

COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

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INTRODUCTORY SECTION

March 30, 2021

To the Members of the Board of Supervisors and the Citizens of Montgomery County:

We are pleased to present to you the Comprehensive Annual Financial Report of the County of Montgomery for the fiscal year ended June 30, 2020, 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.

Industrious | Diverse | Steadfast | Helpful | Integrity

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 100,000 including that of two incorporated towns, Blacksburg and Christiansburg. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

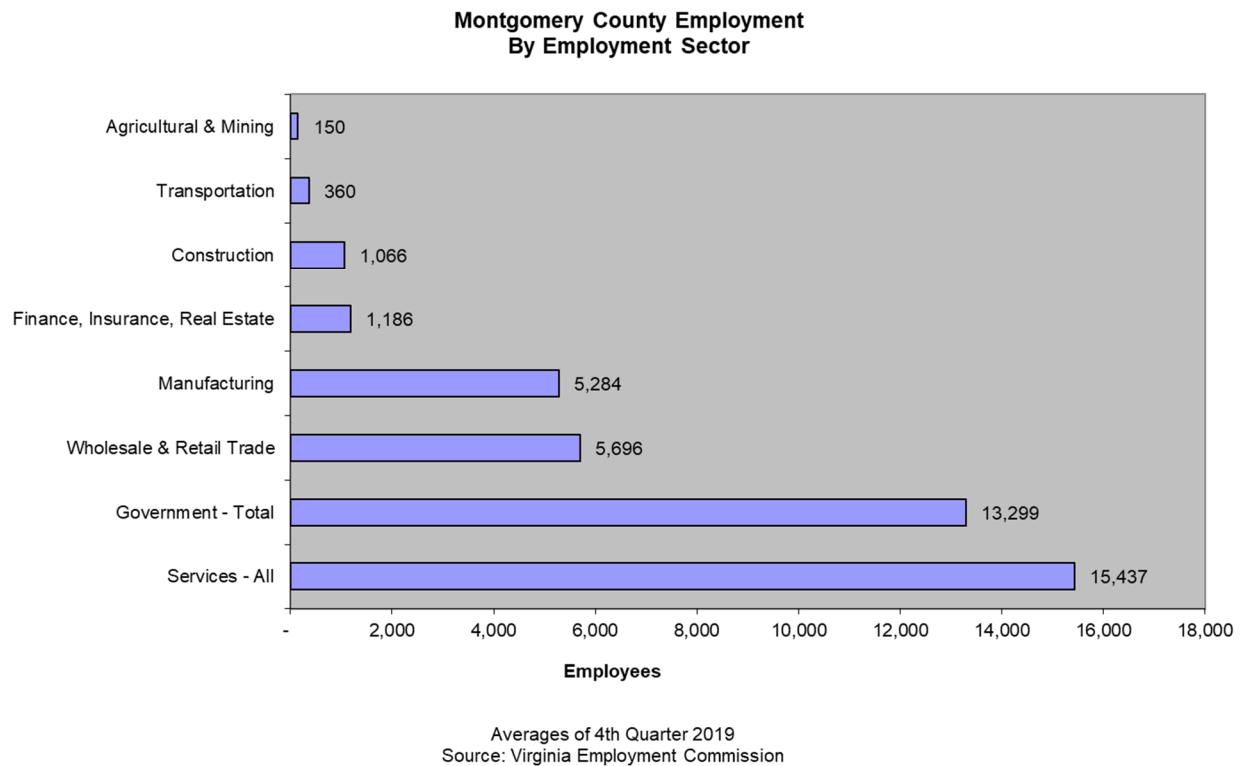
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he 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, overseeing the day-to-day operations of the government, and 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 2019 and June 2020 was 4.1%, which remains historically below the average in the New River Valley. The percentage ranged from a low of 2.5% in November and December 2019 to a high of 9.2% in April 2020 (due to COVID-19 restrictions). The unemployment rate for the County over the past 10 years (2010-2019) averaged 4.8%, reaching a high of 7.1% in 2010 and a low of 2.8% in 2019. The pool of available labor has also remained stable for the past decade in Montgomery County, and surrounding New River Valley counties. Average unemployment among New River Valley localities was higher than the statewide average of 2.8% for calendar year 2019, with Montgomery (2.8%) and Floyd (2.6%) Counties reporting the lowest rates for the year. Giles County, Pulaski County, and the City of Radford averaged 3.4% unemployment during the same period. Employment within Montgomery County represented 55.1% 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 averages for the 4th quarter of 2019:



Slight increases in employment were broad based, covering several economic sectors. The total increase in the number of jobs was 190 across all sectors, resulting in an increase of 0.5% from the previous year. Only three areas experienced declines – the service area was down 1.1%, transportation was down 5.5%, while finance, insurance, and real estate were down 2.8% for the third consecutive year.

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 region is a hub for the manufacturing industry with the County's largest industrial employer, BAE Systems, Inc., employing approximately 1,300 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 development), Rackspace Hosting (software), and 1901 Group (software).

The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, is a business/research park that is the catalyst for Montgomery County's high-tech industry cluster. The 230 acre park includes more than 1.3 million square feet of office and lab space, and is home to over 200 research, technology and support companies, which collectively employ more than 3,300 workers. An expansion on the northwest side of the park provides enough land to construct 15 buildings, (870,000 square feet) in addition to the 36 single and multi-tenant buildings currently on site. The VTCRC anticipates a continued increase in employment, bringing the total number of employees to 5,000. In September 2009, the VTCRC was named the international winner of the "2010 Outstanding Science/Research Park" 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. A local developer is currently developing an apartment complex of 207 units adjacent to the VTCRC. Construction started in late 2020, with an estimated completion date of the summer of 2022.

Montgomery County's second largest industry sector, government, provides 31.3% of the County's jobs and helps 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 13,000 employees. Approximately 1,600 more individuals are employed through the Montgomery County Public School System, making education the largest area in the government sector.

There are several new developments, both commercial and residential, underway in fiscal year 2020. In the Town of Christiansburg, the Marketplace shopping center continued redevelopment for new restaurants and retailers with an expected investment of \$53 million. This project is under construction with several restaurants and retailers currently open and others under contract to locate in the development. In downtown Blacksburg, a local developer is constructing a \$120 million development on property that was previously home to the Blacksburg Middle School. The project will include a total of over 150,000 mixed-use square feet consisting of office space, retail space, a 100-room hotel and 150 residential housing units.

Since January 2014, companies in Montgomery County have announced over \$78 million in new capital investment (industrial/commercial, non-retail) and the addition of nearly 1,970 related jobs as shown in the chart on the next page.

Business Announcements, Montgomery County, Virginia:

Company Name	Business Description	New Jobs	Investment (millions)
TORC Robotics	Autonomous vehicles and robotics	350	\$8.50
Moog, Inc.	Electrical Equipment Manufacturer	100	\$8.50
Modea	Provider of web, application development, and marketing of analytics solutions	20	\$0.10
Ozmo, Inc.	Builder of software products for mobile operations	40	\$0.20
Inorganic Ventures	Manufacturer of higher class certified reference materials	10	\$0.50
1901 Group	Managed IT services provider	580	\$8.80
Block.One	Blockchain technology	344	\$7.00
TORC Robotics	Autonomous vehicles and robotics	55	\$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	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	\$10.60
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
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 2020 included Modea, Moog, Inc., and TORC Robotics. Modea is an existing technology company that specializes in digital strategy for healthcare organizations. Modea announced their plans to invest \$100,000 to move to a larger facility, headquartered in Blacksburg, allowing their operations in Montgomery County to meet increasing demand for new products from top healthcare agencies and create 20 new jobs. Moog plans to purchase and renovate an existing facility, make an \$8.5 million investment, and add an additional 100 employees. TORC Robotics invested \$8.5 million to double its headquarters facility in Blacksburg and create 350 new jobs.

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 despite the COVID-19 pandemic.

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 2020 include:

The 2020-2024 Capital Improvement Program

The Capital Improvement Program (CIP) for 2020 through 2024 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and the school system. The five-year CIP totals \$66.3 million and is comprised of County Capital Improvements of \$22.6 million and School Capital Improvements of \$43.7 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 fiscal year 2017 for fire and rescue equipment. Each year the Commission, comprised of representatives from each fire and rescue agency, the Board of Supervisors and County staff, decide how to effectively distribute this funding based on existing and future capital needs of the County's fire and rescue agencies, as outlined in their replacement plan. For 2020, approximately \$1.3 million was provided for fire and rescue capital needs.

The County provides \$535,000 annually to address major capital repairs and large-scale components of County facilities that cannot be addressed within the General Fund. In fiscal year 2020, an additional \$250,000 was added to provide an annual total of \$785,000 in funding. These funds may be used for projects such as roof replacements, heating ventilation and air conditioning (HVAC) upgrades, flooring, paving, and other major facility system upgrades.

In 2020, the County also provided \$390,000 for Parks and Recreation for the Eastern Montgomery and Auburn park projects, \$250,000 for Information Technology infrastructure improvements within County facilities, and also added \$844,609 or one cent of the real estate tax rate for future County capital needs.

Capital Projects Completed During the Year

Public safety remains a priority with \$235,757 in fire and rescue equipment purchases in fiscal year 2020 based on recommendations of the Fire and Rescue Commission. Equipment purchases included:

- Brush truck replacement for Blacksburg Fire Department,
- First responder vehicle for Elliston Fire Department, and
- Air machines for the Riner Fire Department.

The renovation of the former Riner Fire Station for use by the Riner Rescue Squad was also substantially completed before June 30.

One of many planned and ongoing school capital projects was completed during the year with a portion of the Falling Branch Elementary School expansion, at a cost of approximately \$10.3 million.

For the Future

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

- Since 2014, the County has set aside cash-to-capital monies for future new school capital construction, earmarking 2 cents of the real estate tax rate on a yearly basis for future school capital projects. From fiscal year 2014 through fiscal year 2020, \$11.6 million was accumulated for school projects from these monies, which, combined with proceeds from the sale of surplus school properties (\$3.2 million) and transfers from the General Fund (\$8 million), total approximately \$23.5 million. These funds cover various school capital projects including renovations to Falling Branch Elementary School, renovation of a portion of the Christiansburg High School athletic facilities, renovations to house the new Operations Center, a portion of the renovation cost of Christiansburg Primary, Christiansburg Elementary and Belview Elementary Schools, and architectural studies of Christiansburg High School renovations and future school projects.
- The County received \$30 million in bond proceeds in October 2019 through the Virginia Public School Authority. This funding, along with \$5 million in County dollars will finance renovations and additions at Christiansburg Primary School, Christiansburg Elementary School, and Belview Elementary School.
- \$1.5 million was set aside for renovations to the jail dorm rooms and the replacement of several HVAC units in various cell blocks.
- Creed Fields Park is scheduled for completion in spring 2021.
- The construction of the Combined County Maintenance Facility and Garage was started at a total cost of approximately \$5 million (\$3.8 million County and \$1.2 million PSA). The facility will provide maintenance services to General Services, Lawns and Landscaping, Parks and Recreation, the Garage, and PSA.
- Architectural and engineering studies for the renovation of the Christiansburg High School are underway.

Department Focus – Economic Development

The Montgomery County Department of Economic Development (MCDED) is a one-stop resource and single point of contact for companies looking for help relocating or expanding their businesses in Montgomery County, including the Towns of Blacksburg and Christiansburg. MCDED's mission is to improve the quality of life throughout Montgomery County by encouraging positive economic growth that creates meaningful career opportunities for county residents, expands the commercial tax base to support the delivery of vital public services and protects the County's enviable quality of life. MCDED provides businesses with vital business tools such as Montgomery County demographics, financing, site selection, and redevelopment services. They also act as an intermediary between businesses and public/private-sector partners to help those businesses thrive in Montgomery County.

MCDED has assisted in locating new and expanding existing industry for many years, including:

- TORC Robotics – a developer of control and navigation systems for unmanned vehicles and robotics invested \$8.5 million, and created 350 new jobs in 2020
- 1901 Group – a managed IT services provider, invested \$8.8 million, and created 580 new jobs in 2018
- Wolverine – a rubber coated material manufacturer, invested \$10.6 million, and created 93 new jobs in 2014
- Backcountry.com – an online retailer of outdoor gear, invested \$22 million, and created 216 jobs in 2011

The Economic Development Authority of Montgomery County (EDA) is a separate, distinct legal entity. The EDA works with the MCDED to retain current businesses and assist in expansion; attract new businesses and entrepreneurial development; and assist in other areas including workforce development, commercial real estate development and reuse, communications, and outreach. The EDA is permitted to acquire, own, lease, and dispose of real property to promote industry and develop trade by incentivizing manufacturing and industrial enterprises to locate in or remain in the County. It also has the authority to issue industrial revenue bonds, the proceeds of which can be used to finance the acquisition, construction and/or equipping of various types of facilities in Montgomery County. The EDA owns the Falling Branch Corporate Park (FBCP) in Christiansburg which is home to various companies including Aeroprobe Corporation, Backcountry.com, and Inorganic Ventures. In 2017, the EDA also purchased 125 acres of land directly adjacent to FBCP, known as Falling Branch Corporate Park Phase II. With a low inventory of larger sites in the County for industries to locate, the EDA and the County purchased the property to expand the number of marketable sites. The EDA has also found success in the past by constructing buildings for industry. In 2000, the EDA constructed a 100,000 square foot building in the Falling Branch Corporate Park. In 2014, the EDA constructed another building of 20,000 square feet in the Blacksburg Industrial Park.

The MCDED has assisted in attracting new businesses to the region, expanding businesses, and identifying targeted industries to market available sites. The department strives to build on their past successes and partnerships with surrounding areas to create economic growth in the region.

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, 2020, reflect cash that will not be received or disbursed until fiscal year 2021.

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 provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Generally accepted auditing standards and the standards set forth in the Government Accountability Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the Compliance Section.

AWARDS OF ACHIEVEMENT

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 for the fiscal year ended June 30, 2019. This was the 33rd consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

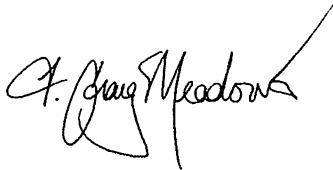
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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,

A handwritten signature in black ink, appearing to read "F. Craig Meadows". The signature is fluid and cursive, with a long, sweeping line extending from the end of the name.

F. Craig Meadows
County Administrator

A handwritten signature in black ink, appearing to read "Lisa Rayne". The signature is cursive and elegant, with a long, sweeping line extending from the end of the name.

Lisa Rayne
Interim Finance Director



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, 2019

Christopher P. Morill

Executive Director/CEO

BOARD OF SUPERVISORS

Steve R. Fijalkowski, Chair
Sara R. Bohn, Vice Chair

Mary W. Biggs
Sherri M. Blevins
April N. DeMotts

M. Todd King
Darrell O. Sheppard

COUNTY ADMINISTRATION

Charles E. Campbell	Director of Public Service Authority
A. Michelle Dickerson	Virginia Cooperative Extension Unit Coordinator
L. Carol Edmonds	Deputy County Administrator
Michael P. Geary	Emergency Services Coordinator
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
Connie M. Viar	General Registrar
Tonia D. Winn	Director of Human Services
Scott A. Woodrum	Director of Engineering and Regulatory Compliance

