

COUNTY OF MONTGOMERY, VIRGINIA

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

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COUNTY OF MONTGOMERY, VIRGINIA

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INTRODUCTORY SECTION



OFFICE OF COUNTY ADMINISTRATION
MONTGOMERY COUNTY
B. CLAYTON GOODMAN, III, COUNTY ADMINISTRATOR

755 ROANOKE STREET, SUITE 2E, CHRISTIANSBURG, VIRGINIA 24073-3181
December 14, 2006

To the Honorable Chair, Members of the Board of Supervisors and the Citizens of the County of Montgomery:

The Comprehensive Annual Financial Report of the County of Montgomery for the year ended June 30, 2006, is hereby submitted as required by state law. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and compliance. The introductory section is intended to familiarize readers with the organizational structure of County government, the nature and scope of the services that are provided and the specifics of our legal operating environment. The financial section provides the Independent Auditors' Report, Management's Discussion and Analysis and the financial statements for overall operations of the County. The statistical section is designed to provide a historical perspective of the County's financial condition and to reflect the social and economic trends of the area. The compliance section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*; and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

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. MD&A complements this letter of transmittal and should be read in conjunction with it.

THE REPORTING ENTITY

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

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

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

ORGANIZATION OF GOVERNMENT

Montgomery County, located in southwestern Virginia, encompasses approximately 395 square miles. Situated some 30 miles southwest of Roanoke off Interstate 81, the County has a population of more than 87,900, including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2000 Census indicates Montgomery County's population increased by 13 percent over the prior decade.

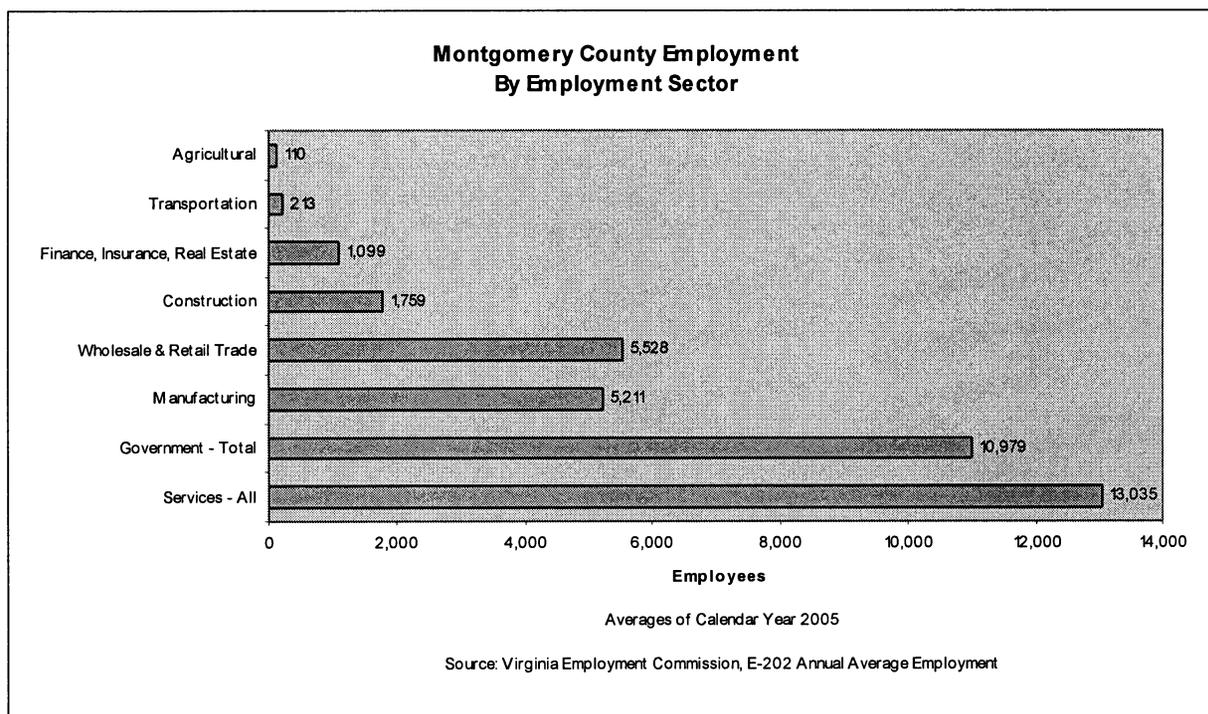
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market continues to be better than the state as a whole. The County's tight labor market is highlighted by its low unemployment rate, which is historically below average in the New River Valley. The average unemployment rate in Montgomery County between July 2005 and June 2006 was 2.88%. The percentage ranged from a low of 2.6% in May 2006 to a high of 3.3% in August 2005. While there were slight fluctuations, the unemployment rate for Montgomery County stayed relatively consistent. The unemployment rate for the County over the past 10 years (1996-2005) averaged 2.6%, reaching a high of 3.6% in 1996 and a low of 1.7% in 2000. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among other New River Valley localities was generally higher than the statewide average of 3.5% for 2005, with Montgomery and Floyd Counties reporting the lowest rates of 3.1% and 3.5% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 4.4% unemployment during the same period. Employment within Montgomery County represented 51.28% of the total civilian labor force in the New River Valley.

As in prior years, service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2005.



Employment growth in 2005 was broad based, covering several economic sectors. The total increase in the number of jobs was 277 across all sectors, resulting in a 0.74% increase over the number of jobs in the previous year. Those areas that experienced growth include construction, wholesale and retail trade, government, and transportation up 6.61%, 2.33%, 2.01%, and 4.93% respectively. Agriculture, manufacturing, finance, and services were all down in employment from the prior year 0.90%, 3.03%, 0.36%, and 0.12% respectively.

For the period of 1999 to 2004, Montgomery County's total new investment was \$140.18 million and the County added 2,571 jobs. Some highlights of the projects for FY 2006 included Corning's expansion by adding \$15.5 million in new equipment and hiring 77 new employees. Corning manufactures catalytic converters for the automotive industry. These new hires increase employment to 402. In FY 2006, ProChem Analytical announced an expansion in the Elliston Lafayette Industrial Park. The company will invest \$1.7 million in a 12,100 square foot environmental laboratory and hire ten additional employees over the next two years. Advanced Logic Industries (ALI) and Polymer Solutions Inc. (PSI) announced in January 2006 that both companies would expand in Montgomery County. ALI plans to construct a 10,000 square foot building in the Falling Branch Corporate Park and invest \$1.1 million, and PSI plans to construct a 22,000 square foot building in the Blacksburg Industrial Park and invest \$2.2 million. In addition, Luna Innovations announced a consolidation of the Blacksburg operations to the County's Technology Manufacturing Building in Blacksburg. Luna Innovations will lease until September 30, 2012, 30,100 square feet in the building, and invest approximately \$1.5 million in building renovations and equipment. The Economic Development staff, the Industrial Development Authority (IDA), the Economic Development Commission (EDC), and the MBC Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.

Considered one of the five major growth areas in the state, Montgomery County's second largest industry sector, government, provides almost 30 percent of the County's jobs. This percentage reflects the large number of state workers employed by Virginia Tech, a major state university and the largest employer in the County with approximately 6,800 employees. Approximately 1,870 additional individuals are employed in the Montgomery County Public School System, making education the largest employment classification in the County.

Retail development continues to grow in Montgomery County. In August of 2005, it was announced that a new large development is being constructed in Christiansburg near the New River Valley mall. The mall project is estimated at \$34.7 million and includes constructing a freestanding 14-screen movie theater, Dick's Sporting Goods Store, and a Red Robin restaurant. Announced in January 2006, the New River Valley Mall owner's, Pennsylvania Real Estate Trust, announced a 170,000 square foot Power Center with seven major tenants to begin construction in the fall of 2006. A 15,200 square foot retail center, constructed at the corner of US 460 and Pepper's Ferry Road, currently houses Starbucks, S&K Menswear, and Movie Gallery. Finally, in Blacksburg, a new 100,000 square foot space of retail and office space called Kent Square was opened in 2005 across from the campus of Virginia Tech. In May 2006, the Town of Blacksburg rezoned 40 acres on South Main Street for a 230,000 square foot lifestyle center to include a movie theater, hotel, five restaurants, and several major retailers. Fairmount Properties plans to begin construction in November 2006 with an expected construction cost in excess of \$50 million.

The service and manufacturing sectors also provide a significant number of jobs in Montgomery County. Two hospitals, Carilion New River Valley Medical Center and Montgomery Regional Hospital, collectively employ over 1,300 employees. The County's largest industrial employer, Alliant Techsystems, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include EchoStar Communications Corporation (Direct Broadcast Satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group - formerly Poly-Scientific (slip rings and fiber optic components) and formerly Electro-Tec Corporation (electrical industrial apparatus), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (Auto Gaskets). The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, has significantly contributed to Montgomery County's economy. The VTCRC has in excess of 20 buildings housing 120 companies and employing in excess of 1,900 individuals. The majority of the tenants located in the VTCRC are research oriented service companies.

In terms of new construction, overall activity in the County during FY 2006 was down from the previous fiscal year. Overall, the number of total building permits for both residential and commercial/government was down 10.44%. Residential building was also down 6.42, while commercial/government building was down 46.67%. The average assessed value of new property completed in 2006 was approximately \$209,000 compared with the average assessed value for all Montgomery County homes of \$151,600. With the decrease in building permits and recent increases in interest rates, the County is expecting less growth during FY 2007 than it has experienced over the past few years.

MAJOR INITIATIVES

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

For the Year.

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for FY 2006 include two areas: *county and school capital improvements and public safety initiatives.*

County and School Capital Improvements

The Capital Improvement Program (CIP) for fiscal years 2006 through 2010 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and school system. The five-year Capital Improvement Program totals \$60,728,788 and is comprised of County Capital Improvements of \$22.6 million and School Capital Improvements of \$38.1million. Of the County Capital Improvements, \$19.3 million is dedicated to Public Safety improvements, with \$4.4 million earmarked for Fire and Rescue Capital Equipment.

Montgomery County maintains its strong commitment to capital construction funding for County and School improvements. In FY 2006, the Board of Supervisors provided \$1.3 million in direct cash contributions to fund County capital projects. \$1.1 million was provided for Fire and Rescue Capital Equipment needs and \$0.2 million was provided to complete the Blacksburg Fire Station #3. Of the \$1.1 million provided for Fire and Rescue Capital Equipment, \$135,000 was provided to Christiansburg Rescue to replace an ambulance, \$300,000 was provided to Elliston Fire to fund the purchase of a fire truck and a first responder vehicle, \$340,000 was provided to Long-Shop McCoy Fire to replace a tanker truck, \$165,000 was provided to Long-Shop McCoy Rescue to replace an ambulance and fund a first responder vehicle, \$50,000 was provided to Riner Fire for a 4 wheel drive command vehicle, and \$60,000 was provided to Shawsville Rescue to provide a Jaws of Life apparatus.

Currently, construction is under way for a 2,844 square foot Rescue Squad substation in the Riner Community of Montgomery County. The substation will operate under the licenses of Christiansburg Rescue Squad and will seek members from the Riner area. The substation is being constructed to offer a quicker response to emergency medical calls in the Riner area. Calls will be answered following the Riner Fire Department call territory. Plans for this station were submitted in 1999 and the project began in September of 2003. The Board of Supervisors advanced \$145,450 from the General Fund in order to begin construction. The advance will be repaid to the County from funds generated by the Christiansburg Rescue Squad volunteers. The total cost of the project is estimated at \$ 290,000. Cost of construction has been greatly reduced due to donations from local businesses and business contacts made by the squad. The substation is expected to open during the first quarter of calendar year 2007.

Other completed capital improvements include the opening of the new Meadowbrook Library. This project involved the renovation of a 10,000 square foot existing facility in the Shawsville area. The new design of the facility provides a full service library with a circulation and collections area, computers for public use, and a community room. The construction was completed at the beginning of November 2005. The building has been wired and equipped for up-to-date information technology and has the flexibility to accommodate a changing library environment. The facility was opened in January of 2006.

Public Safety

Along with capital construction dollars provided for public safety initiatives, the County has continued to focus on the coordination of emergency services through the County's Office of Emergency Services. This office provides preplanning, preparation, mitigation, response and recovery for natural and man-made disasters and major emergencies. This includes the coordination of fire services, emergency medical response, specialty rescue, emergency communications, enhanced 911, and hazardous material response for the Town of Blacksburg, Town of Christiansburg, and Montgomery County. The department also serves as the focal point for the administration of the Homeland Security Grant funding for the County and other grant funding opportunities.

For the Future.

Looking into FY 2007 and beyond, the Board of Supervisors and County staff will pursue several new initiatives in the areas of *public safety and education*.

Public Safety

As the County continues to grow and in order to maintain an adequate level of public safety for the County's citizens, new public facilities are becoming more critical. The FY 2007–FY 2011 Capital Improvement Program (CIP) includes the funding necessary for several new public safety and judicial facilities. The Courthouse Renovation Project will expand the existing courthouse to meet the needs of the courts for the next 25 years. This project will involve a complete renovation of the existing courthouse along with new construction to expand the facility from 57,500 square feet to 111,300 square feet. Six additional courtrooms are planned, along with the renovation and replacement of the mechanical, plumbing, and electrical systems. In order to allow for a smooth transition during this upgrade, an additional portion of the Government Center complex was renovated in FY 06. This project consists of two phases. The first phase renovated the additional space in the Government Center complex to house the County courts while the courthouse is being renovated. The second phase will be to reconfigure that space for use as the school administration building, once the courts have moved back into the completed courthouse.

In addition to the Courthouse and Government Center renovations, the County plans to participate in a new regional jail initiative. This project proposes a 603-bed capacity regional jail facility in Roanoke County to serve Roanoke County, the City of Salem, Montgomery County, and Franklin County. In addition to the regional jail, the County's local jail will also be renovated, allowing approximately 60 pre-trial inmates to be housed in the County.

The Elliston Fire Station will be built in the Elliston-Lafayette Industrial Park owned by the County. The current facility is over 45 years old and is extremely cramped with the equipment and vehicles for the volunteer department. The construction of the facility was one of several recommendations provided by the EMSSTAR Group, LLC, in their 2002 comprehensive assessment of fire and rescue services in the County. The station will serve approximately 12,000 citizens in the eastern portion of the County including Ironto, North Fork and Alleghany Springs. Site preparation for the facility is expected to begin in 2007.

Education

As part of the FY 2007 operating budget, the Board of Supervisors earmarked \$957,550 or 2 pennies of the real estate tax rate for new school capital construction. Under consideration are four new schools. Elliston Lafayette Elementary could be constructed in the eastern portion of the County with an expected cost of approximately \$24.6 million. Prices Fork Elementary could be constructed in the western portion of the County with an expected cost of approximately \$24.6 million. In addition to these two new schools, two additional school projects are being discussed in the Riner and Christiansburg areas of the County. These projects are only in the pre-planning stages and are expected to cost a total of \$120 million.

