

COUNTY OF MONTGOMERY, VIRGINIA

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

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COUNTY OF MONTGOMERY, VIRGINIA

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INTRODUCTORY SECTION



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

755 ROANOKE STREET, SUITE 2E, CHRISTIANSBURG, VIRGINIA 24073-3181
November 30, 2010

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, 2010, 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.

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

THE REPORTING ENTITY

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

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

Other services provided by the County include law enforcement; fire and rescue services; solid waste collection services; human services programs; libraries; community and economic development programs; recreational activities; and planning and zoning functions. In addition, certain other services are provided through cooperation with neighboring localities such as social services 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 91,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2000 Census indicates Montgomery County's population increased by 13% over the prior decade.

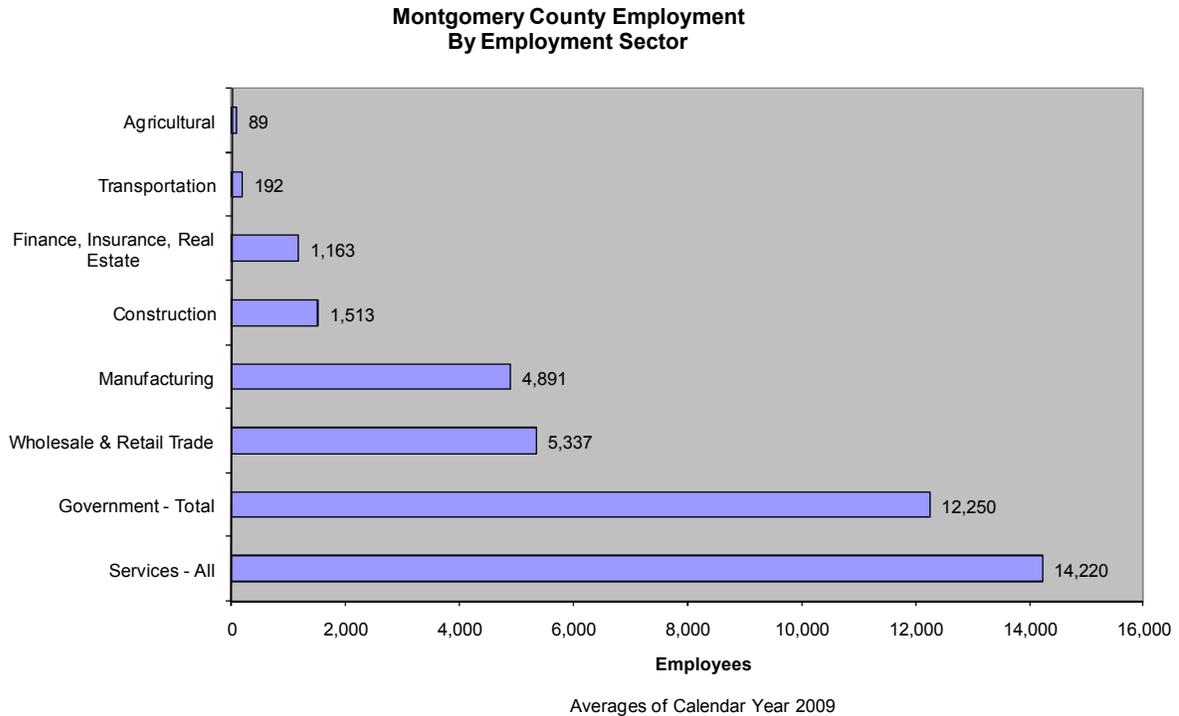
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he 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 average unemployment rate in Montgomery County between July 2009 and June 2010 was 7.3%, which is historically below average in the New River Valley. The percentage ranged from a low of 6.4% in November 2009 to a high of 8.3% in January 2010. The unemployment rate for the County over the past 10 years (2000-2009) averaged 3.79%, reaching a high of 6.9% in 2009 and a low of 2.5% in 2000. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities was higher than the statewide average of 6.7% for 2009, with Montgomery and Floyd Counties reporting the lowest rates of 6.9% and 7.7% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 9.5% unemployment during the same period. Employment within Montgomery County represented 52% 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 2009.



