increase) decrease in:			
Accounts receivable	(39,651)	(23,306)	(62,957)
Due from wastewater fund	1,961	-	1,961
Due from County	(949)	(3,163)	(4,112)
Inventory	197	(540)	(343)
(Decrease) increase in:			
Accounts payable	38,814	(14,966)	23,848
Due to water fund	-	(1,961)	(1,961)
Due to County	(5,627)	-	(5,627)
Accrued payroll and related liabilities and compensated absences	6,472	(5,473)	999
Customer deposits	3,390	820	4,210
Net cash provided by operating activities	<u>\$ 324,882</u>	<u>\$ 171,206</u>	<u>\$ 496,088</u>

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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2018

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,779,537	\$ 327,177	\$ 4,106,714
Due from primary government	7,769,282	-	7,769,282
Due from other governmental units	2,645,941	-	2,645,941
Inventories	-	138,985	138,985
Total assets	<u>\$ 14,194,760</u>	<u>\$ 466,162</u>	<u>\$ 14,660,922</u>
LIABILITIES			
Liabilities			
Accounts payable and accrued expenses	\$ 1,792,867	\$ 724	\$ 1,793,591
Accrued payroll and related liabilities	8,522,563	227,083	8,749,646
Compensated absences	99,794	-	99,794
Unearned revenues	-	74,877	74,877
Total liabilities	<u>10,415,224</u>	<u>302,684</u>	<u>10,717,908</u>
FUND BALANCES			
Nonspendable	-	138,985	138,985
Committed	2,767,536	-	2,767,536
Assigned	2,149,682	24,493	2,174,175
Unassigned	(1,137,682)	-	(1,137,682)
Total fund balances	<u>3,779,536</u>	<u>163,478</u>	<u>3,943,014</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,194,760</u>	<u>\$ 466,162</u>	<u>\$ 14,660,922</u>
Adjustments for the Statement of Net Position (Exhibit 1)			
Total fund balances			\$ 3,943,014
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			18,591,470
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			605,675
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
Deferred outflows related to pensions			11,570,980
Deferred outflows related to other post employment benefit plans			1,075,057
Deferred inflows related to pensions			(9,582,190)
Deferred inflows related to other post employment benefit plans			(768,024)
Net pension liability			(81,462,436)
Net other post employment benefit liability			(18,959,534)
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			<u>(3,852,628)</u>
Net position of governmental activities			<u>\$ (78,838,616)</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, 2018**

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	\$ 115,301	\$ 2,565	\$ 117,866
Charges for services	26,958	1,771,664	1,798,622
Recovered costs	1,091,042	-	1,091,042
Intergovernmental	105,502,610	2,117,007	107,619,617
Total revenues	<u>106,735,911</u>	<u>3,891,236</u>	<u>110,627,147</u>
EXPENDITURES			
Instruction	81,436,772	-	81,436,772
Administration, attendance, and health	4,443,087	-	4,443,087
Pupil transportation	5,273,574	-	5,273,574
Operations and maintenance	14,732,280	-	14,732,280
Non-instructional	400,932	-	400,932
School nutrition	-	4,091,243	4,091,243
Total expenditures	<u>106,286,645</u>	<u>4,091,243</u>	<u>110,377,888</u>
Deficiency of revenues over expenditures	<u>449,266</u>	<u>(200,007)</u>	<u>249,259</u>
Net change in fund balances	449,266	(200,007)	249,259
FUND BALANCE AT JULY 1	<u>3,330,270</u>	<u>363,485</u>	<u>3,693,755</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 3,779,536</u></u>	<u><u>\$ 163,478</u></u>	<u><u>\$ 3,943,014</u></u>

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds \$ 249,259

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which capital outlay (\$11,675,569) exceeded depreciation (\$1,413,426). 10,262,143

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

Employer pension contributions 8,713,803
Pension expense (6,650,358)

Governmental funds report other postemployment benefit contributions as expenditures.

However, in the statement of activities, the cost of other postemployment benefits earned net of employee contributions is reported as other postemployment benefits expense.
Employer other postemployment benefit contributions 926,057
Other postemployment benefit expense (898,329)

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. (297,536)

Change in net position of governmental activities \$ 12,305,039

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, 2018**

	School Operating				School Cafeteria			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ 50,000	\$ 50,000	\$ 115,301	\$ 65,301	\$ -	\$ -	\$ 2,565	\$ 2,565
Charges for services	-	-	26,958	26,958	2,683,181	2,683,181	1,769,292	(913,889)
Recovered costs	659,938	1,052,737	1,091,042	38,305	-	-	-	-
Intergovernmental	105,887,779	109,824,867	105,978,619	(3,846,248)	2,377,996	2,377,996	2,117,007	(260,989)
Total revenues	106,597,717	110,927,604	107,211,920	(3,715,684)	5,061,177	5,061,177	3,888,864	(1,172,313)
EXPENDITURES								
Instruction	81,912,566	83,793,622	81,852,396	1,941,226	-	-	-	-
Administration, attendance, and health	4,368,082	4,463,047	4,434,194	28,853	-	-	-	-
Pupil transportation	4,910,027	5,619,577	5,216,053	403,524	-	-	-	-
Operations and maintenance	15,091,749	16,636,065	14,864,364	1,771,701	-	-	-	-
Non-instructional	315,293	415,293	395,647	19,646	-	-	-	-
School nutrition	-	-	-	-	5,061,177	5,027,272	4,116,307	910,965
Total expenditures	106,597,717	110,927,604	106,762,654	4,164,950	5,061,177	5,027,272	4,116,307	910,965
Excess of revenues over expenditures	\$ -	\$ -	\$ 449,266	\$ 449,266	\$ -	\$ 33,905	\$ (227,443)	\$ (261,348)