CONSTITUTIONAL OFFICERS

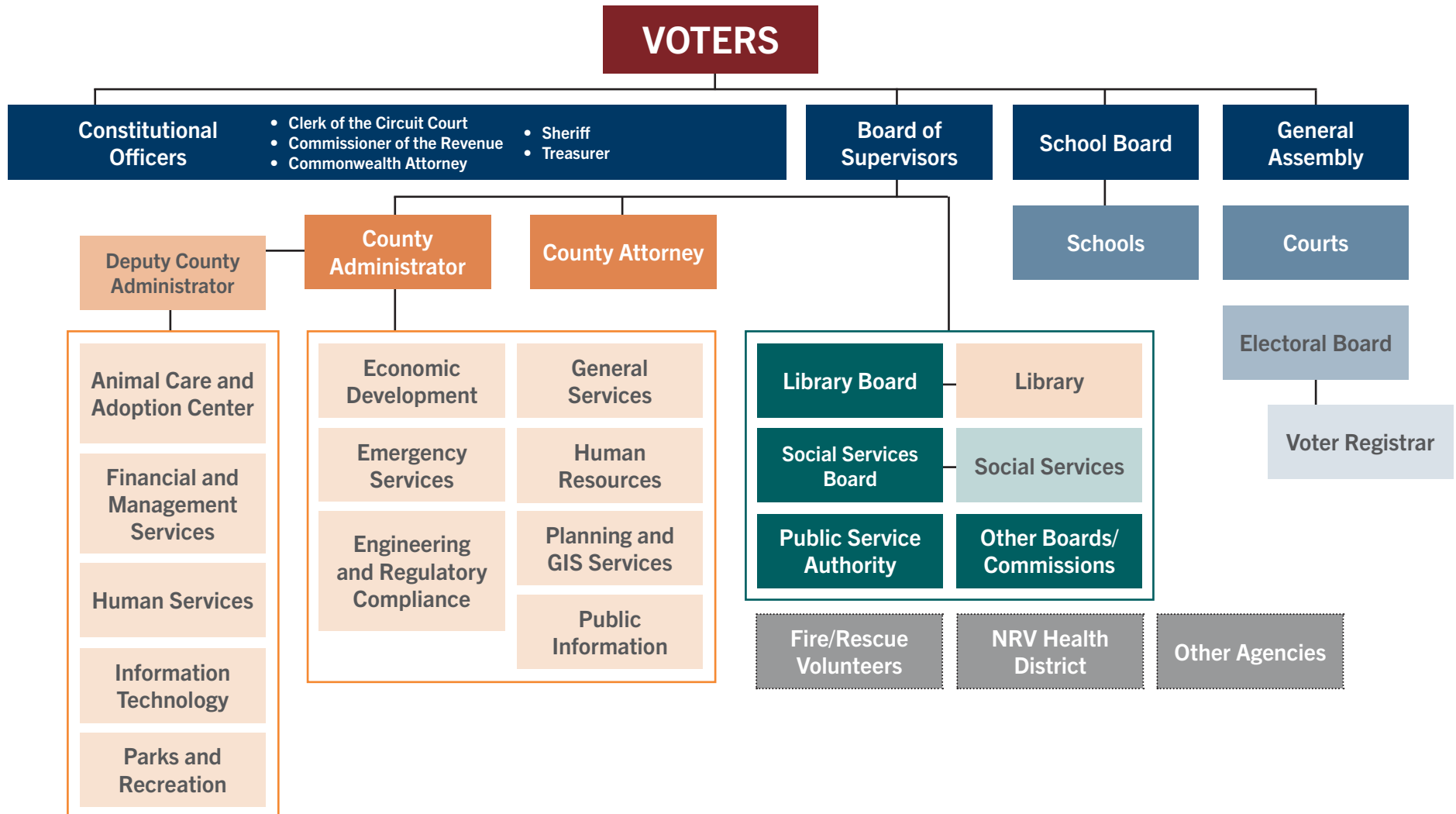
Erica W. Conner	Clerk of the Circuit Court
Charles H. Partin	Sheriff
Mary K. Pettitt	Commonwealth Attorney
Helen P. Royal	Commissioner of the Revenue
Helen V. St. Clair	Treasurer

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, 2020, 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, 2020, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The fund financial statements of the Public Service Authority and the School Board and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fund financial statements of the 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 March 30, 2021, 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 solely 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
March 30, 2021

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, 2020. 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 2020

- The total assets and deferred outflows of resources of the governmental activities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$191 million (net position). Of this amount \$56 million (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- Total general fund revenues exceeded the final budgeted amount by \$11.4 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 exceeded budgeted amounts by \$8.1 million. This was due to the receipt of the first Coronavirus Aid, Relief, and Economic Security (CARES) Act payment of \$8.6 million which was received but not appropriated before June 30. Property tax revenue exceeding the budgeted estimate by \$1.4 million from unbudgeted delinquent tax collections of \$900,000 and personal property taxes of \$700,000.

- Actual expenditures were \$13.4 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 \$0.9 million for the County and approximately \$1.6 million for the Schools.

General government administration expenditures totaled approximately \$1.2 million less than appropriated. 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 \$300,000. These funds will be used pending implementation of a career development program. Information Technology had vacancy and other savings of approximately \$250,000, resulting primarily from vacancy savings. These funds were set aside by the Board of Supervisors for future IT projects. General and Special Contingencies had remaining balances of just over \$225,000 and \$50,000, 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 \$512,000 designated in fiscal year 2020, a balance of \$226,000 remained at year end. The remaining difference results from vacancy savings and conservative fiscal management across all areas. Due to the unknown economic impact of the COVID-19 pandemic which began in our region just before the fourth quarter of fiscal year 2020, a hiring freeze for vacant positions was put in place and department directors were requested to carefully monitor their spending, which they did willingly.

Public safety expenditures were \$1.9 million less than budgeted. Public safety grants and related restricted funds were \$500,000 less than budgeted as the grant or project cycles did not follow the fiscal year. Similarly, fire and rescue departments had approximately \$100,000 in year-end funding that was allocated for projects that were not yet completed, and an additional \$100,000 in funding for insurance that was not needed. The County's payments to the Western Virginia Regional Jail were almost \$600,000 less than planned as the County's inmate population at the jail was less than expected. The County's contribution to the New River Detention Home was approximately \$200,000 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 \$0.7 million less than budgeted. The motor pool is now included in public works. Due to the pandemic, the supply chain for vehicles and the purchasing cycle was delayed at year end. Funding for motor pool vehicles totaling \$100,000 was unspent at year end. The County's sustainability initiative, which includes the potential use of sustainable energy sources for some County

facilities ended with a balance of \$120,000, as this project was also delayed by the pandemic. The overall variance is also due to personnel vacancy savings and lower maintenance costs than anticipated.

Health and welfare expenditures ended with a budgetary balance of \$0.3 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 \$100,000. Welfare expenditures were also lower than budgeted by approximately \$150,000. These expenditures did not result in true savings for the County as state revenues funded a large portion, rather than locally generated revenues. The state revenues were not collected since they were not needed to offset the expenditures.

Parks, recreation, and culture expenditures were less than budgeted due to the COVID-19 pandemic's effect on parks and recreation programs, as well as operations of the library. Community development continued, but did not complete grant and other special projects during the year. This resulted in variances of \$562,000 and \$1.1 million, respectively. The community development projects are road projects that will be funded by the Virginia Department of Transportation and developers rather than the County.

Finally, the Montgomery County School Board (the Schools) spent \$5.9 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower. The schools had placed orders for goods that were not received by year end of approximately \$1.6 million.

Net position of the Public Service Authority at June 30, 2020 was down \$381,000 from the previous year. This was primarily the result of capital contributions decreasing \$157,000 from the prior year. Capital contributions can vary widely from year to year based on developments in the County.

At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$31.8 million, or 15% of fiscal year 2020 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 maintain this percentage at a minimum of 12%. The percentage exceeds the target at year end as a result of the increase in General Fund balance of \$7.0 million. This increase is due to the combination of factors discussed above.

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 almost \$109.3 million, an increase of \$34.1 million in comparison with the prior year. During the year, the County issued bonds totaling \$30 million for Christiansburg strand elementary school construction. At year end, only \$1.3 million of these proceeds had been expended. The increase was also 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: \$6.2 million, nonspendable; \$33.7 million, restricted; \$25.9 million, committed; \$11.7 million, assigned; and \$31.8 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 25% of total general fund expenditures, while total fund balance represents 45% 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	
	2020	2019	2020	2019
Current and other assets	\$134.9	\$90.8	\$26.6	\$26.3
Capital assets	266.3	271.7	54.1	49.0
Total assets	<u>\$401.2</u>	<u>\$362.5</u>	<u>\$80.7</u>	<u>\$75.3</u>
Deferred outflows of resources	<u>\$10.5</u>	<u>\$7.9</u>	<u>\$23.8</u>	<u>\$13.5</u>
Long-term liabilities	\$175.5	\$158.6	\$117.8	\$114.9
Other liabilities	43.2	33.4	29.4	21.6
Total liabilities	<u>\$218.7</u>	<u>\$192.0</u>	<u>\$147.2</u>	<u>\$136.5</u>
Deferred inflows of resources	<u>\$2.1</u>	<u>\$2.9</u>	<u>\$9.4</u>	<u>\$9.6</u>
Net position:				
Net investment in capital assets	\$130.4	\$120.4	\$42.1	\$36.3
Restricted	4.4	4.3	-	-
Unrestricted	56.0	50.8	(94.2)	(93.6)
Total net position	<u><u>\$190.8</u></u>	<u><u>\$175.5</u></u>	<u><u>(\$52.1)</u></u>	<u><u>(\$57.3)</u></u>

Governmental Activities

Total net position shown above for governmental activities is \$190.8 million or \$15.3 million more than in 2019. Total assets increased \$38.7 million, while total liabilities increased \$26.7 million due to a combination of ongoing principal repayments and issuance of \$30 million in bonds during the year to fund school renovations.

Component Units

Total net position shown above for component units is \$(52.1 million) for 2020, an increase from \$(57.3 million) in 2019. This consists of a net position for the Public Service Authority of \$12.3 million, a deficit in net position of \$64.6 million for the School Board, and a net position of \$0.2 million for the Economic Development Authority.

Summary of Activities:

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

	Governmental Activities		Component Units	
	2020	2019	2020	2019
Revenues				
Program revenues:				
Charges for services	\$ 2.9	\$ 3.1	\$ 10.3	\$ 8.7
Operating grants and contributions	14.8	14.7	68.4	64.5
Capital grants and contributions	-	-	-	0.2
General revenues:				
Property taxes	99.5	93.4	-	-
Other taxes	14.2	13.5	-	-
Payments from Montgomery County	-	-	54.7	52.1
Grants and contributions not restricted to specific purposes	5.4	5.4	-	-
Contributions from other governments	-	-	-	-
Other	2.0	1.4	0.1	0.1
Total revenues	138.8	131.5	133.5	125.6
Expenses				
General government	7.0	7.0	-	-
Judicial administration	3.7	3.2	-	-
Public safety	16.5	15.4	-	-
Public works	9.8	8.3	-	-
Health and welfare	9.4	7.7	-	-
Education	61.7	58.4	121.2	111.0
Parks, recreation and cultural	3.6	3.3	-	-
Community development	4.2	3.8	2.5	1.4
Water	-	-	2.5	2.6
Waste water	-	-	2.1	2.0
Interest on long-term debt	7.6	7.0	-	-
Total expenses	123.5	114.1	128.3	117.0
Change in net position	15.3	17.4	5.2	8.6
Net position-beginning	175.5	158.1	(57.3)	(65.9)
Net position-ending	<u>\$ 190.8</u>	<u>\$ 175.5</u>	<u>\$ (52.1)</u>	<u>\$ (57.3)</u>

Revenues

For the fiscal year ended June 30, 2020, revenues from governmental activities totaled \$138.8 million, an increase of \$7.3 million compared to fiscal year 2019. Primary reasons for this increase include:

- FY 20 was the first full year of real estate tax collections after the general reassessment of real estate which was effective January 1, 2019, generating \$3.3 million;
- Large increases in growth of assessed values in all personal property areas, resulting in an increase of \$1.6 million;
- Large increases in growth of sales tax (\$500,000) and recordation tax (\$400,000);
- Increases in delinquent property tax collections of over \$700,000.

Component unit revenues total \$133.5 million, including a \$54.5 million transfer from the general fund to the schools. This includes \$51.1 million for operations and \$3.4 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 \$18.9 million, which brings the total provided for school purposes to \$73.4 million.

Expenses

Expenses for governmental activities totaled \$123.5 million in 2020, an increase of \$9.4 million from 2019. Public safety increased \$1.1 million, public works increased \$1.5 million, and health and welfare increased \$1.7 million. The County's original approved budget included an increased transfer to the schools of \$3.8 million more than 2019; and, the County provided additional funds on a cash basis of approximately \$4.7 million during the year. Total school board expenses increased \$10.2 million on a full accrual basis. This includes adjustments for pension expenses.

Expenses for component unit – Public Service Authority expenses remained flat at \$4.6 million.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$54.5 million to the operation of the schools. Depreciation expense related to the schools totaled \$6.7 million.

Total expenses for education were \$61.7 million. This amount represented about 50% of governmental activity expenses. When interest for school related projects is included, the County contributed \$68.5 million, or 55%. On the cash basis of accounting, total school expenses, including expenses funded through the state and federal government and debt service for school related projects, were equal to 71.6% of the general fund expenses (excluding payments to the schools), plus school operating fund expenses for 2020.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2020, the governmental funds reflect a combined fund balance of \$109.3 million, an increase of \$34.1 million from June 30, 2019. This consisted of \$57.0 million in the general fund and \$52.3 million in the county capital fund. The general fund balance decreased \$1.4 million in fiscal year 2020. The school operating fund spent \$5.9 million less than permitted by the revised budget, which resulted in a correspondingly lower than budgeted transfer to the schools from the general fund. The balance was transferred to the schools after year end for one-time uses. The county capital projects fund balance increased \$35.6 million, including debt proceeds of \$30 million and transfers from the general fund of \$12.7 million. Transfers of almost \$6 million are included in the budget every year for large fire and rescue equipment purchases, capital maintenance projects, parks and recreation projects, IT projects, and other future County and School capital projects. Additionally, a transfer of \$5 million will be used for a portion of the renovations to elementary schools in the Christiansburg strand and \$1.2 million for the Creed Fields Park project.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2020 in millions:

	Original Final		
	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 109.9	\$ 109.9	\$ 112.1
Intergovernmental	19.0	20.2	28.3
Other	3.8	8.6	9.3
Total	<u>132.7</u>	<u>138.7</u>	<u>149.7</u>
Expenditures and transfers	<u>132.7</u>	<u>152.5</u>	<u>139.0</u>
Change in fund balance	<u>\$ -</u>	<u>\$ (13.8)</u>	<u>\$ 10.7</u>

Increases in intergovernmental and other revenue categories made up the changes from the original to the final budget. While the sale of the former Blacksburg High School and Blacksburg Middle School properties occurred in fiscal year 2018, because the budget is on the cash basis of accounting, these proceeds of approximately \$5 million were appropriated when received during the current year. They were transferred to the capital fund to provide partial funding for the Christiansburg elementary school renovation projects.

The increase in the final budget for expenditures over the original budget of \$19.8 million resulted primarily from:

- Encumbrances of \$3.3 million and \$4.3 million for the County and Schools, respectively;
- Carryovers of unspent grant funds and other donations of \$1.6 million;
- Carryovers from the fiscal year 2019 budget of \$0.6 million for the general fund, and \$1.5 million for the schools;
- Funding for the Creed Fields Project and combined garage and maintenance facility \$1.2 million;
- Funding for special road projects that will pass-through the County of \$600,000. These funds will be provided by developers, the County, and the state;
- Funding for the Christiansburg elementary school renovation projects of \$5 million;
- Grants and various other one-time expenditures throughout the year account for the remaining difference.

Actual tax revenue exceeded the budgeted by \$2.2 million. Personal property taxes and delinquent collections exceeded the estimates by \$700,000 and \$900,000, respectively. Recordation tax, which varies with home sales exceeded the expected amount by \$700,000. CARES Act funds of \$8.6 million are included in the intergovernmental category but were not budgeted before June 30. Actual expenditures and transfers were less than the budgeted amount for several reasons, including the timing of grants and other special projects. Additionally, spending was reduced as much as possible in the last quarter of the year due to the uncertain economic conditions arising from the COVID-19 pandemic. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was \$6.5 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 balance of the transfer to the schools and the funds associated with 2020 outstanding purchase orders for the schools were approved by the Board of Supervisors and transferred to the schools in fiscal year 2021.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the County had invested \$266.3 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	
	2020	2019	2020	2019
Non-depreciable assets				
Land	\$ 14.7	\$ 14.7	\$ 0.6	\$ 0.6
Intangible asset	-	-	0.9	0.9
Construction in progress	1.6	4.5	3.3	0.7
Depreciable capital assets				
Infrastructure	-	-	32.6	32.6
Buildings and improvements	324.1	318.6	66.2	62.2
Machinery and equipment	27.4	25.7	20.7	19.9
Accumulated depreciation	(101.5)	(91.8)	(70.2)	(67.8)
Total	\$ 266.3	\$ 271.7	\$ 54.1	\$ 49.1

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

	Balance June 30, 2019	Net Additions/ (Deletions)	Balance June 30, 2020
Non-depreciable assets			
Land	\$ 15.3	\$ -	\$ 15.3
Intangible assets	0.9	-	0.9
Construction in progress	5.2	(0.3)	4.9
Depreciable capital assets			
Infrastructure	32.6	-	32.6
Buildings and improvements	380.8	9.5	390.3
Machinery and equipment	45.6	2.5	48.1
Accumulated depreciation	(159.6)	(12.1)	(171.7)
Total	\$ 320.8	\$ (0.4)	\$ 320.4

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, 2020, in millions of dollars:

	Governmental Activities		Component Units	
	2020	2019	2020	2019
General obligation bonds	\$ 53.0	\$ 32.9	\$ -	\$ -
Lease revenue bonds	4.9	6.2	-	-
Literary loans	0.5	0.7	-	-
Refunding bonds	96.9	103.9	-	-
Revenue bonds	-	-	4.3	4.6
Total	\$ 155.3	\$ 143.7	\$ 4.3	\$ 4.6

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, 2020, the County was in compliance with all debt policies.

