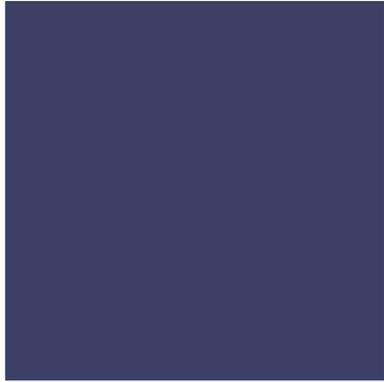


Yesterday...  
today...  
tomorrow



# Montgomery County, VA Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2009



MontgomeryCountyVA.gov



**COUNTY OF MONTGOMERY, VIRGINIA**

**COMPREHENSIVE ANNUAL FINANCIAL  
REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

**FINANCIAL AND MANAGEMENT SERVICES  
DEPARTMENT**

**COUNTY OF MONTGOMERY, VIRGINIA**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

	Page
Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting.....	x
Directory of Principal Officials.....	xi
Organizational Chart.....	xii

**FINANCIAL SECTION**

Independent Auditor’s Report .....	1
Management’s Discussion and Analysis.....	3

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1 Statement of Net Assets.....	5
Exhibit 2 Statement of Activities .....	6

Fund Financial Statements

Exhibit 3 Balance Sheet – Governmental Funds .....	7
Exhibit 4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	9
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Cash Basis) – General Fund .....	11
Exhibit 6 Statement of Net Assets – Proprietary Funds .....	12
Exhibit 7 Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	13
Exhibit 8 Statement of Cash Flows – Proprietary Funds.....	14

Notes to Financial Statements.....	15
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Other Supplementary Information

Discretely Presented Component Unit – School Board

Exhibit A-1 Balance Sheet .....	47
Exhibit A-2 Statement of Revenues, Expenditures, and Changes in Fund Balances.....	48
Exhibit A-3 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis .....	49

Supporting Schedule

Schedule 1 Schedule of Expenditures of Federal Awards.....	51
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## STATISTICAL SECTION

Table 1	Net Assets by Component .....	54
Table 2	Change in Net Assets by Component .....	55
Table 3	Fund Balances – Governmental Funds .....	56
Table 4	Changes in Fund Balances – Governmental Funds .....	57
Table 5	Assessed Value and Actual Value of Taxable Property .....	58
Table 6	Principal Water and Sewer Customers .....	59
Table 7	Property Tax Levies and Collections .....	60
Table 8	Ratios of Outstanding Debt by Type .....	61
Table 9	Pledged Revenue Coverage .....	62
Table 10	Demographic Statistics .....	63
Table 11	Principal Employers .....	64
Table 12	Full-Time Equivalent County Government Employees by Function/Program .....	65
Table 13	Operating Indicators by Function/Program .....	66
Table 14	Capital Asset and Infrastructure Statistics by Function/Program .....	67

## 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 <i>Government Auditing Standards</i> .....	69
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i> .....	71
Summary of Compliance Matters .....	73
Schedule of Findings and Questioned Costs .....	74
Summary Schedule of Prior Audit Findings .....	79

# INTRODUCTORY SECTION

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

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

November 24, 2009

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the County of Montgomery for the fiscal year ended June 30, 2009, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unqualified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities has been included.

The CAFR is divided into four sections: the Introductory, Financial, Statistical, and Compliance sections. The Introductory Section includes this transmittal letter, the County's organizational chart, and a listing of the County's principal officials. The Financial Section includes the independent auditor's report on the financial statements and schedules, the County's general purpose financial statements, and the combining and individual fund and account group financial statements and schedules. The Statistical Section is unaudited and contains selected financial and demographic information, presented on a multi-year basis where appropriate.

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, 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

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

## **ORGANIZATION OF GOVERNMENT**

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 395 square miles, and has a population of more than 88,800 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% over the prior decade.

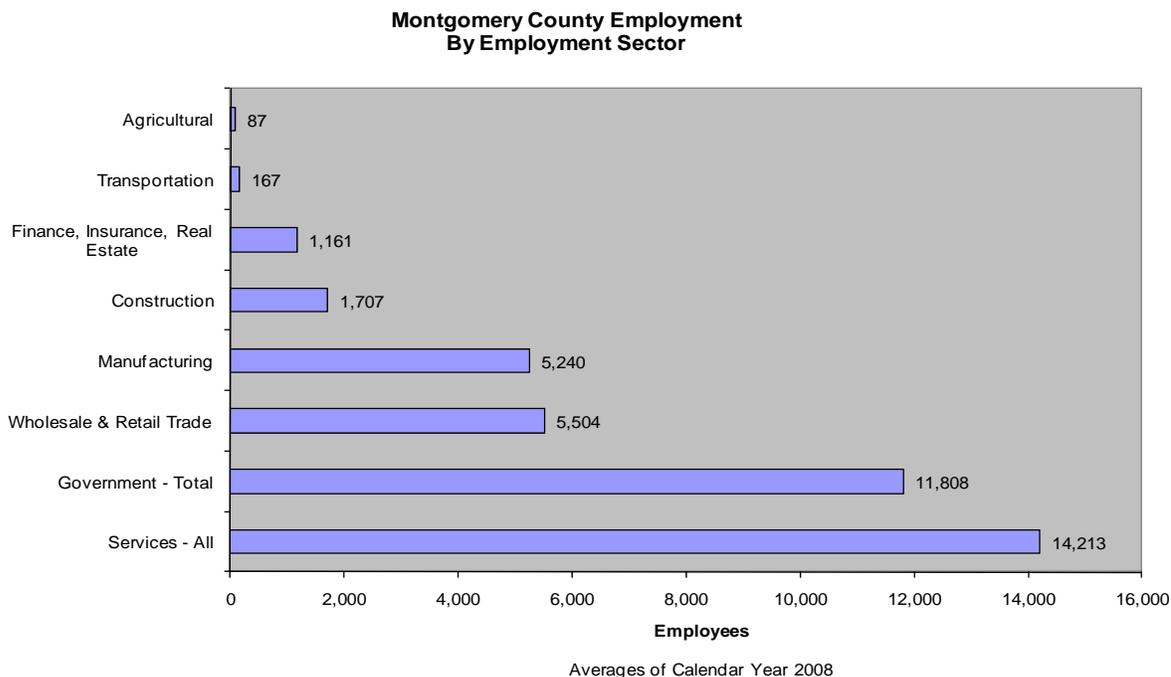
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

## **LOCAL ECONOMIC CONDITION AND OUTLOOK**

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

Montgomery County's labor market remains consistent with the state as a whole. The 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 2008 and June 2009 was 5.83%. The percentage ranged from a low of 3.9% in September 2008 to a high of 7.9% in June 2009. The unemployment rate for the County over the past 10 years (1999-2008) averaged 2.8%, reaching a high of 4.1% in 2008 and a low of 1.8% in 1999. 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 higher than the statewide average of 4.0% for 2008, with Montgomery and Floyd Counties reporting the lowest rates of 4.1% and 4.4% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 5.8% unemployment during the same period. Employment within Montgomery County represented 52.08% of the total civilian labor force in the New River Valley.

As in prior years, the service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2008.



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

Employment growth in 2008 was broad based, covering several economic sectors. The total increase in the number of jobs was 1,068 across all sectors, resulting in a 2.75% increase over the number of jobs in the previous year. Those areas that experienced growth include services, government, wholesale and retail trade, and finance, up 5.13%, 2.79%, 1.44%, and 1.66%, respectively. Manufacturing, construction, and agriculture were down in employment from the prior year 0.11%, 1.5%, and 12.12% respectively. Transportation remained unchanged from the prior fiscal year.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion 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 (aerospace, transportation, and communications components), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (automotive gaskets). The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, is a business/research park that provides the catalyst for Montgomery County's high-tech industry cluster. The park currently has 28 buildings and is home to over 140 high-tech companies and research centers which collectively employ more than 2,000 workers. The majority of the tenants located in the VTCRC are research and development oriented companies operating in the Information Technology, Biotechnology, and Advanced Materials industries. In 2009, the VTCRC received a \$2 million U.S. Economic Development Grant to begin developing the infrastructure for its Phase II Master Plan. This plan will expand the VTCRC campus by adding another 23 buildings over the next 20 years. Once Phase II is complete, the VTCRC campus will total 51 buildings and is expected to be home to approximately 240 companies that will collectively employ almost 5,000 workers.

Since 2000, Montgomery County has experienced \$177.71 million in new capital investment (industrial/commercial, non-retail) and the addition of 3,058 related jobs. Despite the global economic recession, Montgomery County had three existing businesses announce expansions and one company relocated to the community in 2009. These four announcements added 241 jobs and \$16.6 in capital investment to the local economy. In late 2008, Moog Components Group announced an \$8 million, 72,000 square foot expansion of its Blacksburg operations that will enable it to add approximately 50 employees. MOOG Components Group develops and manufactures motion and fiber optic components for the medical, industrial, aerospace and defense industries. Most recently, Cobham Sensory Systems announced the relocation of its Roanoke operations to the Blacksburg Industrial Park. Cobham Sensory Systems is a high-tech company that develops and manufactures semiconductors for various industries. This relocation alone will bring 90 jobs and approximately \$8 million of capital investment to Montgomery County.

Montgomery County's second largest industry sector, government, provides almost 30 percent of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large number of state workers employed by Virginia Polytechnic Institute & State University (Virginia Tech), the Commonwealth's largest public university and the largest employer in the County with approximately 12,000 employees. Approximately 1,720 additional individuals are employed through the Montgomery County Public School System, making education the largest employment classification in the County.

Retail development continues to thrive in Montgomery County despite national trends. In 2009, construction was completed on a town centered development on South Main Street in Blacksburg. The First & Main project has approximately 335,000 square feet of retail space and cost an estimated \$50 million to construct. Several national, regional, and local retailers are locating in the First & Main development including Talbots, Ann Taylor Loft, Coldwater Creek, Books-a-Million, Hibbetts Sport and Blue Ridge Mountain Outdoor Sports. A \$50 million redevelopment of the former Red Lion Inn property along Price's Fork Road was completed as well. Smith's Landing is a mixed-use development which has 284 apartments, a 140-room hotel and 5,000 square feet of retail space. Redevelopment plans are also in the works for the Marketplace Plaza in Christiansburg. Sam's Club is currently performing due diligence with the Town of Christiansburg to locate a 90,000 square foot store with a fueling station in the Marketplace Plaza. Initial plans are to demolish a portion of the current structure to construct a "new generation" Sam's Club Store by early to mid 2011.

In terms of new construction, overall activity in the unincorporated portion of the County during 2009 was up from the previous fiscal year. Overall, the number of building permits issued for both residential and commercial/government activities was up by 33%. Residential permits saw an increase of 28%, while commercial and government building activity was up 50% and 300% respectively. The increase in the residential permits is likely related to tax incentives for new home buyers combined with the low interest rates available for financing. The increase in commercial building activity is most notably due to the construction of two new telecommunications towers, a new building at the Elliston Lafayette Industrial park, vault renovations at the Bank of Shawsville and a new building on South Main Street. The increase in governmental building activity is related to the construction of the new East Montgomery Elementary School in the eastern portion of the County. The average assessed value of new property completed in 2008 was approximately \$223,333 compared with the average assessed value for all Montgomery County homes of \$180,806.

The Economic Development staff, the Economic Development Authority (EDA), the Economic Development Commission (EDC), and the Montgomery/Blacksburg/Christiansburg Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity. In 2009 alone, the Economic Development Department actively consulted 25 companies with four of them leading to formal announcements totaling \$18.68 million in new investment and 547 job commitments.

## **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 2009 include:

#### **The 2009-2013 Capital Improvement Program**

The Capital Improvement Program (CIP) for 2009 through 2013 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 \$83,761,382 and is comprised of County Capital Improvements of \$30 million and School Capital Improvements of \$53.8 million. The total County Capital Improvements of \$30 million are dedicated to Public Safety improvements, including \$2.5 million earmarked for Fire and Rescue Capital Equipment.

Montgomery County maintains its strong commitment to providing funds for public safety improvements. In 2009, the Board of Supervisors provided \$1,056,855 in direct cash contributions, which was used to purchase Fire and Rescue Capital Equipment.

In August 2008, the County issued \$77 million in new debt (\$70.9 million for new projects and \$6.1 million for a debt service reserve) for several County and School capital projects. New projects include two new elementary schools, a new courthouse, and upgrades to the jail and Sheriff's Office building. Of this \$130 million issued for projects, approximately \$30 million will be used for County capital projects and \$100 million for school capital projects.

#### **Completed Capital Projects During the Year**

The County is a participant in the new Western Virginia Regional Jail which opened on April 9, 2009. The jail is located in Roanoke County, Virginia. The new regional jail facility has a 605-bed capacity (805-bed capacity with double bunking) and will serve the City of Salem and the Counties of Franklin, Montgomery, and Roanoke.

A new fire truck was purchased for Elliston Fire and Rescue and a new ambulance was purchased for Shawsville Fire and Rescue this year at a total cost of \$572,927.

Installation of the new computer aided dispatch software (CAD) was completed for the Sheriff's department. This software is used by the 911 system to dispatch law enforcement and rescue personnel and to track all calls coming into the 911 system. Total cost of this project was \$206,005.

Additional land was purchased for the new Courthouse project at a cost of \$602,250.

The Motor Mile Park was completed in July 2008. Land and equipment were donated for this park in 2008 and the County constructed restroom facilities at a cost of approximately \$100,000. The County also purchased equipment for the park at an approximate cost of \$20,000.

The Montgomery County Public Schools completed an HVAC upgrade project for the schools this year at a total project cost of over \$2 million. This project was started in 2007.

### **For the Future**

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

#### **Public Safety**

As the County continues to grow, new public facilities are critical in order to maintain an adequate level of public safety for the County's citizens. The 2010 – 2014 Capital Improvement Program (CIP) includes the funding necessary for several new public safety and judicial facilities. The Courthouse Project, which involves the construction of four story courthouse facility and adjacent parking deck, is designed to meet the needs of the courts for the next 25 years. A total of nine courtrooms are planned. The current Courthouse has three courtrooms. The ground breaking for the new Courthouse Project was held on September 18, 2009; construction on the new facility is expected to be completed by October 2011 at a cost of \$19.1 million.

In addition to the Courthouse project, the County plans to renovate its existing jail. These renovations would allow approximately 60 inmates to be housed in the County until they are sentenced by the courts.

As part of the 2010 Budget Process, a half cent of the real estate tax rate or \$335,720 was earmarked to provide the Fire and Rescue Commission with an ongoing source of funding to purchase Fire and Rescue Capital Equipment.

#### **Education**

Cash contributions toward school capital projects in the amount of \$6.9 million were accumulated from earmarking 2 cents from the real estate tax for the past three years. Surplus dollars remaining at the end of 2008 of \$1.5 million were also added to these funds. The County has used these funds to provide for debt service expenses and will transfer \$1.87 million in 2010 for debt service expenses. The balance of these funds after the transfer for 2010 is just over \$5 million and will also be used to cover debt service expenses in future years.

Funds will support the construction of an elementary school in the eastern portion of the County and another elementary school in the Price's Fork community, each with an estimated cost of \$27.1 million.

#### **Department Focus**

The Parks & Recreation Department promotes educational and emotional growth as well as the social, cultural and moral well-being of families and communities within Montgomery County. The department is dedicated to providing community recreation for children, youth and adults. The services of the department contribute immensely to building sound physical and mental health, citizenship and character, and to reducing crime and delinquency within the County.