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SUPPORTING SCHEDULE

SCHEDULE 1

**COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Payments to Subrecipients</u>	<u>Federal Expenditures</u>	<u>Department Totals</u>
<u>Department of Agriculture:</u>				
<u>Pass-through Payments:</u>				
<u>Department of Social Services:</u>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ -	\$ 603,924	
<u>Department of Agriculture and Consumer Services</u>				
Child Nutrition Cluster - National School Lunch Program	10.555	-	243,800	
<u>Department of Education:</u>				
Child Nutrition Cluster - School Breakfast Program	10.553	-	552,812	
Child Nutrition Cluster - National School Lunch Program	10.555	-	1,494,783	
State Administrative Expenses for Child Nutrition	10.560		316	
Schools and Roads - Grants to States	10.665	-	24,500	
Total Department of Agriculture				<u>2,920,135</u>
<u>Department Of Homeland Security:</u>				
<u>Pass-through Payments:</u>				
<u>Department of Emergency Management</u>				
FY 2016 State Homeland Security Program (SHSP)	97.067	-	75,000	
FY 2017 State Homeland Security Program (SHSP)	97.067	-	54,051	
Total Department of Homeland Security				<u>129,051</u>
<u>Department Of Justice:</u>				
<u>Pass-through Payments:</u>				
<u>Bureau of Justice Assistance:</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	2,036	
<u>Department of Criminal Justice Services</u>				
Crime Victim Assistance	16.575	-	140,270	
Total Department of Justice				<u>142,306</u>
<u>Department of Transportation:</u>				
<u>Pass-through Payments:</u>				
Safe Routes to Schools	20.205	-	92,688	
<u>Virginia Department of Transportation:</u>				
Highway Planning and Construction	20.205	127,330	197,020	
<u>Department of Motor Vehicles:</u>				
State and Community Highway Safety	20.600	-	18,891	
Total Department of Transportation				<u>308,599</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	-	2,226	
Career and Technical Education - Basic Grants to States	84.048	-	99,424	
English Language Acquisition Grants	84.365	-	28,907	
Student Support and Academic Enrichment Program	84.424	#	48,952	
Improving Teacher Quality State Grants	84.367	-	265,654	
Title I, Part A Cluster				
Title I: Grants to Local Educational Agencies	84.010	-	1,767,898	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	-	1,531,212	
Special Education - Preschool Grants	84.173	-	47,149	
Total Department of Education				<u>3,791,422</u>

SCHEDULE 1

**COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Payments to Subrecipients</u>	<u>Federal Expenditures</u>	<u>Department Totals</u>
<u>Department of Housing and Community Development</u>				
<u>Direct Payments:</u>				
Community Development Block Grants	14.218	\$ -	\$ 269,024	
Total Department of Housing and Community Development				<u>269,024</u>
<u>Department of Health and Human Services:</u>				
<u>Direct Payments:</u>				
Medical Assistance Program	93.778	-	504,688	
<u>Pass-through Payments:</u>				
<u>Department of Aging:</u>				
Support Services - Title III, Part B - Grants for Supportive Services Senior Centers	93.044	-	49,393	
<u>Department of Education:</u>				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	-	219,997	
<u>Department of Social Services:</u>				
Promoting Safe and Stable Families	93.556	-	21,786	
Temporary Assistance to Needy Families	93.558	-	479,093	
Refugee and Entrant Assistance	93.566	-	716	
Low-Income Home Energy Assistance	93.568	-	65,700	
Chafee Education and Training Vouchers Program	93.599	-	1,938	
Child Welfare Services - State Grants	93.645	-	1,549	
Foster Care - Title IV-E	93.658	-	312,658	
Adoption Assistance	93.659	-	507,405	
Social Service Block Grant	93.667	-	334,447	
Chafee Foster Care Independence Program	93.674	-	3,384	
Children's Health Insurance Program	93.767	-	23,287	
Medical Assistance Program	93.778	-	616,423	
<u>CCDF Cluster</u>				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	-	78,030	
Total Department of Health and Human Services				<u>3,220,494</u>
Total Expenditures of Federal Awards				<u>\$ 10,781,031</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, 2018, the School Board had food commodities totaling \$243,800 in inventory.

Note 3: Subgrantee
The federal expenditures for the Highway Planning and Construction program include a grant to the Town of Christiansburg, Virginia, totaling \$197,020.

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

Note 5: Outstanding Loan Balances
At June 30, 2018, the County had no outstanding loan balances requiring continuing disclosure.