ECONOMIC FACTORS

As of October 2020, the County's and state's average unemployment rates were 3.3 percent and 5.7 percent, an increase from the previous year's rates of 0.8 percent and 3.1 percent, respectively.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

	Primary Government	Component Units		
	Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Assets				
Cash and cash equivalents (Note 4)	\$ 87,000,280	\$ 2,663,632	\$ 4,898,269	\$ 264,146
Receivables, net (Note 5)	5,331,868	715,160	-	14,600
Due from primary government	-	52,453	8,476,415	136,986
Due from other governmental units (Note 6)	3,546,442	-	2,893,049	-
Prepays	217,544	-	614,798	4,205
Inventories	-	50,947	122,380	5,421,822
Advances to component units (Note 17)	5,632,376	-	-	-
Restricted assets:				
Cash and cash equivalents (Note 4)	1,012,554	79,410	-	-
Investments (Note 4)	31,616,148	-	-	-
Notes receivable (Note 17)	516,627	-	-	-
Lease incentives	-	-	-	164,901
Capital assets: (Note 8)				
Non-depreciable	16,347,795	1,647,739	3,126,893	-
Depreciable, net	249,946,795	14,105,204	26,976,372	8,281,610
Total assets	401,168,429	19,314,545	47,108,176	14,288,270
Deferred Outflows of Resources				
Deferred charge on refunding	5,137,213	-	-	-
Deferred outflows related to pensions (Notes 11 and 12)	4,651,728	201,912	19,384,846	-
Deferred outflows related to other postemployment benefits (Notes 13 and 14)	721,078	55,438	4,179,539	-
Total deferred outflows of resources	10,510,019	257,350	23,564,385	-
Liabilities				
Accounts payable and accrued expenses	1,841,973	511,827	2,526,614	187,971
Accrued payroll and related liabilities	1,031,549	49,104	8,895,445	-
Accrued interest payable	2,717,235	4,508	-	-
Amounts held for others	1,012,554	-	-	-
Advances from primary government (Note 17)	-	6,267	-	5,626,109
Due to other governmental units (Note 6)	421,919	-	-	-
Due to component units	8,665,854	-	-	-
Unearned revenue	8,453,844	-	139,198	-
Customer deposits	-	79,410	-	60,000
Long-term liabilities due within one year (Note 9)	19,086,563	443,235	3,208,307	7,691,297
Non-current liabilities due in more than a year:				
Long-term liabilities (Note 9)	158,178,346	5,192,576	1,374,990	520,698
Net pension liability (Notes 11 and 12)	13,083,603	567,903	87,545,569	-
Net other postemployment benefit liability (Notes 13 and 14)	4,227,912	350,345	22,262,028	-
Total liabilities	218,721,352	7,205,175	125,952,151	14,086,075
Deferred Inflows of Resources				
Property taxes (Note 5)	693,726	-	-	-
Deferred inflows related to pensions (Notes 11 and 12)	1,256,716	54,549	8,699,314	-
Deferred inflows related to other postemployment benefits (Notes 13 and 14)	202,470	14,076	659,924	-
Total deferred inflows of resources	2,152,912	68,625	9,359,238	-
Net Position				
Net investments in capital assets	130,388,031	11,417,882	30,103,265	586,242
Restricted for debt service	2,221,523	-	-	-
Restricted for grants	2,164,627	-	-	-
Unrestricted	56,030,003	880,213	(94,742,093)	(384,047)
Total net position	\$ 190,804,184	\$ 12,298,095	\$ (64,638,828)	\$ 202,195

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, 2020

		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	\$ 7,019,625	\$ 139,009	\$ 608,622	\$ -	\$ (6,271,994)			
Judicial administration	3,706,338	301,148	1,493,444	-	(1,911,746)			
Public safety	16,539,064	880,994	4,658,336	-	(10,999,734)			
Public works	9,837,708	292,859	25,223	-	(9,519,626)			
Health and welfare	9,429,593	260,143	6,441,262	-	(2,728,188)			
Education	61,673,348	-	633,974	-	(61,039,374)			
Parks, recreational, and cultural	3,552,501	284,554	285,406	-	(2,982,541)			
Community development	4,152,985	785,442	643,689	-	(2,723,854)			
Interest on long-term debt	7,633,847	-	-	-	(7,633,847)			
Total governmental activities	\$ 123,545,009	\$ 2,944,149	\$ 14,789,956	\$ -	(105,810,904)			
Component Units:								
Public Service Authority	\$ 4,622,465	\$ 4,214,906	\$ -	\$ -		\$ (407,559)	\$ -	\$ -
School Board	121,205,972	3,701,303	68,375,316	-		-	(49,129,353)	-
Economic Development Authority	2,494,503	2,409,814	-	-		-	-	(84,689)
Total component units	\$ 128,322,940	\$ 10,326,023	\$ 68,375,316	\$ -		(407,559)	(49,129,353)	(84,689)
General Revenues:								
General property taxes (Note 5)					99,496,494	-	-	-
Sales and use tax					10,021,532	-	-	-
Utility tax					1,676,285	-	-	-
Motor vehicle license tax					805,731	-	-	-
Other local taxes					1,646,936	-	-	-
Intergovernmental revenue, unrestricted					5,388,449	-	-	-
Investment earnings, unrestricted					1,888,821	26,560	64,468	989
Investment earnings, restricted for capital projects					186,578	-	-	-
Payments from Montgomery County					-	-	54,513,268	188,935
Total general revenues					121,110,826	26,560	54,577,736	189,924
Change in net position					15,299,922	(380,999)	5,448,383	105,235
Net position – beginning, restated (Note 21)					175,504,262	12,679,094	(70,087,211)	96,960
Net position – ending					\$ 190,804,184	\$ 12,298,095	\$ (64,638,828)	\$ 202,195

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 65,672,013	\$ 21,328,267	\$ 87,000,280
Receivables, net	5,331,868	-	5,331,868
Due from other governmental units	3,546,442	-	3,546,442
Advances to component unit	5,632,376	-	5,632,376
Restricted assets:			
Cash and cash equivalents	1,012,554	-	1,012,554
Investments	-	31,616,148	31,616,148
Notes receivable	516,627	-	516,627
Total assets	<u><u>\$ 81,711,880</u></u>	<u><u>\$ 52,944,415</u></u>	<u><u>\$ 134,656,295</u></u>
Liabilities			
Accounts payable and accrued liabilities	\$ 1,225,999	\$ 615,974	\$ 1,841,973
Accrued payroll and related liabilities	1,031,549	-	1,031,549
Due to other governmental units	421,919	-	421,919
Due to component unit	8,665,854	-	8,665,854
Unearned revenue	8,453,844	-	8,453,844
Amounts held for others	1,012,554	-	1,012,554
Total liabilities	<u>20,811,719</u>	<u>615,974</u>	<u>21,427,693</u>
Deferred Inflows of Resources			
Unavailable/unearned property taxes	<u>3,904,064</u>	<u>-</u>	<u>3,904,064</u>
Fund Balances			
Nonspendable	6,149,003	-	6,149,003
Restricted	2,164,627	31,616,148	33,780,775
Committed	5,182,438	20,712,293	25,894,731
Assigned	11,730,604	-	11,730,604
Unassigned	31,769,425	-	31,769,425
Total fund balances	<u>56,996,097</u>	<u>52,328,441</u>	<u>109,324,538</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 81,711,880</u></u>	<u><u>\$ 52,944,415</u></u>	<u><u>\$ 134,656,295</u></u>

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

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

Ending fund balance – governmental funds	\$	109,324,538
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		266,294,590
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		217,544
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		3,210,338
Deferred premiums and charges on refunding are not financial resources and, therefore, are not reported in the funds.		5,137,213
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to:		
Pensions		4,651,728
Other postemployment benefits		721,078
Deferred inflows related to:		
Pensions		(1,256,716)
Other postemployment benefits		(202,470)
Net pension liability		(13,083,603)
Net other postemployment benefit liability		(4,227,912)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		<u>(179,982,144)</u>
Net position of governmental activities	\$	<u>190,804,184</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, 2020

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 98,232,130	\$ -	\$ 98,232,130
Other local taxes	14,150,485	-	14,150,485
Permits, privilege fees, and regulatory licenses	557,011	-	557,011
Fines and forfeitures	51,232	-	51,232
Revenue from use of money and property	1,744,192	349,949	2,094,141
Charges for services	497,957	-	497,957
Recovered costs	1,837,949	-	1,837,949
Intergovernmental	20,178,406	-	20,178,406
Total revenues	137,249,362	349,949	137,599,311
EXPENDITURES			
Current operating			
General government administration	7,803,246	-	7,803,246
Judicial administration	3,673,519	-	3,673,519
Public safety	17,234,566	-	17,234,566
Public works	6,026,622	-	6,026,622
Health and welfare	9,327,813	-	9,327,813
Education	51,558,428	-	51,558,428
Parks, recreation, and cultural	3,549,783	-	3,549,783
Community development	4,129,787	-	4,129,787
Debt service			
Principal retirement	15,692,624	-	15,692,624
Interest and fiscal charges	7,001,188	285,684	7,286,872
Capital projects	-	7,490,885	7,490,885
Total expenditures	125,997,576	7,776,569	133,774,145
Excess (deficiency) of revenues over expenditures	11,251,786	(7,426,620)	3,825,166
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	27,315,000	27,315,000
Premium on issuance of bonds	-	2,977,889	2,977,889
Transfers in	-	12,699,724	12,699,724
Transfers out	(12,699,724)	-	(12,699,724)
Total other financing sources (uses)	(12,699,724)	42,992,613	30,292,889
Net changes in fund balances	(1,447,938)	35,565,993	34,118,055
FUND BALANCES AT JULY 1	58,444,035	16,762,448	75,206,483
FUND BALANCES AT JUNE 30	\$ 56,996,097	\$ 52,328,441	\$ 109,324,538

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, 2020

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		\$ 34,118,055
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 \$10,510,889 exceeded capital outlays \$5,116,728 in the current period.		(5,394,161)
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.		(18,742)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,264,363
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		1,898,145
Pension expense		(2,286,286)
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		99,020
Other postemployment benefit expense		(220,125)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Issuance of general obligation bonds	(27,315,000)	
Premiums on general obligation bonds	(2,977,889)	
Principal repayments		
General obligation bonds	7,157,376	
Lease revenue bonds	1,288,249	
Literary fund loans	250,000	
Refunding bonds	6,997,000	
		(14,600,264)
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	1,094,811	
Interest expense	(346,975)	
		747,836
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.		(307,919)
Change in net position of governmental activities		\$ 15,299,922

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, 2020

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 96,601,430	\$ 96,601,430	\$ 97,991,836	\$ 1,390,406
Other local taxes	13,299,892	13,299,892	14,116,691	816,799
Permits, privilege fees, and regulatory licenses	682,539	682,539	562,806	(119,733)
Fines and forfeitures	54,000	54,000	55,741	1,741
Revenue from use of money and property	1,378,166	6,024,966	6,379,391	354,425
Charges for services	571,511	672,785	403,232	(269,553)
Recovered costs	689,537	706,230	1,884,109	1,177,879
Intergovernmental	19,016,280	20,243,421	28,331,521	8,088,100
Total revenues	132,293,355	138,285,263	149,725,327	11,440,064
EXPENDITURES				
Current operating				
Board of Supervisors	273,931	305,937	242,853	(63,084)
County Administration	1,937,361	2,563,772	2,015,905	(547,867)
County Attorney	355,641	370,641	349,860	(20,781)
Financial & Management Services	1,209,495	1,210,626	1,189,659	(20,967)
Insurance	208,195	208,195	178,810	(29,385)
Information Technology	1,949,226	2,005,768	1,767,852	(237,916)
Commissioner of the Revenue	1,040,226	1,088,818	1,061,447	(27,371)
Treasurer & Collections	1,029,857	1,031,550	941,669	(89,881)
Electoral Board/Registrar	463,035	530,831	522,058	(8,773)
Commonwealth Attorney	1,168,265	1,528,284	1,422,535	(105,749)
Circuit Court	213,850	220,282	199,518	(20,764)
General District Court	21,711	26,464	14,388	(12,076)
Juvenile & Domestic Court	20,524	25,451	13,539	(11,912)
Magistrate	5,000	5,000	3,089	(1,911)
Clerk of the Circuit Court	701,131	840,688	802,064	(38,624)
Sheriff	15,003,161	15,412,509	14,196,265	(1,216,244)
Fire & Rescue	1,546,192	1,905,760	1,681,442	(224,318)
Animal Care & Adoption Center	629,277	670,087	580,985	(89,102)
General Services	5,503,939	6,381,374	5,784,300	(597,074)
Engineering & Regulatory Compliance	849,227	756,414	620,934	(135,480)
Children's Services Act	1,651,969	1,651,969	1,558,963	(93,006)
Human Services	376,643	408,509	346,281	(62,228)
New River Valley Health District	596,435	596,435	596,435	-
Social Services	6,008,321	6,474,900	6,327,499	(147,401)
Parks & Recreation	1,304,021	1,313,771	1,056,190	(257,581)
Regional Library	2,198,184	2,691,947	2,387,768	(304,179)
Planning & GIS	902,105	4,226,046	3,382,431	(843,615)
Economic Development	797,907	869,972	686,531	(183,441)
Other agencies	2,692,049	2,777,175	2,383,580	(393,595)
Contingencies	1,000,305	274,135	-	(274,135)
Law Library	17,600	18,605	16,845	(1,760)
Montgomery County Schools	51,827,273	57,577,743	51,161,006	(6,416,737)
Revenue refunds	195,000	195,000	180,363	(14,637)
Debt service				
Principal retirement	15,692,625	15,692,625	15,692,625	-
Interest and fiscal charges	7,666,888	7,939,821	7,001,188	(938,633)
Total expenditures	127,056,569	139,797,104	126,366,877	(13,430,227)
Excess (deficiency) of revenues over expenditures	5,236,786	(1,511,841)	23,358,450	24,870,291
OTHER FINANCING USES				
Transfers in	411,260	411,260	-	(411,260)
Transfers out	(5,648,046)	(12,699,724)	(12,699,724)	-
Total other financing uses	(5,236,786)	(12,288,464)	(12,699,724)	(411,260)
Net change in fund balance	\$ -	\$ (13,800,305)	\$ 10,658,726	\$ 24,459,031

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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. The County routinely provides funding to support the EDA’s operations. The EDA is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate economic 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, 2020

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 \$172,571 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 \$754,969 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, 2020

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 \$3,611,247 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 \$836,888 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 \$17,587 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 2020, the PSA paid \$868,885 to NRVRWA. This consists of an annual payment of \$47,522, which is the \$1,300,000 membership fee being spread over 40 years (see Note 20). The balance of \$821,363 was for water purchases.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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. Sale of real estate revenue is recognized property is sold. 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, 2020

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 of supplies are generally 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 held for resale. 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, 2020

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 acquisition value. 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, 2020

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, 2020

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, 2020

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, 2020 total \$854,918 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 organization. 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, 2020

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 \$20,065,146 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)	\$ 10,658,726	\$ 272,012	\$ 2,547
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred/unearned revenue:			
June 30, 2020	2,669,405	11,189,340	40,926
June 30, 2019	(15,140,409)	(11,264,086)	69,997
Inventory:			
June 30, 2020	-	-	122,380
June 30, 2019	-	-	(98,415)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2020	(11,345,321)	(11,189,340)	(293,306)
June 30, 2019	11,709,661	11,264,086	209,568
Net change in fund balance (GAAP basis)	<u>\$ (1,447,938)</u>	<u>\$ 272,012</u>	<u>\$ 53,697</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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)	\$ 117,829,898
Principal and other debt service expenditures included in primary Government (Exhibit 4)	<u>18,844,534</u>
Total expenditures for school activities	<u>\$ 136,674,432</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, 2020

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	\$ 88,012,834	NA	74%
Money market accounts	31,616,148	AAAm	26
Total	<u>\$ 119,628,982</u>		<u>100%</u>
Component Units			
PSA			
Demand deposits	<u>\$ 2,743,042</u>	NA	<u>100%</u>
School Board			
Demand deposits	<u>\$ 4,898,269</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	\$ 87,000,280	\$ 2,663,632	\$ 4,898,269
Investments, restricted	31,616,148	-	-
Cash and cash equivalents, restricted	1,012,554	79,410	-
	<u>\$ 119,628,982</u>	<u>\$ 2,743,042</u>	<u>\$ 4,898,269</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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. The County follows the Code of Virginia regarding investments and interest rate risk.

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.

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, 2020

Note 5. Receivables

Receivables are as follows:

		Component Unit Public Service Authority	
	General	Water	Wastewater
Taxes	\$ 7,339,026	\$ -	\$ -
Accounts	8,647	422,126	358,034
Gross receivables	7,347,673	422,126	358,034
Allowance for uncollectibles	(2,015,805)	(34,000)	(31,000)
Net receivables	\$ 5,331,868	\$ 388,126	\$ 327,034

Taxes receivable represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is approximately 27% of the total taxes receivable and is based on historical collection rates.