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

Employment reductions in 2009 were broad based, covering several economic sectors. The total decrease in the number of jobs was 232 across all sectors, resulting in a 1% decrease over the number of jobs in the previous year. Those areas that experienced growth include; government, transportation and agriculture which were up 3.7%, 15%, and 2.3%, respectively. Wholesale and retail trade, manufacturing, and construction were down in employment from the prior year at 3%, 6.7%, and 11.4%, respectively. The finance, insurance and real estate sectors, as well as, the services sector remained stable for 2009.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center and LewisGale Hospital - Montgomery, 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 DISH Network Corporation (direct broadcast satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group - formerly Poly-Scientific (aerospace, transportation, military, 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, entailing one million square feet of office and lab space, and is home to over 140 high-tech companies and research centers which collectively employ more than 2,200 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 18 buildings and one million square feet to the park 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.

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 1,700 additional individuals are employed through the Montgomery County Public School System, making education the largest employment classification in the County.

Since 2000, Montgomery County has experienced \$189.4 million in new capital investment (industrial/commercial, non-retail) and the addition of 4,624 related jobs. In fiscal year 2010, Montgomery County had six existing businesses announce expansion plans, and one new business joined the community. These seven announcements will add 580 jobs and \$20.2 million in capital investment to the local economy.

Business Expansions, Montgomery County, Virginia, FY 2010

Company Name	Business Description	Date	New Jobs	Investment (millions \$)
Intrexon Corporation	Biotechnology	Aug-2009	50	0
Cobham Sensor Systems	Integrated assemblies and subsystems for military aircraft, ground vehicles	Sep-2009	90	7
Rackspace	Software development	Feb-2010	25	0.0625
Corning, Inc.	Celcor ceramic substrates (catalytic convertor applications)	Feb-2010	160	10
DISH Network Corporation	Call center	Apr-2010	135	0
Aegisound	Manufactures hearing-protection devices for the defense industry	Apr-2010	50	0.1
United Pet Group	Manufactures FDA-approved pet food	Jun-2010	70	3

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 fiscal year 2010 alone, staff of the Montgomery County Economic Development Department visited over 40 local companies and provided community tours to three prospective businesses who were interested in establishing a presence in Montgomery County.

In terms of new construction, overall activity in the unincorporated portion of the County during 2010 was down from the previous fiscal year. The number of building permits issued for both residential and commercial/government activities was down by 8%. Residential and commercial permits saw decreases of 3% and 40% respectively, while government building activity saw an increase of 40%. The decreases in residential and commercial permits are a result of the current slow economic conditions. The increase in governmental building activity is most notably due to the construction of two new elementary schools - Eastern Montgomery Elementary School and Price's Fork Elementary School. The average assessed value of new property completed in 2009 was approximately \$211,845 compared with the average assessed value for all Montgomery County homes of \$160,943.

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 2010 include:

The 2010-2014 Capital Improvement Program

The Capital Improvement Program (CIP) for 2010 through 2014 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 \$86,565,981 and is comprised of County Capital Improvements of \$40.9 million and School Capital Improvements of \$45.7 million. Of the \$40.9 million in total County Capital Improvements, \$39.2 million are dedicated to Public Safety improvements, including \$1.8 million earmarked for Fire and Rescue Capital Equipment.

Montgomery County maintains its strong commitment to providing funds for public safety improvements. In 2010, the Board of Supervisors provided \$335,720 in direct cash contributions for the purchase of Fire and Rescue Capital Equipment.

In the area of Parks and Recreation, the Board of Supervisors provided \$67,500 in direct cash contributions for improvements at the Motor Mile Park. Motor Mile Park was constructed on the previous site of Bethel Elementary School. Built with donations from the Shelor Motor Group, this tournament style baseball facility has a lighted Dixie regulation baseball/softball field with a multi-purpose practice field for a variety of sports. Future plans for this park include a shelter and playground. The \$67,500 in cash funding will provide a drainage system that will house 600 feet of pipe to collect 40 acres of runoff water and redirect the flow away from the ball field.