STATISTICAL SECTION

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

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.	1-4
Revenue Capacity These tables contain information to help the reader assess the factors affecting the County's ability to generate its property and sales taxes.	5-8
Debt Capacity These tables present information to help the reader assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.	9-11
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place and to help make comparisons over time and with other governments.	12-13
Operating Information These schedules contain information about the County's operations and resources to help the reader understand how the County's financial information relates to the services it provides and the activities it performs.	14-15

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

TABLE 1

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental activities										
Net investments in capital assets	\$ 108,865,524	\$ 101,103,840	\$ 106,790,331	\$ 99,224,847	\$ 94,390,089	\$ 83,053,651	\$ 71,071,547	\$ 55,233,037	\$ 47,134,545	\$ 36,330,270
Restricted	2,653,992	3,422,137	3,370,622	9,057,768	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042
Unrestricted	46,583,071	41,482,649	21,079,416	8,962,437	16,446,049	19,018,360	19,612,113	24,369,885	22,316,253	25,596,419
Total governmental activities net position	<u>\$ 158,102,587</u>	<u>\$ 146,008,626</u>	<u>\$ 131,240,369</u>	<u>\$ 117,245,052</u>	<u>\$ 120,043,161</u>	<u>\$ 111,813,846</u>	<u>\$ 100,418,280</u>	<u>\$ 90,749,869</u>	<u>\$ 80,597,745</u>	<u>\$ 73,188,731</u>

* GASB Statement No. 75 was adopted in fiscal year 2018. Information for previous years presented is unavailable.

TABLE 2

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenses										
Governmental activities										
General government	\$ 7,026,591	\$ 6,710,269	\$ 6,628,073	\$ 7,355,412	\$ 7,803,244	\$ 6,839,318	\$ 6,825,896	\$ 7,725,594	\$ 9,074,011	\$ 7,381,364
Judicial administration	3,180,741	3,284,719	3,085,442	2,972,436	3,271,384	3,243,491	2,207,787	2,784,098	3,077,193	2,658,492
Public safety	14,979,387	15,607,399	16,501,276	16,075,298	15,847,489	14,993,461	15,097,206	13,329,812	13,830,467	11,957,163
Public works	7,771,908	7,043,062	6,588,634	6,183,132	5,334,776	5,514,675	4,674,525	5,114,845	5,349,346	5,153,812
Parks, recreation, and cultural	7,261,426	3,161,901	2,923,681	3,004,779	3,319,267	2,899,220	2,940,666	2,872,328	2,881,815	3,022,711
Health and welfare	61,309,632	7,601,479	7,450,377	7,260,389	7,256,247	7,590,977	8,991,736	9,590,573	9,956,048	10,490,545
Community development	3,261,183	2,257,677	2,147,334	2,029,561	1,634,581	1,431,050	1,796,052	1,670,510	1,734,477	1,264,454
Education	6,481,797	53,783,649	50,296,987	47,892,943	46,084,985	43,474,161	40,874,425	41,033,802	34,797,557	38,634,043
Interest on long-term debt	7,551,364	8,170,978	9,487,012	10,224,163	10,747,055	10,947,731	9,450,462	7,303,475	7,501,270	7,389,389
Total governmental activities	<u>\$ 118,824,029</u>	<u>\$ 107,621,133</u>	<u>\$ 105,108,816</u>	<u>\$ 102,998,113</u>	<u>\$ 101,299,028</u>	<u>\$ 96,934,084</u>	<u>\$ 92,858,755</u>	<u>\$ 91,425,037</u>	<u>\$ 88,202,184</u>	<u>\$ 87,951,973</u>
Program Revenues										
Governmental activities										
Charges for services										
Public Safety	\$ 845,614	\$ 675,191	\$ 831,545	\$ 554,537	\$ 821,283	\$ 954,882	\$ 805,119	\$ 723,997	\$ 827,458	\$ 917,866
Public Works	380,295	346,642	534,602	365,211	128,492	157,054	172,662	305,159	296,302	123,341
Other Activities	1,519,573	1,990,012	2,458,491	2,346,584	1,653,852	1,726,342	1,882,013	1,875,981	1,899,073	1,565,954
Operating grants and contributions	15,670,719	13,223,745	13,291,638	13,163,435	13,207,893	12,155,610	13,159,616	13,263,890	15,556,440	15,084,570
Total governmental activities program revenues	<u>\$ 18,416,201</u>	<u>\$ 16,235,590</u>	<u>\$ 17,116,276</u>	<u>\$ 16,429,767</u>	<u>\$ 15,811,520</u>	<u>\$ 14,993,888</u>	<u>\$ 16,019,410</u>	<u>\$ 16,169,027</u>	<u>\$ 18,579,273</u>	<u>\$ 17,691,731</u>
Net (expense) revenue										
Governmental activities	<u>\$ (100,407,828)</u>	<u>\$ (91,385,543)</u>	<u>\$ (87,992,540)</u>	<u>\$ (86,568,346)</u>	<u>\$ (85,487,508)</u>	<u>\$ (81,940,196)</u>	<u>\$ (76,839,345)</u>	<u>\$ (75,256,010)</u>	<u>\$ (69,622,911)</u>	<u>\$ (70,260,242)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	\$ 88,892,123	\$ 86,548,199	\$ 83,468,082	\$ 80,635,361	\$ 78,850,329	\$ 75,751,806	\$ 69,685,628	\$ 63,793,078	\$ 60,083,722	\$ 59,872,099
Sales taxes	9,275,276	9,101,542	8,904,969	8,579,451	7,965,976	7,982,843	7,742,363	7,218,180	6,889,322	7,086,741
Other taxes	2,106,997	1,842,352	1,922,210	1,719,851	1,720,268	1,767,152	1,554,693	1,509,326	1,529,808	1,526,049
Utility taxes	1,829,801	1,765,984	1,790,892	1,824,174	1,825,809	1,847,570	1,807,321	1,877,600	1,856,684	1,877,884
Intergovernmental revenue not restricted	5,235,422	5,236,670	5,266,575	5,300,522	5,097,685	5,317,374	5,119,304	5,010,686	5,117,860	5,181,174
Investment earnings	6,776,236	1,659,053	635,129	408,393	630,330	669,017	598,447	749,264	1,554,529	2,733,779
Transfers	-	-	-	-	-	-	-	5,250,000	-	(114,000)
Total governmental activities	<u>\$ 114,115,855</u>	<u>\$ 106,153,800</u>	<u>\$ 101,987,857</u>	<u>\$ 98,467,752</u>	<u>\$ 96,090,397</u>	<u>\$ 93,335,762</u>	<u>\$ 86,507,756</u>	<u>\$ 85,408,134</u>	<u>\$ 77,031,925</u>	<u>\$ 78,163,726</u>
Changes in Net Position										
Governmental activities	<u>\$ 13,708,027</u>	<u>\$ 14,768,257</u>	<u>\$ 13,995,317</u>	<u>\$ 11,899,406</u>	<u>\$ 10,602,889</u>	<u>\$ 11,395,566</u>	<u>\$ 9,668,411</u>	<u>\$ 10,152,124</u>	<u>\$ 7,409,014</u>	<u>\$ 7,903,484</u>