Department Focus

A new development in the Montgomery County Planning Department is the creation of the Land Development Office (LDO) database. The LDO is a computer software program that integrates and automates certain functions such as permitting, code compliance, subdivision approval, inspections, plan review, and zoning case management. Many of these services already take place in the Planning and General Services departments; however, the LDO database will provide a streamlined, more convenient product for the users of these services.

While the LDO system shares services between both General Services and Planning, the initial start-up effort for the program has been spearheaded by Planning. Most of the costs for implementing the LDO system are being absorbed by the Planning and GIS staff. Not only will the LDO increase convenience, but it will also increase workplace productivity as well.

The project has been in the development stage for a few years and is expected to be implemented sometime in early 2007. In later stages of operation, the LDO will provide a source for consumers to apply and purchase various permits online.

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, 2006, reflect cash that will not be received or disbursed until fiscal year 2007.

In developing the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets.

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 a reservation of fund balance since they do not constitute expenditures or liabilities. Funding for these encumbrances generally are re-appropriated in the subsequent year.

CASH MANAGEMENT

The County Treasurer's banking contract provides a guaranteed interest rate on the County's cash balances, excluding idle bond proceeds. Idle bond proceeds were invested through the State Non-Arbitrage Pool (SNAP) to maximize interest earnings while avoiding arbitrage liability. The County earned interest revenue of approximately \$1.9 million on all deposits for the year ended June 30, 2006.

RISK MANAGEMENT

The County participates in statewide self-insurance pools for workers compensation, general liability, automotive liability, public officials liability, and law enforcement liability coverages. The County maintains property, crime, and fiduciary liability coverages, liability coverages for fire and rescue operations, and other coverages through private carriers. General liability coverage was maintained for \$5,000,000 per occurrence with a \$5,000,000 general aggregate limit.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting 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 Single Audit Section.

AWARDS OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Montgomery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



B. Clayton Goodman, III
County Administrator



Angela M. Hill
Director of Financial and Management
Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Montgomery
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2006**

BOARD OF SUPERVISORS

Steve L. Spradlin, Chair
Mary W. Biggs, Vice Chair

Gary D. Creed	Annette S. Perkins
Doug W. Marrs	James D. Politis
John A. Muffo	

COUNTY ADMINISTRATION

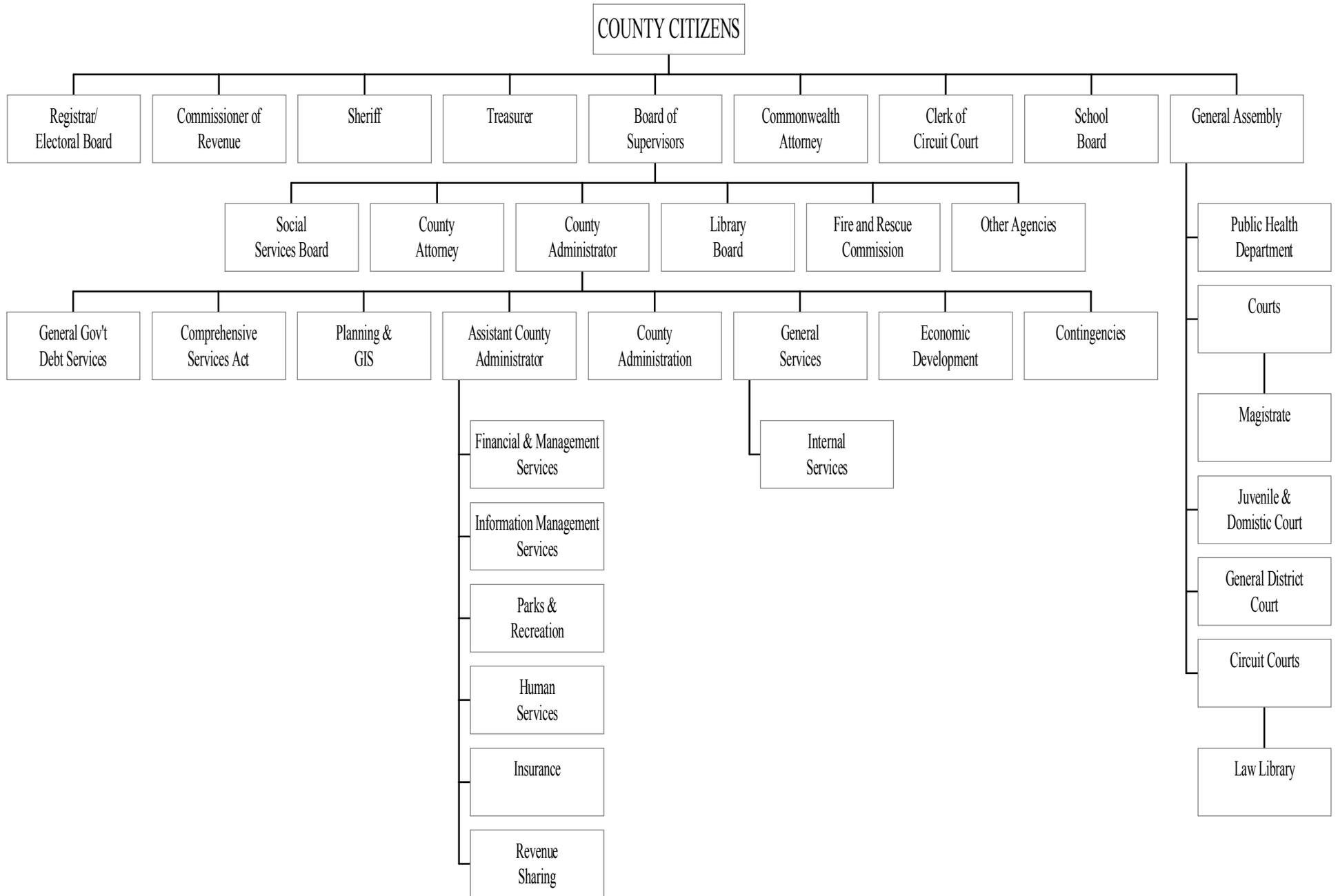
Paula K. Alston	Director of Montgomery Regional Library
Ronald E. Bonnema	Director of General Services/County Engineer
Karen A. Edmonds	Director of Human Resources
L. Carol Edmonds	Assistant County Administrator
Robert C. Fronk	Director of Public Service Authority
B. Clayton Goodman, III	County Administrator
Doug Harris	Virginia Cooperative Extension Agent
Angela M. Hill	Director of Fiscal and Management Services
M. Robert Isner	Director of Economic Development
Martin M. McMahon	County Attorney
Tiffany Anderson	Superintendent of Schools
Mary B. Critzer	Director of Human Services
Linda L. Nisbet	Director of Social Services
Robert C. Parker	Director of Public Information
Tunstall C. Powers, Jr.	Director of Planning and Inspections
Michael D. Clark	Director of Parks and Recreation
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	Registrar
Stephanie C. Whyte	Director of Information Management Services

CONSTITUTIONAL OFFICERS

Allan C. Burke	Clerk of the Circuit Court
Sharon E. Gilbert	Commissioner of the Revenue
W. Richard Shelton	Treasurer
Bradley W. Finch	Commonwealth Attorney
J. T. Whitt	Sheriff

Montgomery County, Virginia

June 30, 2006



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 and individual fund statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the County's basic financial statements. The individual fund statements and schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 21, 2006

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, 2006. 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 2006

- Total net assets for governmental activities were \$43.9 million at June 30, 2006. This figure is based on assets totaling \$159.4 million and liabilities of \$115.5 million.
- Total general fund revenues exceeded the final budgeted amount by \$2 million or approximately 2.7 percent. This is due to an increase in the real estate tax rate for taxes due June 5, 2006. The tax rate increase was not budgeted. Actual expenditures were \$6.2 million less than the final expenditure budget. The County received and included in the final approved budget various grant awards during the year. Due to the timing of the grants, not all were expended before year end. Additionally, orders had been placed, but goods not received at year end for a total of approximately \$700,000.
- The business-type activities total net assets at June 30, 2006 were approximately \$15.7 million.
- Repayment of bonded debt totaled just over \$5.9 million, which accounts for the decrease in bonded debt from the previous year.
- Component Unit-School Board net assets were \$7.5 million at June 30, 2006. Of this amount, \$7.7 million is invested in capital assets, net of related debt.
- Component Unit-IDA net deficit was \$1.4 million at June 30, 2006. This deficit resulted from the transfer of the Technology Manufacturing Building to the County as part of a capital lease/refinancing transaction during fiscal year 2003. Due to the transfer, a loss was recognized on the building.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$12.8 million, or 9.8% of fiscal year 2006 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent.

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

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

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

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

Fund Financial Statements

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 57.9	\$ 63.5	\$ 0.9	\$ 0.7	\$ 58.7	\$ 64.2	\$ 15.8	\$ 15.2
Capital assets	101.5	94.8	21.3	21.8	122.8	116.6	16.6	17.6
Total assets	<u>\$ 159.4</u>	<u>\$ 158.3</u>	<u>\$ 22.2</u>	<u>\$ 22.5</u>	<u>\$ 181.5</u>	<u>\$ 180.8</u>	<u>\$ 32.4</u>	<u>\$ 32.8</u>
Long-term liabilities	\$ 107.5	\$ 113.2	\$ 6.2	\$ 6.3	\$ 113.7	\$ 119.5	\$ 13.3	\$ 13.1
Other liabilities	8.0	8.1	0.3	0.5	8.3	8.6	\$ 13.0	12.2
Total liabilities	<u>\$ 115.5</u>	<u>\$ 121.3</u>	<u>\$ 6.5</u>	<u>\$ 6.8</u>	<u>\$ 122.0</u>	<u>\$ 128.1</u>	<u>\$ 26.3</u>	<u>\$ 25.3</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 14.0	\$ 14.0	\$ 15.2	\$ 15.7	\$ 29.2	\$ 29.7	\$ 7.6	\$ 8.5
Restricted	4.7	4.6	1.0	1.0	5.7	5.6	1.2	1.2
Unrestricted	25.2	18.4	(0.5)	(1.0)	24.7	17.4	(2.7)	(2.2)
Total net assets	<u>\$ 43.9</u>	<u>\$ 37.0</u>	<u>\$ 15.7</u>	<u>\$ 15.7</u>	<u>\$ 59.6</u>	<u>\$ 52.7</u>	<u>\$ 6.1</u>	<u>\$ 7.5</u>

Governmental Activities

Total net assets shown above for governmental activities are \$43.9 million or \$6.9 million more than in FY 05. The increase in capital assets of \$6.7 million includes renovations to the Building C portion of the government center, renovations to athletic fields, completion of the Meadowbrook library renovations and construction on the Riner Rescue station. These projects were funded primarily through bond proceeds received in previous years as reflected in the decrease in current and other assets of \$5.6 million. The primary factor contributing to the change in net assets was the decrease in long-term debt resulting from principal repayments of \$5.7 million.

Business-Type Activities

Total net assets shown above for business-type activities are \$15.7 million, which was the same as fiscal year 2005.

Component Units

Total net assets shown above for component units are \$6.1 million for FY 06, a decrease from FY 05 of \$1.4 million. This is primarily due to the depreciation of capital assets.

Summary of Activities:

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues								
Program revenues:								
Charges for services	\$ 2.0	\$ 2.3	\$ 3.1	\$ 3.1	\$ 5.1	\$ 5.4	\$ 3.6	\$ 3.6
Operating grants and contributions	13.5	12.9	-	-	13.5	12.9	50.3	50.2
Capital grants and contributions	0.1	0.1	-	0.2	0.1	0.3	-	-
General revenues:								
Property taxes	44.6	39.8	-	-	44.6	39.8	-	-
Other taxes	10.5	10.0	-	-	10.5	10.0	-	-
Payments from Montgomery County	-	-	-	-	-	-	30.2	28.7
Grants and contributions not restricted to specific purposes	5.6	5.4	-	-	5.6	5.4	-	-
Other	1.9	2.4	0.1	(0.1)	2.0	2.3	-	-
Total revenues	78.2	72.9	3.2	3.2	81.4	76.1	84.1	82.5
Expenses								
General government	6.6	6.3	-	-	6.6	6.3	-	-
Judicial administration	1.8	1.8	-	-	1.8	1.8	-	-
Public safety	9.1	8.8	-	-	9.1	8.8	-	-
Public works	4.2	4.0	-	-	4.2	4.0	-	-
Health and welfare	8.3	8.3	-	-	8.3	8.3	-	-
Education	31.7	29.9	-	-	31.7	29.9	84.4	81.8
Parks, recreation and cultural	3.1	2.4	-	-	3.1	2.4	-	-
Community development	1.3	1.6	-	-	1.3	1.6	1.1	1.0
Water	-	-	1.7	1.7	1.7	1.7	-	-
Waste water	-	-	1.6	1.7	1.6	1.7	-	-
Interest on long-term debt	5.1	5.7	-	-	5.1	5.7	-	-
Total expenses	71.2	68.8	3.3	3.4	74.5	72.2	85.5	82.8
Transfers	(0.1)	-	-	-	-	-	-	-
Change in net assets	6.9	4.1	(0.1)	(0.2)	6.9	3.9	(1.4)	(0.3)
Net assets-beginning, as restated	37.0	32.9	15.7	15.9	52.7	48.8	7.5	7.8
Net assets-endindg	\$ 43.9	\$ 37.0	\$ 15.6	\$ 15.7	\$ 59.6	\$ 52.7	\$ 6.1	\$ 7.5

Revenues

For the fiscal year ended June 30, 2006, revenues from governmental funds totaled \$78.2 million, an increase of \$5.3 million. Property taxes increased \$4.8 million over the previous year as the County increased the real estate tax rate from \$0.67 for calendar year 2005 to \$0.74 in calendar year 2006. This resulted in an unbudgeted increase with June 2006 real estate tax billing of approximately \$1.7 million. Personal property tax revenue increased by \$500,000 due to increased personal property values in the County. Real estate values also increased during this period, accounting for a portion of the increase.

Charges for services from business-type activities remained constant at \$3.1 million, as water and wastewater rates remained unchanged from 2005.

Component unit revenues total \$84.1 million, including a \$30.1 million transfer from the general fund. Since the schools cannot issue debt on their own, their debt service is included in the general fund. County funds associated with school debt service totaled \$7.1 million, which would have brought the total transfer to \$37.2 million under the previous method of accounting.