The Parks and Recreation Department serves a base of over 88,000 citizens that include two towns, Christiansburg and Blacksburg. The department is responsible for a wide array of programs for residents of all ages and interests. The County's park system hosts an assortment of outdoor recreational activities. With a diverse style of parks and open green spaces throughout the County, there is something for the whole family - from the most popular County park, "Mid County Park" with its Frog Pond Swimming Pool, nature trails and Golden Hills Disc Golf course to open natural areas such as Coal Mining Heritage Park and the Huckleberry Trail. Along with biking and hiking trails, Montgomery County hosts three separate blue way trails for canoeing, kayaking and fishing.

The Parks and Recreation Department keeps in touch with the citizens by publishing three program brochures a year along with interactive communication through list serves, web sites and online social networking. Youth sports, aquatics, community programs, active adult programs and tours, outdoor recreation and special events are some examples of what you will find in the seasonal program brochure. With year round recreation it is easy to stay active and involved in Montgomery County.

## **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, 2009, reflect cash that will not be received or disbursed until fiscal year 2010.

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

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

The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All amounts lapse at year-end. Material encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities. Funding for these encumbrances generally is 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 \$2.5 million on all deposits for the year ended June 30, 2009.

## **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 Government Accountability Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the 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, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

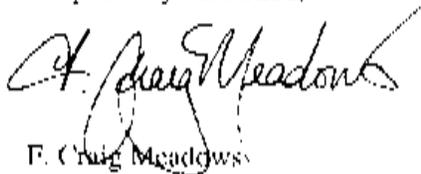
A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty-two consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting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



F. Craig Meadows  
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, 2008

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.



A handwritten signature in black ink, appearing to read "K. L. R.", written in a cursive style.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", written in a cursive style.

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
June 30, 2009**

**BOARD OF SUPERVISORS**

Annette S. Perkins, Chair  
James D. Politis, Vice Chair

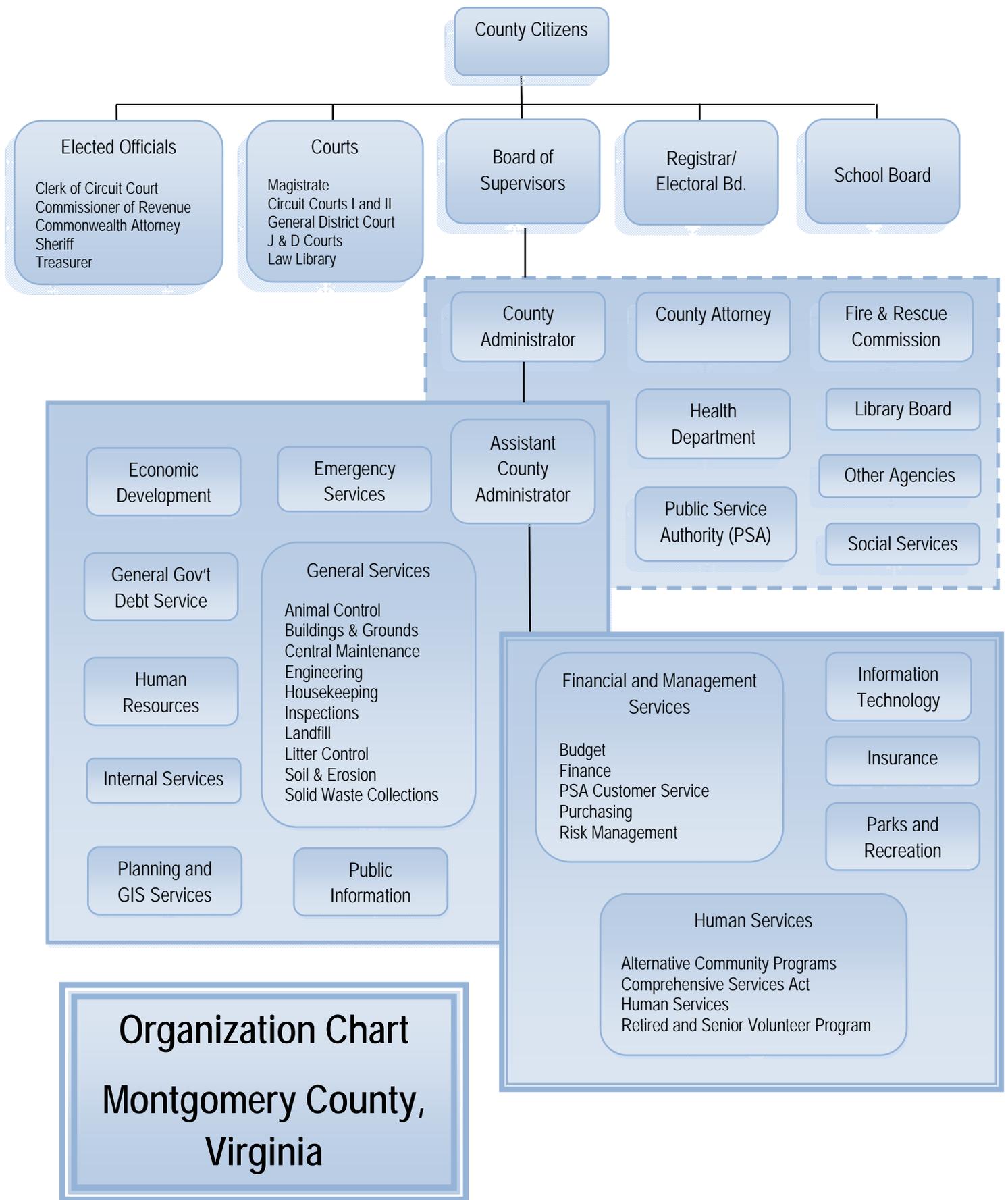
Mary W. Biggs	Doug W. Marrs
William (Bill) H. Brown	John A. Muffo
Gary D. Creed	

**COUNTY ADMINISTRATION**

Paula K. Alston	Director of Montgomery Regional Library
Ronald E. Bonnema	Director of General Services/County Engineer
Mary B. Critzer	Director of Human Services
Karen A. Edmonds	Director of Human Resources
L. Carol Edmonds	Assistant County Administrator
Robert C. Fronk	Director of Public Service Authority
Brian T. Hamilton	Director of Economic Development
Doug Harris	Virginia Cooperative Extension Agent
Mitchell B. Haugh	Director of Parks and Recreation
Angela M. Hill	Director of Fiscal and Management Services
Larry W. Lindsey	Director of Social Services
Martin M. McMahan	County Attorney
F. Craig Meadows	County Administrator
Jeffrey A. Mersch	Director of Information Management Services
Ruth L. Richey	Director of Public Information
Steven M. Sandy	Director of Planning and Inspections
Walter L. Shannon	Interim Superintendent of Schools
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	Registrar

**CONSTITUTIONAL OFFICERS**

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



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# FINANCIAL SECTION

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## 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, 2009, 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, 2008, 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.**

As described in Note 12 to the financial statements, the County adopted the provisions of GASB Statement No. 45, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, in 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 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 24, 2009

## 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, 2009. 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 2009

- Total net assets for governmental activities were \$73 million at June 30, 2009. This figure is based on assets totaling \$251 million and liabilities of \$178 million.
- Total general fund revenues fell below the final budgeted amount by \$750,000 or approximately .8%. This is due to actual collections of personal property taxes exceeding budgeted amounts by \$600,000, as well as, collections of \$400,000 more in delinquent taxes than budgeted. These were offset by grant funds which were below the final budget by approximately \$1.2 million. These grants do not follow the fiscal year. This resulted in funds being budgeted but not earned by year end. Other designated revenues were lower than budgeted due in part to state budget cuts. Actual expenditures were \$8.9 million less than the final expenditure budget. A portion of this is attributable to the timing of grant activity mentioned above. 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. Also, orders had been placed, but goods not received at year end for a total of approximately \$1.2 million. Finally, the Montgomery County School Board (the Schools) spent approximately \$3.3 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower.
- The business-type activities total net assets at June 30, 2009 were approximately \$15.5 million.
- Lease revenue bonds totaling \$77 million were issued during the year to be used toward the construction of two elementary schools, as well as, a new courthouse facility. Repayment of bonded debt totaled \$8.4 million which accounts for the decrease in bonded debt.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$21.4 million, or 13.9% of fiscal year 2009 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent. The ratio exceeded the target as the Schools had a remaining appropriation of more than \$3.3 million at June 30. Encumbrances for the school operating fund at year end totaled \$1.3 million. Subsequent to year end the Board of Supervisors appropriated \$1.7 million of undesignated fund balance to the school operating and school nutrition funds, and set aside an additional \$900,000 in a rainy day fund for the Schools. With this taken into consideration, undesignated fund balance as a percentage of general and school operating fund revenues was 12.2%, which is slightly above the target.

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

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

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

### FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2009	2008	2009	2008	2009	2008	2009	2008
Current and other assets	\$139.5	\$64.9	\$1.5	\$1.4	\$141.0	\$66.3	\$20.8	\$19.1
Capital assets	111.7	104.9	20.9	21.7	132.6	126.6	18.1	17.2
Total assets	<u>\$251.2</u>	<u>\$169.8</u>	<u>\$22.4</u>	<u>\$23.1</u>	<u>\$273.6</u>	<u>\$192.9</u>	<u>\$38.9</u>	<u>\$36.3</u>
Long-term liabilities	\$165.8	\$95.8	\$6.6	\$6.8	\$172.4	\$102.6	\$16.2	\$14.4
Other liabilities	12.2	8.7	0.3	0.2	12.5	8.9	14.2	13.1
Total liabilities	<u>\$178.0</u>	<u>\$104.5</u>	<u>\$6.9</u>	<u>\$7.0</u>	<u>\$184.9</u>	<u>\$111.5</u>	<u>\$30.4</u>	<u>\$27.5</u>
Net assets:								
Invested in capital assets, net of related debt	\$36.3	\$29.0	\$14.5	\$15.0	\$50.8	\$44.0	\$8.0	\$6.8
Restricted	11.3	5.1	0.0	0.2	11.3	5.3	3.6	4.5
Unrestricted	25.6	31.2	1.0	0.9	26.6	32.1	(3.1)	(2.5)
Total net assets	<u>\$73.2</u>	<u>\$65.3</u>	<u>\$15.5</u>	<u>\$16.1</u>	<u>\$88.7</u>	<u>\$81.4</u>	<u>\$8.5</u>	<u>\$8.8</u>

#### Governmental Activities

Total net assets shown above for governmental activities are \$73.2 million or \$7.9 million more than in 2008. Capital assets increased by \$6.8 million resulting from \$10.7 million in capital additions, offset by \$3.5 million in current year depreciation. Of the \$10.7 million of additions, \$7.9 million in projects were added to construction in progress, primarily for the new Courthouse; \$1.6 million, Blacksburg High School athletic stadium, \$338,000; new Elliston Elementary School, \$5.6 million; and preliminary work on the new Price's Fork Elementary School, \$362,000. School air conditioning projects, \$875,000; the purchase of a new fire truck, \$493,000; a new ambulance, \$115,469; a new computer aided dispatch software system for the Sheriff's Department, \$111,000; land purchase for new Courthouse, \$602,250; a new radio cache emergency response system, \$525,000; and six deputy vehicles, \$146,000 comprise the majority of the remaining additions. Current assets and long-term liabilities both increased as a result of the issuance of \$77 million in lease revenue bonds. Only a portion of these funds were spent before year end, resulting in an increase in restricted investments of \$67.9 million.

Business-Type Activities

Total net assets shown above for business-type activities are \$15.5 million, a decrease of \$600,000 from fiscal year 2008, resulting primarily from depreciation expense.

Component Units

Total net assets shown above for component units are \$8.5 million for 2009, a decrease from 2008 of \$300,000. In 1999, the Economic Development Authority (EDA) entered into an agreement with the Economic Development Administration for a federal grant in the amount of \$1,181,341. The EDA was not able to use the grant for its intended purpose, and an acceptable substitute project could not be identified. Therefore, the funds must be returned to the Economic Development Administration. This expense in 2009 resulted in a decrease in net assets. See Note 6 for additional details of this transaction.

**Summary of Activities:**

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>		<b>Component Units</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>								
<b>Program revenues:</b>								
Charges for services	\$ 2.6	\$ 2.8	\$ 3.4	\$ 3.2	\$ 6.0	\$ 6.0	\$ 4.4	\$ 4.7
Operating grants and contributions	15.1	15.4	-	-	15.1	15.4	64.2	58.3
Capital grants and contributions	-	-	-	0.7	-	0.7	-	-
<b>General revenues:</b>								
Property taxes	59.9	54.7	-	-	59.9	54.7	-	-
Other taxes	10.5	11.2	-	-	10.5	11.2	-	-
Payments from Montgomery County	-	-	-	-	-	-	35.9	34.2
Grants and contributions not restricted to specific purposes	5.2	5.2	-	-	5.2	5.2	-	-
Other	2.5	2.0	0.1	-	2.6	2.0	0.3	3.4
<b>Total revenues</b>	<b>95.8</b>	<b>91.3</b>	<b>3.5</b>	<b>3.9</b>	<b>99.3</b>	<b>95.2</b>	<b>104.8</b>	<b>100.6</b>
<b>Expenses</b>								
General government	7.4	7.1	-	-	7.4	7.1	-	-
Judicial administration	2.6	2.4	-	-	2.6	2.4	-	-
Public safety	12.0	11.2	-	-	12.0	11.2	-	-
Public works	5.1	4.6	-	-	5.1	4.6	-	-
Health and welfare	10.5	9.8	-	-	10.5	9.8	-	-
Education	38.6	35.9	-	-	38.6	35.9	102.6	95.4
Parks, recreation and cultural	3.0	2.8	-	-	3.0	2.8	-	-
Community development	1.3	1.3	-	-	1.3	1.3	2.5	1.5
Water	-	-	2.2	2.0	2.2	2.0	-	-
Waste water	-	-	1.9	1.7	1.9	1.7	-	-
Interest on long-term debt	7.4	4.7	-	-	7.4	4.7	-	-
<b>Total expenses</b>	<b>87.9</b>	<b>79.8</b>	<b>4.1</b>	<b>3.7</b>	<b>92.0</b>	<b>83.5</b>	<b>105.1</b>	<b>96.9</b>
<b>Change in net assets</b>	<b>7.9</b>	<b>11.5</b>	<b>(0.6)</b>	<b>0.2</b>	<b>7.3</b>	<b>11.7</b>	<b>(0.3)</b>	<b>3.7</b>
Net assets-beginning	65.3	53.8	16.1	15.9	81.4	69.7	8.8	5.1
Net assets-endindg	<b>\$ 73.2</b>	<b>\$ 65.3</b>	<b>\$ 15.5</b>	<b>\$ 16.1</b>	<b>\$ 88.7</b>	<b>\$ 81.4</b>	<b>\$ 8.5</b>	<b>\$ 8.8</b>

## **Revenues**

For the fiscal year ended June 30, 2009, revenues from governmental funds totaled \$95.8 million, an increase of \$4.5 million. Property taxes increased \$5.2 million over the previous year. While the real estate tax rate was not increased for calendar year 2009, there was growth in real estate and personal property values resulting from increased property tax revenues over 2008. Also approximately \$.5 million was collected in 2009 from property that was auctioned for real estate liens.

Charges for services from business-type activities totaled \$3.4 million and had a slight increase of \$200,000 from 2008. While water and wastewater rates remained steady, additional revenue was earned through increases in facility fees. New fees were also charged for fire service charges and fire hydrant availability in 2009.

Component unit revenues total \$105 million, including a \$35.9 million transfer from the general fund. GASB 34 requires that school debt service is included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$9 million, which would have brought the total transfer to \$44.9 million under the previous method of accounting.