TABLE 3

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

Post-GASB 54 Implementation

	2018	2017	2016	2015	2014	2013	2012	2011
General Fund								
Nonspendable	\$ 7,147,881	\$ 6,392,736	\$ 6,392,736	\$ 6,392,736	\$ 6,142,736	\$ 6,142,736	\$ 6,142,736	\$ 6,390,102
Restricted	2,163,916	1,440,932	1,405,595	633,493	246,442	198,007	218,640	163,400
Committed	4,869,635	4,295,900	2,997,137	2,629,271	1,104,829	811,116	1,231,209	1,637,026
Assigned	10,895,212	8,883,210	10,686,220	8,006,468	6,658,479	4,983,773	2,623,848	2,153,987
Unassigned	25,502,336	21,520,152	21,458,825	21,285,382	22,579,254	31,558,055	29,937,993	23,049,803
Total general fund	<u>\$ 50,578,980</u>	<u>\$ 42,532,930</u>	<u>\$ 42,940,513</u>	<u>\$ 38,947,350</u>	<u>\$ 36,731,740</u>	<u>\$ 43,693,687</u>	<u>\$ 40,154,426</u>	<u>\$ 33,394,318</u>
All other Governmental Funds								
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	2,653,992	3,422,137	6,390,843	15,413,668	37,782,191	60,069,709	134,256,303	62,573,977
Committed	17,976,106	21,089,287	13,552,955	10,724,002	-	-	-	-
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-
Total all other Governmental Funds	<u>\$ 20,630,098</u>	<u>\$ 24,511,424</u>	<u>\$ 19,943,798</u>	<u>\$ 26,137,670</u>	<u>\$ 37,782,191</u>	<u>\$ 60,069,709</u>	<u>\$ 134,256,303</u>	<u>\$ 62,573,977</u>

Pre-GASB 54 Implementation

	2010	2009
General Fund		
Reserved	\$ 8,653,644	\$ 8,002,362
Unreserved	26,258,463	24,304,985
Total general fund	<u>\$ 34,912,107</u>	<u>\$ 32,307,347</u>
All Other Governmental Funds		
Reserved	\$ 30,943,646	\$ 16,964,867
Unreserved, reported in:		
Special revenue funds	-	-
Capital projects funds	44,433,277	77,979,506
Debt service funds	-	-
Total all other Governmental Funds	<u>\$ 75,376,923</u>	<u>\$ 94,944,373</u>