Expenses / Expenditures

Expenses for governmental activities totaled \$71.3 million in fiscal year 2006, an increase of \$2.5 million from the previous year. Increases were due to the reassessment project, salary and benefit cost increases, the new Meadowbrook library, and increased support of education. The County's real estate is reassessed every four years as required by the Code of Virginia. The reassessment project began in FY 2006 with costs totaling \$375,000. Salary and benefit expenses increased due to a 15%, or \$310,000, increase in the County's health insurance renewal, and the implementation of a new compensation and classification plan. The plan increased costs by approximately \$340,000 for County positions. The Department of Social Services also joined the County's pay plan at a cost of \$250,000. The Meadowbrook Library opened during the year, which resulted in additional start up expenditures for non-capital items that totaled \$500,000. The County's commitment to education was also demonstrated through an increase in funding of \$1.8 million. Significant decreases from the prior year occurred in Community Development and interest expense. The prior year also included a one-time expense of \$329,000 related to road improvements at the Falling Branch Corporate Park. Interest expense decreased \$500,000 from the prior year due to a bond refunding that occurred in fiscal year 2005.

Expenditures for business-type activities totaled \$3.3 million, a decrease of approximately \$140,000. Water Fund expenditures decreased approximately \$45,000, while Waste Water Fund expenditures decreased approximately \$95,000. The Public Service Authority director position was vacant for most of the fiscal year, resulting in lower salary costs in both funds. The County Administrator served as interim director, but received no compensation from the Authority. The Waste Water Fund decrease was also attributable to fewer major maintenance and repair projects than in the previous year.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$31.7 million to the operation of the Montgomery County schools, including \$1.6 million for depreciation and other expenses not included in the transfer to the Schools. This amount represented about 44% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$38.8 million, or 54%. On the cash basis of accounting, total school expenditures, including expenditures funded through the state and federal government and debt service for school related projects, were equal to 71% percent of the General Fund expenditures (excluding payments to the schools), plus School Operating Fund expenditures for 2006.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2006, the governmental funds reflect a combined fund balance of \$50.4 million, a decrease of \$5.1 million from the fiscal year ended June 30, 2005. This decrease is due primarily to expenditures in the Capital Projects fund. Bonds were not issued in fiscal year 2006, but proceeds from bonds issued in previous years were used for renovations on the Building C portion of the government center, purchase of land adjacent to the government center, completion of the Meadowbrook Library, construction and renovation of school athletic fields, and construction of the Riner Rescue Squad building. The General Fund balance increased approximately \$900,000, resulting from the increased tax rate related to the June 2006 real estate taxes, combined with a planned use of fund balance of \$917,651. The tax increase was not budgeted and therefore not expended during 2006.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the General Fund for fiscal year 2006 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 52.5	\$ 52.5	\$ 55.0
Intergovernmental	15.6	18.8	17.6
Other	2.8	3.4	4.1
Total	<u>70.9</u>	<u>74.7</u>	<u>76.7</u>
Expenditures and transfers	<u>71.8</u>	<u>82.9</u>	<u>76.7</u>
Change in fund balance	\$ (0.9)	\$ (8.2)	\$ -

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants were received and budgeted during the fiscal year to account for the \$3.2 million increase in this category. Budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

There is a significant increase in the final budget for expenditures over the original budget primarily resulting from encumbrances and carryovers from the 2005 budget and the appropriation of grants received throughout the year.

Actual tax revenue exceeded the budgeted amount due to the tax rate increase related to the June 2006 real estate taxes. The tax increase, from \$0.67 to \$0.74 per \$100 of assessed value, was not budgeted. Budgeted intergovernmental revenue exceeded the actual by approximately \$1.2 million. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Expenditures and transfers actual ending balances were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the General Fund to the School Operating fund *on the budgetary basis (cash)* was significantly lower than the budgeted amount. This is due to the timing of payments by the schools at year end. The County did transfer the balance of these funds to the schools in fiscal year 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the County had invested \$122.8 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2006	2005	2006	2005	2006	2004	2006	2005
Non-depreciable assets								
Land	\$ 9.5	\$ 6.5	\$ 0.3	\$ 0.3	\$ 9.8	\$ 6.8	\$ 0.4	\$ 0.4
Construction in progress	4.9	2.4	0.1	0.3	5.0	2.7	0.3	-
Depreciable capital assets								
Infrastructure	-	-	29.5	29.2	29.5	29.2	-	-
Buildings and improvements	99.6	96.8	0.1	0.1	99.7	96.9	39.6	39.6
Machinery and equipment	12.7	11.4	0.6	0.5	13.3	11.9	10.4	10.9
Accumulated depreciation	(25.2)	(22.3)	(9.3)	(8.6)	(34.5)	(30.9)	(34.1)	(33.3)
Total	\$ 101.5	\$ 94.8	\$ 21.3	\$ 21.8	\$ 122.8	\$ 116.6	\$ 16.6	\$ 17.6

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

	Balance	Net Additions/	Balance
	June 30, 2005	(Deletions)	June 30, 2006
Non-depreciable assets			
Land	\$ 7.2	\$ 3.0	\$ 10.2
Construction in progress	2.7	2.6	5.3
Depreciable capital assets			
Infrastructure	29.3	0.2	29.5
Buildings and improvements	136.5	2.8	139.3
Machinery and equipment	22.9	0.8	23.7
Accumulated depreciation	(64.3)	(4.3)	(68.6)
Total	\$ 134.3	\$ 5.1	\$ 139.4

In fiscal year 2006 major capital additions consisted primarily of construction in progress on the athletic fields, Meadowbrook Library and renovations to the unfinished portion of the Government Center.

The County's capital improvement program in fiscal year 2006 included funding of approximately \$28.5 million for County capital spending and approximately \$3.2 million for school capital items. The most significant items include renovations to the County Courthouse and Building C of the County Government Center, information technology, fire and rescue equipment, school athletic fields, and capital maintenance to various schools.

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

Long Term Debt

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2006, in millions of dollars:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 21.9	\$ 23.7	\$ -	\$ -	\$ 21.9	\$ 23.7
Lease revenue bonds	57.9	61.0	-	-	57.9	61.0
Literary loans	4.0	4.3	-	-	4.0	4.3
Refunding bonds	22.5	23.3	-	-	22.5	23.3
Notes payable	-	-	0.1	0.1	0.1	0.1
Revenue bonds	-	-	6.0	6.2	6.0	6.2
Total	\$ 106.3	\$ 112.3	\$ 6.1	\$ 6.3	\$ 112.4	\$ 118.6

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 as schools in Virginia are not able to issue debt.

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

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Net debt per capita should remain under \$2,000. Net debt is defined as any and all debt that is tax-supported.
4. Net debt as a percentage of estimated market value of taxable property should target 3.0% but not exceed 4.0%.
5. The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10.0% but not exceed 12.0%.
6. The ratio of net debt per capita as a percentage of income should target 7.5% but not exceed 10.0%.
7. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
8. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds. The County will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.

9. On all General Fund supported, debt-financed projects, the County will attempt to make a down payment of at least 5% of total project costs in the aggregate from current resources.

As of June 30, 2006, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is currently 2.88 percent, which is unchanged from a year ago. This compares favorably to the state's average unemployment rate of 3.50 percent. Inflationary trends in the region also compare favorably to national indices.

The Board of Supervisors increased the tax rate from \$0.67 per \$100 of assessed value for calendar year 2005 to \$0.74 for 2006. No undesignated fund balance was planned in the 2007 budget.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 23,360,208	\$ 439,763	\$ 23,799,971	\$ 1,181,972	\$ 277,851	\$ 25,259,794
Investments (Note 4)	-	-	-	-	40,688	40,688
Receivables, net (Note 5)	1,732,813	460,164	2,192,977	-	-	2,192,977
Due from primary government	-	-	-	3,505,617	45,000	3,550,617
Due from other governmental units (Note 6)	2,494,280	-	2,494,280	3,503,010	-	5,997,290
Internal balances (Note 7)	225,395	(225,395)	-	-	-	-
Prepays	334,206	10,805	345,011	561,647	-	906,658
Inventories	-	4,570	4,570	82,422	5,687,405	5,774,397
Advances to component unit (Note 14)	5,963,919	-	5,963,919	-	-	5,963,919
Restricted assets:						
Cash and cash equivalents (Note 4)	151,697	235,910	387,607	100,226	153,251	641,084
Investments (Note 4)	21,864,047	-	21,864,047	-	284,475	22,148,522
Notes receivable (Note 14)	1,178,993	-	1,178,993	-	221,218	1,400,211
Debt issuance costs, net	614,184	-	614,184	-	31,136	645,320
Capital assets: (Note 8)			-			
Non-depreciable	14,447,030	386,210	14,833,240	394,257	317,749	15,545,246
Depreciable, net	87,090,274	20,877,991	107,968,265	7,339,176	8,626,819	123,934,260
Total assets	159,457,046	22,190,018	181,647,064	16,668,327	15,685,592	214,000,983
LIABILITIES						
Accounts payable and accrued expenses	1,708,215	294,628	2,002,843	303,539	444,545	2,750,927
Accrued payroll and related liabilities	63,097	-	63,097	6,162,673	-	6,225,770
Accrued interest payable	2,021,963	5,125	2,027,088	-	-	2,027,088
Amounts held for others	151,697	-	151,697	100,226	-	251,923
Advances from primary government (Note 14)	-	-	-	-	5,963,919	5,963,919
Due to other governmental units (Note 6)	470,223	-	470,223	-	-	470,223
Due to component unit	3,550,617	-	3,550,617	-	-	3,550,617
Unearned revenue (Note 5)	115,580	-	115,580	-	-	115,580
Customer deposits	-	25,800	25,800	-	50,000	75,800
Long-term liabilities: (Note 9)						
Due within one year	7,358,740	216,133	7,574,873	1,796,000	-	9,370,873
Due in more than one year	100,098,507	5,981,879	106,080,386	769,157	10,664,994	117,514,537
Total liabilities	115,538,639	6,523,565	122,062,204	9,131,595	17,123,458	148,317,257
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	13,946,058	15,153,224	29,099,282	7,733,433	(103,706)	36,729,009
Restricted:						
Debt service	4,775,145	235,910	5,011,055	-	-	5,011,055
Carilion expansion	-	831,000	831,000	-	-	831,000
Unexpended grant proceeds	-	-	-	-	1,181,431	1,181,431
Unrestricted	25,197,204	(553,681)	24,643,523	(196,701)	(2,515,591)	21,931,231
Total net assets (deficit)	\$ 43,918,407	\$ 15,666,453	\$ 59,584,860	\$ 7,536,732	\$ (1,437,866)	\$ 65,683,726

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, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total
					Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	
Primary Government:										
Governmental activities:										
General government administration	\$ 6,593,077	\$ 232,084	\$ 454,874	\$ -	\$ (5,906,119)	\$ -	\$ (5,906,119)	\$ -	\$ -	\$ (5,906,119)
Judicial administration	1,825,387	834,406	776,119	-	(214,862)	-	(214,862)	-	-	(214,862)
Public safety	9,066,413	518,177	5,006,447	81,630	(3,460,159)	-	(3,460,159)	-	-	(3,460,159)
Public works	4,184,143	127,070	30,461	-	(4,026,612)	-	(4,026,612)	-	-	(4,026,612)
Health and welfare	8,262,381	119,175	6,144,170	-	(1,999,036)	-	(1,999,036)	-	-	(1,999,036)
Education	31,682,477	-	219,377	-	(31,463,100)	-	(31,463,100)	-	-	(31,463,100)
Parks, recreational, and cultural	3,063,924	224,072	812,639	-	(2,027,213)	-	(2,027,213)	-	-	(2,027,213)
Community development	1,344,053	20,313	22,501	-	(1,301,239)	-	(1,301,239)	-	-	(1,301,239)
Interest on long-term debt	5,133,426	-	-	-	(5,133,426)	-	(5,133,426)	-	-	(5,133,426)
Total governmental activities	71,155,281	2,075,297	13,466,588	81,630	(55,531,766)	-	(55,531,766)	-	-	(55,531,766)
Business-type activities:										
Water	1,730,256	1,746,529	-	-	-	16,273	16,273	-	-	16,273
Wastewater	1,596,082	1,342,076	-	46,677	-	(207,329)	(207,329)	-	-	(207,329)
Total business-type activities	3,326,338	3,088,605	-	46,677	-	(191,056)	(191,056)	-	-	(191,056)
Total primary government	\$ 74,481,619	\$ 5,163,902	\$ 13,466,588	\$ 128,307	(55,531,766)	(191,056)	(55,722,822)	-	-	(55,722,822)
Component Units:										
School Board	\$ 84,445,383	\$ 2,816,504	\$ 50,253,153	\$ -	-	-	-	(31,375,726)	-	(31,375,726)
Industrial Development Authority	1,139,739	787,516	-	80,098	-	-	-	-	(272,125)	(272,125)
Total component units	\$ 85,585,122	\$ 3,604,020	\$ 50,253,153	\$ 80,098	-	-	-	(31,375,726)	(272,125)	(31,647,851)
General Revenues:										
General property taxes					44,577,976	-	44,577,976	-	-	44,577,976
Sales and use tax					6,774,857	-	6,774,857	-	-	6,774,857
Utility tax					1,874,743	-	1,874,743	-	-	1,874,743
Motor vehicle license tax					571,153	-	571,153	-	-	571,153
Other local taxes					1,273,063	-	1,273,063	-	-	1,273,063
Intergovernmental revenue, unrestricted					5,581,348	-	5,581,348	-	-	5,581,348
Investment earnings, unrestricted					982,254	11,411	993,665	-	19,389	1,013,054
Investment earnings, restricted for capital projects					949,936	-	949,936	-	-	949,936
Payments from Montgomery County					-	-	-	30,110,466	99,000	30,209,466
Transfers (Note 7)					(109,381)	109,381	-	-	-	-
Total general revenues and transfers					62,475,949	120,792	62,596,741	30,110,466	118,389	92,825,596
Change in net assets					6,944,183	(70,264)	6,873,919	(1,265,260)	(153,736)	5,454,923
Net assets – beginning, as restated (Note 16)					36,974,224	15,736,717	52,710,941	8,801,992	(1,284,130)	60,228,803
Net assets – ending					\$ 43,918,407	\$ 15,666,453	\$ 59,584,860	\$ 7,536,732	\$ (1,437,866)	\$ 65,683,726

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 19,372,844	\$ 3,987,364	\$ 23,360,208
Receivables (net)	1,732,813	-	1,732,813
Due from other governmental units	2,494,280	-	2,494,280
Advances to other funds	225,395	-	225,395
Advances to component unit	5,963,919	-	5,963,919
Notes receivable	1,178,993	-	1,178,993
Restricted assets:			
Cash and cash equivalents	151,697	-	151,697
Investments	-	21,864,047	21,864,047
Total assets	<u>\$ 31,119,941</u>	<u>\$ 25,851,411</u>	<u>\$ 56,971,352</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 967,588	\$ 740,627	\$ 1,708,215
Accrued payroll and related liabilities	63,097	-	63,097
Due to other governmental units	470,223	-	470,223
Due to component unit	3,550,617	-	3,550,617
Deferred revenue (Note 5)	626,293	-	626,293
Amounts held for others	151,697	-	151,697
Total liabilities	<u>5,829,515</u>	<u>740,627</u>	<u>6,570,142</u>
Fund Balances:			
Reserved (Note 15)	8,425,959	862,735	9,288,694
Unreserved, reported in:			
General fund, designated (Note 15)	4,081,785	-	4,081,785
County capital improvements, designated	-	24,248,049	24,248,049
General fund, undesignated	12,782,682	-	12,782,682
Total fund balances	<u>25,290,426</u>	<u>25,110,784</u>	<u>50,401,210</u>
Total liabilities and fund balances	<u>\$ 31,119,941</u>	<u>\$ 25,851,411</u>	<u>\$ 56,971,352</u>