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

Unavailable	\$ 3,210,338
Unearned	693,726
Total	\$ 3,904,064

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 2020 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, 2020

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	41,919
	<u>\$ 421,919</u>

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,608,540	\$ -
State sales tax	-	1,590,702
Categorical aid	634,262	-
Non-categorical aid	303,393	-
Excess clerk fees	58,130	-
Virginia public assistance funds	194,350	-
Comprehensive services act	404,069	-
<u>Federal Government:</u>		
Virginia public assistance funds	319,254	-
Categorical aid	24,444	1,302,347
	<u>\$ 3,546,442</u>	<u>\$ 2,893,049</u>

Note 7. Interfund Balances and Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital	General	\$ 12,699,724

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 Belview Elementary School renovations, Creed Fields, consolidated garage and maintenance facility, major fire and rescue equipment, information technology systems, development of Falling Branch Corporate Park Phase II, and future unspecified school and county projects.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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	4,483,712	2,634,466	(5,449,947)	1,668,231
Total capital assets, not depreciated	19,163,276	2,634,466	(5,449,947)	16,347,795
Capital assets, depreciated:				
Buildings and improvements	318,636,573	5,507,846	(21,100)	324,123,319
Machinery and equipment	25,745,130	2,424,363	(819,164)	27,350,329
Total capital assets, depreciated	344,381,703	7,932,209	(840,264)	351,473,648
Less accumulated depreciation:				
Buildings and improvements	73,882,240	8,877,267	(10,462)	82,749,045
Machinery and equipment	17,955,246	1,633,622	(811,060)	18,777,808
Total accumulated depreciation	91,837,486	10,510,889	(821,522)	101,526,853
Total capital assets, depreciated, net	252,544,217	(2,578,680)	(18,742)	249,946,795
Capital assets, net	<u>\$271,707,493</u>	<u>\$ 55,786</u>	<u>\$ (5,468,689)</u>	<u>\$266,294,590</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 202,304
Judicial administration	3,111
Public safety	1,235,902
Public works	2,171,818
Health and welfare	48,828
Education	6,738,043
Parks, recreation, and cultural	90,325
Community development	20,558
	<u>\$ 10,510,889</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 Rescue	\$ 722,729	\$ 14,718
Jail Dormitory Improvements	605,161	411,604
Creed Field Park	195,446	2,107,860

Component Unit – Public Service Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land, improvements, and rights	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	259,010	171,340	-	430,350
Intangible asset (Note 20)	877,000	-	-	877,000
Total capital assets, not depreciated	1,476,399	171,340	-	1,647,739
Capital assets, depreciated:				
Wastewater systems	17,421,620	-	-	17,421,620
Water systems	15,216,222	-	-	15,216,222
Buildings and improvements	267,622	-	-	267,622
Machinery and equipment	1,502,841	264,084	(15,851)	1,751,074
Total capital assets, depreciated	34,408,305	264,084	(15,851)	34,656,538
Less accumulated depreciation:				
Wastewater systems	10,784,912	418,066	-	11,202,978
Water systems	7,870,763	377,578	-	8,248,341
Buildings and improvements	155,291	12,799	-	168,090
Machinery and equipment	870,490	77,286	(15,851)	931,925
Less accumulated depreciation	19,681,456	885,729	(15,851)	20,551,334
Total capital assets, depreciated, net	14,726,849	(621,645)	-	14,105,204
Capital assets, net	\$ 16,203,248	\$ (450,305)	\$ -	\$ 15,752,943

Depreciation expense was charged to functions as follows:

Water	\$ 414,657
Wastewater	471,072
	<u>\$ 885,729</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 8. Capital Assets (Continued)

Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 220,297	\$ -	\$ -	\$ 220,297
Construction in progress	425,875	2,774,138	(293,417)	2,906,596
Total capital assets, not depreciated	646,172	2,774,138	(293,417)	3,126,893
Capital assets, depreciated:				
Buildings and improvements	49,122,863	4,057,627	-	53,180,490
Machinery and equipment	18,225,031	813,847	(247,903)	18,790,975
Total capital assets, depreciated	67,347,894	4,871,474	(247,903)	71,971,465
Less accumulated depreciation:				
Buildings and improvements	32,135,460	280,225	-	32,415,685
Machinery and equipment	11,630,609	1,196,702	(247,903)	12,579,408
Total accumulated depreciation	43,766,069	1,476,927	(247,903)	44,995,093
Total capital assets, depreciated, net	23,581,825	3,394,547	-	26,976,372
Capital assets, net	<u>\$ 24,227,997</u>	<u>\$ 6,168,685</u>	<u>\$ (293,417)</u>	<u>\$ 30,103,265</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, 2020

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	\$ 32,856,260	\$ 27,315,000	\$ 7,157,376	\$ 53,013,884	\$ 7,884,800
Lease revenue bonds	6,240,933	-	1,288,249	4,952,684	1,342,661
Literary fund loans	750,000	-	250,000	500,000	250,000
Refunding bonds	103,870,000	-	6,997,000	96,873,000	7,063,000
Issuance premiums	16,128,645	2,977,889	1,786,182	17,320,352	-
Landfill post-closure (Note 10)	1,101,436	14,795	-	1,116,231	106,740
Compensated absences	3,150,872	2,780,017	2,442,131	3,488,758	2,439,362
Governmental activities long-term liabilities	<u>\$ 164,098,146</u>	<u>\$ 33,087,701</u>	<u>\$ 19,920,938</u>	<u>\$ 177,264,909</u>	<u>\$ 19,086,563</u>

Component Unit –

Public Service Authority

Revenue bonds	\$ 4,587,640	\$ -	\$ 293,614	\$ 4,294,026	\$ 300,889
Note Payable	45,903	-	4,868	41,035	5,094
Membership fee payable (Note 20)	1,164,233	-	24,238	1,139,995	24,723
Compensated absences	182,592	105,977	127,814	160,755	112,529

Component Unit –

Public Service Authority

long-term liabilities	<u>\$ 5,980,368</u>	<u>\$ 105,977</u>	<u>\$ 450,534</u>	<u>\$ 5,635,811</u>	<u>\$ 433,235</u>
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Component Unit – School Board

Compensated absences	<u>\$ 4,154,844</u>	<u>\$ 3,636,759</u>	<u>\$ 3,208,306</u>	<u>\$ 4,583,297</u>	<u>\$ 3,208,307</u>
Component unit – school board long-term liabilities	<u>\$ 4,154,844</u>	<u>\$ 3,636,759</u>	<u>\$ 3,208,306</u>	<u>\$ 4,583,297</u>	<u>\$ 3,208,307</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, 2020

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
2021	\$ 7,884,800	\$ 2,624,135	\$ 1,342,661	\$ 193,139	\$ 7,063,000	\$ 4,325,753	\$ 250,000	\$ 15,000
2022	5,147,614	2,335,821	1,399,370	136,428	10,260,000	4,063,675	250,000	7,500
2023	3,250,294	2,271,141	1,458,475	77,322	10,350,000	3,562,425	-	-
2024	3,295,294	2,223,141	752,178	15,720	10,135,000	3,067,800	-	-
2025	3,345,294	2,172,891	-	-	9,950,000	2,561,050	-	-
2026-2030	12,815,588	7,887,363	-	-	40,770,000	6,409,150	-	-
2031-2035	8,550,000	2,079,619	-	-	8,345,000	496,200	-	-
2036-2040	8,725,000	692,317	-	-	-	-	-	-
	<u>\$ 53,013,884</u>	<u>\$22,286,428</u>	<u>\$ 4,952,684</u>	<u>\$ 422,609</u>	<u>\$ 96,873,000</u>	<u>\$ 24,486,053</u>	<u>\$ 500,000</u>	<u>\$ 22,500</u>

Year Ended June 30	Component Unit – Public Service Authority					
	Revenue Bonds		Note Payable		Membership Fee Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
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	323,813	78,916	5,838	1,018	26,236	21,287
2025	331,836	70,893	6,109	747	26,760	20,762
2026 – 2030	1,778,219	227,026	13,084	630	142,048	95,564
2031 – 2035	934,941	29,878	-	-	156,832	80,780
2036 – 2040	-	-	-	-	173,155	64,457
2041 – 2045	-	-	-	-	191,178	46,435
2046 – 2050	-	-	-	-	211,076	26,537
2051 – 2055	-	-	-	-	137,049	5,518
	<u>\$ 4,294,026</u>	<u>\$ 689,683</u>	<u>\$ 41,035</u>	<u>\$ 6,959</u>	<u>\$ 1,139,995</u>	<u>\$ 428,246</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Public Service Authority
General Obligation Bonds:						
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	\$ 13,025,026	\$ 1,476,826	\$ -
Qualified School Construction Bonds	-	11/13/09	2027	8,249,998	3,397,058	-
Qualified School Construction Bonds	-	07/08/11	2027	13,370,000	6,335,000	-
Qualified School Construction Bonds	-	12/15/11	2031	15,000,000	4,290,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	10,200,000	-
Virginia Public School Authority Bonds	2.25 - 5.0	10/24/19	2040	27,315,000	27,315,000	-
					<u>\$ 53,013,884</u>	<u>\$ -</u>
Revenue Bonds:						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 1,239,762	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	1,239,762	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	2,473,160	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	4,294,026
					<u>\$ 4,952,684</u>	<u>\$ 4,294,026</u>
Refunding Bonds:						
Refunding Bond	3.0 - 5.0%	07/09/09	2021	\$ 13,550,000	\$ 845,000	\$ -
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	3,535,000	-
Refunding Bond	1.6	02/26/15	2021	11,572,000	2,008,000	-
Refunding Bond	4.7	02/03/16	2029	32,835,000	26,605,000	-
Refunding Bond	4.3	11/10/16	2032	64,605,000	63,880,000	-
					96,873,000	-
Plus bond premium					17,320,352	-
					<u>\$ 114,193,352</u>	<u>\$ -</u>
Other Long-Term Debt:						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	\$ 500,000	\$ -

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 \$1,116,231 reported post-closure care liability represents what it would cost to perform all post-closure care in 2020. 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, 2020

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 available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees Covered by Benefit Terms

As of the June 30, 2018 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>315</u>
Inactive members:	
Vested inactive members	83
Non-vested inactive members	64
Inactive members active elsewhere in VRS	<u>205</u>
Total inactive members	352
Active members	<u>380</u>
Total covered employees	<u><u>1,047</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2020 was 10.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$1,898,145 and \$1,858,634 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (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, 2018, 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, 2019.

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	6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% and decreased discount rate from 7.00% to 6.75%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement 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, and decreased discount rate from 7.00% to 6.75%.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00 %		5.13 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.63 %

- * The above allocation provides for a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund allocation.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater. From July 1, 2019 on, participating employers are assumed to continue 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, 2018	\$ 84,444,474	\$ 75,501,427	\$ 8,943,047
Changes for the year:			
Service cost	1,956,512	-	1,956,512
Interest	5,878,574	-	5,878,574
Differences between expected and actual experience	1,396,088	-	1,396,088
Assumption changes	2,743,910	-	2,743,910
Contributions – employer	-	1,858,634	(1,858,634)
Contributions – employee	-	916,525	(916,525)
Net investment income	-	5,113,384	(5,113,384)
Benefit payments, including refunds of employee contributions	(4,110,106)	(4,110,106)	-
Administrative expenses	-	(50,795)	50,795
Other changes	-	(3,220)	3,220
Net changes	7,864,978	3,724,422	4,140,556
Balances at June 30, 2019	\$ 92,309,452	\$ 79,225,849	\$ 13,083,603

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Political subdivision's net pension liability	<u>\$ 25,370,645</u>	<u>\$ 13,083,603</u>	<u>\$ 3,317,271</u>

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

For the year ended June 30, 2020, the political subdivision recognized pension expense of \$2,234,991. At June 30, 2020, the political subdivision 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	\$ 928,561	\$ 534,318
Change in assumptions	1,825,022	20,937
Net difference between projected and actual earnings on pension plan investments	-	701,461
Employer contributions subsequent to the measurement date	<u>1,898,145</u>	<u>-</u>
Total	<u><u>\$ 4,651,728</u></u>	<u><u>\$ 1,256,716</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Primary Government – County (Continued)

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

The \$1,898,145 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, 2021. 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,	Increase to Pension Expense
2021	\$ 764,198
2022	628,001
2023	60,547
2024	44,121
2025	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report. A copy of the 2019 VRS report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Component Unit – Public Service Authority (Continued)

Contributions

The component unit's contractually required contribution rate for the year ended June 30, 2020 was 10.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$82,390 and \$57,383 for the years ended June 30, 2020 and June 30, 2019, 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, 2018	\$ 4,246,421	\$ 3,806,353	\$ 440,068
Changes for the year:			
Service cost	60,405	-	60,405
Interest	181,494	-	181,494
Differences between expected and actual experience	43,103	-	43,103
Assumption changes	84,715	-	84,715
Contributions – employer	-	57,383	(57,383)
Contributions – employee	-	28,296	(28,296)
Net investment income	-	157,870	(157,870)
Benefit payments, including refunds of employee contributions	(126,895)	(126,895)	-
Administrative expenses	-	(1,568)	1,568
Other changes	-	(99)	99
Net changes	242,822	114,987	127,835
Balances at June 30, 2019	\$ 4,489,243	\$ 3,921,340	\$ 567,903

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Component Unit's net pension liability	<u>\$ 1,101,231</u>	<u>\$ 567,903</u>	<u>\$ 143,988</u>

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

For the year ended June 30, 2020, the political subdivision recognized pension expense of \$97,011. At June 30, 2020, 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	\$ 40,306	\$ 23,192
Change in assumptions	79,216	909
Net difference between projected and actual earnings on pension plan investments	-	30,448
Employer contributions subsequent to the measurement date	<u>82,390</u>	<u>-</u>
Total	<u>\$ 201,912</u>	<u>\$ 54,549</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Component Unit – Public Service Authority (Continued)

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

The \$82,390 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, 2021. 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,	Increase to Pension Expense
2021	\$ 33,171
2022	27,259
2023	2,628
2024	1,915
2025	-
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, 2020

Note 11. Defined Benefit Pension Plans (Continued)

School Nonprofessionals (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2018 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>164</u>
Inactive members:	
Vested inactive members	22
Non-vested inactive members	60
Inactive members active elsewhere in VRS	<u>77</u>
Total inactive members	159
Active members	<u>130</u>
Total covered employees	<u><u>453</u></u>

Contributions

The school division's contractually required contribution rate for the year ended June 30, 2020 was 10.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

Contributions to the pension plan from the school division were \$415,739 and \$410,048 for the years ended June 30, 2020 and June 30, 2019, respectively.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

School Nonprofessionals (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2018	\$ 26,172,747	\$ 21,577,598	\$ 4,595,149
Changes for the year:			
Service cost	393,505	-	393,505
Interest	1,782,396	-	1,782,396
Differences between expected and actual experience	(1,431,716)	-	(1,431,716)
Assumption changes	735,879	-	735,879
Contributions – employer	-	410,048	(410,048)
Contributions – employee	-	214,838	(214,838)
Net investment income	-	1,412,099	(1,412,099)
Benefit payments, including refunds of employee contributions	(1,419,907)	(1,419,907)	-
Administrative expenses	-	(14,494)	14,494
Other changes	-	(886)	886
Net changes	60,157	601,698	(541,541)
Balances at June 30, 2019	\$ 26,232,904	\$ 22,179,296	\$ 4,053,608

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 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
School division's net pension liability	\$ 7,354,643	\$ 4,053,608	\$ 1,420,103

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

School Nonprofessionals (Continued)

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

For the year ended June 30, 2020, the school division recognized pension expense of \$209,586. At June 30, 2020, 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	\$ 189,007	\$ 806,779
Change in assumptions	408,822	5,611
Net difference between projected and actual earnings on pension plan investments	-	191,136
Employer contributions subsequent to the measurement date	<u>415,739</u>	<u>-</u>
Total	<u><u>\$ 1,013,568</u></u>	<u><u>\$ 1,003,526</u></u>

The \$415,739 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, 2021. 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,	Increase (Reduction) to Pension Expense
<u>2021</u>	<u>\$ (148,345)</u>
2022	(267,995)
2023	(3,350)
2024	13,993
2025	-
Thereafter	-

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

School Nonprofessionals (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report. A copy of the 2019 VRS report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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

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 refunded 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, 2020 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$8,783,763 and \$8,130,177 for the years ended June 30, 2020 and June 30, 2019, respectively.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

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, 2020, the school division reported a liability of \$83,491,961 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the school division's proportion was 0.6344% as compared to 0.6385% at June 30, 2018.