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. In November 2009, the County issued an additional \$7.3 million in Qualified School Construction Bonds (QSCB) to provide funding for a portion of the new Eastern Montgomery Elementary School cost. In July 2010, the County issued an additional \$13.6 million in QSCB, which was allocated primarily to the Price's Fork Elementary School (\$7.5 million) and to School Energy Performance Projects (\$6 million). QSCB funding is interest free and will supplement the County's 2008 bond issue to complete the two elementary schools.

Completed Capital Projects During the Year

The Blacksburg High School Stadium was completed and opened for the 2009-2010 season at a total cost of approximately \$3.9 million.

Fire and Rescue equipment totaling \$2.1 million was purchased during the year. Blacksburg Fire and Rescue received a new fire and a new rescue truck at a total cost of just over \$800,000. Christiansburg Fire and Rescue received a fire new truck, ambulance and first response vehicle totaling approximately \$870,000. Elliston Fire and Rescue received a new rescue truck totaling \$300,000 and Shawsville and Longshop/McCoy Fire and Rescue received new first response vehicles at a cost of \$32,000 each.

In FY09, Montgomery County received a grant for \$850,000 to purchase emergency response equipment for the development of a Strategic Radio Cache which will allow interoperability between jurisdictions during emergencies. The Radio Cache was completed this year at a total cost of \$837,331.

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 2011 – 2015 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 December 2011.

The existing Courthouse facility will be renovated into a new Public Safety Building. The new public safety building is expected to house the Sheriff, the Court Services unit, and the new Regional 911 Emergency Communications Authority.

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 2011 budget process, a half cent of the real estate tax rate or \$340,000 was earmarked to provide the Fire and Rescue Commission with an ongoing source of funding to purchase Fire and Rescue capital equipment.

Education

In November, 2010, the Board of Supervisors agreed to formally support the School Board's recommendation regarding the replacement of the Auburn High School, the Blacksburg High School, and the Auburn Middle School subject to certain stipulations. If those stipulations are met, the Board supports moving forward with the Auburn High School first, since planning and design for that school has already begun. The Blacksburg High School design would begin as soon as possible. Funding sources for these projects are anticipated to include insurance proceeds from the old Blacksburg High School gymnasium roof collapse; proceeds from the sale of surplus school properties including the old Blacksburg Middle School, Blacksburg High School, Elliston-Lafayette Elementary School, Shawsville Elementary School and the old Price's Fork Elementary School; surplus bond funds from the Price's Fork and Eastern Montgomery Elementary projects; and the issuance of future debt.

Department Focus

The Public Information Office serves as a communication link between County departments, residents, the news media and other groups. The office publishes the citizen newsletter, Montgomery County Today, summaries of Board of Supervisors' meetings, annual reports, brochures, news releases and advertisements. The office also maintains the County's web site and produces podcasts, videos and photography.

The Public Information Office recently expanded its outreach to citizens with a newly redesigned web site and the launch of a government cable channel, Comcast Channel 190. The new web site features easier to navigate pages, best practices for managing content, improved search features and more photos and graphics for a fresh look and feel throughout the site. The web site also offers citizens the ability to view rebroadcasts of Board of Supervisors' meetings through video on demand.

WCOM Channel 190 is available around the clock to any Comcast subscriber in the County with a digital box and cable card. It broadcasts County produced videos and a bulletin board with news about services, events and emergency information. Rebroadcasts of Board of Supervisors' meetings are available through this outlet as well. It is our hope that all media customers will benefit from the expansion of these resources.

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, 2010, reflect cash that will not be received or disbursed until fiscal year 2011.

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 are invested through the State Non-Arbitrage Pool (SNAP) to maximize interest earnings while avoiding arbitrage liability. The County earned interest revenue of approximately \$1.5 million on all deposits for the year ended June 30, 2010.