(Continued)

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

COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

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

Ending fund balance – governmental funds		\$ 50,401,210
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		101,537,304
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		334,206
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		510,713
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.		2,248,631
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-term debt, including premium	\$ (106,609,820)	
Landfill closure/post-closure liability	(687,953)	
Compensated absences	(1,793,921)	
Accrued interest payable	<u>(2,021,963)</u>	
		<u>(111,113,657)</u>
Net assets of governmental activities		<u>\$ 43,918,407</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 44,495,700	\$ -	\$ 44,495,700
Other local taxes	10,493,815	-	10,493,815
Permits, privilege fees and regulatory licenses	451,339	-	451,339
Fines and forfeitures	191,713	-	191,713
Revenue from use of money and property	982,254	949,936	1,932,190
Charges for services	1,099,916	-	1,099,916
Recovered costs	1,320,479	122,960	1,443,439
Intergovernmental	18,018,456	-	18,018,456
Total revenues	<u>77,053,672</u>	<u>1,072,896</u>	<u>78,126,568</u>
EXPENDITURES			
Current operating:			
General government administration	6,294,484	-	6,294,484
Judicial administration	1,821,661	-	1,821,661
Public safety	8,755,109	-	8,755,109
Public works	3,326,950	-	3,326,950
Health and welfare	8,241,369	-	8,241,369
Education	29,917,075	-	29,917,075
Parks, recreation and cultural	2,856,007	-	2,856,007
Community development	1,200,930	-	1,200,930
Debt service:			
Principal retirement	5,943,154	-	5,943,154
Interest and fiscal charges	5,040,472	-	5,040,472
Capital projects	-	10,295,741	10,295,741
Total expenditures	<u>73,397,211</u>	<u>10,295,741</u>	<u>83,692,952</u>
Excess (deficiency) of revenues over expenditures	<u>3,656,461</u>	<u>(9,222,845)</u>	<u>(5,566,384)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	3,278,952	3,278,952
Transfers out	(3,388,333)	-	(3,388,333)
Total other financing sources (uses)	<u>(3,388,333)</u>	<u>3,278,952</u>	<u>(109,381)</u>
Net change in fund balances	268,128	(5,943,893)	(5,675,765)
FUND BALANCES AT JULY 1, as restated (Note 16)	<u>25,022,298</u>	<u>31,054,677</u>	<u>56,076,975</u>
FUND BALANCES AT JUNE 30	<u>\$ 25,290,426</u>	<u>\$ 25,110,784</u>	<u>\$ 50,401,210</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

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

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

Net change in fund balances - total governmental funds	\$ (5,675,765)
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 (\$10,062,129) exceeds depreciation (\$3,234,150) in the current period.	6,827,979
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	82,277
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The transaction, however, does not have any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,850,200
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.	<u>(140,508)</u>
Change in net assets of governmental activities	<u><u>\$ 6,944,183</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL (CASH BASIS)

GENERAL FUND

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 42,531,214	\$ 42,549,641	\$ 44,531,012	\$ 1,981,371
Other local taxes	9,991,540	9,991,540	10,456,085	464,545
Permits, privilege fees and regulatory licenses	551,128	551,128	539,798	(11,330)
Fines and forfeitures	160,000	160,000	194,233	34,233
Revenue from use of money and property	773,647	773,647	982,254	208,607
Charges for services	574,266	1,006,898	1,096,133	89,235
Recovered costs	680,269	852,740	1,336,017	483,277
Intergovernmental	15,590,761	18,825,780	17,567,005	(1,258,775)
Total revenues	<u>70,852,825</u>	<u>74,711,374</u>	<u>76,702,537</u>	<u>1,991,163</u>
EXPENDITURES				
Current operating:				
General government administration	5,787,664	6,767,338	6,245,839	521,499
Judicial administration	1,702,913	1,981,283	1,834,435	146,848
Public safety	7,977,803	9,859,388	8,845,588	1,013,800
Public works	3,535,035	3,625,353	3,394,867	230,486
Health and welfare	7,054,546	9,401,686	8,276,550	1,125,136
Education	31,109,589	31,824,540	29,401,996	2,422,544
Parks, recreation, and cultural	2,298,433	3,258,881	2,790,302	468,579
Community development	1,299,646	1,895,741	1,603,871	291,870
Debt service:				
Principal retirement	5,943,154	5,943,154	5,943,154	-
Interest and fiscal charges	5,061,693	5,061,693	5,040,472	21,221
Total expenditures	<u>71,770,476</u>	<u>79,619,057</u>	<u>73,377,074</u>	<u>6,241,983</u>
Excess (deficiency) of revenues over expenditures	<u>(917,651)</u>	<u>(4,907,683)</u>	<u>3,325,463</u>	<u>8,233,146</u>
OTHER FINANCING USES:				
Transfers out	-	(3,278,952)	(3,278,952)	-
Total other financing uses	<u>-</u>	<u>(3,278,952)</u>	<u>(3,278,952)</u>	<u>-</u>
Net change in fund balances	<u>\$ (917,651)</u>	<u>\$ (8,186,635)</u>	<u>\$ 46,511</u>	<u>\$ 8,233,146</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 439,763	\$ -	\$ 439,763
Due from other funds	110,534	-	110,534
Receivables, net	251,277	208,887	460,164
Prepays	4,188	6,617	10,805
Inventories	3,694	876	4,570
Total current assets	<u>809,456</u>	<u>216,380</u>	<u>1,025,836</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	132,628	103,282	235,910
Capital assets:			
Non-depreciable	358,880	27,330	386,210
Depreciable, net	10,785,535	10,092,456	20,877,991
Total noncurrent assets	<u>11,277,043</u>	<u>10,223,068</u>	<u>21,500,111</u>
Total assets	<u>12,086,499</u>	<u>10,439,448</u>	<u>22,525,947</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	127,002	167,626	294,628
Accrued interest payable	2,976	2,149	5,125
Due to other funds	-	110,534	110,534
Advances from other funds	131,982	93,413	225,395
Customer deposits	15,700	10,100	25,800
Current portion of noncurrent liabilities	95,285	120,848	216,133
Total current liabilities	<u>372,945</u>	<u>504,670</u>	<u>877,615</u>
Noncurrent liabilities:			
Due in more than one year	3,361,388	2,620,491	5,981,879
Total liabilities	<u>3,734,333</u>	<u>3,125,161</u>	<u>6,859,494</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,732,732	7,420,492	15,153,224
Restricted	963,628	103,282	1,066,910
Unrestricted	(344,194)	(209,487)	(553,681)
Total net assets	<u>\$ 8,352,166</u>	<u>\$ 7,314,287</u>	<u>\$ 15,666,453</u>

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2006

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,265,706	\$ -	\$ 1,265,706
Wastewater revenues	-	1,020,006	1,020,006
Penalty and reconnection charges	30,648	25,426	56,074
Fees	211,047	108,770	319,817
Miscellaneous	420	9,909	10,329
Total operating revenues	1,507,821	1,164,111	2,671,932
OPERATING EXPENSES			
Salaries and wages	248,652	346,039	594,691
Employee benefits	116,589	143,557	260,146
Utilities and telephone	20,630	64,753	85,383
Water and wastewater services	520,473	372,321	892,794
Operating supplies, fees, permits	3,460	25,840	29,300
Professional services	104,696	14,312	119,008
Repairs and maintenance	116,742	65,297	182,039
Insurance	16,145	18,465	34,610
Vehicle supplies and miscellaneous	20,093	12,532	32,625
Office supplies and miscellaneous	30,917	12,425	43,342
Depreciation	370,322	391,485	761,807
Total operating expenses	1,568,719	1,467,026	3,035,745
Operating loss	(60,898)	(302,915)	(363,813)
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	10,930	481	11,411
Facility fees	238,708	177,965	416,673
Interest expense	(161,537)	(129,056)	(290,593)
Total non-operating revenues	88,101	49,390	137,491
Income (loss) before transfers and contributions	27,203	(253,525)	(226,322)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	-	46,677	46,677
TRANSFERS (Note 7)	(91,595)	200,976	109,381
Change in net assets	(64,392)	(5,872)	(70,264)
NET ASSETS JULY 1, as restated (Note 16)	8,416,558	7,320,159	15,736,717
NET ASSETS JUNE 30	\$ 8,352,166	\$ 7,314,287	\$ 15,666,453

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,518,697	\$ 1,179,793	\$ 2,698,490
Payments to suppliers	(775,931)	(569,562)	(1,345,493)
Payments to employees	(375,204)	(492,317)	(867,521)
Payments to County for financial services	(13,661)	-	(13,661)
Net cash provided by operating activities	<u>353,901</u>	<u>117,914</u>	<u>471,815</u>
NON-CAPITAL FINANCING ACTIVITIES			
Transfers in (out)	(69,440)	69,440	-
CAPITAL AND RELATED FINANCING ACTIVITIES			
Retirements of advances from the County	(48,596)	(106,393)	(154,989)
Advances from the County	-	150,000	150,000
Acquisition and construction of capital assets	-	(218,506)	(218,506)
Payments from developers	-	28,570	28,570
Facility fee payments from customers	238,708	177,965	416,673
Principal payments on debt	(47,959)	(75,167)	(123,126)
Interest payments on debt	(161,585)	(129,087)	(290,672)
Net cash used in capital and related financing activities	<u>(19,432)</u>	<u>(172,618)</u>	<u>(192,050)</u>
INVESTING ACTIVITIES			
Interest received	10,930	481	11,411
Net increase in cash and cash equivalents	<u>275,959</u>	<u>15,217</u>	<u>291,176</u>
CASH AND CASH EQUIVALENTS			
Beginning at July 1	296,432	88,065	384,497
Ending at June 30	<u>\$ 572,391</u>	<u>\$ 103,282</u>	<u>\$ 675,673</u>
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 439,763	\$ -	\$ 439,763
Cash and cash equivalents, restricted	132,628	103,282	235,910
	<u>\$ 572,391</u>	<u>\$ 103,282</u>	<u>\$ 675,673</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (60,898)	\$ (302,915)	\$ (363,813)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	370,322	391,485	761,807
Decrease in accounts receivable	9,536	14,712	24,248
Increase in prepaids	(190)	(970)	(1,160)
Increase in inventory	(2,349)	(115)	(2,464)
(Increase) decrease in accounts payable	(32,337)	17,468	(14,869)
Increase in advances payable for operating items	78,439	-	78,439
Decrease in accrued payroll and related liabilities	(9,962)	(2,721)	(12,683)
Increase in customer deposits	1,340	970	2,310
Net cash provided by operating activities	<u>\$ 353,901</u>	<u>\$ 117,914</u>	<u>\$ 471,815</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset purchases included in accounts payable at year end	\$ -	\$ 14,553	\$ 14,553
Transfer from County included as a reduction in advances payable	<u>\$ 109,381</u>	<u>\$ -</u>	<u>\$ 109,381</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 accompanying financial statements for the primary government and its component units are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the GASB.

Blended Component Units. The Public Service Authority (the “Authority”) provides water and wastewater services for the County residents and is treated as a blended component unit because the County’s Board of Supervisors serves as the Authority’s Board of Directors. The financial statements of the Authority are presented in their entirety in the County’s Comprehensive Annual Financial Report.

Discretely Presented Component Units. Discretely presented component units are entities that are legally separate from the government, but for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government’s 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 of Supervisors 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 Industrial Development Authority

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the year ended June 30, 2006, the County contributed \$118,055 to New River Valley Community Services.

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 Town of Blacksburg, the Town of 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. The Airport Authority has no bonded indebtedness. For the year ended June 30, 2006, the County paid \$55,388 toward operations of the 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 Town of Blacksburg, the Town of 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, operates a sanitary landfill 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 remaining life of the landfill is estimated at five years, and the Waste Authority has negotiated with an adjacent authority for shared use of a new permitted landfill with an anticipated operating life of 30 years. The County paid \$756,138 in tipping fees during fiscal year 2006.

Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization (the "MPO"). The MPO is a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. The MPO provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. During fiscal year 2006, the County paid \$6,476 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 Floyd and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created June 24, 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. No payments were made to the WVRJA during fiscal year 2006.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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

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. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

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

The County reports the following major governmental funds:

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

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

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

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

Wastewater Fund – accounts for the activities of the wastewater department operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or 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 uncollectibles calculated by management using historical collection data, specific account analysis and management's judgment.

Inventories

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest was capitalized.

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

Compensated Absences

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

Deferred Revenues

Deferred revenue in the general fund consists primarily of property taxes not collected within 45 days of year end and property taxes collected prior to their due date. Deferred revenue in governmental activities consists of property taxes collected prior to their due date.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, 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 assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period but no 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.

Encumbrances

The County uses encumbrance accounting, wherein purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of fund balance.

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance, and Accountability

Net Assets/Fund Equity

Net assets in the government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt – restricted and unrestricted. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations.

In the fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 of Supervisors 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.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

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

Budgetary Information (Continued)

- 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 of Supervisors can revise the appropriation for each fund and function. The County Administrator may amend the budget within organizations and the School Board is authorized to transfer budgeted amounts within the school system's categories, which include administration, instruction, attendance, health, etc.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Project Fund. Program and project budgets are utilized for the Capital Projects Fund where funds remaining at the end of the year are reappropriated each year until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- Appropriations lapse on June 30 for all County units. The Board of Supervisors approved additional General Fund appropriations of \$11,127,533 during the fiscal year ended June 30 primarily for transfers for public safety, health and welfare, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	Primary Government General Fund	Component Unit – School Board	
		Operating	Cafeteria
Net change in fund balance (budgetary basis)	\$ 46,511	\$ 51,841	\$ 193,418
Adjustments:			
Tax and other accruals and due			
From other entities/funds:			
June 30, 2006	10,969,107	7,008,627	-
June 30, 2005	(10,800,811)	(5,152,533)	(53,453)
Inventory:			
June 30, 2006	-	-	82,422
June 30, 2005	-	-	(85,174)
Accounts, salaries and other amounts payable to other entities/funds:			
June 30, 2006	(5,051,525)	(7,610,408)	(192,495)
June 30, 2005	5,104,846	5,702,473	373,348
Net change in fund balance (GAAP basis)	\$ 268,128	\$ -	\$ 318,066

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 obligation is recorded as a liability of the County’s governmental activities. The proceeds from the debt issued “on behalf” of the School Board are recorded in the County’s governmental activities. Money in an amount equal to the proceeds received is then provided to the School Board for capital expenditures. Any unspent money at year end is reported as deposits and investments of the School Board.
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 \$90,297,899. That amount is obtained as follows:

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 83,245,283
Principal and other debt service expenses included in primary government	<u>7,052,616</u>
Total expenditures for school activities	<u>\$ 90,297,899</u>

Note 4. Deposits and Investments

Deposits

All cash of the County and component unit School Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. seq.* of the *Code of Virginia* or covered by federal depository insurance.