TABLE 4

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
Taxes	\$ 102,097,460	\$ 98,690,096	\$ 96,405,280	\$ 92,947,129	\$ 90,126,172	\$ 87,359,604	\$ 80,674,800	\$ 73,694,467	\$ 70,761,455	\$ 69,492,208
Permits, privilege fees, and licenses	713,849	579,676	608,481	803,833	736,908	784,979	772,968	666,849	768,341	678,798
Fines and forfeitures	45,564	31,116	59,412	122,265	129,993	134,154	130,919	116,968	109,471	86,587
Revenue from use of money and property	6,912,778	2,611,393	642,093	1,403,653	847,556	672,961	598,447	749,264	1,554,529	2,733,781
Charges for services	731,612	797,051	533,870	491,921	632,447	678,997	698,281	733,701	767,029	770,575
Other	1,254,457	1,604,002	2,622,875	1,236,464	1,104,276	1,255,148	1,293,861	1,393,796	1,377,993	1,642,545
Intergovernmental	20,906,141	18,460,415	18,558,211	18,463,956	18,305,578	17,472,984	18,278,921	18,274,576	20,674,300	19,694,399
Total revenues	132,661,861	122,773,749	119,430,222	115,469,221	111,882,930	108,358,827	102,448,197	95,629,621	96,013,118	95,098,893
Expenditures										
General government	7,854,280	7,577,451	7,258,386	8,143,965	8,360,028	6,646,567	6,696,527	7,659,535	7,699,271	7,252,162
Judicial administration	3,289,505	3,308,287	3,173,484	3,307,130	3,263,725	3,216,924	2,183,562	2,760,189	3,035,865	2,660,668
Public safety	15,131,067	15,251,116	16,261,029	15,518,087	15,791,071	14,235,137	14,258,983	12,729,447	13,445,144	11,813,809
Public works	4,990,527	4,799,802	4,528,292	4,364,754	4,097,717	3,699,143	3,718,932	4,286,792	3,961,336	4,142,728
Parks, recreation, and cultural	3,245,857	3,197,230	2,989,271	3,042,563	3,318,180	2,868,281	2,926,645	2,807,902	2,821,921	3,163,574
Health and welfare	7,575,530	7,677,724	7,627,835	7,456,915	7,224,463	7,597,546	8,921,480	9,609,463	9,938,623	10,459,213
Education	45,356,395	46,859,043	43,841,697	42,766,205	41,136,639	40,082,257	37,540,554	37,065,839	32,813,321	36,822,962
Community development	3,970,487	2,248,407	2,131,661	1,919,458	1,626,977	1,393,140	1,564,984	1,365,242	1,436,161	1,268,374
Capital projects	14,290,730	4,387,690	4,159,785	13,956,949	31,864,447	74,446,535	40,969,360	30,369,502	27,406,729	9,393,891
Debt service										
Principal	15,023,887	15,656,725	14,561,166	13,980,224	13,495,643	12,944,479	11,386,500	11,218,254	9,993,084	8,205,430
Interest and other costs	7,768,872	8,625,448	9,940,225	10,551,067	10,953,505	11,876,151	7,214,788	7,878,024	7,902,498	6,864,369
Total expenditures	128,497,137	119,588,923	116,472,831	125,007,317	141,132,395	179,006,160	137,382,315	127,750,189	120,453,953	102,047,180
Excess of revenues over (under) expenditures	4,164,724	3,184,826	2,957,391	(9,538,096)	(29,249,465)	(70,647,333)	(34,934,118)	(32,120,568)	(24,440,835)	(6,948,287)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	64,605,000	32,835,000	11,572,000	-	-	101,115,000	26,075,000	21,598,145	77,000,000
Bond premium	-	12,512,126	6,459,242	-	-	-	12,261,552	181,804	-	775,666
Premium on called bonds	-	-	-	-	-	-	-	(1,026,966)	-	-
Payments to bond escrow agents	-	(76,141,909)	(44,452,342)	(11,462,815)	-	-	-	(12,680,005)	(14,120,000)	-
Contributions from component unit	-	-	-	-	-	-	-	5,250,000	-	-
Transfers in	10,325,691	8,897,271	3,938,560	3,579,323	9,677,754	1,877,120	2,812,359	5,091,622	4,109,521	5,522,084
Transfers out	(10,325,691)	(8,897,271)	(3,938,560)	(3,579,323)	(9,677,754)	(1,877,120)	(2,812,359)	(5,091,622)	(4,109,521)	(5,636,084)
Total other financing sources (uses)	-	975,217	(5,158,100)	109,185	-	-	113,376,552	17,799,833	7,478,145	77,661,666
Net change in fund balances	\$ 4,164,724	\$ 4,160,043	\$ (2,200,709)	\$ (9,428,911)	\$ (29,249,465)	\$ (70,647,333)	\$ 78,442,434	\$ (14,320,735)	\$ (16,962,690)	\$ 70,713,379
Debt service as a percentage of noncapital expenditures	19.96%	21.08%	21.82%	22.09%	22.38%	23.80%	19.11%	19.47%	19.02%	16.44%

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 *
2018	\$ 7,918,750,500	\$ 760,903,050	\$ 148,340,969	\$ 43,636,444	\$ 264,526,997	\$ 9,136,157,960	\$ 8.31
2017	\$ 7,802,249,900	\$ 737,004,452	\$ 151,956,796	\$ 42,866,162	\$ 248,496,706	\$ 8,982,574,016	\$ 8.31
2016	\$ 7,677,904,800	\$ 664,821,240	\$ 129,605,659	\$ 41,233,623	\$ 251,993,438	\$ 8,765,558,760	\$ 8.31
2015	\$ 7,541,394,700	\$ 664,804,040	\$ 129,605,659	\$ 41,233,623	\$ 273,923,820	\$ 8,650,961,842	\$ 8.31
2014	\$ 7,297,499,100	\$ 648,612,838	\$ 128,710,287	\$ 40,709,267	\$ 252,755,710	\$ 8,368,287,202	\$ 8.31
2013	\$ 7,236,381,500	\$ 615,927,418	\$ 122,801,871	\$ 36,729,664	\$ 217,589,620	\$ 8,229,430,073	\$ 8.31
2012	\$ 7,187,287,200	\$ 597,697,604	\$ 121,643,809	\$ 31,231,378	\$ 229,863,391	\$ 8,167,723,382	\$ 8.19
2011	\$ 7,159,568,600	\$ 564,429,352	\$ 113,349,970	\$ 30,263,200	\$ 207,151,562	\$ 8,074,762,684	\$ 8.07
2010	\$ 6,932,701,500	\$ 555,498,413	\$ 114,428,458	\$ 29,055,945	\$ 196,055,790	\$ 7,827,740,106	\$ 8.06
2009	\$ 6,835,051,400	\$ 502,394,734	\$ 115,931,340	\$ 33,633,822	\$ 193,786,466	\$ 7,680,797,762	\$ 8.03

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

* Per \$100 of assessed value.