## **Expenses / Expenditures**

Expenses for governmental activities totaled \$87.9 million in 2009, an increase of \$8.1 million from the previous year. Montgomery County's ongoing commitment to education is demonstrated through the increased \$2.7 million in funding from 2008. Additionally, its commitment to public safety is evident by the increase of \$400,000 in personal service expenses resulting from the addition of seven positions in the current year, as well as, an increase of \$200,000 to cover the cost of outsourcing inmates and to cover the County's share of the new regional jail. Also, interest expense increased \$2.7 million as a result of the County issuing \$77 million of lease revenue bonds in 2009. These bonds will be used to construct two new elementary schools as well as a new County courthouse.

Expenses for business-type activities increased slightly at \$.4 million. Water fund expenses increased approximately \$104,000, and Waste water fund expenses increased approximately \$235,000.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$35.9 million to the operation of the Schools. Depreciation expense related to the schools totaled \$1.8 million. Total expenses for education were \$38.6 million. This amount represented about 44% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$45 million, or 51%. 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 % of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2009.

## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

For the fiscal year ended June 30, 2009, the governmental funds reflect a combined fund balance of \$127.3 million, an increase of \$70.7 million from June 30, 2008. This increase is due primarily to the issuance of \$77 million in new debt to fund a portion of two new elementary schools and a new County courthouse.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2009 in millions:

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>
<b>Revenues</b>			
Taxes	\$ 68.5	\$ 68.5	\$ 69.7
Intergovernmental	18.7	21.1	19.2
Other	3.5	4.0	4.0
Total	<u>90.7</u>	<u>93.6</u>	<u>92.9</u>
<b>Expenditures and transfers</b>	<u>90.7</u>	<u>103.2</u>	<u>91.4</u>
<b>Change in fund balance</b>	<b>\$ -</b>	<b>\$ (9.6)</b>	<b>\$ 1.5</b>

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 \$2.2 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 2008 budget and the appropriation of grants received throughout the year.

Actual tax revenue exceeded the budgeted amount due to unanticipated growth in personal property vehicles of approximately \$600,000. Growth also exceeded the estimate in the categories real estate and business furniture and fixtures at \$200,000 per category. Budgeted intergovernmental revenue exceeded the actual by approximately \$1.9 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 lower than anticipated amount of school expenditures during the year as previously discussed, as well as the timing of payments by the schools at year end. The County did transfer a portion of the balance of these funds to the Schools in fiscal year 2009 and set the remaining amount aside as rainy day monies for the Schools.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2009, 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:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>		<b>Component Units</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Non-depreciable assets</b>								
Land	\$ 12.1	\$ 11.5	\$ 0.3	\$ 0.3	\$ 12.4	\$ 11.8	\$ 0.4	\$ 0.4
Construction in progress	12.7	6.1	-	-	12.7	6.1	-	0.2
<b>Depreciable capital assets</b>								
Infrastructure	-	-	31.5	31.5	31.5	31.5	-	-
Buildings and improvements	104.9	103.6	0.1	0.1	105.0	103.7	41.3	40.3
Machinery and equipment	15.5	14.2	0.6	0.6	16.1	14.8	13.1	11.8
Accumulated depreciation	(33.5)	(30.6)	(11.6)	(10.8)	(45.1)	(41.4)	(36.8)	(35.5)
<b>Total</b>	<b>\$ 111.7</b>	<b>\$ 104.8</b>	<b>\$ 20.9</b>	<b>\$ 21.7</b>	<b>\$ 132.6</b>	<b>\$ 126.5</b>	<b>\$ 18.0</b>	<b>\$ 17.2</b>

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

	<b>Balance June 30, 2008</b>	<b>Net Additions/ (Deletions)</b>	<b>Balance June 30, 2009</b>
<b>Non-depreciable assets</b>			
Land	\$ 12.2	\$ 0.6	\$ 12.8
Construction in progress	6.3	6.4	12.7
<b>Depreciable capital assets</b>			
Infrastructure	31.5	-	31.5
Buildings and improvements	144.0	2.3	146.3
Machinery and equipment	26.6	2.6	29.2
Accumulated depreciation	(76.9)	(5.0)	(81.9)
<b>Total</b>	<b>\$ 143.7</b>	<b>\$ 6.9</b>	<b>\$ 150.6</b>

#### Governmental Activities

In 2009, additional land was purchased for the new Courthouse project at a cost of \$600,000.

Construction began on the new Elliston Elementary School at a cost of \$5.6 million and construction began on the new Courthouse at a cost of \$1.6 million. Additionally, preliminary work began on the new Price's Fork Elementary School at a cost of \$362,000 and School air conditioning projects added another \$1 million in capital assets.

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, 2009, in millions of dollars:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
General obligation bonds	\$ 16.4	\$ 18.3	\$ -	\$ -	\$ 16.4	\$ 18.3
Lease revenue bonds	122.7	51.3	-	-	122.7	51.3
Literary loans	3.3	3.5	-	-	3.3	3.5
Refunding bonds	20.7	21.2	-	-	20.7	21.2
Notes payable	-	-	-	-	-	-
Revenue bonds	-	-	6.5	6.6	6.5	6.6
<b>Total</b>	<b>\$ 163.1</b>	<b>\$ 94.3</b>	<b>\$ 6.5</b>	<b>\$ 6.6</b>	<b>\$ 169.6</b>	<b>\$ 100.9</b>

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

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

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Net debt per capita should remain under \$2,000. Net debt is defined as any and all debt that is tax-supported.
4. Net debt as a percentage of estimated market value of taxable property should target 3.0% but not exceed 4.0%.
5. The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10% but not exceed 12%.
6. The ratio of net debt per capita as a percentage of income should target 7.5% but not exceed 10.0%.
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, 2009, the County was in compliance with all debt policies.

### **ECONOMIC FACTORS**

The unemployment rate for the County is, as of September 2009, 6.3 percent, an increase from the rate a year ago which was 4.1 percent. The current rate is slightly favorable compared to the state's average unemployment rate of 6.6 percent.

The Board of Supervisors held the tax rate level at \$0.71 per \$100 of assessed value for calendar year 2009. The County reassesses real property every four years as required by the Code of Virginia. Fund balance was not used in the 2009 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**

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## COUNTY OF MONTGOMERY, VIRGINIA

## STATEMENT OF NET ASSETS

June 30, 2009

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
<b>ASSETS</b>						
Cash and cash equivalents (Note 4)	\$ 38,461,610	\$ 670,924	\$ 39,132,534	\$ 1,024,878	\$ 544,284	\$ 40,701,696
Receivables, net (Note 5)	1,875,595	556,304	2,431,899	-	43,905	2,475,804
Due from primary government	-	-	-	5,261,202	-	5,261,202
Due from other governmental units (Note 6)	3,326,279	-	3,326,279	3,154,382	-	6,480,661
Internal balances (Note 7)	6,856	(6,856)	-	-	-	-
Prepays	414,934	12,130	427,064	1,471,802	-	1,898,866
Inventories	-	27,059	27,059	105,724	5,440,167	5,572,950
Advances to component unit (Note 15)	5,271,492	-	5,271,492	-	-	5,271,492
Restricted assets:						
Cash and cash equivalents (Note 4)	295,633	152,440	448,073	122,749	-	570,822
Investments (Note 4)	87,355,769	-	87,355,769	-	-	87,355,769
Notes receivable	-	-	-	-	3,325,000	3,325,000
Accrued interest receivable	-	-	-	-	237,183	237,183
Notes receivable (Note 15)	1,178,994	-	1,178,994	-	59,929	1,238,923
Debt issuance costs, net	1,359,010	70,116	1,429,126	-	19,500	1,448,626
Capital assets: (Note 8)						
Non-depreciable	24,803,662	340,389	25,144,051	394,257	12,852	25,551,160
Depreciable, net	86,851,238	20,603,096	107,454,334	8,777,993	8,888,428	125,120,755
Total assets	251,201,072	22,425,602	273,626,674	20,312,987	18,571,248	312,510,909
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	2,859,507	237,156	3,096,663	196,123	6,589	3,299,375
Accrued payroll and related liabilities	64,228	-	64,228	7,409,810	-	7,474,038
Accrued interest payable	3,104,312	11,156	3,115,468	-	-	3,115,468
Amounts held for others	295,633	-	295,633	122,749	-	418,382
Advances from primary government (Note 15)	-	-	-	-	5,271,492	5,271,492
Due to other governmental units (Note 6)	466,352	-	466,352	-	1,181,431	1,647,783
Due to component unit	5,261,202	-	5,261,202	-	-	5,261,202
Unearned revenue (Note 5)	121,883	-	121,883	-	-	121,883
Customer deposits	-	31,440	31,440	-	50,000	81,440
Long-term liabilities: (Note 9)						
Due within one year	11,686,296	297,669	11,983,965	1,086,058	304,927	13,374,950
Due in more than one year	154,152,928	6,318,273	160,471,201	3,851,000	10,945,316	175,267,517
Total liabilities	178,012,341	6,895,694	184,908,035	12,665,740	17,759,755	215,333,530
<b>NET ASSETS (DEFICIT)</b>						
Invested in capital assets, net of related debt	36,330,270	14,575,475	50,905,745	9,172,250	(1,169,969)	58,908,026
Restricted:						
Debt service	11,262,042	-	11,262,042	-	-	11,262,042
Note receivable	-	-	-	-	3,562,183	3,562,183
Unrestricted	25,596,419	954,433	26,550,852	(1,525,003)	(1,580,721)	23,445,128
Total net assets (deficit)	\$ 73,188,731	\$ 15,529,908	\$ 88,718,639	\$ 7,647,247	\$ 811,493	\$ 97,177,379

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, 2009

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	
<b>Primary Government:</b>										
Governmental activities:										
General government administration	\$ 7,381,364	\$ 363,342	\$ 503,474	\$ -	\$ (6,514,548)	\$ -	\$ (6,514,548)	\$ -	\$ -	\$ (6,514,548)
Judicial administration	2,658,492	404,385	1,092,440	-	(1,161,667)	-	(1,161,667)	-	-	(1,161,667)
Public safety	11,957,163	917,866	5,195,995	-	(5,843,302)	-	(5,843,302)	-	-	(5,843,302)
Public works	5,153,812	123,341	29,974	-	(5,000,497)	-	(5,000,497)	-	-	(5,000,497)
Health and welfare	10,490,545	136,602	7,500,901	-	(2,853,042)	-	(2,853,042)	-	-	(2,853,042)
Education	38,634,043	-	420,768	-	(38,213,275)	-	(38,213,275)	-	-	(38,213,275)
Parks, recreational, and cultural	3,022,711	525,976	341,018	-	(2,155,717)	-	(2,155,717)	-	-	(2,155,717)
Community development	1,264,454	135,649	-	-	(1,128,805)	-	(1,128,805)	-	-	(1,128,805)
Interest on long-term debt	7,389,389	-	-	-	(7,389,389)	-	(7,389,389)	-	-	(7,389,389)
Total governmental activities	87,951,973	2,607,161	15,084,570	-	(70,260,242)	-	(70,260,242)	-	-	(70,260,242)
Business-type activities:										
Water	2,174,300	1,822,950	-	10,000	-	(341,350)	(341,350)	-	-	(341,350)
Wastewater	1,895,962	1,541,534	-	6,714	-	(347,714)	(347,714)	-	-	(347,714)
Total business-type activities	4,070,262	3,364,484	-	16,714	-	(689,064)	(689,064)	-	-	(689,064)
Total primary government	\$ 92,022,235	\$ 5,971,645	\$ 15,084,570	\$ 16,714	(70,260,242)	(689,064)	(70,949,306)	-	-	(70,949,306)
<b>Component Units:</b>										
School Board	\$ 102,696,551	\$ 3,163,494	\$ 64,245,495	\$ -	-	-	-	(35,287,562)	-	(35,287,562)
Industrial Development Authority	2,454,349	1,193,082	-	-	-	-	-	-	(1,261,267)	(1,261,267)
Total component units	\$ 105,150,900	\$ 4,356,576	\$ 64,245,495	\$ -	-	-	-	(35,287,562)	(1,261,267)	(36,548,829)
General Revenues:										
General property taxes (Note 5)					59,872,099	-	59,872,099	-	-	59,872,099
Sales and use tax					7,086,741	-	7,086,741	-	-	7,086,741
Utility tax					1,877,884	-	1,877,884	-	-	1,877,884
Motor vehicle license tax					536,018	-	536,018	-	-	536,018
Other local taxes					990,031	-	990,031	-	-	990,031
Intergovernmental revenue, unrestricted					5,181,174	-	5,181,174	-	-	5,181,174
Investment earnings, unrestricted					706,324	5,230	711,554	35,743	248,051	995,348
Investment earnings, restricted for capital projects					2,027,455	-	2,027,455	-	-	2,027,455
Payments from Montgomery County					-	-	-	35,899,420	-	35,899,420
Transfers (Note 7)					(114,000)	114,000	-	-	-	-
Total general revenues and transfers					78,163,726	119,230	78,282,956	35,935,163	248,051	114,466,170
Change in net assets					7,903,484	(569,834)	7,333,650	647,601	(1,013,216)	6,968,035
<b>Net assets – beginning, as restated (Note 20)</b>					65,285,247	16,099,742	81,384,989	6,999,646	1,824,709	90,209,344
<b>Net assets – ending</b>					\$ 73,188,731	\$ 15,529,908	\$ 88,718,639	\$ 7,647,247	\$ 811,493	\$ 97,177,379

## COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2009**

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 28,835,874	\$ 9,625,736	\$ 38,461,610
Receivables, net	1,875,595	-	1,875,595
Due from other governmental units	3,326,279	-	3,326,279
Advances to other funds	6,856	-	6,856
Advances to component unit	5,271,492	-	5,271,492
Notes receivable	1,178,994	-	1,178,994
Restricted assets:			
Cash and cash equivalents	295,633	-	295,633
Investments	-	87,355,769	87,355,769
Total assets	<u>\$ 40,790,723</u>	<u>\$ 96,981,505</u>	<u>\$ 137,772,228</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 822,375	\$ 2,037,132	\$ 2,859,507
Accrued payroll and related liabilities	64,228	-	64,228
Due to other governmental units	466,352	-	466,352
Due to component unit	5,261,202	-	5,261,202
Deferred revenue (Note 5)	1,573,586	-	1,573,586
Amounts held for others	295,633	-	295,633
Total liabilities	<u>8,483,376</u>	<u>2,037,132</u>	<u>10,520,508</u>
Fund Balances:			
Reserved (Note 16)	8,002,362	16,964,867	24,967,229
Unreserved, reported in:			
General fund, designated (Note 16)	2,901,914	-	2,901,914
County capital improvements, designated (Note 16)	-	77,979,506	77,979,506
General fund, undesignated	21,403,071	-	21,403,071
Total fund balances	<u>32,307,347</u>	<u>94,944,373</u>	<u>127,251,720</u>
Total liabilities and fund balances	<u>\$ 40,790,723</u>	<u>\$ 96,981,505</u>	<u>\$ 137,772,228</u>

(Continued)

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2009**

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

<b>Ending fund balance – governmental funds</b>		\$ 127,251,720
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		111,654,900
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		414,934
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,451,703
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.		1,359,010
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	\$ (162,769,399)	
Landfill closure/post-closure liability	(525,441)	
Compensated absences	(2,294,384)	
Other postemployment benefits	(250,000)	
Accrued interest payable	(3,104,312)	
	<u>(168,943,536)</u>	<u>(168,943,536)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 73,188,731</u></u>

## COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2009**

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
General property taxes	\$ 59,001,533	\$ -	\$ 59,001,533
Other local taxes	10,490,675	-	10,490,675
Permits, privilege fees and regulatory licenses	678,798	-	678,798
Fines and forfeitures	86,587	-	86,587
Revenue from use of money and property	706,324	2,027,457	2,733,781
Charges for services	770,575	-	770,575
Recovered costs	1,541,764	100,781	1,642,545
Intergovernmental	19,501,763	192,636	19,694,399
Total revenues	<u>92,778,019</u>	<u>2,320,874</u>	<u>95,098,893</u>
<b>EXPENDITURES</b>			
Current operating:			
General government administration	7,252,162	-	7,252,162
Judicial administration	2,660,668	-	2,660,668
Public safety	11,813,809	-	11,813,809
Public works	4,142,728	-	4,142,728
Health and welfare	10,459,213	-	10,459,213
Education	36,822,962	-	36,822,962
Parks, recreation and cultural	3,163,574	-	3,163,574
Community development	1,268,374	-	1,268,374
Debt service:			
Principal retirement	8,205,430	-	8,205,430
Interest and fiscal charges	5,949,512	17,954	5,967,466
Bond issuance costs	-	896,903	896,903
Capital projects	-	9,393,891	9,393,891
Total expenditures	<u>91,738,432</u>	<u>10,308,748</u>	<u>102,047,180</u>
Excess (deficiency) of revenues over expenditures	<u>1,039,587</u>	<u>(7,987,874)</u>	<u>(6,948,287)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of bonds	-	77,000,000	77,000,000
Bond premium	-	775,666	775,666
Transfers in	2,188,604	3,333,480	5,522,084
Transfers out	(3,447,480)	(2,188,604)	(5,636,084)
Total other financing sources (uses)	<u>(1,258,876)</u>	<u>78,920,542</u>	<u>77,661,666</u>
Net change in fund balances	(219,289)	70,932,668	70,713,379
<b>FUND BALANCES AT JULY 1</b>	<u>32,526,636</u>	<u>24,011,705</u>	<u>56,538,341</u>
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 32,307,347</u>	<u>\$ 94,944,373</u>	<u>\$ 127,251,720</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2009

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 \$ 70,713,379

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which depreciation (\$3,469,752) and the loss on disposals (\$52,026) are less than capital outlay (\$10,363,613) in the current period.