Investments

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4. Deposits and Investments (Continued)

Investments (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 24,187,578	NA	52.52%
SNAP	17,940,088	AAA	38.96
Money market accounts	<u>3,923,959</u>	AAA _m	<u>8.52</u>
Total	<u>\$ 46,051,625</u>		<u>100.00%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,282,198</u>	NA	<u>100.00%</u>

Credit Risk

State statute requires that obligations of the Commonwealth of Virginia and its political subdivisions have a debt rating of at least AA by Standard & 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

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

Custodial Credit Risk

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Deposits and Investments (Continued)

The previous items are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
Deposits and investments		
Cash and cash equivalents	\$ 23,799,971	\$ 1,181,972
Investments, restricted	21,864,047	-
Cash and cash equivalents, restricted	<u>387,607</u>	<u>100,226</u>
	<u>\$ 46,051,625</u>	<u>\$ 1,282,198</u>

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

Note 5. Receivables

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Receivables				
Taxes	\$ 2,687,982	\$ -	\$ -	\$ 2,687,982
Accounts	<u>-</u>	<u>283,277</u>	<u>236,887</u>	<u>520,164</u>
Gross receivables	2,687,982	283,277	236,887	3,208,146
Less:				
Allowance for uncollectibles	<u>(955,169)</u>	<u>(32,000)</u>	<u>(28,000)</u>	<u>(1,015,169)</u>
Net total receivables	<u>\$ 1,732,813</u>	<u>\$ 251,277</u>	<u>\$ 208,887</u>	<u>\$ 2,192,977</u>

Taxes receivable represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is 36% of the total taxes receivable and is based on historical collection rates.

Deferred Revenue

Governmental funds report deferred revenue 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 deferred revenue were as follows:

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5. Receivables (Continued)

Deferred Revenue (Continued)

Property taxes receivable – unavailable	\$ 510,713
Property taxes receivable – unearned	<u>115,580</u>
Total deferred revenue	<u><u>\$ 626,293</u></u>

Property Taxes

The County levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by the Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the County. 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, 2006 includes amounts not yet received from the January 1, 2006 levy (due June 5), less an allowance for uncollectibles. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2006 is \$0.74 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles is \$2.45 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; however, County vehicle decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes.

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	<u>90,223</u>
	<u><u>\$ 470,223</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

Due from other governmental units consists of the following:

	<u>General Fund</u>	<u>Component Unit – School Board</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,129,982	\$ -
State sales tax	39,159	1,705,188
Categorical aid – shared expenses	502,977	-
Categorical aid – schools	-	59,641
Non-categorical aid	150,466	1,976
Excess clerk fees	32,007	-
Virginia public assistance funds	160,377	-
Community services act	200,467	-
<u>Federal Government:</u>		
Virginia public assistance funds	278,845	-
Categorical aid – school grants	-	1,736,205
	<u>\$ 2,494,280</u>	<u>\$ 3,503,010</u>

Note 7. Interfund Balances and Transfers

Interfund balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 131,982
General	Wastewater	<u>93,413</u>
		<u>\$ 225,395</u>

The above balances are the result of loans made for operations. The amount due from the Water Fund was repaid subsequent to year end. The amount due from the Wastewater Fund was forgiven by the County subsequent to year end.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 3,278,952
Water	General	109,381
Wastewater	Water	<u>200,976</u>
		<u>\$ 3,589,309</u>

Transfers between funds were to support capital projects.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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	\$ 6,497,821	\$ 3,040,470	\$ -	\$ 9,538,291
Construction in progress	2,363,304	4,305,830	1,760,395	4,908,739
Total capital assets, not depreciated	<u>8,861,125</u>	<u>7,346,300</u>	<u>1,760,395</u>	<u>14,447,030</u>
Capital assets, depreciated				
Buildings and improvements	96,794,272	2,829,580	-	99,623,852
Machinery and equipment	11,366,530	1,646,644	345,849	12,667,325
Total capital assets, depreciated	<u>108,160,802</u>	<u>4,476,224</u>	<u>345,849</u>	<u>112,291,177</u>
Less accumulated depreciation:				
Buildings and improvements	15,956,346	2,447,653	-	18,403,999
Machinery and equipment	6,356,256	786,497	345,849	6,796,904
Total accumulated depreciation	<u>22,312,602</u>	<u>3,234,150</u>	<u>345,849</u>	<u>25,200,903</u>
Total capital assets, depreciated, net	<u>85,848,200</u>	<u>1,242,074</u>	<u>-</u>	<u>87,090,274</u>
Capital assets, net	<u>\$ 94,709,325</u>	<u>\$ 8,588,374</u>	<u>\$ 1,760,395</u>	<u>\$101,537,304</u>

* Restated, see Note 16.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Business-type Activities	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	293,926	120,550	368,655	45,821
Total capital assets, not depreciated	<u>634,315</u>	<u>120,550</u>	<u>368,655</u>	<u>386,210</u>
Capital assets, depreciated				
Wastewater systems	15,266,076	368,655	-	15,634,731
Water systems	13,890,291	-	-	13,890,291
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	645,489	-	91,134	554,355
Total capital assets, depreciated	<u>29,906,174</u>	<u>368,655</u>	<u>91,134</u>	<u>30,183,695</u>
Less accumulated depreciation:				
Wastewater systems	5,022,454	382,142	-	5,404,596
Water systems	2,988,418	342,927	-	3,331,345
Buildings and improvements	70,089	2,918	-	73,007
Machinery and equipment	554,070	33,820	91,134	496,756
Less accumulated depreciation	<u>8,635,031</u>	<u>761,807</u>	<u>91,134</u>	<u>9,305,704</u>
Total capital assets, depreciated, net	<u>21,271,143</u>	<u>(393,152)</u>	<u>-</u>	<u>20,877,991</u>
Capital assets, net	<u>\$ 21,905,458</u>	<u>\$ (272,602)</u>	<u>\$ 368,655</u>	<u>\$ 21,264,201</u>

*Restated, see Note 16.

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 52,879
Judicial administration	3,725
Public safety	582,849
Public works	735,097
Health and welfare	21,013
Education	1,811,830
Parks, recreation, and cultural	19,637
Community development	7,120
	<u>\$ 3,234,150</u>
Business-type activities:	
Water	\$ 370,322
Wastewater	391,485
	<u>\$ 761,807</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Balance</u>
Government Center Building C	\$ 4,033,953	\$ 256,095
Athletic Fields	2,647,696	79,964
Huckleberry Sewer Project	354,111	14,544
	<u>\$ 7,035,760</u>	<u>\$ 350,603</u>

Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 394,257	\$ -	\$ -	\$ 394,257
Capital assets, depreciated:				
Buildings and improvements	30,678,653	-	-	30,678,653
Machinery and equipment	10,848,373	463,400	(988,518)	10,323,255
Total capital assets, depreciated	41,527,026	463,400	(988,518)	41,001,908
Less accumulated depreciation:				
Buildings and improvements	26,545,834	630,258	-	27,176,092
Machinery and equipment	6,634,368	583,710	(731,438)	6,486,640
Total accumulated depreciation	33,180,202	1,213,968	(731,438)	33,662,732
Total capital assets, depreciated, net	8,346,824	(750,568)	(257,080)	7,339,176
Capital assets, net	<u>\$ 8,741,081</u>	<u>\$ (750,568)</u>	<u>\$ (257,080)</u>	<u>\$ 7,733,433</u>

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 23,665,926	\$ -	\$ 1,806,388	\$ 21,859,538	\$ 1,804,329
Lease revenue bonds	61,025,101	-	3,111,889	57,913,212	3,237,379
Literary fund loans	4,274,140	-	254,000	4,020,140	254,000
Refunding bonds	23,263,453	-	770,877	22,492,576	762,737
Landfill post-closure	500,000	187,953	-	687,953	70,295
Compensated absences	1,859,768	1,243,469	1,309,316	1,793,921	1,230,000
Governmental activities long-term liabilities	<u>\$ 114,588,388</u>	<u>\$ 1,431,422</u>	<u>\$ 7,252,470</u>	<u>\$ 108,767,340</u>	<u>\$ 7,358,740</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006**

Note 9. Long-term Debt

Business-type Activities:

Revenue bonds	\$ 6,132,906	\$ -	\$ 107,922	\$ 6,024,984	\$ 113,393
Notes payable	101,197	-	15,204	85,993	15,705
Compensated absences	99,719	87,035	99,719	87,035	87,035
	<u> </u>				
Business-type activities long-term liabilities	\$ 6,333,822	\$ 87,035	\$ 222,845	\$ 6,198,012	\$ 216,133
	<u> </u>				

Component Unit – School Board

Compensated absences	\$ 2,435,686	\$ 1,925,471	\$ 1,796,000	\$ 2,565,157	\$ 1,796,000
	<u> </u>				

Compensated absences for governmental activities are expected to be liquidated by the General Fund.

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
2007	\$ 1,804,329	\$ 1,074,998	\$ 3,237,379	\$ 2,716,726	\$ 762,737	\$ 1,006,950	\$ 254,000	\$ 120,604
2008	1,807,971	985,387	3,379,157	2,577,793	510,063	980,339	254,000	112,984
2009	1,806,266	891,308	3,537,278	2,424,335	507,887	958,269	254,000	105,364
2010	1,796,046	795,287	3,696,796	2,262,176	516,244	935,297	254,000	97,744
2011	1,765,833	700,643	3,862,773	2,095,141	520,168	911,382	254,140	90,124
2012-2016	7,097,112	2,310,793	16,419,011	7,954,604	9,752,455	3,614,255	1,250,000	337,500
2017-2021	5,039,611	675,610	17,630,793	3,853,593	9,923,022	1,469,076	1,250,000	150,000
2021-2026	742,370	18,930	6,150,025	421,471	-	-	250,000	7,500
	<u>\$ 21,859,538</u>	<u>\$ 7,452,956</u>	<u>\$ 57,913,212</u>	<u>\$ 24,305,839</u>	<u>\$ 22,492,576</u>	<u>\$ 9,875,568</u>	<u>\$ 4,020,140</u>	<u>\$ 1,021,820</u>

Year Ended June 30	Business-type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2007	\$ 113,393	\$ 278,191	\$ 15,705	\$ 6,509
2008	119,131	272,453	17,050	5,164
2009	125,164	266,420	18,511	3,703
2010	131,507	260,077	20,098	2,116
2011	168,797	254,431	14,629	464
2012-2016	610,136	1,174,204	-	-
2017-2021	769,328	1,015,012	-	-
2022-2026	970,180	814,160	-	-
2027-2031	1,211,256	560,902	-	-
2032-2036	1,174,291	265,924	-	-
2037-2041	583,748	68,281	-	-
2042-2046	48,053	557	-	-
	<u>\$ 6,024,984</u>	<u>\$ 5,230,612</u>	<u>\$ 85,993</u>	<u>\$ 17,956</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 9. Long-term Debt (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>General Obligation Bonds:</u>						
School Construction Bonds	6.100 - 8.100%	12/15/90	2010	\$ 3,250,000	\$ 845,000	\$ -
School Construction Bonds	4.850 - 6.600	01/15/92	2012	1,893,607	678,316	-
School Construction Bonds	5.100 - 5.500	04/29/93	2012	3,000,000	885,000	-
School Construction Bonds	4.475 - 5.000	11/18/93	2014	3,000,000	555,000	-
School Construction Bonds	4.600 - 5.800	05/02/96	2017	3,870,000	2,145,000	-
School Construction Bonds	4.350 - 5.350	11/20/97	2018	4,211,116	2,672,992	-
School Construction Bonds	4.100 - 5.350	04/30/98	2019	5,300,000	3,445,000	-
Virginia Public School Authority Bonds	3.100 - 5.100	11/01/01	2022	13,025,026	10,633,230	-
					<u>\$ 21,859,538</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	3.3 - 5.0%	06/01/99	2019	\$ 9,695,000	\$ 7,140,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	2,810,000	-
Lease Revenue Bond	4.0 - 5.0	06/1999	2021	11,680,000	9,675,000	-
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	4,090,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	15,270,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,732,576	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,732,576	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	9,463,060	-
Rural Development Water Revenue	5.0	01/22/91	2031	295,000	-	244,314
Rural Development Water Revenue	5.0	02/18/94	2034	1,271,700	-	1,117,642
Rural Development Water Revenue	4.5	09/19/96	2036	363,000	-	329,740
Rural Development Sewer Revenue	4.5	08/28/95	2035	603,215	-	534,630
Rural Development Sewer Revenue	4.5	03/20/97	2037	1,071,300	-	978,779
Rural Development Sewer Revenue	4.5	02/23/99	2040	1,000,000	-	938,927
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	160,966
Rural Development Water Revenue	4.5	01/28/03	2043	1,763,700	-	1,719,986
					<u>\$ 57,913,212</u>	<u>\$ 6,024,984</u>
<u>Refunding Bonds:</u>						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 2,505,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,682,576	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,735,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,570,000	-
					22,492,576	-
Less deferred costs					(1,634,447)	-
Plus bond premium					324,354	-
					<u>\$ 21,182,483</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 20,140	\$ -
State Literary Fund Loan	3.0	01/2001	2021	5,000,000	4,000,000	-
Note Payable	9.5	08/09/01	2011	163,000	-	85,993
					<u>\$ 4,020,140</u>	<u>\$ 85,993</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 9. Long-term Debt (Continued)

The Virginia Resource Authority Revenue Bond is non-interest bearing. The Public Service Authority imputes interest on this debt at a rate of 6%. The face amount outstanding and unamortized discount at year end is \$190,938 and \$29,972, respectively.

The Note payable has a variable interest rate that is equal to the prime lending rate and can be changed on a monthly basis.

Note 10. Landfill Post-Closure Care Costs

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations require 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 have been detected at the landfills, therefore, the Department of Environmental Quality has required an additional ten-year monitoring period. The \$687,953 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2006. Actual costs for post-closure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plan

Plan Description

The County contributes to the Virginia Retirement System (VRS), an agent and cost sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). In addition, professional and non-professional employees of the School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agent multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced benefit at age 65 with five years of service (age 60 for participating local law enforcement officers and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years for participating local law enforcement officers and sheriffs), payable monthly, for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 11. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2006 was 13.32% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2006 were 12.21% for professional employees and 9% for non-professional employees. The County and School Board's contribution rates include the employee's share of 5% paid by employer.