For the year ended June 30, 2020, the school division recognized pension expense of \$9,212,332. 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, 2020, 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	\$ -	\$ 5,346,344
Change in assumptions	8,267,662	-
Net difference between projected and actual earnings on pension plan investments	-	1,833,285
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,319,853	516,159
Employer contributions subsequent to the measurement date	<u>8,783,763</u>	<u>-</u>
Total	<u><u>\$ 18,371,278</u></u>	<u><u>\$ 7,695,788</u></u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

Teacher Cost Sharing Plan (Continued)

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

The \$8,783,763 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, 2021. 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,	Increase (Reduction) to Pension Expense
2021	\$ 236,910
2022	(1,314,225)
2023	949,348
2024	1,396,749
2025	622,945
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, 2019, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 49,683,336
Plan Fiduciary Net Position	<u>36,522,769</u>
Employers' Net Pension Liability	<u>\$ 13,160,567</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.51%

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 11. Defined Benefit Pension Plans (Continued)

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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 125,691,673</u>	<u>\$ 83,491,961</u>	<u>\$ 48,600,615</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 2019 Comprehensive Annual Financial Report. A copy of the 2019 VRS report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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, 2020

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	\$ (13,083,603)	\$ (567,903)	\$ (87,545,569)
Deferred outflows of resources			
Difference between expected and actual experience	\$ 928,561	\$ 40,306	\$ 189,007
Change in assumptions	1,825,022	79,216	8,676,484
Change in proportion	-	-	1,319,853
Pension contributions subsequent to measurement date	1,898,145	82,390	9,199,502
Total deferred outflows of resources	<u>\$ 4,651,728</u>	<u>\$ 201,912</u>	<u>\$ 19,384,846</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ (534,318)	\$ (23,192)	\$ (6,153,123)
Changes of assumptions	(20,937)	(909)	(5,611)
Change in proportion	-	-	(516,159)
Net difference between projected and actual earnings on plan investments	<u>(701,461)</u>	<u>(30,448)</u>	<u>(2,024,421)</u>
Total deferred inflows of resources	<u>\$ (1,256,716)</u>	<u>\$ (54,549)</u>	<u>\$ (8,699,314)</u>
Net pension expense	<u>\$ 2,234,991</u>	<u>\$ 97,011</u>	<u>\$ 9,421,918</u>

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 the 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, 2020

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, 2019 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>56</u>
Total inactive employees	56
Active plan members	<u>417</u>
	<u><u>473</u></u>

Total OPEB Liability

The County and Public Service Authority's total OPEB liability of \$2,712,484 and \$277,773, respectively, were measured as of June 30, 2020 and were determined based on an actuarial valuation performed as of July 1, 2019.

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	4.0% - 5.3%
Retirees' share of benefit-related costs	100%
Mortality rates	.016% -12.225%

The actuarial assumptions used in the July 1, 2019 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, 2020

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, 2017 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 6.10% for fiscal 2018, 5.80% for fiscal 2019, 6.50% for fiscal 2020, then grading to an ultimate rate of 4.20% for fiscal 2100 to 4.80% for fiscal 2020, 4.90% for fiscal 2021, 5.30% for fiscal 2022, then grading to an ultimate rate of 4.00% for fiscal 2074.
- The assumed percentage of future retirees electing to continue their medical coverage upon retirement was decreased from 40% to 30%.
- In the current calculation, it was assumed that the County provides an implicit rate subsidy for dental benefits. In prior valuations, it was assumed that dental premiums were equal to the cost of the benefit.

Changes in the Total OPEB Liability

County

Balance at June 30, 2019	\$ 2,237,769
Changes for the year:	
Service cost	115,097
Interest	94,364
Economic/demographic gains	376,719
Assumption or other input changes	(43,918)
Benefit payments	(67,547)
Net changes	474,715
Balance at June 30, 2020	\$ 2,712,484

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2019	\$ 229,160
Changes for the year:	
Service cost	11,787
Interest	9,663
Economic/demographic gains	38,578
Assumption or other input changes	(4,498)
Benefit payments	<u>(6,917)</u>
Net changes	<u>48,613</u>
Balance at June 30, 2020	<u><u>\$ 277,773</u></u>

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 (1.21%) or one percentage point higher (3.21%) than the current discount rate:

	<u>1.00% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1.00% Increase (3.21%)</u>
County			
Total OPEB liability	\$ <u>3,041,271</u>	\$ <u>2,712,484</u>	\$ <u>2,428,234</u>
Public Service Authority			
Total OPEB liability	\$ <u>311,443</u>	\$ <u>277,773</u>	\$ <u>248,665</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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	<u>\$ 2,337,737</u>	<u>\$ 2,712,484</u>	<u>\$ 3,172,181</u>
Public Service Authority			
Total OPEB liability	<u>\$ 239,397</u>	<u>\$ 277,773</u>	<u>\$ 324,849</u>

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

For the year ended June 30, 2020, the County and Public Service Authority recognized OPEB expense of \$250,042 and \$25,606, respectively. At June 30, 2020, 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	\$ 50,066	\$ 80,320
Economic/demographic gains	<u>333,417</u>	<u>-</u>
Total	<u>\$ 383,483</u>	<u>\$ 80,320</u>
Public Service Authority	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 5,127	\$ 8,225
Economic/demographic gains	<u>34,144</u>	<u>-</u>
Total	<u>\$ 39,271</u>	<u>\$ 8,225</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 to OPEB Expense
2021	\$ 40,581
2022	40,581
2023	40,581
2024	39,883
2025	38,253
Thereafter	103,284

Public Service Authority:

Year Ending June 30,	Increase to OPEB Expense
2021	\$ 4,156
2022	4,156
2023	4,156
2024	4,084
2025	3,917
Thereafter	10,577

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2019 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>57</u>
Total inactive employees	57
Active plan members	<u>1,231</u>
	<u><u>1,288</u></u>

Total OPEB Liability

The School Board's total OPEB liability of \$9,180,028 was measured as of June 30, 2020 and was determined based on an actuarial valuation performed as of July 1, 2019.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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	2.50%
Salary increases, including inflation	3.5% - 5.35%
Healthcare cost trend rates	4.0% - 5.3%
Retirees' share of benefit-related costs	0% - 100%
Mortality rates	.016% - 11.9%

The actuarial assumptions used in the July 1, 2019 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, 2017 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 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 to 5.30% for fiscal 2020, 4.80% for fiscal 2021, 5.20% for fiscal 2022, then grading to an ultimate rate of 4.00% for fiscal 2074.
- The assumed percentage of future retirees electing to participate in the RIHIP upon retirement was increased from 25% to 30%. (As a result, the assumed percentage of future retirees not electing to participate in the RIHIP was decreased from 75% to 70%.) This change was based on retiree election experience between July 1, 2015 and June 30, 2019.
- The assumed percentage of future retirees not electing to participate in the RIHIP, but still electing health coverage upon retirement, was increased from 20% to 25%. The assumed percentage of future and current RIHIP retirees electing to continue health coverage if their RIHIP benefit period expires before age 65 was also increased from 20% to 25%. This change was based on retiree election experience between July 1, 2015 and June 30, 2019.
- The assumed percentage of future retirees electing health coverage who also elect to cover their spouse was decreased from 30% to 20%. This change was based on spousal election experience between July 1, 2015 and June 30, 2019.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits Liability (Continued)

Local Plans – School Board (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2019	\$ 6,912,768
Changes for the year:	
Service cost	313,834
Interest	241,773
Economic/demographic gains	624,399
Assumption or other input changes	1,730,386
Benefit payments	<u>(643,132)</u>
Net changes	<u>2,267,260</u>
Balance at June 30, 2020	<u><u>\$ 9,180,028</u></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 (1.21%) or one percentage point higher (3.21%) than the current discount rate:

	<u>1.00% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1.00% Increase (3.21%)</u>
Total OPEB liability	\$ <u>9,805,896</u>	\$ <u>9,180,028</u>	\$ <u>8,570,480</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>8,125,322</u>	\$ <u>9,180,028</u>	\$ <u>10,418,654</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2020, the School Board recognized OPEB expense of \$912,629. At June 30, 2020, 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	\$ 1,598,507	\$ 106,924
Economic/demographic gains	531,205	-
Total	<u>\$ 2,129,712</u>	<u>\$ 106,924</u>

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

Year Ending June 30,	Increase to OPEB Expense
2021	\$ 357,022
2022	357,022
2023	357,022
2024	354,242
2025	351,461
Thereafter	246,019

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 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>

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2019. 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, 2020 Contribution – County	\$ 99,020
June 30, 2019 Contribution – County	\$ 94,887
June 30, 2020 Contribution – Public Service Authority	\$ 4,742
June 30, 2019 Contribution – Public Service Authority	\$ 4,544

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2019 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program – County

June 30, 2020 proportionate share of liability	\$ 1,515,428
June 30, 2019 proportion	.09756 %
June 30, 2018 proportion	.09424 %
June 30, 2020 expense	\$ 36,263

Group Life Insurance Program – Public Service Authority

June 30, 2020 proportionate share of liability	\$ 72,572
June 30, 2019 proportion	.09756 %
June 30, 2018 proportion	.09424 %
June 30, 2020 expense	\$ 1,737

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, 2020, 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	\$ 101,156	\$ 20,040
Change in assumptions	95,430	45,806
Net difference between projected and actual earnings on OPEB plan investments	-	31,492
Changes in proportion	41,989	24,812
Employer contributions subsequent to the measurement date	99,020	-
Total	\$ 337,595	\$ 122,150

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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	\$ 4,844	\$ 961
Change in assumptions	4,570	2,194
Net difference between projected and actual earnings on OPEB plan investments	-	1,508
Changes in proportion	2,011	1,188
Employer contributions subsequent to the measurement date	4,742	-
Total	<u>\$ 16,167</u>	<u>\$ 5,851</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, 2021. 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 to OPEB Expense
2021	\$ 6,837
2022	6,837
2023	20,018
2024	34,171
2025	38,091
Thereafter	10,471

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

Year Ending June 30,	Increase to OPEB Expense
2021	\$ 327
2022	327
2023	959
2024	1,636
2025	1,824
Thereafter	501

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation*	GLI: 6.75%

- * 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, 2020

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, 2019, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,390,238
Plan fiduciary net position	1,762,972
Employers' net OPEB liability (asset)	\$ 1,627,266
Plan fiduciary net position as a percentage of total OPEB liability	52.00%

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, 2020

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	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00 %		5.13 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.63 %

- * The above allocation provides for a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 6.75%. 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 (5.75% GLI) or one percentage point higher (7.75% GLI) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability – County	\$ 1,990,302	\$ 1,515,428	\$ 1,129,559
GLI Net OPEB liability – Public Service Authority	\$ 95,313	\$ 72,572	\$ 54,093

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report. A copy of the 2019 VRS report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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, 2020

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, 2020

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, 2017. 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, 2020 Contribution – Professionals	\$ 301,381
June 30, 2019 Contribution – Professionals	\$ 276,586
June 30, 2020 Contribution – Non-professionals	\$ 24,046
June 30, 2019 Contribution – Non-professionals	\$ 23,545

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:	1.20% of covered employee compensation.
June 30, 2020 Contribution	\$ 695,400
June 30, 2019 Contribution	\$ 637,770

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

The net OPEB liabilities were measured as of June 30, 2019 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2020 proportionate share of liability	\$ 4,415,000
June 30, 2019 proportion	0.27133%
June 30, 2018 proportion	0.27123 %
June 30, 2020 expense	\$ 123,000

Group Life Insurance Program – Non-professionals

June 30, 2020 proportionate share of liability	\$ 372,000
June 30, 2019 proportion	.02284 %
June 30, 2018 proportion	.02359%
June 30, 2020 expense	\$ (14,000)

Teacher Health Insurance Credit Program

June 30, 2020 proportionate share of liability	\$ 8,295,000
June 30, 2019 proportion	0.63363 %
June 30, 2018 proportion	0.63726%
June 30, 2020 expense	\$ 704,000

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.

At June 30, 2020, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program – Professionals

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 294,000	\$ 57,000
Change in assumptions	279,000	133,000
Net difference between projected and actual earnings on OPEB plan investments	-	91,000
Changes in proportion	76,000	-
Employer contributions subsequent to the measurement date	301,381	-
Total	<u>\$ 950,381</u>	<u>\$ 281,000</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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	\$ 25,000	\$ 5,000
Change in assumptions	23,000	11,000
Net difference between projected and actual earnings on OPEB plan investments	-	8,000
Changes in proportion	-	102,000
Employer contributions subsequent to the measurement date	24,046	-
Total	<u>\$ 72,046</u>	<u>\$ 126,000</u>

Teacher Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 47,000
Change in assumptions	193,000	58,000
Net difference between projected and actual earnings on OPEB plan investments	1,000	-
Changes in proportion	138,000	41,000
Employer contributions subsequent to the measurement date	695,400	-
Total	<u>\$ 1,027,400</u>	<u>\$ 146,000</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2021. 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 to OPEB Expense
2021	\$ 36,211
2022	36,215
2023	74,627
2024	101,773
2025	93,288
Thereafter	25,886

Group Life Insurance Program – Non-professionals

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2021	\$ (21,550)
2022	(21,549)
2023	(18,316)
2024	(15,365)
2025	(2,210)
Thereafter	990

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

Year Ending June 30,	Increase to OPEB Expense
2021	\$ 28,158
2022	28,149
2023	31,784
2024	30,567
2025	30,216
Thereafter	37,126

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

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	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation*	GLI & HIC: 6.75%

- * 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, 2020

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, 2019, 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	\$ 3,390,238	\$ 1,438,114
Plan fiduciary net position	1,762,972	129,016
Employers' net OPEB liability (asset)	\$ 1,627,266	\$ 1,309,098
Plan fiduciary net position as a percentage of total OPEB liability	52.00%	8.97%

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, 2020

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	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00 %		5.13 %
	Inflation		2.50 %
			7.63 %

- * The above allocation provides for a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 6.75%. 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 (5.75% HIC and GLI) or one percentage point higher (7.75% HIC and GLI) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability – Professionals	\$ 5,800,431	\$ 4,415,000	\$ 3,291,927
GLI Net OPEB liability – Non-professionals	\$ 488,268	\$ 372,000	\$ 277,107
Teacher HIC Net OPEB liability	\$ 9,283,329	\$ 8,295,000	\$ 7,455,108

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report. A copy of the 2019 VRS report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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, 2020

Note 14. Summary of Other Postemployment Benefit Elements

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

	Governmental Activities	Public Service Authority	School Board
Net other post-employment benefits liability			
Local Sponsored Health Insurance	\$ (2,712,484)	\$ (277,773)	\$ (9,180,028)
VRS – Group Life Insurance	(1,515,428)	(72,572)	(4,787,000)
VRS – HIC	-	-	(8,295,000)
Total net other postemployment benefit liability	<u>\$ (4,227,912)</u>	<u>\$ (350,345)</u>	<u>\$ (22,262,028)</u>
Deferred outflows of resources			
Differences between expected and actual experience –			
VRS – Group Life Insurance	\$ 101,156	\$ 4,844	\$ 319,000
Net difference between projected and actual investment earnings –			
VRS – HIC	-	-	1,000
Change in actuarial assumptions-			
Local Sponsored Health Insurance	50,066	5,127	1,598,507
VRS – Group Life Insurance	95,430	4,570	302,000
VRS – HIC	-	-	193,000
Change in proportion –			
VRS – Group Life Insurance	41,989	2,011	76,000
VRS – HIC	-	-	138,000
Economic/Demographic Gains or Losses			
Local Sponsored Health Insurance	333,417	34,144	531,205
Contributions subsequent to measurement date-			
VRS – Group Life Insurance	99,020	4,742	325,427
VRS – HIC	-	-	695,400
Total deferred outflows of resources	<u>\$ 721,078</u>	<u>\$ 55,438</u>	<u>\$ 4,179,539</u>
Deferred inflows of resources			
Differences between expected and actual experience –			
VRS – Group Life Insurance	\$ (20,040)	\$ (961)	\$ (62,000)
VRS – HIC	-	-	(47,000)
Net difference between projected and actual investment earnings –			
VRS – Group Life Insurance	(31,492)	(1,508)	(99,000)
Change in actuarial assumptions-			
Local Sponsored Health Insurance	(80,320)	(8,225)	(106,924)
VRS – Group Life Insurance	(45,806)	(2,194)	(144,000)
VRS – HIC	-	-	(58,000)
Change in proportion –			
VRS – Group Life Insurance	(24,812)	(1,188)	(102,000)
VRS – HIC	-	-	(41,000)
Total deferred inflows of resources	<u>\$ (202,470)</u>	<u>\$ (14,076)</u>	<u>\$ (659,924)</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 14. Summary of Other Postemployment Benefit Elements (Continued)

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

	Governmental Activities	Public Service Authority	School Board
Other post-employment benefits expense			
Local Sponsored Health Insurance	\$ 250,042	\$ 25,606	\$ 912,629
VRS – Group Life Insurance	36,263	1,737	109,000
VRS – HIC	-	-	704,000
Total other postemployment benefit expense	<u>\$ 286,305</u>	<u>\$ 27,343</u>	<u>\$ 1,725,629</u>

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.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 15. Risk Management (Continued)

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 \$4,146,282 and \$12,632,153 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 \$202,343 and \$2,568,128 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, 2020	\$ 398,851	\$ 3,949,774	\$ 4,146,282	\$ 202,343
June 30, 2019	312,080	4,006,089	3,919,318	398,851
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

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, 2020	\$ 2,626,315	\$ 12,573,966	\$12,632,153	\$ 2,568,128
June 30, 2019	2,531,491	11,609,929	11,515,105	2,626,315
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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 \$1,163,307.