6,841,835

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

870,565

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

Issuance of lease revenue bonds \$ (77,000,000)

Principal repayments:

General obligation bonds 1,806,266

Lease revenue bonds 5,637,277

Literary fund loans 254,000

Refunding bonds 507,887

(68,794,570)

Governmental funds report the effect of bond issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrued, regardless of when it is due. The net effect of those differences are as follows:

Premium on issuance of lease revenue bonds (775,666)

Bond issuance costs 896,903

Amortization of bond issuance costs (74,999)

Amortization of bond premium 53,399

Amortization of deferred amounts (110,187)

Interest expense (1,290,136)

(1,300,686)

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.

(427,039)

Change in net assets of governmental activities

\$ 7,903,484

## COUNTY OF MONTGOMERY, VIRGINIA

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

## GENERAL FUND

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 57,401,390	\$ 57,412,599	\$ 58,997,218	\$ 1,584,619
Other local taxes	11,074,952	11,086,457	10,677,175	(409,282)
Permits, privilege fees and regulatory licenses	812,392	831,010	665,738	(165,272)
Fines and forfeitures	125,000	125,000	86,587	(38,413)
Revenue from use of money and property	849,509	849,509	706,324	(143,185)
Charges for services	652,589	831,312	772,482	(58,830)
Recovered costs	1,086,945	1,391,214	1,757,337	366,123
Intergovernmental	18,679,456	21,089,751	19,208,886	(1,880,865)
Total revenues	<u>90,682,233</u>	<u>93,616,852</u>	<u>92,871,747</u>	<u>(745,105)</u>
<b>EXPENDITURES</b>				
Current operating:				
General government administration	7,560,214	9,514,752	7,307,205	2,207,547
Judicial administration	2,341,729	2,817,789	2,662,659	155,130
Public safety	11,500,546	13,306,883	11,735,939	1,570,944
Public works	4,128,277	4,318,648	4,013,498	305,150
Health and welfare	9,731,725	10,698,394	10,082,731	615,663
Education	35,141,304	39,082,830	35,729,676	3,353,154
Parks, recreation, and cultural	2,667,316	3,443,940	3,180,018	263,922
Community development	1,357,453	1,526,939	1,263,033	263,906
Debt service:				
Principal retirement	8,205,430	8,205,430	8,205,430	-
Interest and fiscal charges	6,075,774	6,075,774	5,949,012	126,762
Total expenditures	<u>88,709,768</u>	<u>98,991,379</u>	<u>90,129,201</u>	<u>8,862,178</u>
Excess (deficiency) of revenues over expenditures	<u>1,972,465</u>	<u>(5,374,527)</u>	<u>2,742,546</u>	<u>8,117,073</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	2,188,604	2,188,604
Transfers out	(1,970,565)	(4,188,381)	(3,447,480)	740,901
Total other financing sources (uses)	<u>(1,970,565)</u>	<u>(4,188,381)</u>	<u>(1,258,876)</u>	<u>2,929,505</u>
Net change in fund balance (cash basis)	<u>\$ 1,900</u>	<u>\$ (9,562,908)</u>	<u>\$ 1,483,670</u>	<u>\$ 11,046,578</u>

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2009

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 670,924	\$ -	\$ 670,924
Receivables, net	283,478	272,826	556,304
Due from other funds	221,622	-	221,622
Prepays	6,885	5,245	12,130
Inventories	26,775	284	27,059
Deferred bond costs	1,065	1,919	2,984
Total current assets	1,210,749	280,274	1,491,023
Noncurrent assets:			
Cash and cash equivalents, restricted	31,440	121,000	152,440
Deferred bond costs	23,952	43,180	67,132
Capital assets:			
Non-depreciable	322,389	18,000	340,389
Depreciable, net	11,249,636	9,353,460	20,603,096
Total noncurrent assets	11,627,417	9,535,640	21,163,057
Total assets	12,838,166	9,815,914	22,654,080
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	45,204	191,952	237,156
Accrued interest payable	6,823	4,333	11,156
Due to other funds	6,856	221,622	228,478
Current portion of noncurrent liabilities	152,133	145,536	297,669
Total current liabilities	211,016	563,443	774,459
Noncurrent liabilities:			
Customer deposits	18,830	12,610	31,440
Due in more than one year	3,825,855	2,492,418	6,318,273
Total noncurrent liabilities	3,844,685	2,505,028	6,349,713
Total liabilities	4,055,701	3,068,471	7,124,172
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,673,127	6,902,348	14,575,475
Unrestricted	1,109,338	(154,905)	954,433
Total net assets	\$ 8,782,465	\$ 6,747,443	\$ 15,529,908

## COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2009

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING REVENUES</b>			
Water revenues	\$ 1,519,640	\$ -	\$ 1,519,640
Wastewater revenues	-	1,255,326	1,255,326
Penalties and reconnection charges	27,976	13,503	41,479
Fees	166,878	87,996	254,874
Miscellaneous	34,476	52,134	86,610
Total operating revenues	1,748,970	1,408,959	3,157,929
<b>OPERATING EXPENSES</b>			
Salaries and wages	388,483	334,369	722,852
Employee benefits	172,582	150,013	322,595
Utilities and telephone	32,782	73,069	105,851
Water and wastewater services	521,669	554,757	1,076,426
Operating supplies, fees, permits	81,986	40,297	122,283
Professional services	126,670	16,348	143,018
Repairs and maintenance	207,557	144,598	352,155
Insurance	19,502	15,858	35,360
Vehicle supplies and miscellaneous	29,095	18,869	47,964
Bad debts	5,000	3,000	8,000
Office supplies and miscellaneous	36,751	12,510	49,261
Amortization	1,065	1,919	2,984
Depreciation	397,739	414,549	812,288
Total operating expenses	2,020,881	1,780,156	3,801,037
Operating loss	(271,911)	(371,197)	(643,108)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	4,975	255	5,230
State grant	10,000	-	10,000
Facility fees	78,980	135,575	214,555
Interest expense	(158,419)	(118,806)	(277,225)
Total nonoperating revenues (expenses)	(64,464)	17,024	(47,440)
Loss before contributions and transfers	(336,375)	(354,173)	(690,548)
<b>CAPITAL CONTRIBUTIONS FROM DEVELOPERS</b>			
	-	6,714	6,714
<b>TRANSFERS IN</b>			
	66,000	48,000	114,000
Change in net assets	(270,375)	(299,459)	(569,834)
<b>NET ASSETS AT JULY 1</b>	9,052,840	7,046,902	16,099,742
<b>NET ASSETS AT JUNE 30</b>	\$ 8,782,465	\$ 6,747,443	\$ 15,529,908

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

## COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2009**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,784,845	\$ 1,373,677	\$ 3,158,522
Payments to suppliers	(942,739)	(780,459)	(1,723,198)
Payments to employees	(551,568)	(493,040)	(1,044,608)
Payments to County for financial services	(89,983)	-	(89,983)
Net cash provided by operating activities	<u>200,555</u>	<u>100,178</u>	<u>300,733</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	57,089	(57,089)	-
Transfers in	66,000	48,000	114,000
Net cash provided by (used in) noncapital financing activities	<u>123,089</u>	<u>(9,089)</u>	<u>114,000</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Contributions from developers	-	6,714	6,714
Acquisition and construction of capital assets	(56,282)	(17,784)	(74,066)
Facility fee payments from customers	78,980	135,575	214,555
Proceeds from state grant	10,000	-	10,000
Principal payments on debt	(76,740)	(98,104)	(174,844)
Interest payments on debt	(156,698)	(117,745)	(274,443)
Net cash used in capital and related financing activities	<u>(200,740)</u>	<u>(91,344)</u>	<u>(292,084)</u>
<b>INVESTING ACTIVITIES</b>			
Interest received	4,975	255	5,230
Net increase in cash and cash equivalents	<u>127,879</u>	<u>-</u>	<u>127,879</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	574,485	121,000	695,485
Ending at June 30	<u>\$ 702,364</u>	<u>\$ 121,000</u>	<u>\$ 823,364</u>
<b>RECONCILIATION TO EXHIBIT 6</b>			
Cash and cash equivalents	\$ 670,924	\$ -	\$ 670,924
Cash and cash equivalents, restricted	31,440	121,000	152,440
	<u>\$ 702,364</u>	<u>\$ 121,000</u>	<u>\$ 823,364</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (271,911)	\$ (371,197)	\$ (643,108)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	397,739	414,549	812,288
Amortization	1,065	1,919	2,984
(Increase) decrease in:			
Accounts receivable	40,585	(32,462)	8,123
Prepays	(1,177)	(254)	(1,431)
Inventory	42,437	(12)	42,425
(Decrease) increase in:			
Accounts payable	(17,211)	96,113	78,902
Advances payable for operating items	(759)	-	(759)
Accrued payroll and related liabilities	3,707	(12,868)	(9,161)
Other postemployment benefits	5,790	4,210	10,000
Customer deposits	290	180	470
Net cash provided by operating activities	<u>\$ 200,555</u>	<u>\$ 100,178</u>	<u>\$ 300,733</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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 County businesses and 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, 2009**

**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, 2009, the County contributed \$385,658 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, 2009, the County paid \$50,000 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 two 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. For the year ended June 30, 2009, the County paid \$688,606 in tipping fees to the Waste Authority.

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

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization (the "MPO"). The MPO is a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. The MPO provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. For the year ended June 30, 2009, the County paid \$15,920 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body and the chief administrative officer. The member jurisdictions are responsible for a per diem cost based on prisoner days used. For the year ended June 30, 2009, the County paid \$201,497 to the WVRJA.

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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary* government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for 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, 2009

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 and other post-employment benefits, which are recognized when paid, and (2) principal and interest payments on general long-term debt, both of which are recognized when due.

The County reports the following major governmental funds:

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

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

Proprietary funds are used to account for the 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** – This fund accounts for the activities of the water department operations.

**Wastewater Fund** – This 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 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, 2009**

**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 Fund Equity**

**Cash and Cash Equivalents**

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

**Investments**

Investments are stated at fair value.

**Receivables**

Receivables are shown net of an allowance for 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, 2009**

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

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

**Capital Assets**

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

**Deferred Revenues**

Deferred revenue in the general fund consists primarily of property taxes not collected within 60 days of year end and property taxes collected in advance of 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, 2009**

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

**D. Assets, Liabilities, and Net Assets or Fund 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 do not recognize long-term liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Repayments and issuance costs are reported as debt service expenditures.

**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.

**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 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.

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

**Budgetary Information**

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

- Prior to March 30, the County Administrator submits to the Board 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.

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**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 major categories, which include administration, instruction, attendance, health, etc. School system revisions between these major categories requires approval by the Board of Supervisors.
- Formal budgetary integration is employed as a management control device 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 \$10,281,611 during the fiscal year ended June 30 primarily for transfers for public safety, health and welfare, education, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	<u>Primary Government</u>	<u>Component Unit – School Board</u>	
	<u>General Fund</u>	<u>Operating</u>	<u>Cafeteria</u>
Net change in fund balance (budgetary basis)	\$ 1,483,670	\$ (869,667)	\$ (7,975)
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2009	10,085,630	7,389,457	277,713
June 30, 2008	(10,511,639)	(6,623,513)	-
Inventory:			
June 30, 2009	-	-	105,724
June 30, 2008	-	-	(137,503)
Accounts, salaries and other amounts payable to other entities/funds:			
June 30, 2009	(6,614,157)	(7,389,457)	(216,476)
June 30, 2008	5,337,207	7,399,673	210,523
Net change in fund balance (GAAP basis)	<u>\$ (219,289)</u>	<u>\$ (93,507)</u>	<u>\$ 232,006</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**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 in the County’s governmental activities.
2. Local governments in Virginia have a “tenancy in common” with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one year. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the financial obligation. When the debt related to a particular capital asset is completely retired, the related capital asset, net of accumulated depreciation, is removed from the primary government’s financial statements and reported in the School Board’s financial statements. The School Board retains authority and responsibility over the operation and control of this property.
3. If all economic resources associated with school activities were reported with the School Board, its total expenditures would be as follows:

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 102,517,598
Principal and other debt service expenses included in primary Government (Exhibit 4)	<u>8,955,299</u>
Total expenditures for school activities	<u><u>\$ 111,472,897</u></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, 2008**

**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	\$ 39,580,607	NA	31.18%
SNAP	12,532,385	AAA	9.87
Money market accounts	<u>74,823,384</u>	AAA <sub>m</sub>	<u>58.95</u>
Total	<u>\$ 126,936,376</u>		<u>100.00%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,147,627</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, 2009**

**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	\$ 39,132,534	\$ 1,024,878
Investments, restricted	87,355,769	-
Cash and cash equivalents, restricted	<u>448,073</u>	<u>122,749</u>
	<u>\$ 126,936,376</u>	<u>\$ 1,147,627</u>

**Restricted Amounts**

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

**Note 5. Receivables**

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Receivables				
Taxes	\$ 2,324,367	\$ -	\$ -	\$ 2,324,367
Accounts	<u>-</u>	<u>303,478</u>	<u>287,826</u>	<u>591,304</u>
Gross receivables	2,324,367	303,478	287,826	2,915,671
Less:				
Allowance for uncollectibles	<u>(448,772)</u>	<u>(20,000)</u>	<u>(15,000)</u>	<u>(483,772)</u>
Net total receivables	<u>\$ 1,875,595</u>	<u>\$ 283,478</u>	<u>\$ 272,826</u>	<u>\$ 2,431,899</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 19% of the total taxes receivable and is based on historical collection rates.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**Note 5. Receivables (Continued)**

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:

**Deferred Revenue**

Property taxes receivable – unavailable	\$ 1,451,703
Property taxes receivable – unearned	<u>121,883</u>
Total deferred revenue	<u><u>\$ 1,573,586</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, 2009 includes amounts not yet received from the January 1, 2009 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 2009 is \$0.71 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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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

Due to other governmental units consists of the following:

	<b>General Fund</b>
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	86,352
	\$ 466,352
	<b>Component Unit - IDA</b>
<u>Federal Government:</u>	
Economic Development Administration	\$ 1,181,431

Due from other governmental units consists of the following:

	<b>General Fund</b>	<b>Component Unit - School Board</b>
<u>Commonwealth of Virginia:</u>		
Metropolitan planning organization	\$ 8,778	\$ -
Local sales tax	1,149,295	-
State sales tax	-	1,616,982
Categorical aid – shared expenses	617,515	-
Categorical aid – schools	-	73,172
Non-categorical aid	144,710	-
Excess clerk fees	19,447	-
Virginia public assistance funds	202,901	-
Community services act	338,872	-
<u>Federal Government:</u>		
Virginia public assistance funds	285,463	-
Homeland security funds	559,298	-
Categorical aid – school grants	-	1,464,228
	\$ 3,326,279	\$ 3,154,382

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**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	\$ 6,856
Water	Wastewater	<u>221,622</u>
		<u>\$ 228,478</u>

The primary purpose of the interfund balance between the General fund and Water fund is for financial services provided by the County to the Water fund for the month of June, and was repaid subsequent to year end. The primary purpose of the interfund balance between the Water fund and Wastewater fund is for negative pooled unrestricted cash amounts.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 3,333,480
General	County Capital Improvements	\$ 2,188,604
Water	General	\$ 66,000
Wastewater	General	\$ 48,000

Transfers to the County Capital Improvements fund from the General fund were to support capital projects. Transfers to the General fund from the County Capital Improvements fund were to reimburse the General fund for amounts previously transferred for capital improvements. Transfers to the Water and Wastewater funds from the General fund result from boundary line adjustment fees collected by the County. These amounts will help offset facility fees that would have been collected by the Water and Wastewater funds had the boundary line adjustments not occurred.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**Note 8. Capital Assets**

Capital asset activity for the year was as follows:

**Primary Government**

<u>Governmental Activities</u>	<u>Beginning Balance *</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 11,461,663	\$ 602,250	\$ -	\$ 12,063,913
Construction in progress	6,047,602	7,853,096	1,160,949	12,739,749
Total capital assets, not depreciated	17,509,265	8,455,346	1,160,949	24,803,662
Capital assets, depreciated				
Buildings and improvements	103,639,244	1,296,983	-	104,936,227
Machinery and equipment	14,251,199	1,772,233	578,379	15,445,053
Total capital assets, depreciated	117,890,443	3,069,216	578,379	120,381,280
Less accumulated depreciation:				
Buildings and improvements	22,495,165	2,445,207	-	24,940,372
Machinery and equipment	8,091,478	1,024,545	526,353	8,589,670
Total accumulated depreciation	30,586,643	3,469,752	526,353	33,530,042
Total capital assets, depreciated, net	87,303,800	(400,536)	52,026	86,851,238
Capital assets, net	<u>\$104,813,065</u>	<u>\$ 8,054,810</u>	<u>\$ 1,212,975</u>	<u>\$111,654,900</u>

\*Beginning balance restated, see Note 20.

**COUNTY OF MONTGOMERY, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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

**Primary Government (Continued)**

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	25,017	-	25,017	-
Total capital assets, not depreciated	<u>365,406</u>	<u>-</u>	<u>25,017</u>	<u>340,389</u>
Capital assets, depreciated				
Wastewater systems	16,070,402	42,801	-	16,113,203
Water systems	15,395,145	-	-	15,395,145
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	566,316	56,282	-	622,598
Total capital assets, depreciated	<u>32,136,181</u>	<u>99,083</u>	<u>-</u>	<u>32,235,264</u>
Less accumulated depreciation:				
Wastewater systems	6,198,820	403,367	-	6,602,187
Water systems	4,057,496	380,439	-	4,437,935
Buildings and improvements	78,843	2,918	-	81,761
Machinery and equipment	484,721	25,564	-	510,285
Less accumulated depreciation	<u>10,819,880</u>	<u>812,288</u>	<u>-</u>	<u>11,632,168</u>
Total capital assets, depreciated, net	<u>21,316,301</u>	<u>(713,205)</u>	<u>-</u>	<u>20,603,096</u>
Capital assets, net	<u>\$ 21,681,707</u>	<u>\$ (713,205)</u>	<u>\$ 25,017</u>	<u>\$ 20,943,485</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 66,200
Judicial administration	3,060
Public safety	686,232
Public works	843,316
Health and welfare	15,195
Education	1,811,485
Parks, recreation, and cultural	40,498
Community development	3,766
	<u>\$ 3,469,752</u>
Business-type activities:	
Water	\$ 397,739
Wastewater	414,549
	<u>\$ 812,288</u>

**COUNTY OF MONTGOMERY, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**

**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>
Elementary School – Elliston	\$ 5,951,275	\$ 14,290,597
Elementary School – Price's Fork	476,455	310,748
Courthouse Project	1,766,108	645,537
	<u>\$ 8,193,838</u>	<u>\$ 15,246,882</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
Construction in progress	142,523	-	142,523	-
Total capital assets, not depreciated	536,780	-	142,523	394,257
Buildings and improvements	30,338,570	1,034,225	-	31,372,795
Machinery and equipment	11,732,044	1,829,879	459,169	13,102,754
Total capital assets, depreciated	42,070,614	2,864,104	459,169	44,475,549
Less accumulated depreciation:				
Buildings and improvements	28,157,624	653,193	-	28,810,817
Machinery and equipment	6,435,424	910,484	459,169	6,886,739
Total accumulated depreciation	34,593,048	1,563,677	459,169	35,697,556
Total capital assets, depreciated, net	7,477,566	1,300,427	-	8,777,993
Capital assets, net	<u>\$ 8,014,346</u>	<u>\$ 1,300,427</u>	<u>\$ 142,523</u>	<u>\$ 9,172,250</u>

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

**COUNTY OF MONTGOMERY, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**

**Note 9. Long-term Debt**

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

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 18,247,238	\$ -	\$ 1,806,266	\$ 16,440,972	\$ 1,796,046
Lease revenue bonds	51,296,675	77,000,000	5,637,277	122,659,398	7,441,796
Literary fund loans	3,512,140	-	254,000	3,258,140	254,000
Refunding bonds	21,219,776	-	507,887	20,711,889	516,244
Landfill post-closure	525,066	375	-	525,441	68,210
Other post-employment benefits	-	329,000	79,000	250,000	-
Compensated absences	2,122,109	1,610,000	1,437,725	2,294,384	1,610,000
Governmental activities long-term liabilities	<u>\$ 96,923,004</u>	<u>\$ 78,939,375</u>	<u>\$ 9,722,155</u>	<u>\$ 166,140,224</u>	<u>\$ 11,686,296</u>
<b>Business-type Activities:</b>					
Revenue bonds	\$ 6,610,729	\$ -	\$ 154,003	\$ 6,456,726	\$ 194,334
Notes payable	53,125	-	20,841	32,284	21,483
Other post-employment benefits	-	10,000	-	10,000	-
Compensated absences	126,093	116,932	126,093	116,932	81,852
Business-type activities long-term liabilities	<u>\$ 6,789,947</u>	<u>\$ 126,932</u>	<u>\$ 300,937</u>	<u>\$ 6,615,942</u>	<u>\$ 297,669</u>
<b>Component Unit – School Board</b>					
Other post-employment benefits	\$ -	\$ 1,316,000	\$ -	\$ 1,316,000	\$ -
Compensated absences	2,807,658	2,535,000	1,721,600	3,621,058	1,086,058
Component unit – school board long-term liabilities	<u>\$ 2,807,658</u>	<u>\$ 3,851,000</u>	<u>\$ 1,721,600</u>	<u>4,937,058</u>	<u>\$ 1,086,058</u>

Debt service requirements of general obligation bonds, lease revenue bonds, literary fund loans, refunding bonds, landfill post-closure, other post-employment benefits, and compensated absences are paid by the General Fund.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**Note 9. Long-term Debt (Continued)**

Annual debt service requirements to maturity are as follows:

Year Ended June 30	Governmental Activities							
	General Obligation Bonds		Lease Revenue Bonds		Refunding Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,796,046	\$ 791,506	\$ 7,441,796	\$ 5,675,945	\$ 516,244	\$ 935,297	\$ 254,000	\$ 97,744
2011	1,765,883	696,732	7,607,773	5,387,197	520,168	911,382	254,140	90,124
2012	1,581,235	608,962	7,790,270	5,072,025	1,899,700	886,659	250,000	82,500
2013	1,434,955	531,784	6,624,350	4,708,148	1,924,879	802,420	250,000	75,000
2014	1,354,555	459,168	6,760,081	4,427,868	1,985,751	724,318	250,000	67,500
2015-2019	6,304,390	1,254,026	36,164,193	17,381,331	9,705,147	2,356,835	1,250,000	225,000
2020-2024	2,203,908	147,342	31,545,935	8,817,559	4,160,000	313,100	750,000	45,000
2025-2029	-	-	18,725,000	2,808,750	-	-	-	-
	<u>\$ 16,440,972</u>	<u>\$ 4,489,520</u>	<u>\$122,659,398</u>	<u>\$ 54,278,823</u>	<u>\$ 20,711,889</u>	<u>\$ 6,930,011</u>	<u>\$ 3,258,140</u>	<u>\$ 682,868</u>

Year Ended June 30	Business-type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2010	\$ 194,334	\$ 268,990	\$ 21,483	\$ 731
2011	203,227	260,097	10,801	101
2012	197,437	250,788	-	-
2013	185,968	242,640	-	-
2014	193,931	234,677	-	-
2015-2019	1,101,554	1,041,486	-	-
2020-2024	1,358,464	784,575	-	-
2025-2029	1,675,293	467,746	-	-
2030-2034	1,346,518	103,206	-	-
	<u>\$ 6,456,726</u>	<u>\$ 3,654,205</u>	<u>\$ 32,284</u>	<u>\$ 832</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**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	6.1 - 8.1%	12/15/90	2010	\$ 3,250,000	\$ 350,000	\$ -
School Construction Bonds	4.9 - 6.6	01/15/92	2012	1,893,607	355,811	-
School Construction Bonds	5.1 - 5.5	04/29/93	2012	3,000,000	455,000	-
School Construction Bonds	4.5 - 5.0	11/18/93	2014	3,000,000	200,000	-
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	1,560,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	2,058,229	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	2,650,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	8,811,932	-
					<u>\$ 16,440,972</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	3.3 - 5.0%	06/01/99	2019	\$ 9,695,000	\$ 5,865,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	1,505,000	-
Lease Revenue Bond	4.0 - 5.0	06/1999	2021	11,680,000	8,255,000	-
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	2,190,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	13,370,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,145,011	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,145,011	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	8,284,376	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	74,900,000	-
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	81,667
Water and Sewer Refunding Bond	4.50	06/20/08	2033	6,500,479	-	6,375,059
					<u>\$ 122,659,398</u>	<u>\$ 6,456,726</u>
<u>Refunding Bonds:</u>						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 1,450,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,336,889	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,540,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,385,000	-
					20,711,889	-
Less deferred costs					(1,303,885)	-
Plus bond premium					1,002,885	-
					<u>\$ 20,410,889</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 8,140	\$ -
State Literary Fund Loan	3.0	01/20/01	2021	5,000,000	3,250,000	-
Note Payable	8.3	08/09/01	2011	163,000	-	32,284
					<u>\$ 3,258,140</u>	<u>\$ 32,284</u>

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 \$81,667 and \$5,124, respectively.

The note payable has a variable interest rate that is equal to the prime lending rate and adjusts on a monthly basis.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 10. Landfill Post-Closure Care**

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations required the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas have been detected at the landfills; therefore, the Department of Environmental Quality has required an additional ten-year monitoring period. The \$525,441 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2009. 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, 2009**

**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 2009 was 14.76% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2009 were 13.81% for professional employees and 12.30% 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, 2009, 2008, and 2007, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$6,394,419, \$6,455,298, and \$5,868,151 and represented 13.81%, 15.30%, and 14.20% of annual covered payroll, respectively, and 100% of the required contributions for 2009, 2008, and 2007. The School Board's contribution rate for non-professional employees for the fiscal year ended 2009 was 12.30% of the annual covered payroll.

**Annual Pension Cost**

For fiscal year 2009, the County's annual pension costs of \$2,244,187 and the School Board's annual pension cost of \$649,754 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, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.0% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. 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 20 years.

**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, 2009	\$ 2,244,187	100%	\$ -
June 30, 2008	\$ 1,953,667	100%	\$ -
June 30, 2007	\$ 1,776,974	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, 2009	\$ 649,754	100%	\$ -
June 30, 2008	\$ 651,980	100%	\$ -
June 30, 2007	\$ 646,216	100%	\$ -

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

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

**Annual Pension Cost (Continued)**

<b>Analysis of Funding Progress for Defined Benefit Pension Plan</b>						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded) Actuarial Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
County of Montgomery						
June 30, 2008	\$ 47,839,048	\$ 55,218,354	\$ 7,379,306	86.64%	\$ 15,160,532	48.67%
June 30, 2007	\$ 43,327,988	\$ 49,365,548	\$ 6,037,560	87.77%	\$ 14,049,819	42.97%
June 30, 2006	\$ 38,506,508	\$ 44,049,801	\$ 5,543,293	87.42%	\$ 13,422,335	41.30%
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%
County of Montgomery School Board						
June 30, 2008	\$ 15,372,474	\$ 16,680,918	\$ 1,308,444	92.16%	\$ 4,661,093	28.07%
June 30, 2007	\$ 13,996,813	\$ 15,489,280	\$ 1,492,467	90.36%	\$ 4,573,541	32.63%
June 30, 2006	\$ 12,296,487	\$ 14,291,941	\$ 1,995,454	86.04%	\$ 4,473,216	44.61%
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%

**Note 12. Other Post-Employment Benefits**

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45, *Financial Reporting for Post-Employment 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. The cost of post-employment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The County and School Board prospectively adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**Note 12. Other Post-Employment Benefits (Continued)**

**Plan Description and Benefits Provided**

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

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

**Membership**

At July 1, 2007, the number of County participants was 400, consisting of 384 active and 16 inactive. The number of School participants was 1,042, consisting of 987 active and 55 inactive participants.

**Funding Policy**

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

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation**

For the fiscal year ended June 30, 2009, the County's annual OPEB cost (expense) of \$339,000 was equal to the Annual Required Contribution (ARC). The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$79,000 for retirees, resulted in a Net OPEB obligation of \$260,000 for the year ended June 30, 2009.

Annual required contribution	\$ 339,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost	339,000
Less contributions made	(79,000)
	<hr/>
Increase in net OPEB obligation	260,000
Net OPEB obligation-beginning of year	-
	<hr/>
Net OPEB obligation-end of year	<u>\$ 260,000</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**Note 12. Other Post-Employment Benefits (Continued)**

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation (Continued)**

For the fiscal year ended June 30, 2009, the School's annual OPEB cost (expense) of \$1,657,000 was equal to the Annual Required Contribution (ARC). The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$341,000 for retirees, resulted in a Net OPEB obligation of \$1,316,000 for the year ended June 30, 2009.