For the three years ended June 30, 2006, 2005, and 2004, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$4,552,147, \$4,189,551, and \$3,088,953 represented 11.62%, 10.45%, and 8.77% of annual covered payroll, respectively, and 100% of the required contributions for 2006, 2005, and 2004. The School Board's contribution rate for non-professional employees for the fiscal year ended 2006 was 9.7% of the annual covered payroll.

Annual Pension Cost

For fiscal year 2006, the County's annual pension costs of \$1,585,575 and the School Board's annual pension cost of \$4,955,698 for professional and non-professional employees, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County and School Board assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's and School Board's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Three-Year Trend Information for the County of Montgomery

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 1,585,575	100%	\$ -
June 30, 2005	\$ 1,510,919	100%	\$ -
June 30, 2004	\$ 1,064,598	100%	\$ -

Three-Year Trend Information for the County of Montgomery School Board

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 403,551	100%	\$ -
June 30, 2005	\$ 345,209	100%	\$ -
June 30, 2004	\$ 232,365	100%	\$ -

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Analysis of Funding Progress for Defined Benefit Pension Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Montgomery						
June 30, 2005	\$ 35,829,105	\$ 42,169,432	\$ 6,340,327	84.96%	\$ 12,799,499	49.54%
June 30, 2004	\$ 34,297,672	\$ 38,767,280	\$ 4,469,608	88.47%	\$ 11,929,802	37.47%
June 30, 2003	\$ 33,984,850	\$ 35,025,688	\$ 1,040,838	97.03%	\$ 10,638,422	9.78%
County of Montgomery School Board						
June 30, 2005	\$ 11,599,426	\$ 14,414,850	\$ 2,815,424	80.47%	\$ 4,225,591	66.63%
June 30, 2004	\$ 11,324,263	\$ 11,843,761	\$ 519,498	95.61%	\$ 3,947,983	13.16%
June 30, 2003	\$ 11,294,469	\$ 10,814,929	\$ (479,540)	104.43%	\$ 3,299,127	(14.54)%

Note 12. Risk Management

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.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 13. Commitments and Contingencies

Litigation

Various claims are pending against the County. In the opinion of County 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.

Incentive Liability

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.

Note 14. Transactions with Component Unit – Industrial Development Authority

Advances to Component Unit:

Non-interest bearing advances from the County for the purchase of capital items such as land and buildings are to be repaid from the sales of land and other revenues of the IDA. There is no first 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 Industrial Park	\$ 3,238,541
Improvements to the Elliston Lafayette Industrial Park	1,093
Construction/improvements to the Blacksburg Industrial Park	475,788
Repayment of debt	<u>2,248,497</u>
	<u><u>\$ 5,963,919</u></u>

Note receivable from Component Unit:

On June 17, 1997 the IDA signed an interest-free promissory note with the County in the amount of \$1,274,620. The IDA 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 \$1,178,993.

Other:

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 15. Net Assets/Fund Balance

Component Unit – Public Service Authority:

Restricted Net Assets:

The Authority entered an agreement with Carilion Health System (“Carilion”) in 1995 for expansion of water and wastewater services to a new Carilion facility. Carilion paid all costs related to the expansion; however, costs in excess of \$1.7 million, which amounted to approximately \$1 million, are to be reimbursed to Carilion by the Authority to the extent of facility and connection fees collected related to the expansion through 2004, and 50% of such fees from 2004 through 2007. Through June 30, the Authority has reimbursed Carilion \$65,563, and has an additional amount payable to Carilion of \$103,187. Because repayment is contingent on collection of future fees, a liability is not recognized; however, net assets are restricted in the amount of \$831,000.

Additionally, net assets are restricted in the amount of \$235,910 for debt service reserves.

A deficit in net assets of \$1,437,866 exists resulting from the loss on the transfer of the Technology Manufacturing building to Montgomery County. It is expected that future lease revenue, proceeds from sale of property, and debt repayments will provide positive net assets.

Deficit Unrestricted Net Assets:

At June 30, the Water and Wastewater Funds and the Component Unit – School Board had deficits in unrestricted net assets of \$(344,194), \$(209,487), and \$(196,701), respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers from the General Fund.

Component Unit – Industrial Development Authority:

Reservations and Designations of Fund Balance:

Reserved and designated fund balances are comprised of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Component Unit – School Board</u>
Reserved for:			
Encumbrances	\$ 695,227	\$ 862,735	\$ 909,919
Advances and notes receivable	7,142,912	-	-
Law library	146,257	-	-
Grants	441,563	-	106,270
Inventories	-	-	82,422
Total reserved fund balance	<u>\$ 8,425,959</u>	<u>\$ 862,735</u>	<u>\$ 1,098,611</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 15. Net Assets/Fund Balance (Continued)

Reservations and Designations of Fund Balance: (Continued)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Component Unit – School Board</u>
Designated for:			
Debt service	\$ 500,000	\$ -	\$ -
Capital projects	500,000	24,248,049	-
Landfill	250,000	-	-
Facilities and maintenance	723,000	-	-
Road maintenance	372,460	-	-
Technology	300,000	-	-
Fuel	478,775	-	-
School capital	957,550	-	-
	<u>4,081,785</u>	<u>24,248,049</u>	<u>-</u>
Total designated fund balance	<u>\$ 4,081,785</u>	<u>\$ 24,248,049</u>	<u>\$ -</u>

Note 16. Restatement of Fund Balance and Net Assets

The following is a summary of the restatement of fund balance/net assets effective June 30, 2005:

	Primary Government					Discretely Presented Component Unit School
	Governmental Activities	Business-type Activities	General Fund	Water Fund	Wastewater Fund	Governmental Activities
Fund balance/net assets						
June 30, 2005, as previously stated	\$ 36,395,713	\$ 15,812,023	\$ 24,401,175	\$ 8,446,655	\$ 7,365,368	\$ 7,632,015
Restatement to:						
To reflect unrecorded receivables for reimbursement type grants	-	-	-	-	-	1,719,917
To reflect change in amounts paid to School Board due to above correction in revenue receivable	549,940	-	549,940	-	-	(549,940)
To reflect unrecorded accounts payable	71,183	-	71,183	-	-	-
To reflect unrecorded disposals	(42,612)	(75,306)	-	(30,097)	(45,209)	-
Net change in fund balance/net assets	<u>578,511</u>	<u>(75,306)</u>	<u>621,123</u>	<u>(30,097)</u>	<u>(45,209)</u>	<u>1,169,977</u>
Fund balance/net assets, June 30, 2005, as restated	<u>\$ 36,974,224</u>	<u>\$ 15,736,717</u>	<u>\$ 25,022,298</u>	<u>\$ 8,416,558</u>	<u>\$ 7,320,159</u>	<u>\$ 8,801,992</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 17. Subsequent Events

In August 2005, the County authorized and advanced to the Public Service Authority \$150,000 for the Huckleberry Sewer Project. The Authority repaid \$56,569 in the current year. In September 2006, the County forgave the loan balance of \$93,431.

On August 22, 2006, the Public Service Authority entered into a grant and loan agreement with the United States Department of Agriculture Rural Development (RD). The funds will be used for the Shawsville water line rehabilitation project. Under the agreement, RD will provide two loans to the Authority. The loans will be repaid over 40 years. Payments due the first 24 months will be interest only and will be paid annually on the first and second anniversaries of the bond. The initial loan amount of \$506,000 will require monthly principal and interest payments of \$2,242 at an interest rate of 4.25% for the remaining 456 months. The subsequent loan amount of \$97,500 will require monthly principal and interest payments of \$440 at an interest rate of 4.375% for the remaining 456 months. Grant funds will not exceed \$541,600.

Also on August 22, 2006, the Public Service Authority entered into a construction contract for this project for \$996,128.

Note 18. Concentrations

Two Public Service Authority customers each provide approximately 7% of the Authorities operating revenue.

Note 19. New Accounting Standard

The Governmental Accounting Standards Board has issued its Statement No. 45 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ended June 30, 2009.

OTHER SUPPLEMENTARY INFORMATION

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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, 2006

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 639,939	\$ 542,033	\$ 1,181,972
Due from primary government	3,505,617	-	3,505,617
Due from other governmental units	3,503,010	-	3,503,010
Inventories	-	82,422	82,422
Cash and cash equivalents, restricted	100,226	-	100,226
	<u>7,748,792</u>	<u>624,455</u>	<u>8,373,247</u>
Total assets	<u>\$ 7,748,792</u>	<u>\$ 624,455</u>	<u>\$ 8,373,247</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 296,906	\$ 6,633	\$ 303,539
Accrued payroll and related liabilities	5,976,811	185,862	6,162,673
Amounts held for others	100,226	-	100,226
Deferred revenue	1,336,691	-	1,336,691
	<u>7,710,634</u>	<u>192,495</u>	<u>7,903,129</u>
Total liabilities	<u>7,710,634</u>	<u>192,495</u>	<u>7,903,129</u>
Fund Balances:			
Reserved for:			
Encumbrances	909,919	-	909,919
Grants	106,270	-	106,270
Inventories	-	82,422	82,422
Unreserved	(978,031)	349,538	(628,493)
	<u>38,158</u>	<u>431,960</u>	<u>470,118</u>
Total fund balances	<u>38,158</u>	<u>431,960</u>	<u>470,118</u>
Total liabilities and fund balances	<u>\$ 7,748,792</u>	<u>\$ 624,455</u>	

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

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.	7,733,433
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.	561,647
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,336,691
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>(2,565,157)</u>
Net assets of governmental activities	<u>\$ 7,536,732</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, 2006

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from use of money and property	\$ 1,500	\$ -	\$ 1,500
Charges for services	25,011	2,112,527	2,137,538
Miscellaneous	2,000	-	2,000
Recovered costs	476,220	-	476,220
Intergovernmental	79,441,981	1,504,110	80,946,091
	<u>79,946,712</u>	<u>3,616,637</u>	<u>83,563,349</u>
Total revenues			
EXPENDITURES			
Current:			
Instruction	62,392,835	-	62,392,835
Administration, attendance and health	3,180,813	-	3,180,813
Pupil transportation	3,754,097	-	3,754,097
Operations and maintenance	10,541,453	-	10,541,453
Non-instructional	77,514	-	77,514
School nutrition	-	3,298,571	3,298,571
	<u>79,946,712</u>	<u>3,298,571</u>	<u>83,245,283</u>
Total expenditures			
Excess of revenues over expenditures	<u>-</u>	<u>318,066</u>	<u>318,066</u>
Net change in fund balances	-	318,066	318,066
FUND BALANCE AT JULY 1	<u>38,158</u>	<u>113,894</u>	<u>152,052</u>
FUND BALANCE AT JUNE 30	<u>\$ 38,158</u>	<u>\$ 431,960</u>	<u>\$ 470,118</u>

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

Net change in fund balances – total governmental funds	\$ 318,066
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 (\$463,400) is less than depreciation (\$1,213,968) and the loss on the disposition of assets of (\$257,080) in the current period.	(1,007,648)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in these revenues.	(383,226)
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.	(192,452)
Change in net assets of governmental activities	<u>\$ (1,265,260)</u>

COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT 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, 2006**

	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	\$ 5,000	\$ 5,000	\$ 1,500	\$ (3,500)	\$ -	\$ -	\$ -	\$ -
Charges for services	40,000	40,000	25,011	(14,989)	1,930,311	1,930,311	2,112,527	182,216
Miscellaneous	35,000	35,000	2,000	(33,000)	-	-	-	-
Recovered costs	130,000	130,000	476,220	346,220	-	-	-	-
Intergovernmental	78,856,291	80,853,540	78,922,578	(1,930,962)	1,101,069	1,101,069	1,557,563	456,494
Total revenues	79,066,291	81,063,540	79,427,309	(1,636,231)	3,031,380	3,031,380	3,670,090	638,710
EXPENDITURES								
Current:								
Instruction	61,689,759	62,768,717	61,821,591	947,126	-	-	-	-
Administration, attendance and health	3,247,494	3,257,560	3,180,813	76,747	-	-	-	-
Pupil transportation	3,516,184	4,058,410	3,754,097	304,313	-	-	-	-
Operations and maintenance	10,579,511	10,929,282	10,541,453	387,829	-	-	-	-
Non-instructional	33,343	49,571	77,514	(27,943)	-	-	-	-
School nutrition	-	-	-	-	3,031,380	3,428,155	3,476,672	(48,517)
Total expenditures	79,066,291	81,063,540	79,375,468	1,688,072	3,031,380	3,428,155	3,476,672	(48,517)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 51,841	\$ 51,841	\$ -	\$ (396,775)	\$ 193,418	\$ 590,193

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Food Stamp Administration	10.561	\$ 395,551
<u>Department of Education:</u>		
National School Breakfast Program	10.553	271,150
National School Lunch Program	10.555	1,123,441
Federal Land Use (Forest Reserve)	10.665	4,251
<u>Department Of Homeland Security:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services:</u>		
SHSGP-Citizen Corps Program	97.004	10,082
Domestic Emergency Preparedness	97.004	46,922
Hazard Mitigation Grant	97.039	26,043
Emergency Management Preparedness Grant	97.042	1,988
<u>Department Of Justice:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Victim Witness Grant	16.575	81,214
Violence Against Women Formula Grants	16.588	8,183
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
State and Community Highway Safety (402 Funds)	20.600	10,522
Occupant Protection	20.602	11,709
Safety Incentive Grants for Use of Seatbelts	20.604	4,703
Alcohol Open Container Requirements – 154 Transfer	20.607	6,716
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Grants to States	84.002	79,560
Title I: Grants to Local Educational Agencies	84.010	1,445,026
Special Education – Grants to States	84.027	2,327,518
Vocational Education – Basic Grants to States	84.048	156,388
Special Education – Preschool Grants	84.173	55,631
Drug Free Schools and Communities – State Grants	84.186	42,732
Innovative Education Program Statistics	84.298	49,439
Title I: Comprehensive School Reform	84.332	37,089
No Child Left Behind Act	84.367	415,779

**SCHEDULE 1
(Continued)**

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services:</u>		
Direct Payments:		
Department of Substance Abuse and Mental Health Services		
Projects of Regional and National Significance	93.243	\$ 108,274
<u>Pass-through Payments:</u>		
<u>Department of Aging:</u>		
Support Services – Title III, Part B –		
Grants for State and Community Programs on Aging	93.044	58,917
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	148,396
Temporary Assistance to Needy Families	93.558	518,730
Child Care and Development Block Grant	93.575	444,839
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	385,571
Foster Care – Title IV-E	93.658	499,602
Adoption Assistance	93.659	75,786
Social Service Block Grant	93.667	399,726
Low Income Home Energy Assistance	93.568	31,659
Chafee Foster Care Independence Program	93.674	27,700
Medical Assistance Program	93.778	333,547
Refugee and Entrant Assistance	93.566	410
Adoption Incentive Payments	93.603	813
State Children's Insurance Program	93.767	346
<u>Federal Emergency Management Agency</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Management Services</u>		
Disaster Relief	83.544	26,044
		<u>\$ 9,671,997</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, 2006, the School Board had food commodities totaling \$52,893 in inventory.