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 \$384,047 and \$94,742,093 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, 2020

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	\$ 6,149,003	\$ -
Restricted:		
General government administration-health insurance	142,955	-
Judicial administration	89,901	-
Public safety	672,693	-
Health and welfare	832,469	-
Education	-	29,394,625
Parks, recreation, and culture	83,241	-
Community development	343,368	
Debt service reserves	-	2,221,523
Committed:		
General government administration	5,182,438	2,044,819
Public safety	-	2,302,553
Public works	-	5,499,629
Education	-	8,069,091
Parks, recreation, and culture	-	2,678,110
Community development	-	118,091
Assigned:		
General government administration	1,487,638	-
Judicial administration	41,418	-
Public safety	1,253,511	-
Public works	608,739	-
Health and welfare	100,028	-
Education	5,063,245	-
Parks, recreation, and culture	2,645,207	-
Community development	530,818	-
Unassigned:	31,769,425	-
Total fund balance	<u>\$ 56,996,097</u>	<u>\$ 52,328,441</u>

Note 19. Concentrations

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 a cost of \$9,358. This was completed in fiscal year 2020 and paid in July 2020. The Authority will also be responsible for capital upgrades with an estimated cost of \$6,127,000. The initial design work of the capital upgrades was completed in fiscal year 2019 and additional design worked was required in fiscal year 2020. \$430,350 in capital upgrades were included in Construction in Progress at June 30, 2020.

On October 10, 2019 the PSA accepted an initial funding package offer from the Virginia Department of Health for assistance with the capital upgrades. The funding package includes a \$900,000 grant and \$4,912,000 loan for a term of 30 years and interest rate of 2.5%. To date, no funds have been drawn from this funding package.

Note 21. Prior Period Restatement

Economic Development Authority

In the current year, it was determined that an expense in fiscal year 2019 should have been recorded as an asset. The following is a summary of the restatement to net position.

Net position July 1, 2019, as previously reported	\$ 77,050
Change in inventory	<u>19,910</u>
Net position July 1, 2019, as restated	<u>\$ 96,960</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 22. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95**, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84**, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87**, *Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In August 2018, the GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. 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.

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 reporting periods beginning after December 15, 2019. 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.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 22. New Accounting Standards (Continued)

In May 2019, the GASB issued **Statement No. 91, *Conduit Debt Obligations***. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92, *Omnibus***. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 93, *Replacement of Interbank Offered Rates***. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96, *Subscription-Based Information Technology Arrangements***. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32***. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 23. Subsequent Events

County

In August 2020, the County received \$8,596,799 in CARES Act Coronavirus Relief Funds.

In February 2021, the County entered into a contract with a contractor totaling \$4,428,850 for construction of the consolidated garage and maintenance facility.

In March 2021, the County was awarded \$19,110,256 under the American Rescue Plan Act of 2021. \$9,555,128 is expected to be received no later than May 11, 2021. The remaining payment is expected no earlier than May 2022.

Economic Development Authority

On August 3, 2020, the Authority approved a performance agreement with a company providing an Economic Development Grant up to \$500,000 over a 10-year period and received an \$800,000 Commonwealth's Development Opportunity Fund grant to be passed through the Authority to the company.

On September 17, 2020, the Authority sold the Technology Manufacturing Building for \$7,500,000. The book value of the building at June 30, 2020 was \$7,900,712. The proceeds from the sale along with operating funds were used to pay off the revenue bonds that had a balance of \$7,675,409 at June 30, 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
PRIMARY GOVERNMENT
June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 2,016,917	\$ 1,946,180	\$ 2,074,767	\$ 2,038,842	\$ 2,065,492	\$ 1,987,518
Interest on total pension liability	6,060,068	5,917,362	5,729,306	5,529,177	5,278,174	5,014,694
Difference between expected and actual experience	1,439,191	(1,579,974)	(574,874)	(1,147,090)	(408,515)	-
Changes in assumptions	2,828,625	-	(525,978)	-	-	-
Benefit payments, including refunds of employee contributions	(4,237,001)	(4,252,843)	(3,780,564)	(3,343,304)	(3,355,504)	(3,120,914)
Net change in total pension liability	8,107,800	2,030,725	2,922,657	3,077,625	3,579,647	3,881,298
Total pension liability - beginning	88,690,895	86,660,170	83,737,513	80,659,888	77,080,241	73,198,943
Total pension liability - ending	96,798,695	88,690,895	86,660,170	83,737,513	80,659,888	77,080,241
Plan Fiduciary Net Position						
Contributions - employer	1,916,017	1,995,757	1,968,509	2,262,436	2,206,584	1,777,329
Contributions - employee	944,821	873,088	865,723	875,307	921,830	894,800
Net investment income	5,271,254	5,546,314	8,262,943	1,179,030	2,959,075	8,832,131
Benefit payments, including refunds of employee contributions	(4,237,001)	(4,252,843)	(3,780,564)	(3,343,304)	(3,355,504)	(3,120,914)
Administrative expenses	(52,363)	(48,133)	(47,748)	(41,456)	(40,120)	(47,509)
Other	(3,319)	(4,922)	(7,349)	(498)	(626)	465
Net change in plan fiduciary net position	3,839,409	4,109,261	7,261,514	931,515	2,691,239	8,336,302
Plan fiduciary net position - beginning	79,307,780	75,198,519	67,937,005	67,005,490	64,314,251	55,977,949
Plan fiduciary net position - ending	83,147,189	79,307,780	75,198,519	67,937,005	67,005,490	64,314,251
Net pension liability - ending	\$ 13,651,506	\$ 9,383,115	\$ 11,461,651	\$ 15,800,508	\$ 13,654,398	\$ 12,765,990
Plan fiduciary net position as a percentage of total pension liability	86%	89%	87%	81%	83%	83%
Covered payroll	\$ 19,201,224	\$ 17,882,222	\$ 17,508,356	\$ 17,375,145	\$ 16,814,775	\$ 16,910,837
Net pension liability as a percentage of covered payroll	71%	52%	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 2019 information was presented in the entity's fiscal year 2020 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, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 393,505	\$ 528,691	\$ 581,565	\$ 559,551	\$ 552,067	\$ 525,743
Interest on total pension liability	1,782,396	1,686,304	1,681,115	1,587,055	1,510,044	1,455,818
Difference between expected and actual experience	(1,431,716)	549,019	(580,451)	419,588	297,904	-
Changes in assumptions	735,879	-	(286,105)	-	-	-
Benefit payments, including refunds of employee contributions	(1,419,907)	(1,362,646)	(1,281,342)	(1,163,631)	(1,356,068)	(1,057,738)
Net change in total pension liability	60,157	1,401,368	114,782	1,402,563	1,003,947	923,823
Total pension liability - beginning	26,172,747	24,771,379	24,656,597	23,254,034	22,250,087	21,326,264
Total pension liability - ending	26,232,904	26,172,747	24,771,379	24,656,597	23,254,034	22,250,087
Plan Fiduciary Net Position						
Contributions - employer	410,048	455,431	598,779	496,152	477,385	469,880
Contributions - employee	214,838	232,380	292,491	284,097	326,053	268,846
Net investment income	1,412,099	1,515,213	2,288,302	324,084	840,218	2,572,433
Benefit payments, including refunds of employee contributions	(1,419,907)	(1,362,646)	(1,281,342)	(1,163,631)	(1,356,068)	(1,057,738)
Administrative expenses	(14,494)	(13,384)	(13,349)	(11,872)	(11,870)	(13,997)
Other	(886)	(1,339)	(2,028)	(138)	(176)	136
Net change in plan fiduciary net position	601,698	825,655	1,882,853	(71,308)	275,542	2,239,560
Plan fiduciary net position - beginning	21,577,598	20,751,943	18,869,090	18,940,398	18,664,856	16,425,296
Plan fiduciary net position - ending	22,179,296	21,577,598	20,751,943	18,869,090	18,940,398	18,664,856
Net pension liability - ending	\$ 4,053,608	\$ 4,595,149	\$ 4,019,436	\$ 5,787,507	\$ 4,313,636	\$ 3,585,231
Plan fiduciary net position as a percentage of total pension liability	85%	82%	84%	77%	81%	84%
Covered payroll	\$ 4,527,696	\$ 4,486,110	\$ 5,837,677	\$ 5,764,299	\$ 5,195,195	\$ 5,113,521
Net pension liability as a percentage of covered payroll	90%	102%	69%	100%	83%	70%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2019 information was presented in the entity's fiscal year 2020 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, 2020

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					
2020	\$ 1,980,535	\$ 1,980,535	\$ -	\$ 19,971,700	9.92%
2019	1,916,017	1,916,017	-	19,201,224	9.98%
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					
2020	\$ 415,739	\$ 415,739	\$ -	\$ 4,630,528	8.98%
2019	410,048	410,048	-	4,527,696	9.06%
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 five 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, 2020

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
2019	0.6344 %	\$ 83,491,961	\$ 53,151,904	157.08 %	73.51 %
2018	0.6385	75,093,000	51,539,673	145.70	74.81
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 fiscal year 2015 (plan year 2014) 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, 2020

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Employee Payroll
2020	\$ 8,783,763	\$ 8,783,763	\$ -	\$ 57,949,425	15.16 %
2019	8,130,177	8,130,177	-	53,151,904	15.30
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, 2020

	Plan Year 2019		Plan Year 2018		Plan Year 2017	
	Primary		Primary		Primary	
	Government	Schools	Government	Schools	Government	Schools
	Local Plan	Local Plan	Local Plan	Local Plan	Local Plan	Schools Local Plan
Total OPEB Liability						
Service cost	\$ 126,884	\$ 313,834	\$ 121,389	\$ 277,465	\$ 124,771	\$ 284,444
Interest on total OPEB liability	104,027	241,773	90,284	255,600	80,069	230,841
Economic/Demographic gains or losses	415,296	624,399	-	-	-	-
Changes in assumptions	(48,415)	1,730,386	85,027	198,610	(82,745)	(198,574)
Benefit payments	(74,464)	(643,132)	(81,781)	(289,441)	(65,440)	(311,743)
Net change in total OPEB liability	523,328	2,267,260	214,919	442,234	56,655	4,968
Total OPEB liability - beginning	2,466,929	6,912,768	2,252,010	6,470,534	2,195,355	6,465,566
Total OPEB liability - ending	\$ 2,990,257	\$ 9,180,028	\$ 2,466,929	\$ 6,912,768	\$ 2,252,010	\$ 6,470,534
Covered payroll	\$ 21,169,114	\$ 58,706,713	\$ 19,234,823	\$ 54,449,438	\$ 19,234,823	\$ 54,449,438
Net OPEB liability as a percentage of covered payroll	14.13%	15.64%	12.83%	12.70%	11.71%	11.88%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2019 information was presented in the entity's fiscal year 2020 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, 2020

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					
2019	0.63363%	\$ 8,295,000	\$ 53,147,159	15.61%	8.97%
2018	0.63726%	8,092,000	51,539,673	15.70%	8.08%
2017	0.62778%	7,964,000	49,682,607	16.03%	7.04%
Virginia Retirement System - Group Life Insurance - General Employees					
2019	0.09756%	1,588,000	19,203,741	8.27%	52.00%
2018	0.09424%	1,431,000	18,088,728	7.91%	51.22%
2017	0.09528%	1,434,000	17,669,318	8.12%	48.86%
Virginia Retirement System - Group Life Insurance - School Professionals					
2019	0.27133%	4,415,000	53,189,711	8.30%	52.00%
2018	0.27123%	4,119,000	51,535,678	7.99%	51.22%
2017	0.26902%	4,049,000	49,760,995	8.14%	48.86%
Virginia Retirement System - Group Life Insurance - School Non-professionals					
2019	0.02284%	372,000	4,527,696	8.22%	52.00%
2018	0.02359%	358,000	4,488,162	7.98%	51.22%
2017	0.03165%	476,000	5,837,706	8.15%	48.86%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2019 information was presented in the entity's fiscal year 2020 financial report.

Schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) 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, 2020

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					
2020	\$ 695,400	\$ 695,400	\$ -	\$ 57,949,426	1.20%
2019	637,770	637,770	-	53,147,159	1.20%
2018	633,915	633,915	-	51,539,673	1.23%
Virginia Retirement System - Group Life Insurance - General Employees					
2020	103,762	103,762	-	19,980,763	0.52%
2019	99,431	99,431	-	19,203,741	0.52%
2018	93,189	93,189	-	18,088,728	0.52%
Virginia Retirement System - Group Life Insurance - School Professionals					
2020	301,381	301,381	-	57,958,575	0.52%
2019	276,586	276,586	-	53,189,711	0.52%
2018	268,814	268,814	-	51,535,678	0.52%
Virginia Retirement System - Group Life Insurance - School Non-professionals					
2020	24,046	24,046	-	4,633,728	0.52%
2019	23,545	23,545	-	4,527,696	0.52%
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.

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

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.

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 actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates at older ages and extended final retirement age from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Increased Line of Duty Disability rates from 14% to 20%
- Decrease discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to RP-2014 projected to 2020
- 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 from 60% to 70%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: GLI OPEB

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

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB, and HIC OPEB

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience at each age and service year
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

Teacher cost-sharing pool

- Update mortality table to RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each year age and service through 9 years of service
- Update disability rates to better fit experience
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- 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, 2020

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,370,141	\$ 293,491	\$ 2,663,632
Accounts receivables, net	388,126	327,034	715,160
Due from County	43,806	8,647	52,453
Inventories	50,417	530	50,947
Total current assets	<u>2,852,490</u>	<u>629,702</u>	<u>3,482,192</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	46,520	32,890	79,410
Capital assets:			
Non-depreciable	1,629,739	18,000	1,647,739
Depreciable, net	7,504,398	6,600,806	14,105,204
Total noncurrent assets	<u>9,180,657</u>	<u>6,651,696</u>	<u>15,832,353</u>
Total assets	<u>12,033,147</u>	<u>7,281,398</u>	<u>19,314,545</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	96,588	105,324	201,912
Deferred outflows related to other postemployment benefits	26,440	28,998	55,438
Total deferred outflows	<u>123,028</u>	<u>134,322</u>	<u>257,350</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	359,376	152,451	511,827
Accrued payroll and related liabilities	25,183	23,921	49,104
Accrued interest payable	2,797	1,711	4,508
Due to County	6,267	-	6,267
Current portion of noncurrent liabilities	248,719	169,793	418,512
Total current liabilities	<u>642,342</u>	<u>347,876</u>	<u>990,218</u>
Noncurrent liabilities:			
Net pension liability	271,665	296,238	567,903
Net other postemployment benefit liability	180,939	169,406	350,345
Customer deposits	46,520	32,890	79,410
Due in more than one year	2,496,484	1,580,820	4,077,304
Total noncurrent liabilities	<u>2,995,608</u>	<u>2,079,354</u>	<u>5,074,962</u>
Total liabilities	<u>3,637,950</u>	<u>2,427,230</u>	<u>6,065,180</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred outflows related to pensions	26,094	28,455	54,549
Deferred outflows related to other postemployment benefits	7,334	6,742	14,076
	<u>33,428</u>	<u>35,197</u>	<u>68,625</u>
NET POSITION			
Net investments in capital assets	6,474,879	4,943,003	11,417,882
Unrestricted	2,009,918	10,290	2,020,208
Total net position	<u>\$ 8,484,797</u>	<u>\$ 4,953,293</u>	<u>13,438,090</u>
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			(1,139,995)
Net position of Public Service Authority			<u>\$ 12,298,095</u>

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2020

	Water	Wastewater	Total
OPERATING REVENUES			
Charges for services	\$ 2,036,905	\$ 1,574,763	\$ 3,611,668
Penalties and reconnection charges	35,621	13,228	48,849
Fees	278,909	131,201	410,110
Miscellaneous	6,354	4,675	11,029
Total operating revenues	2,357,789	1,723,867	4,081,656
OPERATING EXPENSES			
Salaries and wages	438,177	471,479	909,656
Employee benefits	122,197	221,867	344,064
Utilities and telephone	38,625	76,558	115,183
Water and wastewater services	951,960	654,404	1,606,364
Operating supplies, fees, permits	16,839	40,508	57,347
Professional services	204,292	35,479	239,771
Repairs and maintenance	101,589	74,332	175,921
Insurance	19,202	14,648	33,850
Vehicle supplies and miscellaneous	28,501	23,110	51,611
Bad debts	8,500	11,000	19,500
Office supplies and miscellaneous	44,375	5,021	49,396
Membership fees	47,523	-	47,523
Depreciation	414,657	471,072	885,729
Total operating expenses	2,436,437	2,099,478	4,535,915
Operating loss	(78,648)	(375,611)	(454,259)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	26,560	-	26,560
Facility fees	57,500	74,250	131,750
Gain on sale of assets	1,500	-	1,500
Interest expense	(68,321)	(42,467)	(110,788)
Total nonoperating revenues (expenses)	17,239	31,783	49,022
Change in net position	(61,409)	(343,828)	(405,237)
Total net position – beginning	8,546,206	5,297,121	13,843,327
Total net position – ending	\$ 8,484,797	\$ 4,953,293	\$ 13,438,090
Reconciliation with Public Service Authority in the statement of activities:			
Change in net position			\$ (405,237)
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.			24,238
Change in net position of Public Service Authority			\$ (380,999)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
For the Year Ended June 30, 2020