Source: Assessor's Office

TABLE 6

**County of Montgomery, Virginia
Property Tax Rates
Last Ten Calendar Years**

Calendar Year	County of Montgomery Real Estate	Town of Christiansburg Real Estate	Town of Blacksburg Real Estate	Total Rate for Christiansburg Residents	Total Rate for Blacksburg Residents
2018	0.8900	0.1600	0.2600	1.0500	1.1500
2017	0.8900	0.1600	0.2500	1.0500	1.1400
2016	0.8900	0.1600	0.2500	1.0500	1.1400
2015	0.8900	0.1600	0.2500	1.0500	1.1400
2014	0.8900	0.1300	0.2200	1.0200	1.1100
2013	0.8900	0.1300	0.2200	1.0200	1.1100
2012	0.8700	0.1126	0.2200	0.9826	1.0900
2011	0.7500	0.1126	0.2200	0.8626	0.9700
2010	0.7400	0.1126	0.2200	0.8526	0.9600
2009	0.7100	0.1126	0.2200	0.8226	0.9300
2008	0.7100	0.1126	0.2200	0.8226	0.9300

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
2018	0.89	2.55	1.82	3.05	8.31
2017	0.89	2.55	1.82	3.05	8.31
2016	0.89	2.55	1.82	3.05	8.31
2015	0.89	2.55	1.82	3.05	8.31
2014	0.89	2.55	1.82	3.05	8.31
2013	0.89	2.55	1.82	3.05	8.31
2012	0.87	2.45	1.82	3.05	8.19
2011	0.75	2.45	1.82	3.05	8.07
2010	0.74	2.45	1.82	3.05	8.06
2009	0.71	2.45	1.82	3.05	8.03
2008	0.71	2.45	1.82	3.05	8.03

Rates are per \$100 of assessed value.

TABLE 7

County of Montgomery, Virginia
Comparison of Tax Rates for Montgomery County and Surrounding Localities
Prior Calendar Year

Locality	CY 2017	
	Real Estate Tax Rate	Personal Property Tax Rate
Montgomery County	\$0.89/\$100	\$2.55/\$100
Craig County	\$0.56/\$100	\$3.00/\$100
Roanoke County	\$1.09/\$100	\$3.50/\$100
Floyd County	\$0.55/\$100	\$2.95/\$100
Pulaski County	\$0.64/\$100	\$2.35/\$100
Giles County	\$0.63/\$100	\$1.98/\$100
City of Radford	\$0.76/\$100	\$2.44/\$100
City of Salem	\$1.18/\$100	\$3.25/\$100
City of Roanoke	\$1.22/\$100	\$3.45/\$100

TABLE 8

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

Taxpayer	Fiscal Year 2018			Fiscal Year 2009		
	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Jeannie Stosser	\$ 160,071,500	1	1.95%	\$ 74,485,400	1	0.86%
Foxridge/Harry Hunt III	124,609,300	2	1.51%	68,594,800	2	0.91%
Appalachian Power	126,848,787	3	1.54%	-	-	0.00%
Roger Woody	68,856,700	4	0.84%	60,246,300	3	0.56%
CAP IX BLACKSBURG LLC	76,000,000	5	0.92%	-	-	0.00%
Shelor Properties	63,516,200	6	0.77%	52,712,400	4	0.35%
Retreat at Blacksburg LLC	50,000,000	7	0.61%	-	-	0.00%
NRV Mall Associates	31,150,000	8	0.38%	-	-	0.00%
Village at Bburg LLC	47,000,000	9	0.57%	-	-	0.00%
Maple Ridge/NW Development	34,085,700	10	0.41%	22,572,900	8	0.53%
PR Financing	-	-	0.00%	48,811,500	5	0.68%
SHP-The Village at Blacksburg LLC	-	-	0.00%	29,811,000	6	0.68%
Centro Heritage Spradlin Farm LLC	-	-	0.00%	23,250,700	7	0.00%
Verizon	-	-	0.00%	21,241,794	9	0.30%
PR New River LLC	-	-	0.00%	19,521,700	10	0.68%
	<u>\$ 782,138,187</u>		<u>9.50%</u>	<u>\$ 421,248,494</u>		<u>5.55%</u>

Source: Assessor's Office

TABLE 9

**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 *
2018	\$ 91,294,308	\$ 89,655,298	98.20%	\$ -	\$ 89,655,298	98.20%
2017	89,666,096	87,107,903	97.15%	2,257,137	89,365,040	99.66%
2016	86,189,045	84,989,258	98.61%	1,851,994	86,841,252	100.76%
2015	84,688,412	82,375,988	97.27%	1,869,949	84,245,937	99.48%
2014	82,261,271	80,650,339	98.04%	1,848,496	82,498,835	100.29%
2013	79,883,115	78,623,115	98.42%	2,053,836	80,676,951	100.99%
2012	73,613,538	72,812,497	98.91%	1,720,649	74,533,146	101.25%
2011	70,260,817	66,804,327	95.08%	1,706,547	68,510,874	97.51%
2010	67,027,509	63,697,514	95.03%	1,063,418	64,760,932	96.62%
2009	65,440,819	62,288,701	95.18%	1,331,768	63,620,469	97.22%