Annual required contribution	\$ 1,657,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost	1,657,000
Less contributions made	(341,000)
	<hr/>
Increase in net OPEB obligation	1,316,000
Net OPEB obligation-beginning of year	-
	<hr/>
Net OPEB obligation-end of year	<u>\$ 1,316,000</u>

The County's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 are as follows. Since this is the first year for implementing GASB 45, the same information cannot be reported for the preceding two years.

<u>Fiscal Year Ended</u>	<u>OPEB Obligation</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
<b>County:</b>			
June 30, 2009	\$ 339,000	23.30%	\$ 260,000
<b>School Board:</b>			
June 30, 2009	\$ 1,657,000	20.58%	\$ 1,316,000

**Funded Status and Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**Note 12. Other Post-Employment Benefits (Continued)**

**Funded Status and Funding Progress (Continued)**

**Required Supplementary Information  
Schedule of Funding Progress – Other Post Employment Benefits**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (ALL)</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentag of Covered Payroll</b>
<b>County:</b>						
July 1, 2007	\$ -	\$ 3,059,585	\$ 3,059,585	0%	\$ 17,311,608	17.67%
<b>School Board:</b>						
July 1, 2007	\$ -	\$ 15,334,284	\$ 15,334,284	0%	\$ 39,704,333	38.62%

**Actuarial Methods and Assumptions**

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

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4% discount rate and an initial annual healthcare cost trend of 11% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5%. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2009 is 29 years.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 13. 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.

**Note 14. Commitments and Contingencies**

**Litigation**

Various other 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.

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

**Special Purpose Grants**

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

**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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

**Note 15. 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	\$ 3,110,942
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	<u>2,159,457</u>
	<u>\$ 5,271,492</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 \$1,178,994.

Other:

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

**Note 16. Net Assets/Fund Balance**

**Deficit Unrestricted Net Assets:**

At June 30, the Wastewater Fund and the Component Unit – School Board had deficits in unrestricted net assets of \$(154,905), and \$(1,525,003), respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

**Reservations of Fund Balance:**

Reserved fund balances are comprised of the following:

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Component Unit – School Board</u>
Reserved for:			
Encumbrances	\$ 1,081,234	\$ 16,964,867	\$ 1,302,425
Advances and notes receivable	6,450,486	-	-
Law library	180,511	-	-
Grants	290,131	-	-
Inventories	-	-	105,724
	<u>8,002,362</u>	<u>16,964,867</u>	<u>1,408,149</u>
Total reserved fund balance	<u>\$ 8,002,362</u>	<u>\$ 16,964,867</u>	<u>\$ 1,408,149</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2009**

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

**Designations of Fund Balance:**

Designated fund balances are comprised of the following:

	<b>General Fund</b>	<b>Capital Improvements Fund</b>
Designated for:		
Capital projects	\$ 500,000	\$ 77,979,506
Landfill	250,000	-
Facilities and maintenance	723,000	-
Road maintenance	51,500	-
Technology	139,921	-
Automobile Graveyard	112,633	-
Rainy Day – County	220,080	-
Rainy Day – Schools	904,780	-
	<u>\$ 2,901,914</u>	<u>\$ 77,979,506</u>
Total designated fund balance	<u>\$ 2,901,914</u>	<u>\$ 77,979,506</u>

**Note 17. Concentrations**

Two Public Service Authority customers provide approximately eight and nine percent of the Authorities operating revenue, for a total of seventeen percent.

**Note 18. New Accounting Standards**

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides specific guidance on the recognition, initial measurement, and amortization of intangible assets. This statement will be effective for the year ending June 30, 2010.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that most of the derivative instruments covered in its scope will be reported at fair value. This statement will be effective for the year ending June 30, 2010.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting these standards, but does not expect them to be material.

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 19. Subsequent Events**

**County**

**Bond Issuances**

In July 2009, the County issued 12 year lease revenue refunding bonds totaling \$13,550,000. Principal is payable annually beginning January 15, 2010. Interest is payable semi-annually beginning on January 15, 2010, and on each January 15 and July 15 thereafter until the final maturity date (January 15, 2021). Interest rates range from 3 percent to 5 percent. The proceeds were used to refund a portion of the bonds used to construct the Government Center and the Eastern Montgomery High School.

In November 2009, the County issued 16 year Virginia Public School Authority, Qualified School Construction Bonds totaling \$8,250,000. These are interest free bonds and are funded through the American Recovery and Reinvestment Act. Annual principal payments will begin September 1, 2010, and on each September 1 thereafter until the final maturity date (September 1, 2026). The proceeds will be used for a portion of the construction cost of the new Elliston-Layfayette and Shawsville Elementary School.

**Purchase of Property**

In August 2009, the County purchased property adjacent to the County Government Center at a cost of \$627,375. This property will house the buildings and grounds shop.

In August 2009, the County purchased 16 acres of land in the Price's Fork village area of the County at a cost of \$1,009,415. This land was then exchanged for 20 acres of land, also in the Price's Fork area, which will be the site of the new Price's Fork Elementary School. The exchange was made at no cost to either party.

**Contractual Agreements**

In August 2009, the County agree to award a construction contract totaling \$19 million for construction of a new County Courthouse.

In September 2009, the Public Service Authority entered into a construction contract for \$190,000 to replace a sewer pump station.

In October 2009, the County was notified that Virginia Department of Transportation revenue sharing funding of \$500,000 had been approved. This requires the County provide matching funds of \$500,000.

In November 2009, the Public Service Authority agreed to purchase additional wastewater capacity of up to 150,000 gallons per day from the City of Radford for an amount not to exceed \$39,600.

**Economic Development Authority**

**Name change**

In August 2009, the Industrial Development Authority's name was officially changed to the Economic Development Authority (EDA).

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**Note 19. Subsequent Events (Continued)**

**Economic Development Authority (Continued)**

**Repurchase of Falling Branch Corporate Park Lot and Related Financing**

The EDA entered into a financing agreement for \$147,900 with Stellar One on September 30, 2009, to provide funds for the repurchase of Lot 7 in the Falling Branch Corporate Park. The principle plus accrued interest at a rate of 5.1% is payable on September 30, 2012. A private company purchased the property in December of 2005 from the EDA, but did not meet the performance agreement for development of the lot.

**Technology Manufacturing Building**

A tenant of the Technology Manufacturing Building terminated their lease effective September 30, 2009. The lease was scheduled to expire September 30, 2012. On June 15, 2009, the EDA agreed to take ownership of installed equipment in the building in consideration for the early lease termination penalty of \$150,000. The EDA took ownership of the property at the expiration of the lease.

The EDA entered into a lease agreement for 50,000 square feet of the Technology Manufacturing Building with a private company on October 2, 2009. This lease is for the area vacated due to the early lease termination referred to above. The EDA entered into a financing agreement with First Bank and Trust for \$2 million at an interest rate of 6.25%. Monthly interest payments will be due for the first year. Monthly principle and interest payments will be due for years two through six. The proceeds will be used to upfit the building with leasehold improvements as requested by the new lessee. The EDA also agreed to provide additional renovations to the building at an estimated cost of \$100,000.

**Note 20. Restatement of Net Assets**

The following is a summary of the restatement of net assets at June 30, 2008

	<b>Governmental Activities</b>
Net assets, June 30, 2008 as previously stated	\$ 64,925,547
Restatement to record additional capital assets	374,396
Restatement to correct expense in previous periods	<u>(14,696)</u>
Net assets, June 30, 2008, as restated	<u><u>\$ 65,285,247</u></u>

## **OTHER SUPPLEMENTARY INFORMATION**

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

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

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

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

## COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET**  
**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**June 30, 2009**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 1,024,878	\$ 1,024,878
Due from primary government	5,261,202	-	5,261,202
Due from other governmental units	2,876,669	277,713	3,154,382
Inventories	-	105,724	105,724
Cash and cash equivalents, restricted	122,749	-	122,749
	<u>8,260,620</u>	<u>1,408,315</u>	<u>9,668,935</u>
Total assets	<u>\$ 8,260,620</u>	<u>\$ 1,408,315</u>	<u>\$ 9,668,935</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 195,933	\$ 190	\$ 196,123
Accrued payroll and related liabilities	7,193,524	216,286	7,409,810
Amounts held for others	122,749	-	122,749
Deferred revenue	748,414	-	748,414
	<u>8,260,620</u>	<u>216,476</u>	<u>8,477,096</u>
Total liabilities	<u>8,260,620</u>	<u>216,476</u>	<u>8,477,096</u>
Fund Balances:			
Reserved for:			
Encumbrances	1,302,425	-	1,302,425
Inventories	-	105,724	105,724
Unreserved	<u>(1,302,425)</u>	<u>1,086,115</u>	<u>(216,310)</u>
Total fund balances	<u>-</u>	<u>1,191,839</u>	<u>1,191,839</u>
Total liabilities and fund balances	<u>\$ 8,260,620</u>	<u>\$ 1,408,315</u>	<u>\$ 9,668,935</u>
<b>Adjustments for the Statement of Net Assets (Exhibit 1)</b>			
<b>Total fund balances</b>			\$ 1,191,839
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			9,172,250
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.			1,471,802
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			748,414
Long-term liabilities, including compensated absences and other post-employment benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			<u>(4,937,058)</u>
<b>Net assets of governmental activities</b>			<u>\$ 7,647,247</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, 2009**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Revenue from use of money and property	\$ -	\$ 35,743	\$ 35,743
Charges for services	41,751	2,340,763	2,382,514
Recovered costs	499,709	-	499,709
Intergovernmental	97,683,332	2,054,799	99,738,131
	<hr/>	<hr/>	<hr/>
Total revenues	98,224,792	4,431,305	102,656,097
<b>EXPENDITURES</b>			
Current:			
Instruction	74,143,284	-	74,143,284
Administration, attendance and health	3,810,940	-	3,810,940
Pupil transportation	5,222,735	-	5,222,735
Operations and maintenance	15,019,598	-	15,019,598
Non-instructional	121,742	-	121,742
School nutrition	-	4,199,299	4,199,299
	<hr/>	<hr/>	<hr/>
Total expenditures	98,318,299	4,199,299	102,517,598
Excess (deficiency) of revenues over expenditures	<hr/>	<hr/>	<hr/>
	(93,507)	232,006	138,499
Net change in fund balances	<hr/>	<hr/>	<hr/>
	(93,507)	232,006	138,499
<b>FUND BALANCE AT JULY 1</b>	<hr/>	<hr/>	<hr/>
	93,507	959,833	1,053,340
<b>FUND BALANCE AT JUNE 30</b>	<hr/>	<hr/>	<hr/>
	\$ -	\$ 1,191,839	\$ 1,191,839
<b>Reconciliation to the Statement of Activities (Exhibit 2)</b>			
<b>Net change in fund balances – total governmental funds</b>			\$ 138,499
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which capital outlay (\$2,721,581) exceeded depreciation (\$1,563,677).			1,157,904
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.			688,055
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.			<hr/>
			(1,336,857)
<b>Change in net assets of governmental activities</b>			<hr/>
			\$ 647,601

## COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – CASH BASIS  
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD  
For the Year Ended June 30, 2009**

	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		
<b>REVENUES</b>								
Revenue from use of money and property	\$ 1,500	\$ 1,500	\$ -	\$ (1,500)	\$ -	\$ -	\$ 35,743	\$ 35,743
Charges for services	17,000	17,000	41,751	24,751	2,382,013	2,382,013	2,340,763	(41,250)
Recovered costs	337,500	604,531	499,709	(104,822)	-	-	-	-
Intergovernmental	97,029,738	101,131,662	97,808,990	(3,322,672)	1,203,705	1,351,196	1,777,086	425,890
Total revenues	97,385,738	101,754,693	98,350,450	(3,404,243)	3,585,718	3,733,209	4,153,592	420,383
<b>EXPENDITURES</b>								
Current:								
Instruction	75,527,810	75,198,022	75,045,102	152,920	-	-	-	-
Administration, attendance and health	3,868,194	3,883,170	3,810,940	72,230	-	-	-	-
Pupil transportation	4,617,848	6,282,934	5,222,735	1,060,199	-	-	-	-
Operations and maintenance	13,332,982	16,277,617	15,019,598	1,258,019	-	-	-	-
Non-instructional	38,904	112,950	121,742	(8,792)	-	-	-	-
School nutrition	-	-	-	-	3,585,718	3,733,209	4,161,567	(428,358)
Total expenditures	97,385,738	101,754,693	99,220,117	2,534,576	3,585,718	3,733,209	4,161,567	(428,358)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (869,667)	\$ (869,667)	\$ -	\$ -	\$ (7,975)	\$ (7,975)

# **SUPPORTING SCHEDULE**

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**COUNTY OF MONTGOMERY, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2009**

<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>Direct Payments:</u>		
Water and Waste Disposal	10.760	\$ 43,154
 <u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	549,159
<u>Department of Agriculture and Consumer Services:</u>		
Food Distribution - Commodities	10.555	248,391
 <u>Department of Education:</u>		
National School Breakfast Program	10.553	301,460
National School Lunch Program	10.555	1,166,673
Summer Food Service Program for Children	10.559	42,409
Federal Land Use (Forest Reserve)	10.665	43,066
 <u>Department of Homeland Security:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services:</u>		
State Homeland Security Program	97.073	559,298
 <u>Department Of Justice:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Juvenile Justice and Delinquency Prevention - Allocation to States (Title II)	16.540	66,796
Crime Victim Assistance	16.575	120,968
Byrne JAG Grant	16.738	10,266
 <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	30,904
 <u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Grants to States	84.002	72,989
Title I: Grants to Local Educational Agencies	84.010	1,427,395
Special Education - Grants to States	84.027	2,230,028
Vocational Education - Basic Grants to States	84.048	14,856
Special Education - Preschool Grants	84.173	48,770
Drug Free Schools and Communities-State Grants	84.186	115,829
Innovative Education Program Statistics	84.298	686
No Child Left Behind Act	84.367	432,327
Technology Literacy Challenge Fund	84.318	16,209
Learn & Serve	94.004	32,639
Language Acquisition - Title III	84.365	7,849
Title -I-Neglected & Delinquent Children	84.013	23,306

(Continued)

**SCHEDULE 1  
(Continued)**

**COUNTY OF MONTGOMERY, VIRGINIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2009**

<u><b>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title (Continued)</b></u>	<u><b>Federal CFDA Number</b></u>	<u><b>Federal Expenditures</b></u>
<u>Department of Education (Continued):</u>		
<u>Pass-through Payments (Continued):</u>		
<u>Department of Compensation Board:</u>		
State Fiscal Stabilization Fund (SFSF) - ARRA	84.397	\$ 1,292,213
 <u>Department of Health and Human Services:</u>		
<u>Direct Payments:</u>		
Department of Substance Abuse and Mental Health Services		
Projects of Regional and National Significance	93.243	344,276
 <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	58,912
 <u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	37,526
Temporary Assistance to Needy Families	93.558	529,274
Child Care and Development Block Grant	93.575	390,643
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	413,891
Foster Care - Title IV-E	93.658	510,997
Foster Care - Title IV-E - ARRA	93.658	34,833
Adoption Assistance	93.659	117,025
Adoption Assistance - ARRA	93.659	9,355
Social Service Block Grant	93.667	257,693
Low Income Home Energy Assistance	93.568	23,527
Chafee Foster Care Independence Program	93.674	8,272
Medical Assistance Program	93.778	349,244
Refugee and Entrant Assistance	93.566	940
Child Welfare Services	93.645	2,962
State Children's Insurance Program	93.767	38,863
Total Expenditures of Federal Awards		<u>\$ 12,025,873</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, 2009, the School Board had food commodities totaling \$67,079 in inventory.