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, 2009. 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-three consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



F. Craig Meadows
County Administrator



Angela M. Hill
Director of Financial and Management
Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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 stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2010**

BOARD OF SUPERVISORS

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

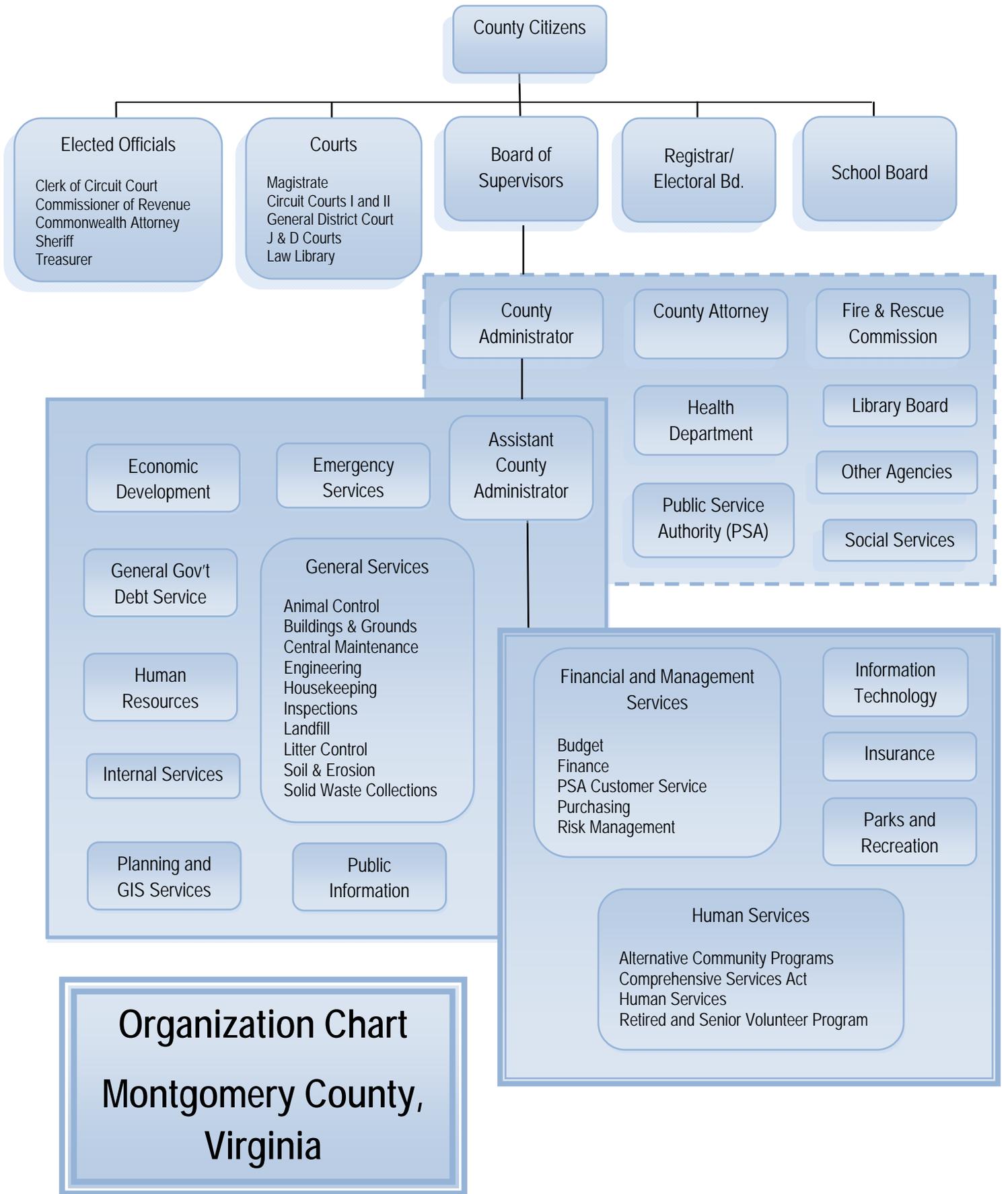
Mary W. Biggs	Doug W. Marrs
William (Bill) H. Brown	John A. Muffo
Gary D. Creed	