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STATISTICAL SECTION

TABLE 1

County of Montgomery, Virginia
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities				
Invested in capital assets, net of related debt	\$ 13,946,058	\$ 13,971,101	\$ 9,826,302	\$ 3,945,490
Restricted	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	25,197,204	17,799,039	14,700,359	(1,550,735)
Total governmental activities net assets	<u>\$ 43,918,407</u>	<u>\$ 36,395,713</u>	<u>\$ 30,843,402</u>	<u>\$ 28,225,672</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 15,153,224	\$ 15,746,661	\$ 16,082,711	\$ 14,800,614
Restricted	1,066,910	1,034,403	1,021,135	1,433,982
Unrestricted	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	<u>\$ 15,666,453</u>	<u>\$ 15,812,023</u>	<u>\$ 15,943,141</u>	<u>\$ 15,048,022</u>
Primary government				
Invested in capital assets, net of related debt	\$ 29,099,282	\$ 29,717,762	\$ 25,909,013	\$ 18,746,104
Restricted	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	24,643,523	16,829,998	13,539,654	(2,737,309)
Total primary government net assets	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>	<u>\$ 46,786,543</u>	<u>\$ 43,273,694</u>

Note: The County began to report accrual information when it completed GASB Statement 34 in fiscal year 2003.

TABLE 2

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

	Fiscal Year			
	2006	2005	2004	2003
Expenses				
Governmental activities				
General government	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	9,175,794	8,798,860	7,490,225	7,125,597
Public works	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreation and cultural	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,344,053	1,582,047	2,001,277	1,232,340
Education	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	<u>71,264,662</u>	<u>69,448,996</u>	<u>69,907,234</u>	<u>63,028,214</u>
Business-type activities				
Water and sewage	3,336,838	3,449,981	3,532,577	3,020,119
Total business-type activities expense	<u>3,336,838</u>	<u>3,449,981</u>	<u>3,532,577</u>	<u>3,020,119</u>
Total primary government expenses	<u>\$ 74,601,500</u>	<u>\$ 72,898,977</u>	<u>\$ 73,439,811</u>	<u>\$ 66,048,333</u>
Program Revenues				
Governmental activities				
Charges for services				
Public safety	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public works	127,070	151,767	-	58,671
Other activities	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	81,630	150,000	465,343	-
Total governmental activities program revenues	<u>15,623,515</u>	<u>15,339,719</u>	<u>15,235,508</u>	<u>12,135,377</u>
Business-type activities				
Charges for services				
Water and sewage	3,099,105	3,141,551	2,829,152	2,329,073
Total business-type activities program revenues	<u>3,099,105</u>	<u>3,141,551</u>	<u>2,829,152</u>	<u>2,329,073</u>
Total primary government program revenues	<u>\$ 18,722,620</u>	<u>\$ 18,481,270</u>	<u>\$ 18,064,660</u>	<u>\$ 14,464,450</u>
Net (expense) revenue				
Governmental activities	\$ (55,641,147)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	<u>(237,733)</u>	<u>(308,430)</u>	<u>(703,425)</u>	<u>(691,046)</u>
Total primary government net expense	<u>\$ (55,878,880)</u>	<u>\$ (54,417,707)</u>	<u>\$ (55,375,151)</u>	<u>\$ (51,583,883)</u>

(Continued)

TABLE 2
(Continued)

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

	Fiscal Year			
	2006	2005	2004	2003
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	6,774,857	6,555,523	6,143,020	-
Business license tax	-	-	-	-
Meals tax	-	-	-	-
Other taxes	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	1,932,190	1,658,701	861,541	591,555
Gain on sale of property	-	729,859	(47,313)	-
Other	-	-	2,376	89,294
Transfers	-	-	-	-
Total governmental activities	<u>62,585,330</u>	<u>57,599,206</u>	<u>54,149,721</u>	<u>52,053,237</u>
Business-type activities:				
Investment earnings	11,411	6,358	922	3,153
Gain on sale of property	-	-	(15,763)	-
Transfers	109,381	-	-	-
Total business-type activities	<u>120,792</u>	<u>6,358</u>	<u>(14,841)</u>	<u>3,153</u>
Total primary government	<u>\$ 62,706,122</u>	<u>\$ 57,605,564</u>	<u>\$ 54,134,880</u>	<u>\$ 52,056,390</u>
Changes in Net Assets				
Governmental activities	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	(116,941)	(302,072)	(718,266)	(687,893)
Total primary government	<u>\$ 6,827,242</u>	<u>\$ 3,187,857</u>	<u>\$ (1,240,271)</u>	<u>\$ 472,507</u>

TABLE 3

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

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved	\$ 9,425,959	\$ 8,048,551	\$ 8,424,045	\$ 8,646,272	\$ 8,667,252	\$ 8,510,558	\$ 8,030,521	\$ 2,706,359	\$ 2,840,848	\$ 2,417,853
Unreserved	16,864,467	16,352,624	17,466,018	15,610,016	15,859,971	15,375,211	22,523,616	26,526,884	16,405,243	12,419,536
Total general fund	<u>\$ 26,290,426</u>	<u>\$ 24,401,175</u>	<u>\$ 25,890,063</u>	<u>\$ 24,256,288</u>	<u>\$ 24,527,223</u>	<u>\$ 23,885,769</u>	<u>\$ 30,554,137</u>	<u>\$ 29,233,243</u>	<u>\$ 19,246,091</u>	<u>\$ 14,837,389</u>
All Other Governmental Funds										
Reserved	\$ 862,735	\$ 1,844,841	\$ 1,130,668	\$ 17,184,645	\$ -	\$ 859,725	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	-	-	-	-	95,988	80,915	70,573	61,772	48,885	44,334
Capital projects funds	24,248,049	29,209,836	32,810,664	640,547	9,730,048	14,561,579	-	-	-	-
Total all other governmental funds	<u>\$ 25,110,784</u>	<u>\$ 31,054,677</u>	<u>\$ 33,941,332</u>	<u>\$ 17,825,192</u>	<u>\$ 9,826,036</u>	<u>\$ 15,502,219</u>	<u>\$ 70,573</u>	<u>\$ 61,772</u>	<u>\$ 48,885</u>	<u>\$ 44,334</u>

TABLE 4

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

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Taxes	\$ 54,989,515	\$ 50,738,457	\$ 48,842,024	\$ 46,888,359	\$ 43,046,576	\$ 40,566,368	\$ 37,829,575	\$ 37,740,962	\$ 34,990,826	\$ 32,754,297
Permits, privilege fees, and licenses	451,339	581,026	432,106	354,475	224,463	200,284	189,197	185,143	183,559	162,939
Fines and forfeitures	191,713	181,336	137,311	172,252	167,757	85,283	99,353	65,580	67,614	69,814
Revenue from use of money and property	1,932,190	1,658,701	1,073,542	591,555	937,531	1,625,474	1,142,127	979,792	753,359	521,544
Charges for services	1,099,916	774,474	791,975	588,551	494,449	368,471	490,729	460,736	479,539	562,371
Other	1,443,439	1,364,845	1,097,902	1,280,981	1,105,203	1,798,254	1,150,252	904,120	900,218	1,147,086
Intergovernmental	18,018,456	17,655,372	17,030,162	17,089,403	15,227,444	14,750,314	12,077,443	9,722,560	8,544,481	8,438,753
Total revenues	78,126,568	72,954,211	69,405,022	66,965,576	61,203,423	59,394,448	52,978,676	50,058,893	45,919,596	43,656,804
Expenditures										
General government	6,294,484	6,046,564	5,177,651	5,358,391	5,211,059	4,086,626	3,566,242	3,707,361	2,886,732	2,679,108
Judicial administration	1,821,661	1,801,538	1,627,346	1,626,738	1,644,861	1,392,493	1,336,618	1,260,605	1,180,021	1,056,449
Public safety	8,864,490	8,931,893	7,048,833	6,427,463	6,000,194	5,586,072	5,462,939	5,110,728	5,320,392	4,189,772
Public works	3,326,950	3,252,988	3,450,922	2,998,968	2,616,065	2,511,498	2,549,067	2,031,390	1,897,492	2,296,568
Parks, recreation and cultural	2,856,007	2,513,263	2,195,196	2,197,940	2,303,966	2,431,255	1,990,488	1,944,835	1,803,895	1,749,803
Health and welfare	8,241,369	8,338,220	7,813,659	7,679,219	6,718,789	6,160,972	6,091,972	5,386,041	4,795,813	4,493,501
Education	29,917,075	28,731,743	27,894,248	28,723,773	26,385	24,362	24,116	22,905	22,905	27,007
Community development	1,200,930	1,590,531	1,804,638	1,205,104	1,327,321	2,595,427	1,216,013	1,402,709	741,211	751,809
Non-departmental	-	-	-	-	129,482	37,216	-	65,911	-	-
Capital projects	10,295,741	3,358,473	4,135,721	13,629,018	7,471,946	4,824,794	1,576,513	3,071,797	3,440,756	1,928,784
Debt service										
Principal	5,943,154	16,442,154	4,951,763	4,325,425	747,900	687,551	802,551	367,550	367,550	367,550
Interest	5,040,472	4,276,687	5,340,581	5,324,916	1,249,013	872,152	561,813	574,666	414,134	372,248
Total expenditures	83,802,333	85,284,054	71,440,558	79,496,955	35,446,981	31,210,418	25,178,332	24,946,498	22,870,901	19,912,599
Excess of revenues over (under) expenditures	(5,675,765)	(12,329,843)	(2,035,536)	(12,531,379)	25,756,442	28,184,030	27,800,344	25,112,395	23,048,695	23,744,205
Other Financing Sources (Uses)										
Proceeds from borrowing	-	18,779,866	20,000,000	-	-	15,088,350	-	9,585,358	-	-
Payments to bond escrow agents	-	(19,562,999)	-	-	-	(3,323,550)	-	-	-	-
Proceeds from sale of capital assets/real estate	-	8,940,593	-	-	-	-	27,687	34,987	97,787	-
Transfers in	-	719,056	8,348	2,038,905	-	41,950	-	772	7,725	-
Transfers out	-	(719,056)	(8,348)	(2,038,905)	(30,791,171)	(31,227,502)	(26,498,336)	(24,733,473)	(18,975,077)	(20,719,030)
Total other financing sources (uses)	-	8,157,460	20,000,000	-	(30,791,171)	(19,420,752)	(26,470,649)	(15,112,356)	(18,869,565)	(20,719,030)
Net change in fund balances	\$ (5,675,765)	\$ (4,172,383)	\$ 17,964,464	\$ (12,531,379)	\$ (5,034,729)	\$ 8,763,278	\$ 1,329,695	\$ 10,000,039	\$ 4,179,130	\$ 3,025,175
Debt service as a percentage of non-capital expenditures	14.94%	25.29%	15.29%	14.65%	7.14%	5.91%	5.78%	4.31%	4.02%	4.11%

TABLE 5

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

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Service	Total Assessed Value	Total Direct Tax Rate(1)
2006	\$ 4,841,218,900	\$ 487,862,951	\$ 122,587,600	\$ 33,021,661	\$ 140,490,906	\$ 5,625,182,018	\$ 0.97
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$ 5,459,000,654	\$ 1.00
2004	\$ 4,556,115,600	\$ 443,006,567	\$ 120,450,318	\$ 21,433,774	\$ 133,583,496	\$ 5,274,589,755	\$ 0.98
2003	\$ 4,448,367,800	\$ 442,692,427	\$ 123,656,471	\$ 20,185,299	\$ 162,853,761	\$ 5,197,755,758	\$ 0.99
2002	\$ 3,312,672,860	\$ 456,164,099	\$ 106,272,277	\$ 21,621,381	\$ 160,770,587	\$ 4,057,501,204	\$ 1.05
2001	\$ 3,229,462,900	\$ 449,847,984	\$ 106,852,005	\$ 21,034,191	\$ 146,158,930	\$ 3,953,356,010	\$ 1.05
2000	\$ 3,117,677,700	\$ 418,001,821	\$ 114,031,603	\$ 24,843,670	\$ 145,504,090	\$ 3,820,058,884	\$ 1.05
1999	\$ 3,002,758,100	\$ 358,504,261	\$ 97,233,025	\$ 17,974,756	\$ 161,001,491	\$ 3,637,471,633	\$ 1.04
1998	\$ 2,319,517,000	\$ 349,951,144	\$ 81,212,304	\$ 19,618,798	\$ 114,146,732	\$ 2,884,445,978	\$ 1.09
1997	\$ 2,253,225,400	\$ 326,442,882	\$ 71,809,119	\$ 23,783,046	\$ 111,547,133	\$ 2,786,807,580	\$ 1.07

Notes: Property is assessed at full market value. Properties are reassessed once every four years.
(1) Per \$1,000 of assessed value.

TABLE 6

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

Taxpayer	Fiscal Year 2006			Fiscal Year 1997		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Foxridge Associates	\$ 59,719,500	1	1.26%	\$ 33,167,700	1	1.72%
Appalachian Power Company	50,955,461	2	1.08%	-		
Verizon	38,592,442	3	0.82%	-		-
New River Valley Mall Crown American Corp.	34,952,800	4	0.74%	18,832,900	2	0.98%
Roger Woody	30,844,600	5	0.65%	-		-
SHP-The Village at Blacksburg LLC	27,682,700	6	0.59%	-		-
Shelor Chevrolet/HASH Investment	27,580,000	7	0.58%	-		-
Norfolk and Western	21,990,598	8	0.46%	-		-
HCA Montgomery Regional Hospital Inc.	17,322,100	9	0.32%	13,576,600	3	0.71%
CSB LLC	16,738,200	10	0.35%	-		-
Faison & Associates	-		-	10,342,800	4	0.54%
WHGMH Realty LLC	-		-	10,004,800	5	0.54%
Wal-Mart	-		-	9,764,800	6	0.51%
First National Bank of Christiansburg	-		-	8,031,900	7	0.42%
Windsor Hills I LP	-		-	7,906,700	8	0.41%
Corning Glass Works	-		-	7,152,700	9	0.37%
Hubbell Lighting	-		-	6,718,000	10	0.35%
	<u>\$ 326,378,401</u>		<u>6.85%</u>	<u>\$ 125,498,900</u>		<u>6.55%</u>

Source: County Assessor's office.