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,388,067	\$ 1,682,120	\$ 4,070,187
Payments to suppliers	(1,404,702)	(874,576)	(2,279,278)
Payments to employees	(642,440)	(657,907)	(1,300,347)
Payments to County for financial services	(76,424)	-	(76,424)
Net cash provided by operating activities	<u>264,501</u>	<u>149,637</u>	<u>414,138</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(173,237)	(173,761)	(346,998)
Facility fee payments from customers	57,500	74,250	131,750
Proceeds from the sale of capital assets	1,500	-	1,500
Principal payments on long-term debt	(183,896)	(114,586)	(298,482)
Interest payments on debt	(68,519)	(42,584)	(111,103)
Net cash used in capital and related financing activities	<u>(366,652)</u>	<u>(256,681)</u>	<u>(623,333)</u>
INVESTING ACTIVITIES			
Interest received	26,560	-	26,560
Net decrease in cash and cash equivalents	(75,591)	(107,044)	(182,635)
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,492,252	433,425	2,925,677
Ending at June 30	<u>\$ 2,416,661</u>	<u>\$ 326,381</u>	<u>\$ 2,743,042</u>
RECONCILIATION TO EXHIBIT 1			
Cash and cash equivalents	\$ 2,370,141	\$ 293,491	\$ 2,663,632
Cash and cash equivalents, restricted	46,520	32,890	79,410
	<u>\$ 2,416,661</u>	<u>\$ 326,381</u>	<u>\$ 2,743,042</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (78,648)	\$ (375,611)	\$ (454,259)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	414,657	471,072	885,729
Pension expense net of employer contributions	(55,467)	18,352	(37,115)
Other postemployment benefit expense net of employer contributions	6,398	9,350	15,748
(Increase) decrease in:			
Accounts receivable	37,488	(31,147)	6,341
Due from County	(36,063)	(954)	(37,017)
Inventories	(12,724)	(53)	(12,777)
(Decrease) increase in:			
Accounts payable and accrued expenses	26,167	50,491	76,658
Due to County	(5,600)	-	(5,600)
Accrued payroll and related liabilities and compensated absences	(32,997)	7,737	(25,260)
Customer deposits	1,290	400	1,690
Net cash provided by operating activities	<u>\$ 264,501</u>	<u>\$ 149,637</u>	<u>\$ 414,138</u>
SCHEDULE OF NON-CASH ACTIVITIES			
Capital asset purchases included in accounts payable	<u>\$ 81,726</u>	<u>\$ 6,700</u>	<u>\$ 88,426</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, 2020

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 4,773,231	\$ 125,038	\$ 4,898,269
Due from primary government	8,476,415	-	8,476,415
Due from other governmental units	2,712,925	180,124	2,893,049
Inventories	-	122,380	122,380
Total assets	<u>\$ 15,962,571</u>	<u>\$ 427,542</u>	<u>\$ 16,390,113</u>
LIABILITIES			
Liabilities			
Accounts payable and accrued expenses	\$ 2,421,410	\$ 105,204	\$ 2,526,614
Accrued payroll and related liabilities	8,707,343	188,102	8,895,445
Compensated absences	60,587	-	60,587
Unearned revenues	-	139,198	139,198
Total liabilities	<u>11,189,340</u>	<u>432,504</u>	<u>11,621,844</u>
FUND BALANCES			
Nonspendable	-	122,380	122,380
Committed	3,883,257	-	3,883,257
Assigned	1,599,285	(127,342)	1,471,943
Unassigned	<u>(709,311)</u>	<u>-</u>	<u>(709,311)</u>
Total fund balances	<u>4,773,231</u>	<u>(4,962)</u>	<u>4,768,269</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,962,571</u>	<u>\$ 427,542</u>	<u>\$ 16,390,113</u>
Adjustments for the Statement of Net Position (Exhibit 1)			
Total fund balances			\$ 4,768,269
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			30,103,265
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			614,798
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
Deferred outflows related to pensions			19,384,846
Deferred outflows related to other post employment benefit plans			4,179,539
Deferred inflows related to pensions			(8,699,314)
Deferred inflows related to other post employment benefit plans			(659,924)
Net pension liability			(87,545,569)
Net other post employment benefit liability			(22,262,028)
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>(4,522,710)</u>
Net position of governmental activities			<u>\$ (64,638,828)</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, 2020

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from use of money and property	\$ 64,452	\$ 16	\$ 64,468
Charges for services	30,289	1,885,974	1,916,263
Recovered costs	1,519,051	-	1,519,051
Intergovernmental	116,488,118	3,294,274	119,782,392
Total revenues	<u>118,101,910</u>	<u>5,180,264</u>	<u>123,282,174</u>
EXPENDITURES			
Instruction	89,991,961	-	89,991,961
Administration, attendance, and health	5,116,466	-	5,116,466
Pupil transportation	4,603,229	-	4,603,229
Operations and maintenance	17,781,385	-	17,781,385
Non-instructional	336,857	-	336,857
School nutrition	-	5,126,567	5,126,567
Total expenditures	<u>117,829,898</u>	<u>5,126,567</u>	<u>122,956,465</u>
Deficiency of revenues over expenditures	<u>272,012</u>	<u>53,697</u>	<u>325,709</u>
Net change in fund balances	272,012	53,697	325,709
FUND BALANCE AT JULY 1	<u>4,501,219</u>	<u>(58,659)</u>	<u>4,442,560</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 4,773,231</u></u>	<u><u>\$ (4,962)</u></u>	<u><u>\$ 4,768,269</u></u>

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds \$ 325,709

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which capital outlay (\$7,352,195) exceeded depreciation (\$1,476,927). 5,875,268

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 9,199,502

Pension expense (9,424,997)

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 1,020,827

Other postemployment benefit expense (1,080,398)

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. (467,528)

Change in net position of governmental activities \$ 5,448,383

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, 2020**

	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	\$ 64,452	\$ 14,452	\$ -	\$ -	\$ 16	\$ 16
Charges for services	25,000	25,000	30,289	5,289	2,206,710	2,206,710	1,955,175	(251,535)
Recovered costs	657,438	1,318,041	1,519,051	201,010	-	-	-	-
Intergovernmental	115,720,235	122,388,499	116,562,864	(5,825,635)	2,377,996	3,077,996	3,114,150	36,154
Total revenues	116,452,673	123,781,540	118,176,656	(5,604,884)	4,584,706	5,284,706	5,069,341	(215,365)
EXPENDITURES								
Instruction	90,055,581	93,912,773	89,889,848	4,022,925	-	-	-	-
Administration, attendance, and health	5,226,364	5,346,876	5,147,044	199,832	-	-	-	-
Pupil transportation	5,150,323	5,547,448	4,592,170	955,278	-	-	-	-
Operations and maintenance	15,700,371	18,604,027	17,936,706	667,321	-	-	-	-
Non-instructional	320,034	370,416	338,876	31,540	-	-	-	-
School nutrition	-	-	-	-	4,584,706	5,284,706	5,066,794	217,912
Total expenditures	116,452,673	123,781,540	117,904,644	5,876,896	4,584,706	5,284,706	5,066,794	217,912
Excess of revenues over expenditures	\$ -	\$ -	\$ 272,012	\$ 272,012	\$ -	\$ -	\$ 2,547	\$ 2,547

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SUPPORTING SCHEDULE

SCHEDULE 1

**COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020**

<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>Cluster Amounts</u>	<u>Federal Expenditures</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	-		\$ 708,166
<u>Department of Agriculture and Consumer Services:</u>				
National School Lunch Program	10.555	-	192,503	
<u>Department of Education:</u>				
School Breakfast Program	10.553	-	484,295	
COVID-19 School Breakfast Program - Seamless Summer Option	10.553	-	408,074	
National School Lunch Program	10.555	-	1,337,668	
COVID-19 National School Lunch Program - Seamless Summer Option	10.555	-	804,083	
Schools and Roads - Grants to States	10.665	-		20,812
Total Child Nutrition Cluster				<u>3,226,623</u>
Total Department of Agriculture				<u>3,955,601</u>
<u>Department Of Homeland Security:</u>				
<u>Direct Payments:</u>				
Disaster Grants - Public Assistance Presidentially Declared Disasters	97.036	-		70,272
<u>Pass-through Payments:</u>				
<u>Department of Emergency Management:</u>				
2019 Local Emergency Management Performance Grant	97.042	-		13,921
2018 State Homeland Security Program (SHSP)	97.067	-		72,388
2019 State Homeland Security Program (SHSP)	97.067	-		<u>8,302</u>
Total Department of Homeland Security				<u>164,883</u>
<u>Department Of Justice:</u>				
<u>Pass-through Payments:</u>				
<u>Bureau of Justice Assistance:</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-		1,900
<u>Department of Criminal Justice Services:</u>				
Crime Victim Assistance	16.575	-		<u>157,921</u>
Total Department of Justice				<u>159,821</u>
<u>Department of Transportation:</u>				
<u>Department of Motor Vehicles:</u>				
State and Community Highway Safety	20.600	-		<u>18,896</u>
Total Department of Transportation				<u>18,896</u>
<u>Department of the Treasury:</u>				
<u>Pass-through Payments:</u>				
<u>Virginia Department of Accounts</u>				
COVID-19 Coronavirus Relief Fund	21.019	-		<u>142,955</u>
Total Department of the Treasury				<u>142,955</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	-		262
Career and Technical Education - Basic Grants to States	84.048	-		243,754
Education for Homeless Children and Youth Program	84.196A	-		52,710
English Language Acquisition State Grants	84.365	-		20,217
Improving Teacher Quality State Grants	84.367	-		283,792
Title IV, Part A - Student Support and Academic Enrichment Program	84.424	-		94,560
Title I: Grants to Local Educational Agencies	84.010	-		1,900,877
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	-	2,065,980	
Special Education - Preschool Grants	84.173	-	<u>44,121</u>	
Total Special Education Cluster (IDEA)				<u>2,110,101</u>
Total Department of Education				<u>4,706,273</u>

SCHEDULE 1

**COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020**

<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>Cluster Amounts</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Community Development</u>				
<u>Direct Payments:</u>				
Community Development Block Grants	14.218	-		\$ 97,888
Total Department of Housing and Community Development				<u>97,888</u>
<u>Department of Health and Human Services:</u>				
<u>Direct Payments:</u>				
Medical Assistance Program	93.778	-		490,791
<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 Social Services:</u>				
Promoting Safe and Stable Families	93.556	-		33,337
Temporary Assistance to Needy Families	93.558	-		455,571
Refugee and Entrant Assistance	93.566	-		748
Low-Income Home Energy Assistance	93.568	-		87,634
Chafee Education and Training Vouchers Program	93.599	-		753
Child Welfare Services - State Grants	93.645	-		1,024
Foster Care - Title IV-E	93.658	-		417,210
Adoption Assistance	93.659	-		563,796
Social Service Block Grant	93.667	-		411,232
Chafee Foster Care Independence Program	93.674	-		5,703
Children's Health Insurance Program	93.767	-		11,431
Medical Assistance Program	93.778	-		727,464
CCDF Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	-	<u>85,477</u>	<u>85,477</u>
Total Department of Health and Human Services				<u>3,341,564</u>
Total Expenditures of Federal Awards				<u>\$ 12,587,881</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, 2020, the School Board had food commodities totaling \$192,503 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 \$12,554.

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, 2020, 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									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Governmental activities										
Net investments in capital assets	\$ 130,388,031	\$ 120,380,197	\$ 108,865,524	\$ 101,103,840	\$ 106,790,331	\$ 99,224,847	\$ 94,390,089	\$ 83,053,651	\$ 71,071,547	\$ 55,233,037
Restricted	4,386,150	4,290,781	2,653,992	3,422,137	3,370,622	9,057,768	9,207,023	9,741,835	9,734,620	11,146,947
Unrestricted	56,030,003	50,833,284	46,583,071	41,482,649	21,079,416	8,962,437	16,446,049	19,018,360	19,612,113	24,369,885
Total governmental activities net position	<u>\$ 190,804,184</u>	<u>\$ 175,504,262</u>	<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>

* 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									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Expenses										
Governmental activities										
General government	\$ 7,019,625	\$ 6,955,344	\$ 7,026,591	\$ 6,710,269	\$ 6,628,073	\$ 7,355,412	\$ 7,803,244	\$ 6,839,318	\$ 6,825,896	\$ 7,725,594
Judicial administration	3,706,338	3,163,636	3,180,741	3,284,719	3,085,442	2,972,436	3,271,384	3,243,491	2,207,787	2,784,098
Public safety	16,539,064	15,445,214	14,979,387	15,607,399	16,501,276	16,075,298	15,847,489	14,993,461	15,097,206	13,329,812
Public works	9,837,708	8,295,391	7,771,908	7,043,062	6,588,634	6,183,132	5,334,776	5,514,675	4,674,525	5,114,845
Parks, recreation, and cultural	3,552,501	3,295,659	3,261,183	3,161,901	2,923,681	3,004,779	3,319,267	2,899,220	2,940,666	2,872,328
Health and welfare	9,429,593	7,714,872	7,261,426	7,601,479	7,450,377	7,260,389	7,256,247	7,590,977	8,991,736	9,590,573
Community development	4,152,985	3,822,635	6,481,797	2,257,677	2,147,334	2,029,561	1,634,581	1,431,050	1,796,052	1,670,510
Education	61,673,348	58,425,059	61,309,632	53,783,649	50,296,987	47,892,943	46,084,985	43,474,161	40,874,425	41,033,802
Interest on long-term debt	7,633,847	7,004,860	7,551,364	8,170,978	9,487,012	10,224,163	10,747,055	10,947,731	9,450,462	7,303,475
Total governmental activities	<u>\$ 123,545,009</u>	<u>\$ 114,122,670</u>	<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>
Program Revenues										
Governmental activities										
Charges for services										
Public Safety	\$ 880,994	\$ 707,011	\$ 845,614	\$ 675,191	\$ 831,545	\$ 554,537	\$ 821,283	\$ 954,882	\$ 805,119	\$ 723,997
Public Works	292,859	167,080	380,295	346,642	534,602	365,211	128,492	157,054	172,662	305,159
Other Activities	1,770,296	2,215,560	1,519,573	1,990,012	2,458,491	2,346,584	1,653,852	1,726,342	1,882,013	1,875,981
Operating grants and contributions	14,789,956	14,757,121	15,670,719	13,223,745	13,291,638	13,163,435	13,207,893	12,155,610	13,159,616	13,263,890
Total governmental activities program revenues	<u>\$ 17,734,105</u>	<u>\$ 17,846,772</u>	<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>
Net (expense) revenue										
Governmental activities	<u>\$ (105,810,904)</u>	<u>\$ (96,275,898)</u>	<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>
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	\$ 99,496,494	\$ 93,371,101	\$ 88,892,123	\$ 86,548,199	\$ 83,468,082	\$ 80,635,361	\$ 78,850,329	\$ 75,751,806	\$ 69,685,628	\$ 63,793,078
Sales taxes	10,021,532	9,781,761	9,275,276	9,101,542	8,904,969	8,579,451	7,965,976	7,982,843	7,742,363	7,218,180
Other taxes	2,452,667	1,985,345	2,106,997	1,842,352	1,922,210	1,719,851	1,720,268	1,767,152	1,554,693	1,509,326
Utility taxes	1,676,285	1,688,319	1,829,801	1,765,984	1,790,892	1,824,174	1,825,809	1,847,570	1,807,321	1,877,600
Intergovernmental revenue not restricted	5,388,449	5,441,726	5,235,422	5,236,670	5,266,575	5,300,522	5,097,685	5,317,374	5,119,304	5,010,686
Investment earnings	2,075,399	1,409,321	6,776,236	1,659,053	635,129	408,393	630,330	669,017	598,447	749,264
Transfers	-	-	-	-	-	-	-	-	-	5,250,000
Total governmental activities	<u>\$ 121,110,826</u>	<u>\$ 113,677,573</u>	<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>
Changes in Net Position										
Governmental activities	<u>\$ 15,299,922</u>	<u>\$ 17,401,675</u>	<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>

TABLE 3

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

Post-GASB 54 Implementation	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Fund										
Nonspendable	\$ 6,149,003	\$ 6,154,603	\$ 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	2,164,627	1,600,823	2,163,916	1,440,932	1,405,595	633,493	246,442	198,007	218,640	163,400
Committed	5,182,438	5,099,192	4,869,635	4,295,900	2,997,137	2,629,271	1,104,829	811,116	1,231,209	1,637,026
Assigned	11,730,604	11,601,203	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	31,769,425	33,988,214	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>\$ 56,996,097</u>	<u>\$ 58,444,035</u>	<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	31,616,148	2,689,958	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	20,712,293	14,072,490	17,976,106	21,089,287	13,552,955	10,724,002	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total all other Governmental Funds	<u>\$ 52,328,441</u>	<u>\$ 16,762,448</u>	<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>