Note:

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

TABLE 10

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
2018	\$ 38,609,416	\$ 38,609,416	0.42%	\$ 391.74	\$ 7,476,976	\$ 1,000,000	\$ 111,466,000
2017	44,106,352	44,106,352	0.49%	447.32	12,407,928	1,250,000	115,812,000
2016	114,315,165	114,315,165	1.30%	1,170.63	17,290,817	1,500,000	56,367,022
2015	119,476,791	119,476,791	1.38%	1,226.60	63,322,594	1,750,000	27,844,785
2014	124,192,120	124,192,120	1.48%	1,290.88	68,115,127	2,000,000	31,915,147
2013	138,871,145	138,871,145	1.69%	1,452.23	72,865,208	2,250,000	36,020,898
2012	143,366,076	143,366,076	1.76%	1,509.18	77,574,559	2,500,000	40,010,777
2011	35,242,208	35,242,208	0.44%	373.36	82,244,830	2,750,000	43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889

Fiscal Year	Total Primary Government	Percentage of Personal Income	Per Capita
2018	\$ 158,552,392	4.08%	\$ 1,609
2017	173,576,280	4.57%	1,760
2016	189,473,004	5.22%	1,940
2015	212,394,170	6.01%	2,181
2014	226,222,394	7.77%	2,351
2013	250,007,251	9.18%	2,614
2012	263,451,412	9.96%	2,773
2011	164,162,515	6.57%	1,739
2010	160,757,313	6.51%	1,759
2009	163,070,399	7.56%	1,802

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

TABLE 11

**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	
2018	\$ 4,644,378	\$ 3,056,795	\$ 1,587,583	\$ 284,033	\$ 125,553	3.88
2017	3,753,544	3,066,780	686,764	272,828	129,901	1.71
2016	3,836,886	3,143,413	693,473	266,231	136,497	1.72
2015	3,997,594	3,033,109	964,485	259,795	142,935	2.39
2014	3,527,623	3,008,595	519,028	253,513	149,215	1.29
2013	4,792,122	2,845,324	1,946,798	344,383	221,253	3.44
2012	4,074,962	2,705,003	1,369,959	215,442	252,764	2.93
2011	3,857,490	2,685,634	1,171,856	204,973	258,159	2.53
2010	3,402,690	2,895,875	506,815	194,334	264,346	1.10
2009	3,387,714	2,985,765	401,949	154,003	277,225	0.93

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

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

TABLE 12

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

Fiscal Year Ended	Population	Total Personal Income	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2018	98,559	\$ 3,883,843,000	\$ 39,406	9,637	3.50%
2017	98,602	3,795,651,000	38,495	9,487	4.20%
2016	97,653	3,626,967,000	37,141	9,488	4.30%
2015	97,405	3,534,206,000	36,284	9,427	5.50%
2014	96,207	2,909,743,645	30,245	9,484	5.50%
2013	95,626	2,723,370,463	28,479	9,474	6.50%
2012	94,996	2,645,068,624	27,844	9,406	6.40%
2011	94,392	2,499,233,000	26,477	9,345	7.40%
2010	91,394	2,470,786,962	27,034	9,494	7.00%
2009	90,517	2,157,925,280	23,840	9,518	5.83%

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 13

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

Employer	Fiscal Year 2018		Fiscal Year 2009	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Polytechnic Institute and State University	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	3
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	2
Carilion New River Valley Medical Center	500 to 999	4	500 to 999	7
Moog Inc	500 to 999	5	500 to 999	6
BAE Systems	500 to 999	6	-	
LewisGale Hospital Montgomery	500 to 999	7	500 to 999	9
New River Valley Community Services	500 to 999	8	-	
Federal Mogul Corp	500 to 999	9	-	
Alliant TechSystems	-	-	1,000 to 4,999	4
Rowe Furniture Manufacturing	500 to 999	10	500 to 999	8
Hubble Lighting, Inc.	1 to 499	-	1 to 499	10
Dish Network	1 to 499	-	500 to 999	5