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
Brenda B. Blackburn	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



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, individual fund statements, and statistical section 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 financial statements. The individual fund statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2010

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, 2010. 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 2010

- Total net assets for governmental activities were \$95 million at June 30, 2010. This figure is based on assets totaling \$281 million and liabilities of \$186 million.
- Total general fund revenues fell below the final budgeted amount by \$1.3 million or approximately 1.4%. Public service corporation tax collections and delinquent property collections exceeded their estimates by \$500,000. However, there was a decline in personal property values resulting in actual collections of personal property taxes falling short of budgeted amounts by \$800,000. Additionally, due to the current economic conditions, sales tax collections were \$700,000 less than the amount budgeted. Grant funds were also below the final budget by approximately \$300,000. These grants do not follow the fiscal year. This resulted in funds being budgeted but not earned by year end. Actual expenditures were \$11.1 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; however, not all were expended before year end. Also, orders had been placed, but goods not received at year end of approximately \$1.9 million. Finally, the Montgomery County School Board (the Schools) spent approximately \$3.8 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, 2010 were approximately \$14.9 million.
- Qualified school construction bonds totaling \$8.25 million were issued during the year and were used toward the construction of the Eastern Montgomery Elementary School. Refunding bonds totaling \$13.55 million were also issued during the year. These bonds refunded the 1999B and 1999C lease revenue bonds and reduced total debt service over the next eleven years by \$1.1 million. The economic gain from the refunding – the difference between the present values of the old and new debt service payments – was just under \$600,000. Repayment of bonded debt totaled \$10.2 million.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$23.2 million, or 14.8% of fiscal year 2010 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 approximately \$3.8 million at June 30. Encumbrances for the school operating fund at year end totaled \$970,000. Subsequent to year end the Board of Supervisors appropriated \$3.7 million of undesignated fund balance to the school operating and school nutrition funds. With this taken into consideration, undesignated fund balance as a percentage of general and school operating fund revenues was 12.4%, 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 Economic Development Authority. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluation 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	
	2010	2009	2010	2009	2010	2009	2010	2009
Current and other assets	\$125.2	\$139.5	\$1.1	\$1.5	\$126.3	\$141.0	\$25.8	\$20.8
Capital assets	134.2	111.7	20.5	20.9	154.7	132.6	18.4	18.1
Total assets	\$259.4	\$251.2	\$21.6	\$22.4	\$281.0	\$273.6	\$44.2	\$38.9
Long-term liabilities	\$164.1	\$165.8	\$6.4	\$6.6	\$170.5	\$172.4	\$16.9	\$16.2
Other liabilities	14.7	12.2	0.3	0.3	15.0	12.5	14.4	14.2
Total liabilities	\$178.8	\$178.0	\$6.7	\$6.9	\$185.5	\$184.9	\$31.3	\$30.4
Net assets:								
Invested in capital assets, net of related debt	\$47.1	\$36.3	\$14.2	\$14.5	\$61.3	\$50.8	\$7.7	\$8.0
Restricted	11.2	11.3	0.0	0.0	11.2	11.3	3.6	3.6
Unrestricted	22.3	25.6	0.7	1.0	23.0	26.6	1.6	(3.1)
Total net assets	\$80.6	\$73.2	\$14.9	\$15.5	\$95.5	\$88.7	\$12.9	\$8.5

Governmental Activities

Total net assets shown above for governmental activities are \$80.6 million or \$7.4 million more than in 2009. Capital assets increased by \$22.5 million resulting from \$26.4 million in capital additions, offset by \$3.7 million in current year depreciation. Of the \$26.4 million of additions, projects totaling \$21.9 million were added to construction in progress, primarily for the new Courthouse, \$4.3 million; the new Eastern Montgomery Elementary School, \$15.3 million; and the new Price's Fork Elementary School, \$2.2 million. Land for the new Price's Fork Elementary School, \$1 million; additional land for the new Courthouse, \$600,000; ten new vehicles for deputies, \$200,000; two new pumper trucks, \$1.3 million; and two new crash trucks, \$600,000, comprise the majority of the remaining additions. Current assets decreased by \$14.3 million as the majority of bonds used to fund the capital additions were issued in prior years. An interest free Qualified School Construction Bond issuance was completed in 2010 to provide partial funding, \$8.25 million, for the new Eastern Montgomery Elementary School. These bonds were issued at a premium, resulting in proceeds available for use of \$17.5 million.