TABLE 7

**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
2006	\$ 50,424,489	\$ 48,355,245	95.90%	\$ 711,137	\$ 49,066,382	97.31%
2005	44,555,181	42,844,219	96.16%	2,397,271	45,241,490	101.54%
2004	43,871,083	41,752,442	95.17%	1,893,266	43,645,708	99.49%
2003	42,351,459	35,183,970	83.08%	2,650,755	37,834,725	89.34%
2002	40,381,556	33,151,368	82.10%	1,417,000	34,568,368	85.60%
2001	33,225,652	31,561,292	94.99%	833,193	32,394,485	97.50%
2000	32,086,559	30,988,504	96.58%	1,235,990	32,224,494	100.43%
1999	29,709,210	28,870,145	97.18%	1,347,873	30,218,018	101.71%
1998	27,801,422	26,680,752	95.97%	1,093,783	27,774,535	99.90%
1997	25,788,532	24,961,417	96.79%	1,213,875	26,175,292	101.50%

TABLE 8

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	Capital Leases
2006	\$ 21,859,538	\$ 21,859,538	0.39%	\$ 248.69	\$ 57,913,212	\$ 4,020,140	\$ 22,492,576	\$ -
2005	23,665,926	\$ 23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453	-
2004	26,075,223	\$ 26,075,223	0.49%	304.57	90,975,000	4,544,972	4,078,005	-
2003	27,749,414	\$ 27,749,414	0.53%	327.23	63,685,000	4,839,154	5,641,347	-
2002	16,767,837	\$ 16,767,837	0.41%	198.91	65,270,000	19,266,065	6,044,141	-
2001	18,219,563	\$ 18,219,563	0.46%	231.22	56,475,000	5,317,068	6,261,678	-
2000	23,953,309	\$ 23,953,309	0.63%	309.93	25,940,000	538,300	2,199,278	-
1999	25,809,555	\$ 25,809,555	0.71%	336.50	26,375,000	759,532	2,267,256	56,562
1998	27,406,052	\$ 27,406,052	0.95%	359.19	-	980,764	-	239,853
1997	19,469,244	\$ 19,469,244	0.70%	254.17	-	1,201,966	-	149,383

Business-type Activities

Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2006	\$ 6,024,984	\$ 85,993	\$ -	\$ 112,396,443	5.71%	\$ 1,278.69
2005	6,132,906	101,197	-	\$ 118,462,723	6.02%	1,410.96
2004	6,226,079	118,685	-	\$ 132,017,964	7.56%	1,542.01
2003	5,860,325	163,035	-	\$ 107,938,275	6.41%	1,272.86
2002	4,628,932	266,539	-	\$ 112,243,514	7.80%	1,331.48
2001	4,702,347	337,181	214	\$ 91,313,051	-	1,158.84
2000	4,767,878	320,828	1,126	\$ 57,720,719	-	746.85
1999	4,123,919	322,086	2,025	\$ 59,715,935	-	778.56
1998	3,855,994	379,330	675	\$ 32,862,668	-	430.70
1997	2,983,929	441,552	3,822	\$ 24,249,896	-	316.58

TABLE 9

**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	
2006	\$ 2,693,843	\$ 2,284,438	\$ 409,405	\$ 123,126	\$ 290,593	0.99
2005	2,683,885	2,434,942	248,943	110,661	293,368	0.62
2004	2,785,678	2,518,845	266,833	95,740	286,651	0.70
2003	2,347,509	2,093,744	253,765	76,660	217,772	0.86
2002	2,322,748	1,992,121	330,627	84,875	209,557	1.12
2001	2,592,104	1,955,357	636,747	131,218	248,090	1.68
2000	1,999,644	1,768,267	231,377	73,829	185,271	0.89
1999	1,919,007	1,385,949	533,058	64,628	186,028	2.13
1998	1,478,902	1,436,126	42,776	38,648	163,790	0.21
1997	1,380,121	1,169,790	210,331	51,336	96,525	1.42

Notes: Details regarding the County's outstanding debt can be found in the Notes to Financial Statements.
Operating expenses do not include depreciation, interest, or amortization expenses.

TABLE 10

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

<u>Fiscal Year Ended (1)</u>	<u>Population (2)</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Public School Enrollment</u>	<u>Unemployment Rate</u>
2006	87,900	\$ 1,968,520,500	\$ 22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
2004	85,614	1,745,840,688	20,392	9,311	2.60%
2003	84,800	1,683,195,200	19,849	9,170	2.60%
2002	84,300	1,439,591,100	17,077	9,062	2.60%
2001	78,797	N/A	N/A	9,052	2.90%
2000	77,286	N/A	N/A	9,169	2.20%
1999	76,700	N/A	N/A	9,144	2.30%
1998	76,300	N/A	N/A	9,227	2.20%
1997	76,600	N/A	N/A	9,586	2.80%

(1) Population, school enrollment and unemployment figures are based on fiscal years ending June 30. Per Capita Income is as of December 31.

(2) Population is based on figures available from the Weldon Cooper Center, University of Virginia and the City Planning Department.

N/A - Not available.

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

Employer	Fiscal Year 2006			Fiscal Year 1997		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Virginia Tech	6,625	1	36.09%	5,800	1	41.69%
Montgomery County Public Schools	2,025	2	11.03%	1,400	2	10.06%
Virginia Tech Corporate Research Center	1,900	3	10.35%	1,100	4	7.91%
Alliant TechSystems	1,436	4	7.82%	1,193	3	8.58%
Echostar	900	5	4.90%	-	-	-
Moog	866	6	4.72%	-	-	-
Carilion NRV Medical Center	830	7	4.52%	-	-	-
Rowe Furniture	689	8	3.75%	-	-	-
Columbia Montgomery Regional Hospital	530	9	2.89%	-	-	-
Hubble Lighting, Inc.	414	10	2.26%	600	7	4.31%
Litton	-	-	-	-	-	-
Federal-Mogul Corporation	-	-	-	700	5	5.03%
Litton Poly-Scientific	-	-	-	700	6	5.03%
Corning Incorporated	-	-	-	250	8	1.80%
Wolverine Gasket and Manufacturing Co.	-	-	-	250	9	1.80%
Electro-Tec Corporation	-	-	-	200	10	1.44%
	16,215		88.34%	12,193		87.65%

Source: Economic Development Department.

TABLE 12

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

Function/Program	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government										
County administration	14.00	13.00	14.00	14.00	13.00	11.00	10.50	10.00	N/A	N/A
Information management services	8.50	8.50	8.00	8.00	8.00	6.00	6.00	6.00	N/A	N/A
Finance	8.50	8.50	9.50	9.50	5.50	5.50	5.50	5.50	N/A	N/A
Commissioner of Revenue	18.00	18.00	18.00	18.00	18.00	18.00	21.00	16.50	N/A	N/A
Treasurer	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	N/A	N/A
Other	9.00	9.00	8.00	8.00	8.00	8.50	7.50	7.50	N/A	N/A
Public Safety										
Sheriff	122.00	122.00	112.00	112.50	107.00	108.00	105.50	104.50	N/A	N/A
Animal control	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.25	N/A	N/A
Inspections	5.00	4.50	4.00	4.00	3.00	3.50	3.50	3.50	N/A	N/A
Judicial	18.50	18.50	18.00	18.50	18.50	19.00	17.00	17.00	N/A	N/A
Refuse collection	23.50	23.50	23.50	23.50	25.56	23.36	20.50	18.96	N/A	N/A
Other public works										
Engineering	2.00	2.00	3.00	2.00	2.00	1.00	1.50	-	N/A	N/A
Building and grounds	8.00	8.00	8.00	9.00	9.00	7.00	6.00	11.50	N/A	N/A
Housekeeping	9.10	8.60	8.60	9.60	9.60	5.60	5.50	-	N/A	N/A
Other	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	N/A	N/A
Parks, recreation and cultural	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	N/A	N/A
Library	31.25	31.25	30.75	30.75	30.63	30.63	32.33	34.25	N/A	N/A
Water/sewer	21.00	21.00	21.00	20.00	20.00	23.00	21.00	20.00	N/A	N/A
Health and welfare	67.50	67.50	66.50	66.50	66.50	66.50	66.50	61.00	N/A	N/A
Community development	11.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	N/A	N/A
Total	<u>409.05</u>	<u>406.05</u>	<u>394.05</u>	<u>394.05</u>	<u>384.49</u>	<u>376.79</u>	<u>370.08</u>	<u>355.46</u>	<u>-</u>	<u>-</u>

TABLE 13

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

Function/Program	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General government										
fleet vehicles	218	208	200	203	196	203	190	192	180	166
Judicial administration										
Sheriff										
Inmates housed	N/A	60,052	51,417	49,130	51,149	51,656	45,149	44,066	36,650	N/A
Inmate transports	3,319	3,290	2,409	2,459	2,464	2,126	2,013	1,917	1,878	1,127
Courts worked	915	846	843	789	809	806	710	573	543	N/A
Public safety										
Sheriff										
Physical arrests	3,311	3,233	3,242	2,686	2,811	2,849	5,111	4,985	4,857	3,306
Traffic violations	5,029	6,171	4,824	4,208	5,942	5,538	2,905	3,344	1,969	2,332
Public works										
Refuse collection										
Refuse collected (pounds per day)	77,293	78,094	76,551	69,272	N/A	N/A	N/A	N/A	N/A	N/A
Recyclables collected (pounds per day)	6,402	6,312	6,132	6,576	N/A	N/A	N/A	N/A	N/A	N/A
Parks, recreation and cultural										
Parks and recreation										
Total programs	154	160	141	113	N/A	N/A	N/A	N/A	N/A	N/A
Total registrants	2,897	4,094	2,884	2,781	N/A	N/A	N/A	N/A	N/A	N/A
Library										
Volumes in collection	N/A	N/A	N/A	N/A	152,882	149,234	182,438	163,801	170,303	170,303
Total volumes borrowed	N/A									
Water										
Number of customer accounts	2,534	2,532	2,500	2,300	2,300	2,300	2,135	2,350	2,200	1,725
Miles of distribution lines	88	87	86	85	77	76	74	73	68	60
Average daily consumption	879,298	870,444	803,000	730,000	825,000	670,000	800,000	730,000	708,000	690,000
Sewer										
Number of customer accounts	1,225	1,211	1,173	1,139	1,050	1,050	1,086	1,275	1,250	1,224
Waste/water treated (million gallons per year)	175	191	202	N/A						

Source: County departments.

N/A - Not available

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

Function/Program	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Public safety										
Law enforcement vehicles	83	80	79	79	79	79	79	74	74	57
Fire stations	8	8	8	6	6	6	6	6	6	6
Parks, recreation and cultural										
Parks/athletic fields	2	2	2	2	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	66	66	66	66	58	58	58	53	53	50
Sanitary sewers (miles)	44	44	44	44	44	44	44	44	44	42

Source: County departments.

COMPLIANCE SECTION

**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 the basic financial statements of the County of Montgomery, Virginia, as of and for the year ended June 30, 2006 and have issued our report thereon dated November 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. **However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Those reportable conditions are described in the accompanying schedule of findings and questioned costs as Items 06-1 and 06-2.**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. **However, we believe the reportable conditions referred to as Item 06-1 and 06-2 are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 21, 2006.**

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, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed four instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as Items 06-4, 06-5, 06-6, and 06-7.**

This report is intended solely for the information of the audit committee, management, Board of Supervisors, state and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 21, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the County of Montgomery, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County of Montgomery, Virginia complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed two instances of non-compliance with these requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 06-3 and 06-8.

Internal Control over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended solely for the information of the audit committee, management, Board of Supervisors, state and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 21, 2006

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2006

As more fully described in the 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

Enhanced E-911 Service Taxes

Inmate Canteen Funds

Comprehensive Services Act

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

- 1. The auditor's report expresses an unqualified opinion on the financial statements.
2. Two reportable conditions relating to the audit of the financial statements were reported in the 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. Four instances of noncompliance material to the financial statements were disclosed.
4. No reportable conditions relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. The audit disclosed two audit findings relating to major programs.
7. The programs tested as major are:

Table with 2 columns: Name of Program, CFDA #. Rows include Title I: Grants to Local Educational Agencies, Foster Care, Child Nutrition Cluster, Special Education Cluster, and Medicaid.

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

B. FINDINGS – FINANCIAL STATEMENT AUDIT

06-1: Segregation of Duties (Reportable Condition) (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.

Recommendation:

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

Management's Response:

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

06-2: Unrecorded Receivables (Reportable Condition) (Material Weakness)

Condition:

The School's receivables were materially understated due to failure to capture revenue for reimbursable costs for which the reimbursement request had not been filed.

Recommendation:

Steps should be taken to assure that receivables are recorded timely and accurately.

Management's Response:

The auditee concurs.

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

06-3: Child Nutrition Cluster – CFDA 10.553 and 10.555

Condition:

We noted one instance out of six where the number of meals reported for reimbursement did not agree to the meal count sheets as recorded at the individual schools.

Recommendation:

Procedures should be implemented to ensure meal count reports submitted for reimbursement are properly reviewed and agreed to supporting meal count sheets.

Management's Response:

The auditee concurs.

06-8: Foster Care – CFDA 93.658

Condition:

We noted one instance out of seventeen where the case file could not be located for an individual selected for testing.

Recommendation:

Steps should be taken to ensure that all individuals receiving the benefit have a complete and current case file.

Management's Response:

The auditee concurs.

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

06-4: Submission of financial report to the Auditor of Public Accounts by November 30.

Condition:

In accordance with Section 15.2-2510 of the *Code of Virginia*, the local government must submit two copies of the audited financial report to the Auditor of Public Accounts by November 30 of each year. The County did not submit the report in this time period.

Recommendation:

Steps should be taken to assure that the audited financial report is submitted timely.

Management's Response:

The auditee concurs.

06-5: Contingency Management Plan – Department of Social Services

Condition:

The Department of Social Services has not developed, implemented, and tested a contingency management plan that ensures the resumption of critical activities in the event of a business disruption.

Recommendation:

Steps should be taken to develop, implement, and test a contingency management plan.

Management's Response:

The auditee concurs.

06-6: Special Welfare Accounts – Reconciliation

Condition:

The Department of Social Services did reconcile monthly special welfare and dedicated accounts with the Treasurer's records.

Recommendation:

Steps should be taken to ensure that these accounts are reconciled on a monthly basis.

Management's Response:

The auditee concurs.

06-7: Disclosure Statements

Condition:

Three School Board members did not file their statements of economic interest by the required deadline.

Recommendation:

Steps should be taken to ensure that these statements are filed in a timely manner.

Management's Response:

The auditee concurs.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2006

Auditor

Reference No.

05-2: Child Nutrition Cluster – CFDA 10.553 and 10.555

Condition:

Three students out of sixty tested changed eligibility status as a result of the School's annual certification review, but such determination was not changed in the student's records, resulting in reduced lunch students receiving free meal benefits.

Current Status:

No similar findings were noted in the 2006 audit.