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# STATISTICAL SECTION

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

<b><u>Contents</u></b>	<b><u>Table</u></b>
<b>Financial Trends</b> These tables contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.	<b>1-4</b>
<b>Revenue Capacity</b> These tables contain information to help the reader assess the factors affecting the County's ability to generate its property and sales taxes.	<b>5-7</b>
<b>Debt Capacity</b> These tables present information to help the reader assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.	<b>8-9</b>
<b>Demographic and Economic Information</b> These tables offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place and to help make comparisons over time and with other governments.	<b>10-12</b>
<b>Operating Information</b> These schedules contain information about the County's operations and resources to help the reader understand how the County's financial information relates to the services it provides and the activities it performs.	<b>13-14</b>

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

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

	2009	2008	2007	2006	2005	2004	2003
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$ 36,330,270	\$ 28,639,210	\$ 22,500,252	\$ 13,946,058	\$ 13,971,101	\$ 9,826,302	\$ 3,945,490
Restricted	11,262,042	5,112,996	4,969,141	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	25,596,419	31,173,341	28,620,972	25,197,204	17,799,039	14,700,359	(1,550,735)
Total governmental activities net assets	<u>\$ 73,188,731</u>	<u>\$ 64,925,547</u>	<u>\$ 56,090,365</u>	<u>\$ 43,918,407</u>	<u>\$ 36,395,713</u>	<u>\$ 30,843,402</u>	<u>\$ 28,225,672</u>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$ 14,575,475	\$ 15,138,853	\$ 14,983,849	\$ 15,153,224	\$ 15,746,661	\$ 16,082,711	\$ 14,800,614
Restricted	-	43,160	1,076,240	1,066,910	1,034,403	1,021,135	1,433,982
Unrestricted	954,433	917,729	(429,075)	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	<u>\$ 15,529,908</u>	<u>\$ 16,099,742</u>	<u>\$ 15,631,014</u>	<u>\$ 15,666,453</u>	<u>\$ 15,812,023</u>	<u>\$ 15,943,141</u>	<u>\$ 15,048,022</u>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$ 50,905,745	\$ 43,778,063	\$ 37,484,101	\$ 29,099,282	\$ 29,717,762	\$ 25,909,013	\$ 18,746,104
Restricted	11,262,042	5,156,156	6,045,381	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	26,550,852	32,091,070	28,191,897	24,643,523	16,829,998	13,539,654	(2,737,309)
Total primary government net assets	<u>\$ 88,718,639</u>	<u>\$ 81,025,289</u>	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>	<u>\$ 46,786,543</u>	<u>\$ 43,273,694</u>

TABLE 2

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

	2009	2008	2007	2006	2005	2004	2003
<b>Expenses</b>							
<b>Governmental activities</b>							
General government	\$ 7,381,364	\$ 7,066,410	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	2,658,492	2,438,896	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	11,957,163	11,202,874	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	5,153,812	4,567,363	4,526,234	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreation and cultural	3,022,711	2,779,839	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	10,490,545	9,808,845	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,264,454	1,259,379	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	38,634,043	35,899,972	30,503,869	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	7,389,389	4,696,145	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	<u>87,951,973</u>	<u>79,719,723</u>	<u>71,815,215</u>	<u>71,155,281</u>	<u>69,448,996</u>	<u>69,907,234</u>	<u>63,028,214</u>
<b>Business-type activities</b>							
Water and Wastewater	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total business-type activities expense	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total primary government expenses	<u>\$ 92,022,235</u>	<u>\$ 83,450,301</u>	<u>\$ 75,471,408</u>	<u>\$ 74,481,619</u>	<u>\$ 72,898,977</u>	<u>\$ 73,439,811</u>	<u>\$ 66,048,333</u>
<b>Program Revenues</b>							
<b>Governmental activities</b>							
Charges for services							
Public Safety	\$ 917,866	\$ 978,375	\$ 616,714	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public Works	123,341	105,007	125,741	127,070	151,767	-	58,671
Other Activities	1,565,954	1,757,781	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	15,084,570	15,402,999	14,486,609	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	-	-	24,121	81,630	150,000	465,343	-
Total governmental activities program revenues	<u>17,691,731</u>	<u>18,244,162</u>	<u>16,559,844</u>	<u>15,623,515</u>	<u>15,339,719</u>	<u>15,235,508</u>	<u>12,135,377</u>
<b>Business-type activities</b>							
Charges for services							
Water and Wastewater	3,364,484	3,200,340	3,124,628	3,088,605	3,141,551	2,829,152	2,587,336
Capital grants and contributions	16,714	691,214	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	<u>3,381,198</u>	<u>3,891,554</u>	<u>3,507,794</u>	<u>3,135,282</u>	<u>3,312,505</u>	<u>4,828,718</u>	<u>2,602,619</u>
Total primary government program revenues	<u>\$ 21,072,929</u>	<u>\$ 22,135,716</u>	<u>\$ 20,067,638</u>	<u>\$ 18,758,797</u>	<u>\$ 18,652,224</u>	<u>\$ 20,064,226</u>	<u>\$ 14,737,996</u>
<b>Net (expense) revenue</b>							
Governmental activities	\$ (70,260,242)	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	(689,064)	160,976	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	<u>\$ (70,949,306)</u>	<u>\$ (61,314,585)</u>	<u>\$ (55,403,770)</u>	<u>\$ (55,722,822)</u>	<u>\$ (54,246,753)</u>	<u>\$ (53,375,585)</u>	<u>\$ (51,310,337)</u>
<b>General Revenues and Other Changes in Net Assets</b>							
<b>Governmental activities:</b>							
Taxes							
Property taxes	\$ 59,872,099	\$ 54,666,779	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	7,086,741	7,382,254	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,526,049	1,938,646	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,877,884	1,786,988	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,181,174	5,216,412	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	2,733,779	2,047,264	2,974,039	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	(114,000)	-	(93,413)	(109,381)	-	-	-
Total governmental activities	<u>78,163,726</u>	<u>73,038,343</u>	<u>67,427,329</u>	<u>62,475,949</u>	<u>57,599,206</u>	<u>54,149,721</u>	<u>52,053,237</u>
<b>Business-type activities:</b>							
Investment earnings	5,230	10,658	19,547	11,411	6,358	922	3,153
Gain on sale of property	-	-	-	-	-	(15,763)	-
Transfers	114,000	-	93,413	109,381	-	-	-
Total business-type activities	<u>119,230</u>	<u>10,658</u>	<u>112,960</u>	<u>120,792</u>	<u>6,358</u>	<u>(14,841)</u>	<u>3,153</u>
Total primary government	<u>\$ 78,282,956</u>	<u>\$ 73,049,001</u>	<u>\$ 67,540,289</u>	<u>\$ 62,596,741</u>	<u>\$ 57,605,564</u>	<u>\$ 54,134,880</u>	<u>\$ 52,056,390</u>
<b>Changes in Net Assets</b>							
Governmental activities	\$ 7,903,484	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	(569,834)	171,634	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	<u>\$ 7,333,650</u>	<u>\$ 11,734,416</u>	<u>\$ 12,136,519</u>	<u>\$ 6,873,919</u>	<u>\$ 3,358,811</u>	<u>\$ 759,295</u>	<u>\$ 746,053</u>

**TABLE 3**

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
General Fund										
Reserved	\$ 8,002,362	\$ 7,486,334	\$ 7,931,552	\$ 8,425,959	\$ 8,048,551	\$ 8,424,045	\$ 8,646,272	\$ 8,667,252	\$ 8,510,558	\$ 8,030,521
Unreserved	24,304,985	25,040,302	21,298,326	16,864,467	16,352,624	17,466,018	15,610,016	15,859,971	15,375,211	22,523,616
Total general fund	<u>\$ 32,307,347</u>	<u>\$ 32,526,636</u>	<u>\$ 29,229,878</u>	<u>\$ 25,290,426</u>	<u>\$ 24,401,175</u>	<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>
All Other Governmental Funds										
Reserved	\$ 16,964,867	\$ 4,191,510	\$ 1,435,016	\$ 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
Capital projects fund	77,979,506	19,820,195	26,313,865	24,248,049	29,209,836	32,810,664	640,547	9,730,048	14,561,579	-
Total all other governmental funds	<u>\$ 94,944,373</u>	<u>\$ 24,011,705</u>	<u>\$ 27,748,881</u>	<u>\$ 25,110,784</u>	<u>\$ 31,054,677</u>	<u>\$ 33,941,332</u>	<u>\$ 17,825,192</u>	<u>\$ 9,826,036</u>	<u>\$ 15,502,219</u>	<u>\$ 70,573</u>

TABLE 4

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Revenues</b>										
Taxes	\$ 69,492,208	\$ 65,511,183	\$ 59,334,527	\$ 54,989,515	\$ 50,738,457	\$ 48,842,024	\$ 46,888,359	\$ 43,046,576	\$ 40,566,368	\$ 37,829,575
Permits, privilege fees, and licenses	678,798	729,667	527,087	451,339	581,026	432,106	354,475	224,463	200,284	189,197
Fines and forfeitures	86,587	95,562	120,036	191,713	181,336	137,311	172,252	167,757	85,283	99,353
Revenue from use of money and property	2,733,781	2,047,264	3,006,656	1,932,190	1,658,701	1,073,542	591,555	937,531	1,625,474	1,142,127
Charges for services	770,575	862,222	863,610	1,099,916	774,474	791,975	588,551	494,449	368,471	490,729
Other	1,642,545	2,205,909	1,638,273	1,443,439	1,364,845	1,097,902	1,280,981	1,105,203	1,798,254	1,150,252
Intergovernmental	19,694,399	19,567,213	18,816,073	18,018,456	17,655,372	17,030,162	17,089,403	15,227,444	14,750,314	12,077,443
Total revenues	<u>95,098,893</u>	<u>91,019,020</u>	<u>84,306,262</u>	<u>78,126,568</u>	<u>72,954,211</u>	<u>69,405,022</u>	<u>66,965,576</u>	<u>61,203,423</u>	<u>59,394,448</u>	<u>52,978,676</u>
<b>Expenditures</b>										
General government	7,252,162	7,015,626	6,191,149	6,294,484	6,046,564	5,177,651	5,358,391	5,211,059	4,086,626	3,566,242
Judicial administration	2,660,668	2,438,012	2,248,802	1,821,661	1,801,538	1,627,346	1,626,738	1,644,861	1,392,493	1,336,618
Public safety	11,813,809	10,535,822	9,584,764	8,864,490	8,931,893	7,048,833	6,427,463	6,000,194	5,586,072	5,462,939
Public works	4,142,728	3,701,378	3,807,202	3,326,950	3,252,988	3,450,922	2,998,968	2,616,065	2,511,498	2,549,067
Parks, recreation and cultural	3,163,574	2,764,351	2,802,108	2,856,007	2,513,263	2,195,196	2,197,940	2,303,966	2,431,255	1,990,488
Health and welfare	10,459,213	9,792,247	9,063,818	8,241,369	8,338,220	7,813,659	7,679,219	6,718,789	6,160,972	6,091,972
Education	36,822,962	34,291,547	28,899,311	29,917,075	28,731,743	27,894,248	28,723,773	26,385	24,362	24,116
Community development	1,268,374	1,255,640	1,509,152	1,200,930	1,590,531	1,804,638	1,205,104	1,327,321	2,595,427	1,216,013
Nondepartmental	-	-	-	-	-	-	-	129,482	37,216	-
Capital projects	9,393,891	9,038,054	2,535,393	10,295,741	3,358,473	4,135,721	13,629,018	7,471,946	4,824,794	1,576,513
Debt service										
Principal	8,205,430	5,951,191	6,058,445	5,943,154	16,442,154	4,951,763	4,325,425	747,900	687,551	802,551
Interest and other costs	6,864,369	4,675,570	4,935,156	5,040,472	4,276,687	5,340,581	5,324,916	1,249,013	872,152	561,813
Total expenditures	<u>102,047,180</u>	<u>91,459,438</u>	<u>77,635,300</u>	<u>83,802,333</u>	<u>85,284,054</u>	<u>71,440,558</u>	<u>79,496,955</u>	<u>35,446,981</u>	<u>31,210,418</u>	<u>25,178,332</u>
Excess of revenues over (under) expenditures	<u>(6,948,287)</u>	<u>(440,418)</u>	<u>6,670,962</u>	<u>(5,675,765)</u>	<u>(12,329,843)</u>	<u>(2,035,536)</u>	<u>(12,531,379)</u>	<u>25,756,442</u>	<u>28,184,030</u>	<u>27,800,344</u>
<b>Other Financing Sources (Uses)</b>										
Issuance of bonds	77,000,000	-	-	-	18,779,866	20,000,000	-	-	15,088,350	-
Bond premium	775,666									
Payments to bond escrow agents	-	-	-	-	(19,562,999)	-	-	-	(3,323,550)	-
Proceeds from sale of capital assets/real estat	-	-	-	-	8,940,593	-	-	-	-	27,687
Transfers in	5,522,084	4,460,375	3,390,967	-	719,056	8,348	2,038,905	-	41,950	-
Transfers out	(5,636,084)	(4,460,375)	(3,484,380)	-	(719,056)	(8,348)	(2,038,905)	(30,791,171)	(31,227,502)	(26,498,336)
Total other financing sources (uses)	<u>77,661,666</u>	<u>-</u>	<u>(93,413)</u>	<u>-</u>	<u>8,157,460</u>	<u>20,000,000</u>	<u>-</u>	<u>(30,791,171)</u>	<u>(19,420,752)</u>	<u>(26,470,649)</u>
Net change in fund balances	<u>\$ 70,713,379</u>	<u>\$ (440,418)</u>	<u>\$ 6,577,549</u>	<u>\$ (5,675,765)</u>	<u>\$ (4,172,383)</u>	<u>\$ 17,964,464</u>	<u>\$ (12,531,379)</u>	<u>\$ (5,034,729)</u>	<u>\$ 8,763,278</u>	<u>\$ 1,329,695</u>
Debt service as a percentage of noncapital expenditures	<u>16.44%</u>	<u>12.95%</u>	<u>14.64%</u>	<u>14.94%</u>	<u>25.29%</u>	<u>15.29%</u>	<u>14.65%</u>	<u>7.14%</u>	<u>5.91%</u>	<u>5.78%</u>

TABLE 5

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

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Service	Total Assessed Value	Total Direct Tax Rate(1)
2009	\$ 6,835,051,400	\$ 502,394,734	\$ 115,931,340	\$ 33,633,822	\$ 193,786,466	\$7,680,797,762	\$ 0.90
2008	\$ 6,669,686,500	\$ 529,368,631	\$ 118,621,114	\$ 32,342,481	\$ 181,116,686	\$7,531,135,412	\$ 0.91
2007	\$ 6,493,543,300	\$ 495,833,387	\$ 124,587,600	\$ 31,606,662	\$ 181,050,272	\$7,326,621,221	\$ 0.84
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

**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 2009			Fiscal Year 2000		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Appalacian Power Company	\$ 77,702,670	1	1.02%	\$ -	-	0.00%
PR Financing (NRV Mall)	68,333,200	2	1.00%	25,148,600	2	1.31%
Foxridge Associates	61,604,900	3	0.92%	46,196,300	1	2.19%
Roger Woody	57,378,200	4	0.79%	-	-	0.00%
Hash Investments/SHAH Development	47,078,800	5	0.58%	-	-	0.00%
Verizon	44,074,767	6	0.64%	-	-	0.00%
Norfolk and Western	34,021,669	7	0.49%	-	-	0.00%
SHP-The Village at Blacksburg LLC	29,811,000	8	0.45%	-	-	0.00%
Maple Ridge	22,572,900	9	0.34%	-	-	0.00%
CSB LLC	19,121,900	10	0.29%	10,454,500	7	0.54%
HCA Montgomery Regional Hospital	-	-	0.00%	15,494,200	4	0.93%
WHGMH Realty LLC	-	-	0.00%	17,157,100	3	0.89%
Wal-Mart	-	-	0.00%	12,260,300	5	0.64%
Faison & Associates	-	-	0.00%	11,909,700	6	0.62%
Windsor Hills	-	-	0.00%	10,328,500	8	0.54%
First National Bank of Christiansburg	-	-	0.00%	9,121,200	9	0.47%
Hubbell Lightning	-	-	0.00%	7,844,400	10	0.41%
	<u>\$ 461,700,006</u>		<u>6.52%</u>	<u>\$ 165,914,800</u>		<u>8.54%</u>