TABLE 14

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

Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government										
County Administration	13.50	13.50	13.50	13.50	14.50	13.50	13.50	13.50	13.50	13.50
Information management services	9.50	9.50	9.50	9.50	9.50	9.50	9.50	8.50	9.50	10.50
Finance	10.00	9.50	9.50	9.50	9.50	7.50	8.50	8.50	8.50	8.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	14.00	14.00	13.00	13.00	13.00	13.00	14.00	14.00	19.00	19.00
Treasurer	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	17.00	17.00
Other	7.50	7.50	7.50	7.50	7.50	7.00	6.50	6.50	7.50	7.50
Public Safety										
Sheriff	125.50	124.50	130.50	130.50	130.50	130.50	130.50	121.50	124.50	135.50
Animal control	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00
Animal care and adoption center	7.00	-	-	-	-	-	-	-	-	-
Inspections	5.00	5.00	5.00	5.00	4.00	4.00	5.00	5.00	5.00	5.00
Judicial	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00
Refuse collection	14.00	14.00	14.60	14.60	16.40	17.00	19.40	22.40	23.00	23.00
Other public works										
Engineering	2.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	7.00	7.00	7.00	7.00	6.00	6.00	8.00	9.00	9.00
Housekeeping	11.00	11.00	10.00	10.00	10.00	10.00	9.00	8.00	9.00	9.00
Other	6.00	6.00	5.00	5.00	5.00	6.00	3.00	3.00	3.00	4.00
Parks, recreation, and cultural	11.00	9.00	9.00	8.00	8.00	7.00	7.00	7.00	7.00	7.00
Library	19.50	19.00	19.75	20.00	20.00	20.50	20.50	20.50	23.88	23.88
Water/Sewer	18.00	18.00	18.00	19.00	17.00	19.00	19.00	18.00	18.00	19.00
Health and welfare	67.50	67.50	67.50	67.50	67.50	68.50	68.50	69.50	70.50	74.50
Community development	10.00	9.00	9.00	9.00	9.00	9.00	10.00	10.00	11.00	11.00
Total	399.25	386.25	390.60	390.85	391.65	391.25	393.15	387.15	410.13	427.88

Source: County Approved Budget

TABLE 15

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

Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
Fleet vehicles	259	245	247	245	277	251	238	239	233	220
Judicial Administration										
Sheriff										
Inmates Housed	32,188	31,808	31,113	32,823	32,819	45,505	42,511	41,691	40,716	68,835
Inmate Transports	3,262	2,814	2,833	3,258	4,075	4,017	3,318	3,317	2,857	3,160
Courts Worked	866	871	818	818	894	939	927	934	983	983
Public safety										
Sheriff										
Physical arrests	1,166	1,157	1,055	934	1,253	1,460	1,608	1,995	2,141	1,868
Traffic violations	1,085	1,041	3,643	4,475	1,899	2,083	2,435	2,335	2,774	2,763
Public works										
Refuse collection										
Refuse collected (pounds per day)	64,264	64,968	63,298	60,902	62,559	71,359	71,334	74,351	71,212	69,484
Recyclables collected (pounds per day)	5,974	5,916	6,032	5,846	5,804	6,825	6,861	5,892	4,838	5,252
* Parks, recreation, and cultural										
Parks and recreation										
Total programs	286	251	283	279	276	237	244	241	263	247
Total registrants	4,673	4,169	3,883	3,259	2,908	3,137	2,991	2,875	3,104	3,125
Library										
Volumes in collection	217,814	237,227	237,603	236,904	237,054	251,261	248,649	244,999	242,243	243,427
Total volumes borrowed	672,417	666,681	675,317	709,250	721,682	745,114	768,931	785,879	871,296	892,655
Water										
Number of customer accounts	2,750	2,732	2,732	2,725	2,720	2,699	2,640	2,616	2,640	2,642
Miles of distribution lines	93	93	93	93	93	93	93	92	92	92
Average daily consumption	678,134	691,141	711,988	733,741	712,801	693,833	697,490	758,384	739,956	829,736
Sewer										
Number of customer accounts	1,544	1,525	1,512	1,503	1,482	1,475	1,408	1,388	1,372	1,356
Waste/Water treated (million gallons per year)	200	215	181	188	208	172	167	175	222	191
Average daily consumption	547,545	588,384	495,975	517,820	570,632	470,306	458,671	479,328	486,030	522,650

Source: County departments

* Excludes Pool participants and Multi-Jurisdictional programs.

TABLE 16

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

<u>Function/Program</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Public safety										
Law enforcement vehicles	98	97	97	99	93	96	93	96	92	94
Fire and Rescue stations	10	10	10	10	10	10	10	10	10	10
Parks, recreation, and cultural										
Parks/athletic fields	11	10	8	8	8	8	8	8	8	7
Water and sewage										
Water mains (miles)	93	93	93	93	93	93	93	92	92	92
Sanitary sewers (miles)	64	64	64	63	63	63	63	62	62	62

Source: County departments

COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the 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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2018-002.**

County of Montgomery's Responses to Findings

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

Purpose of This Report

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

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited the County of Montgomery, Virginia's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2018. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Report on Compliance for Each Major Federal Program (Continued)

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, 2018.

Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2018

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2018

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

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Inmate Canteen Funds

Comprehensive Services Act

Sheriff Internal Controls

State Agency Requirements

Education

Social Services

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

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

None noted.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

2018-002: Department of Social Services Annual Review of System Access

Condition:

During our social services review, we noted one out of five employee files tested did not contain an annual review system access request form.

Criteria:

Per Title 63.2 of the *Code of Virginia*, each LSO should be annually reviewing all employees' access to each application with employees' supervisor to ensure that the access is properly aligned with job responsibilities.

Cause:

Proper annual review was not done.

Effect:

Employee access to each application was not analyzed for properly alignment with job responsibilities.

Recommendation:

We recommend that management implement a process to ensure that each file has the current system access request form included.

Management's Response:

Management concurs with this recommendation.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
June 30, 2018

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2007-001: Segregation of Duties (Material Weakness)

Condition:

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

Current Status:

Condition still present.