TABLE 4

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenues										
Taxes	\$ 112,382,615	\$ 107,042,540	\$ 102,097,460	\$ 98,690,096	\$ 96,405,280	\$ 92,947,129	\$ 90,126,172	\$ 87,359,604	\$ 80,674,800	\$ 73,694,467
Permits, privilege fees, and licenses	557,011	566,058	713,849	579,676	608,481	803,833	736,908	784,979	772,968	666,849
Fines and forfeitures	51,232	66,488	45,564	31,116	59,412	122,265	129,993	134,154	130,919	116,968
Revenue from use of money and property	2,094,141	1,571,938	6,912,778	2,611,393	642,093	1,403,653	847,556	672,961	598,447	749,264
Charges for services	497,957	711,012	731,612	797,051	533,870	491,921	632,447	678,997	698,281	733,701
Other	1,837,949	1,746,093	1,254,457	1,604,002	2,622,875	1,236,464	1,104,276	1,255,148	1,293,861	1,393,796
Intergovernmental	20,178,406	20,198,848	20,906,141	18,460,415	18,558,211	18,463,956	18,305,578	17,472,984	18,278,921	18,274,576
Total revenues	137,599,311	131,902,977	132,661,861	122,773,749	119,430,222	115,469,221	111,882,930	108,358,827	102,448,197	95,629,621
Expenditures										
General government	7,803,246	8,161,757	7,854,280	7,577,451	7,258,386	8,143,965	8,360,028	6,646,567	6,696,527	7,659,535
Judicial administration	3,673,519	3,377,188	3,289,505	3,308,287	3,173,484	3,307,130	3,263,725	3,216,924	2,183,562	2,760,189
Public safety	17,234,566	15,827,848	15,131,067	15,251,116	16,261,029	15,518,087	15,791,071	14,235,137	14,258,983	12,729,447
Public works	6,026,622	5,628,434	4,990,527	4,799,802	4,528,292	4,364,754	4,097,717	3,699,143	3,718,932	4,286,792
Parks, recreation, and cultural	3,549,783	3,372,762	3,245,857	3,197,230	2,989,271	3,042,563	3,318,180	2,868,281	2,926,645	2,807,902
Health and welfare	9,327,813	8,066,229	7,575,530	7,677,724	7,627,835	7,456,915	7,224,463	7,597,546	8,921,480	9,609,463
Education	51,558,428	47,473,143	45,356,395	46,859,043	43,841,697	42,766,205	41,136,639	40,082,257	37,540,554	37,065,839
Community development	4,129,787	3,754,882	3,970,487	2,248,407	2,131,661	1,919,458	1,626,977	1,393,140	1,564,984	1,365,242
Capital projects	7,490,885	10,163,401	14,290,730	4,387,690	4,159,785	13,956,949	31,864,447	74,446,535	40,969,360	30,369,502
Debt service										
Principal	15,692,624	14,835,199	15,023,887	15,656,725	14,561,166	13,980,224	13,495,643	12,944,479	11,386,500	11,218,254
Interest and other costs	7,286,872	7,244,729	7,768,872	8,625,448	9,940,225	10,551,067	10,953,505	11,876,151	7,214,788	7,878,024
Total expenditures	133,774,145	127,905,572	128,497,137	119,588,923	116,472,831	125,007,317	141,132,395	179,006,160	137,382,315	127,750,189
Excess of revenues over (under) expenditures	3,825,166	3,997,405	4,164,724	3,184,826	2,957,391	(9,538,096)	(29,249,465)	(70,647,333)	(34,934,118)	(32,120,568)
Other Financing Sources (Uses)										
Proceeds from borrowing	27,315,000	-	-	64,605,000	32,835,000	11,572,000	-	-	101,115,000	26,075,000
Bond premium	2,977,889	-	-	12,512,126	6,459,242	-	-	-	12,261,552	181,804
Premium on called bonds	-	-	-	-	-	-	-	-	-	(1,026,966)
Payments to bond escrow agents	-	-	-	(76,141,909)	(44,452,342)	(11,462,815)	-	-	-	(12,680,005)
Contributions from component unit	-	-	-	-	-	-	-	-	-	5,250,000
Transfers in	12,699,724	6,214,420	10,325,691	8,897,271	3,938,560	3,579,323	9,677,754	1,877,120	2,812,359	5,091,622
Transfers out	(12,699,724)	(6,214,420)	(10,325,691)	(8,897,271)	(3,938,560)	(3,579,323)	(9,677,754)	(1,877,120)	(2,812,359)	(5,091,622)
Total other financing sources (uses)	30,292,889	-	-	975,217	(5,158,100)	109,185	-	-	113,376,552	17,799,833
Net change in fund balances	\$ 34,118,055	\$ 3,997,405	\$ 4,164,724	\$ 4,160,043	\$ (2,200,709)	\$ (9,428,911)	\$ (29,249,465)	\$ (70,647,333)	\$ 78,442,434	\$ (14,320,735)
Debt service as a percentage of noncapital expenditures	18.02%	18.15%	18.13%	21.11%	21.96%	22.43%	22.84%	23.80%	19.11%	19.47%

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	Merchants' Capital	Public Service	Total Assessed Value	Total Direct Tax Rate *
2020	\$8,775,035,200	\$833,858,782	\$170,149,272	\$47,984,352	\$ 288,419,400	\$ 10,115,447,006	\$ 8.31
2019	\$8,658,132,300	\$783,624,291	\$157,427,985	\$46,298,438	\$ 271,118,996	\$ 9,916,602,010	\$ 8.31
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

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
2020	\$ 0.8900	\$ 0.1600	\$ 0.2600	\$ 1.0500	\$ 1.1500
2019	0.8900	0.1600	0.2600	1.0500	1.1500
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

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
2020	\$ 0.89	\$ 2.55	\$ 1.82	\$ 3.05	\$ 8.31
2019	0.89	2.55	1.82	3.05	8.31
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

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 2019		CY 2018		CY 2017	
	Real Estate Tax Rate	Personal Property Tax Rate	Real Estate Tax Rate	Personal Property Tax Rate	Real Estate Tax Rate	Personal Property Tax Rate
Montgomery County	\$0.89/\$100	\$2.55/\$100	\$0.89/\$100	\$2.55/\$100	\$0.89/\$100	\$2.55/\$100
Craig County	\$0.59/\$100	\$3.50/\$100	\$0.59/\$100	\$3.50/\$100	\$0.56/\$100	\$3.00/\$100
Roanoke County	\$1.09/\$100	\$3.50/\$100	\$1.09/\$100	\$3.50/\$100	\$1.09/\$100	\$3.50/\$100
Floyd County	\$0.60/\$100	\$2.95/\$100	\$0.60/\$100	\$2.95/\$100	\$0.55/\$100	\$2.95/\$100
Pulaski County	\$0.77/\$100	\$2.35/\$100	\$0.77/\$100	\$2.35/\$100	\$0.64/\$100	\$2.35/\$100
Giles County	\$0.67/\$100	\$2.02/\$100	\$0.63/\$100	\$1.98/\$100	\$0.63/\$100	\$1.98/\$100
City of Radford	\$0.82/\$100	\$2.44/\$100	\$0.76/\$100	\$2.44/\$100	\$0.76/\$100	\$2.44/\$100
City of Salem	\$1.18/\$100	\$3.25/\$100	\$1.18/\$100	\$3.25/\$100	\$1.18/\$100	\$3.25/\$100
City of Roanoke	\$1.22/\$100	\$3.45/\$100	\$1.22/\$100	\$3.45/\$100	\$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 2020			Fiscal Year 2011		
	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	\$ 181,475,100	1	1.79%			
Appalachian Power	142,479,100	2	1.41%	71,122,946	3	0.88%
Foxridge/Harry Hunt III	141,472,400	3	1.40%	71,227,100	2	0.88%
Roger Woody	85,595,700	4	0.85%	58,530,600	4	0.72%
CAP IX BLACKSBURG LLC	81,696,100	5	0.81%			
Maple Ridge/NW Development	76,832,000	6	0.76%	32,577,600	9	0.40%
Shelor Properties	63,435,600	7	0.79%	58,486,000	5	0.72%
Village at Bburg LLC (was SHP-The Village at Blacksburg LLC)	59,000,000	8	0.73%	31,268,500	10	0.39%
Retreat at Blacksburg LLC	58,000,000	9	0.72%			
Highlands at Huckleberry/Fieldstone/Bluestone Land	56,210,100	10	0.70%			
Norfolk and Western				37,133,500	7	0.46%
NVR Investments LLC (was PR New River LLC)				78,799,300	1	0.98%
Verizon				40,012,178	6	0.50%
Blacksburg Green				36,913,800	8	0.46%
	<u>\$ 946,196,100</u>		<u>9.95%</u>	<u>\$ 516,071,524</u>		<u>6.39%</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 *
2020	\$ 101,236,828	\$ 98,326,734	97.13%	\$ -	\$ 98,326,734	97.13%
2019	95,892,716	94,291,075	98.33%	1,734,670	96,025,745	100.14%
2018	91,294,308	89,655,298	98.20%	1,853,127	91,508,425	100.23%
2017	89,666,096	87,107,903	97.15%	2,781,453	89,889,356	100.25%
2016	86,189,045	84,989,258	98.61%	2,076,860	87,066,118	101.02%
2015	84,688,412	82,375,988	97.27%	1,991,967	84,367,955	99.62%
2014	82,261,271	80,650,339	98.04%	1,885,487	82,535,826	100.33%
2013	79,883,115	78,623,115	98.42%	2,070,492	80,693,607	101.01%
2012	73,613,538	72,812,497	98.91%	1,735,722	74,548,219	101.27%
2011	70,260,817	66,804,327	95.08%	1,718,197	68,522,524	97.53%

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*
2020	\$ 56,273,309	\$ 56,273,309	0.56%	562.32	\$ 4,952,684	\$ 500,000	\$ 108,712,404
2019	33,560,079	33,560,079	0.34%	337.51	6,240,933	750,000	116,604,868
2018	39,633,154	39,633,154	0.43%	402.13	7,476,976	1,000,000	125,600,733
2017	45,386,023	45,386,023	0.51%	460.30	12,449,589	1,250,000	130,542,488
2016	115,914,753	115,914,753	1.32%	1,187.01	17,406,657	1,500,000	59,707,545
2015	129,541,482	129,541,482	1.50%	1,329.93	63,447,580	1,750,000	19,330,973
2014	134,869,888	134,869,888	1.61%	1,401.87	68,819,486	2,000,000	23,337,107
2013	150,161,991	150,161,991	1.82%	1,570.31	73,629,273	2,250,000	26,993,072
2012	155,269,999	155,269,999	1.90%	1,634.49	78,398,328	2,500,000	31,075,193
2011	35,242,208	35,242,208	0.44%	373.36	83,128,304	2,750,000	33,662,593

Fiscal Year	Total Primary Government	Percentage of Personal Income	Per Capita
2020	\$ 170,438,397	3.87%	\$ 1,703
2019	157,155,880	3.80%	1,580
2018	173,710,863	4.47%	1,762
2017	189,628,100	5.00%	1,923
2016	194,528,955	5.36%	1,992
2015	214,070,035	6.06%	2,198
2014	229,026,481	7.87%	2,381
2013	253,034,336	9.29%	2,646
2012	267,243,520	10.10%	2,813
2011	154,783,105	6.19%	1,640

*includes issuance premiums and debt service reserves

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	
2020	\$	4,241,466	\$	3,602,663	\$ 638,803	\$ 298,482	\$ 111,103	1.56
2019		4,133,811		3,623,286	510,525	291,168	118,417	1.25
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

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
2020	100,073	\$ 4,407,184,860	\$ 44,037	9,761	7.70%
2019	99,433	4,140,756,000	41,643	9,703	3.30%
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%

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 2020		Fiscal Year 2011	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Polytechnic Institute and State University	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	2
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	3
BAE Systems	1,000 to 4,999	4	-	
Moog Inc	1,000 to 4,999	5	500 to 999	5
Carilion New River Valley Medical Center	500 to 999	6	500 to 999	7
LewisGale Hospital Montgomery	500 to 999	7	500 to 999	10
New River Valley Community Services	500 to 999	8	-	9
Federal Mogul Corp	500 to 999	9	-	
Rowe Furniture Manufacturing	500 to 999	10	500 to 999	8
Alliant TechSystems	1 to 499	-	1,000 to 4,999	4
Dish Network	1 to 499	-	500 to 999	6

TABLE 14

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

Function/Program	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General government										
County Administration	14.00	13.00	13.50	13.50	13.50	13.50	14.50	13.50	13.50	13.50
Information management services	11.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	8.50
Finance	9.00	9.00	10.00	9.50	9.50	9.50	9.50	7.50	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	14.00	14.00	13.00	13.00	13.00	13.00	14.00	14.00
Treasurer	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Other	6.00	6.00	7.50	7.50	7.50	7.50	7.50	7.00	6.50	6.50
Public Safety										
Sheriff	128.50	125.50	125.50	124.50	130.50	130.50	130.50	130.50	130.50	121.50
Animal control	3.75	3.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Animal care and adoption center	8.50	7.50	7.00	-	-	-	-	-	-	-
Inspections	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	5.00	5.00
Judicial	25.00	24.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00
Refuse collection	9.80	10.40	14.00	14.00	14.60	14.60	16.40	17.00	19.40	22.40
Other public works										
Engineering	2.00	2.00	2.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	8.00
Housekeeping	11.00	11.00	11.00	11.00	10.00	10.00	10.00	10.00	9.00	8.00
Other	10.00	8.00	6.00	6.00	5.00	5.00	5.00	6.00	3.00	3.00
Parks, recreation, and cultural	11.00	11.00	11.00	9.00	9.00	8.00	8.00	7.00	7.00	7.00
Library	21.50	19.50	19.50	19.00	19.75	20.00	20.00	20.50	20.50	20.50
Water/Sewer	20.00	19.00	18.00	18.00	18.00	19.00	17.00	19.00	19.00	18.00
Health and welfare	72.50	68.50	67.50	67.50	67.50	67.50	67.50	68.50	68.50	69.50
Community development	11.00	10.00	10.00	9.00	9.00	9.00	9.00	9.00	10.00	10.00
Total	415.05	397.65	399.25	386.25	390.60	390.85	391.65	391.25	393.15	387.15

Source: County Approved Budget

TABLE 15

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

Function/Program	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Government										
Fleet vehicles	255	250	259	245	247	245	277	251	238	239
Judicial Administration										
Sheriff										
Inmates Housed	32,743	32,439	32,188	31,808	31,113	32,823	32,819	45,505	42,511	41,691
Inmate Transports	4,100	4,189	3,262	2,814	2,833	3,258	4,075	4,017	3,318	3,317
Courts Worked	939	996	866	871	818	818	894	939	927	934
Public safety										
Sheriff										
Physical arrests	994	974	1,166	1,157	1,055	934	1,253	1,460	1,608	1,995
Traffic violations	1,168	1,469	1,085	1,041	3,643	4,475	1,899	2,083	2,435	2,335
Public works										
Refuse collection										
Refuse collected (pounds per day)	69,787	64,931	64,264	64,968	63,298	60,902	62,559	71,359	71,334	74,351
Recyclables collected (pounds per day)	5,821	5,906	5,974	5,916	6,032	5,846	5,804	6,825	6,861	5,892
* Parks, recreation, and cultural										
Parks and recreation										
Total programs	90	272	286	251	283	279	276	237	244	241
Total registrants	2,281	2,051	4,673	4,169	3,883	3,259	2,908	3,137	2,991	2,875
Joint programs	38	49	-	-	-	-	-	-	-	-
Joint participants	1,759	5,160	-	-	-	-	-	-	-	-
Pool patrons	11,103	16,379	-	-	-	-	-	-	-	-
Library										
Volumes in collection	201,249	211,970	217,814	237,227	237,603	236,904	237,054	251,261	248,649	244,999
Total volumes borrowed	529,677	674,538	672,417	666,681	675,317	709,250	721,682	745,114	768,931	785,879
Water										
Number of customer accounts	2,838	2,823	2,750	2,732	2,732	2,725	2,720	2,699	2,640	2,616
Miles of distribution lines	90	90	93	93	93	93	93	93	93	92
Average daily consumption	796,795	782,892	678,134	691,141	711,988	733,741	712,801	693,833	697,490	758,384
Sewer										
Number of customer accounts	1,674	1,650	1,544	1,525	1,512	1,503	1,482	1,475	1,408	1,388
Waste/Water treated (million gallons per year)	306	283	200	215	181	188	208	172	167	175
Average daily consumption	840,266	585,149	547,545	588,384	495,975	517,820	570,632	470,306	458,671	479,328

Source: County departments

* 2018 and prior 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>2020</u>	<u>2019</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>
Public safety										
Law enforcement vehicles	103	99	98	97	97	99	93	96	93	96
Fire and Rescue stations	10	10	10	10	10	10	10	10	10	10
Parks, recreation, and cultural										
Parks/athletic fields	11	11	11	10	8	8	8	8	8	8
Water and sewage										
Water mains (miles)	90	90	93	93	93	93	93	93	93	92
Sanitary sewers (miles)	64	64	64	64	64	63	63	63	63	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, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 30, 2021.

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) as a basis for 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 2020-001, 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

County of Montgomery's Response to Finding

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

Purpose of This Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
March 30, 2021

**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, 2020. 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, 2020.

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
March 30, 2021

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2020

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

Fire Program Aid

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, 2020

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
COVID-19 School Breakfast Program – Seamless Summer Option	10.553
National School Lunch Program	10.555
COVID-19 National School Lunch Program – Seamless Summer Option	10.555
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

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

None noted.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None noted.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
June 30, 2020

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.