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
2009	\$ 63,512,890	\$ 61,648,532	97.06%	\$ -	\$ 61,648,532	97.06%
2008	61,764,615	58,299,193	94.39%	1,755,907	60,055,100	97.23%
2007	55,679,245	52,198,510	93.75%	418,034	52,616,544	94.50%
2006	50,424,489	48,355,245	95.90%	497,625	48,852,870	96.88%
2005	44,555,181	42,844,219	96.16%	711,137	43,555,356	97.76%
2004	43,871,083	41,752,442	95.17%	2,397,271	44,149,713	100.64%
2003	42,351,459	35,183,970	83.08%	1,893,266	37,077,236	87.55%
2002	40,381,556	33,151,368	82.10%	2,650,755	35,802,123	88.66%
2001	33,225,652	31,561,292	94.99%	1,417,000	32,978,292	99.26%
2000	32,086,559	30,988,504	96.58%	833,193	31,821,697	99.17%

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
2009	\$ 16,440,972	\$ 16,440,972	0.21%	181.63	\$ 122,659,398	\$ 3,258,140	\$ 20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453
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

Fiscal Year	Business-type Activities					
	Revenue Bonds	Notes Payable	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2009	\$ 6,456,726	\$ 32,284	\$ -	\$ 169,559,409	7.99%	\$ 1,873
2008	6,610,729	53,125	-	100,939,683	4.75%	1,136
2007	6,515,070	70,184	-	106,812,275	4.58%	1,208
2006	6,024,984	85,993	-	112,396,443	5.71%	1,279
2005	6,132,906	101,197	-	118,462,723	6.02%	1,411
2004	6,226,079	118,685	-	132,017,964	7.56%	1,542
2003	5,860,325	163,035	-	107,938,275	6.41%	1,273
2002	4,628,932	266,539	-	112,243,514	7.80%	1,331
2001	4,702,347	337,181	214	91,313,051	N/A	1,159
2000	4,767,878	320,828	1,126	57,720,719	N/A	747

N/A - Not available

**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	
2009	\$ 3,387,714	\$ 2,985,765	401,949	\$ 154,003	\$ 277,225	0.93
2008	3,090,332	2,610,357	479,975	155,567	273,069	1.12
2007	2,941,527	2,612,350	329,177	129,223	285,304	0.79
2006	2,693,843	2,284,438	409,405	123,126	290,593	0.99
2005	2,683,885	2,434,942	248,943	110,661	293,368	0.62
2004	2,785,678	2,518,845	266,833	95,740	286,651	0.70
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

**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  
Demographic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year Ended (1)</b>	<b>Population (2)</b>	<b>Total Personal Income (2)</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate</b>
2009	90,517	\$ 2,157,925,280	\$ 23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,637	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
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%

(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, personal income and unemployment are based on figures available from the Economic Development Department

N/A - Not available

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

Employer	Fiscal Year 2009			Fiscal Year 1999		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Virginia Tech	9,925	1	31.00%	6,000	1	17.49%
Virginia Tech Corporate Research Center	2,100	2	6.56%	1,100	4	3.21%
Montgomery County Public Schools	1,686	3	5.27%	1,750	2	5.10%
Alliant TechSystems	1,275	4	3.98%	1,193	3	3.48%
Moog	1,170	5	3.65%	-	-	0.00%
Echostar	1,000	6	3.12%	-	-	0.00%
Carilion NRV Medical Center	950	7	2.97%	500	8	1.46%
Town of Blacksburg	757	8	2.36%	-	-	0.00%
Rowe Furniture	676	9	2.11%	-	-	0.00%
Columbia Montgomery Regional Hospital	540	10	1.69%	500	9	1.46%
Hubble Lighting, Inc.	-	-	0.00%	600	7	1.75%
Litton	-	-	0.00%	-	-	0.00%
Federal-Mogul Corporation	-	-	0.00%	700	5	2.04%
Litton Poly-Scientific	-	-	0.00%	700	6	2.04%
Corning Incorporated	-	-	0.00%	260	10	0.76%
	<u>20,079</u>		<u>62.71%</u>	<u>13,303</u>		<u>38.78%</u>

Source: Economic Development Department

**TABLE 12**

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

<u>Function/Program</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General government										
County Administration	13.50	13.50	14.00	14.00	13.00	14.00	14.00	13.00	11.00	10.50
Information management services	10.50	8.50	8.50	8.50	8.50	8.00	8.00	8.00	6.00	6.00
Finance	8.50	8.50	8.50	8.50	8.50	9.50	9.50	5.50	5.50	5.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	19.00	19.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	21.00
Treasurer	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Other	7.50	7.50	7.00	7.00	7.00	6.00	6.00	6.00	6.50	5.50
Public Safety										
Sheriff	135.50	129.00	126.00	122.00	122.00	112.00	112.50	107.00	108.00	105.50
Animal control	4.00	4.00	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Inspections	5.00	5.00	5.00	5.00	4.50	4.00	4.00	3.00	3.50	3.50
Judicial	23.00	22.00	18.00	18.50	18.50	18.00	18.50	18.50	19.00	17.00
Refuse collection	23.00	24.20	24.20	23.50	23.50	23.50	23.50	25.56	23.36	20.50
Other public works										
Engineering	2.00	2.00	2.00	2.00	2.00	3.00	2.00	2.00	1.00	1.50
Building and grounds	9.00	9.00	9.00	8.00	8.00	8.00	9.00	9.00	7.00	6.00
Housekeeping	9.00	9.00	9.00	9.10	8.60	8.60	9.60	9.60	5.60	5.50
Other	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
Parks, recreation and cultural	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00
Library	23.88	24.38	24.13	31.25	31.25	30.75	30.75	30.63	30.63	32.33
Water/Sewer	21.00	21.00	21.00	21.00	21.00	21.00	20.00	20.00	23.00	21.00
Health and Welfare	74.50	72.00	72.00	67.50	67.50	66.50	66.50	66.50	66.50	66.50
Community development	11.00	11.00	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00
Total	<u>429.88</u>	<u>419.58</u>	<u>411.53</u>	<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>

TABLE 13

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

<b>Function/Program</b>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Government										
Fleet vehicles	220	217	224	218	208	200	203	196	203	190
Judicial Administration										
Sheriff										
Inmates Housed	68,835	77,416	63,619	77,948	60,052	51,417	49,130	51,149	51,656	45,149
Inmate Transports	3,160	3,064	3,511	3,319	3,290	2,409	2,459	2,464	2,126	2,013
Courts Worked	983	1,012	912	915	846	843	789	809	806	710
Public safety										
Sheriff										
Physical arrests	1,868	3,739	3,767	3,311	3,233	3,242	2,686	2,811	2,849	5,111
Traffic violations	2,763	3,451	4,268	5,029	6,171	4,824	4,208	5,942	5,538	2,905
Public works										
Refuse collection										
Refuse collected (pounds per day)	69,484	76,671	77,089	77,293	78,094	76,551	69,272	N/A	N/A	N/A
Recyclables collected (pounds per day)	5,252	5,791	6,231	6,402	6,312	6,132	6,576	N/A	N/A	N/A
Parks, recreation and cultural										
Parks and recreation										
Total programs	247	235	199	154	160	141	113	N/A	N/A	N/A
Total registrants	2,942	2,931	3,328	2,897	4,094	2,884	2,781	N/A	N/A	N/A
Library										
Volumes in collection	243,427	227,327	226,093	212,004	201,235	198,310	194,091	196,425	191,047	181,932
Total volumes borrowed	892,655	783,708	781,608	717,708	645,560	610,238	591,060	559,846	495,860	487,201
Water										
Number of customer accounts	2,642	2,615	2,554	2,534	2,532	2,500	2,300	2,300	2,300	2,135
Miles of distribution lines	92	92	88	88	87	86	85	77	76	74
Average daily consumption	829,736	840,183	802,445	879,298	870,444	803,000	730,000	825,000	670,000	800,000
Sewer										
Number of customer accounts	1,356	1,337	1,247	1,225	1,211	1,173	1,139	1,050	1,050	1,086
Waste/Water treated (million gallons per year)	191	165	196	175	191	202	N/A	N/A	N/A	N/A
Average daily consumption	522,650	505,610	536,191	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**

<u>Function/Program</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Public safety										
Law enforcement vehicles	94	82	83	83	80	79	79	79	79	79
Fire stations	10	10	8	8	8	8	6	6	6	6
Parks, recreation and cultural										
Parks/athletic fields	7	5	2	2	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	92	92	88	66	66	66	66	58	58	58
Sanitary sewers (miles)	62	62	60	44	44	44	44	44	44	44

**Source: County departments**

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# COMPLIANCE SECTION

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**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 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, 2009 which collectively comprise the County's basic financial statements and have issued our report thereon dated November 24, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **However, as discussed below, we identified certain deficiencies in internal control over financial report that we consider to be significant deficiencies.**

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. **We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs as Items 07-1, 07-3, and 09-1 to be significant deficiencies in internal control over financial reporting.**

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

**Internal Control over Financial Reporting (Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. **However, we believe the items referred to above as Items 07-1, 07-3, and 09-1 are material weaknesses.**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 09-5, 09-6, 09-7, and 09-8.**

We noted certain matters that we reported to management of the County in a separate letter dated November 24, 2009.

The County’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Supervisors, others within the entity, 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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 24, 2009

**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 each of its major federal programs for the year ended June 30, 2009. 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 each of 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 each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed three instances of non-compliance with those requirements, that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying schedule of findings and questions costs as Items 09-2, 09-3, and 09-4.**

**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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the 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 24, 2009

**COUNTY OF MONTGOMERY, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2009**

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

Inmate Canteen Funds

Comprehensive Services Act

Sheriff Internal Controls

State Agency Requirements

Education

**FEDERAL COMPLIANCE MATTERS**

Compliance Supplement for Single Audits of State and Local Governments

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Three significant deficiencies** 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*. **Items 07-1, 07-3, and 09-1 were deemed to be material weaknesses.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** 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 on 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 **three audit finding related to major programs**.
7. The programs tested as major are:

<u>Name of Program:</u>	<u>CFDA #</u>
Medical Assistance Program	93.778
Child Nutrition Cluster	10.553, 10.555, 10.559
Special Education Cluster	84.027, 84.173
Title I: Grants to Local Educational Agencies	84.010
State Homeland Security Program	97.073
State Fiscal Stabilization Fund – Government Services Recovery Act	84.397

8. The **threshold for** distinguishing Type A and B programs was **\$360,776**.
9. The County was **not** determined to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**07-1: Segregation of Duties (Material Weakness)**

*Condition:*

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

*Recommendation:*

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

*Management's Response:*

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

**COUNTY OF MONTGOMERY, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2009**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**07-3: Capital Assets (Material Weakness)**

*Condition:*

The County is not capturing all capital asset transactions in an appropriate manner which required a prior period adjustment. Management does not have an appropriate review process in place to locate these errors.

*Recommendation:*

Steps should be taken to ensure that all capital asset transactions are captured in an appropriate manner.

*Management's Response:*

The auditee concurs. Procedures have been implemented to improve this process.

**09-1: School Board – Unrecorded Accounts Receivable (Material Weakness)**

*Condition:*

The School System materially understated accounts receivable for certain grant funds during the current year.

*Recommendation:*

We recommend that management review reimbursement requests with special emphasis on the amount of the budget funds remaining at year end. Management should communicate with grant administrators to determine whether remaining budget funds will be used for current or future year expenditures. This will assist in evaluating the amount of accounts receivable that should be accrued at year end. Additionally, we recommend that grant reimbursements requests be submitted in a timely manner.

*Management's Response:*

The auditee concurs.

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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

**09-2: Child Nutrition Cluster – Eligibility – CFDA 10.553 & 10.555**

*Condition:*

We noted one child out of twenty-five receiving free benefits under the program that failed to meet the income requirements.

*Criteria:*

All children receiving benefits must meet income eligibility guidelines.

*Effect:*

The School Board is not in compliance with federal requirements.

*Recommendation:*

Procedures should be implemented to ensure a more accurate review of eligibility determination.

*Management's Response:*

The auditee concurs.

**09-3: Title I – Employee Time and Effort – CFDA 84.010**

*Condition:*

Through discussions with School Division management, we noted that the required semi-annual employee time and effort certifications are not currently being filed for Title I teachers.

*Criteria:*

All Title I teachers are required to submit semi-annual certifications to document time and effort.

*Effect:*

The School Board is not in compliance with federal requirements.

*Recommendation:*

Management should implement procedures to ensure timely and complete filing of the semi-annual employee time and effort certifications for Title I teachers.

*Management's Response:*

The auditee concurs.

**09-4: Homeland Security – Reporting – CFDA 97.073**

*Condition:*

We noted that the required quarterly progress reports were not filed.

*Criteria:*

Grantees are required to submit quarterly progress reports.

*Effect:*

The County is not in compliance with federal requirements.

**COUNTY OF MONTGOMERY, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009**

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

**09-4: Homeland Security – Reporting – CFDA 97.073 (Continued)**

*Recommendation:*

The grant administrator should ensure that all financial and performance reports are filed timely to the appropriate agency.

*Management's Response:*

The auditee concurs.

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

**09-5: Social Services – Continuity of Operations**

*Condition:*

A business continuity plan has not been updated within the required twelve month period. The plan did not address the three types of disruptions including loss of access to a facility, loss of services due to a reduced workforce, and loss of service due to equipment or system failure. The plan also does not prioritize recovery tasks and does not assign responsibilities and detail procedures to implement actions to continue essential functions within the recovery time objectives established to maintain functions for up to thirty days.

*Recommendation:*

As required by the VDSS, this plan should be updated at least every twelve months and contain necessary elements as discussed above.

*Management's Response:*

The auditee concurs.

**09-6: Uniform Disposition of Unclaimed Property Act**

*Condition:*

The Unclaimed Property Act requires local governments to file an annual report and to remit any property greater than five years old to the state treasurer for final disposition. The County failed to remit some unclaimed checks in the annual report related to the Public Service Authority.

*Recommendation:*

The County should follow the requirements of the Unclaimed Property Act and remit all property greater than five years old to the state treasurer for final disposition.

*Management's Response:*

The auditee concurs.

**COUNTY OF MONTGOMERY, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2009**

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)**

**09-7: Exonerations**

*Condition:*

The Code of Virginia requires that all exoneration and abatement forms be properly approved and the amount be properly recorded in the general ledger and subsidiary assessment records. We noted ten out of ten items that we examined had been appropriately posted to the subsidiary assessment records, but did not receive approval.

*Recommendation:*

The County should record all exonerations and abatements in the subsidiary ledger and general ledger after proper approval.

*Management's Response:*

The auditee concurs.

**09-8: Disclosure Statements**

*Condition:*

Seven out of sixty-one members of County appointed boards and one out of seven School Board members did not file their statements of economic interest by the required deadline. Additionally, one person at the County did not complete the required form.

*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, 2009**

**Auditor Reference Number:**

**08-3: Child Nutrition Center – Eligibility – 10.553 & 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.

*Current Status:*

No similar findings were noted in the 2009 audit.