Business-Type Activities

Total net assets shown above for business-type activities are \$14.9 million, a decrease of \$600,000 from fiscal year 2009, resulting primarily from depreciation expense.

Component Units

Total net assets shown above for component units are \$12.9 million for 2010, an increase of \$4.4 million from 2009. The Blacksburg High School gymnasium roof collapsed in February 2010, resulting in a receivable for related insurance proceeds of \$4.4 million which increased net assets. See Note 8 for additional details of this transaction.

Summary of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues								
Program revenues:								
Charges for services	\$ 3.0	\$ 2.6	\$ 3.2	\$ 3.4	\$ 6.2	\$ 6.0	\$ 8.6	\$ 4.4
Operating grants and contributions	15.6	15.1	-	-	15.6	15.1	63.6	64.2
Capital grants and contributions	-	-	0.2	-	0.2	-	-	-
General revenues:								
Property taxes	60.1	59.9	-	-	60.1	59.9	-	-
Other taxes	10.2	10.5	-	-	10.2	10.5	-	-
Payments from Montgomery County	-	-	-	-	-	-	34.2	35.9
Grants and contributions not restricted to specific purposes	5.1	5.2	-	-	5.1	5.2	-	-
Other	1.6	2.5	-	0.1	1.6	2.6	0.2	0.3
Total revenues	95.6	95.8	3.4	3.5	99.0	99.3	106.6	104.8
Expenses								
General government	9.1	7.4	-	-	9.1	7.4	-	-
Judicial administration	3.1	2.6	-	-	3.1	2.6	-	-
Public safety	13.8	12.0	-	-	13.8	12.0	-	-
Public works	5.3	5.1	-	-	5.3	5.1	-	-
Health and welfare	10.0	10.5	-	-	10.0	10.5	-	-
Education	34.8	38.6	-	-	34.8	38.6	100.6	102.6
Parks, recreation and cultural	2.9	3.0	-	-	2.9	3.0	-	-
Community development	1.7	1.3	-	-	1.7	1.3	1.5	2.5
Water	-	-	2.1	2.2	2.1	2.2	-	-
Waste water	-	-	1.9	1.9	1.9	1.9	-	-
Interest on long-term debt	7.5	7.4	-	-	7.5	7.4	-	-
Total expenses	88.2	87.9	4.0	4.1	92.2	92.0	102.1	105.1
Change in net assets	7.4	7.9	(0.6)	(0.6)	6.8	7.3	4.5	(0.3)
Net assets-beginning	73.2	65.3	15.5	16.1	88.7	81.4	8.5	8.8
Net assets-endindg	\$ 80.6	\$ 73.2	\$ 14.9	\$ 15.5	\$ 95.5	\$ 88.7	\$ 13.0	\$ 8.5

Revenues

For the fiscal year ended June 30, 2010, revenues from governmental activities totaled \$95.6 million, a slight decrease of \$200,000. The real estate tax rate was increased 3 cents per hundred dollars of assessed value for calendar year 2010, resulting in an increase of \$1 million. This increase was offset by declines in sales tax (\$700,000) revenue and personal property tax revenue \$800,000. The decline in personal property resulted from decreased assessed value.

Charges for services from business-type activities totaled \$3.2 million and had a slight decrease of \$200,000 from 2009. While water and wastewater rates remained steady, revenue earned from water and wastewater fees accounted for the decrease in revenue.

Component unit revenues total \$106.6 million, including a \$34.2 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 \$10.9 million, which would have brought the total transfer to \$45.1 million under the previous method of accounting.

Expenses / Expenditures

Expenses for governmental activities totaled \$88.2 million in 2010, an increase of only \$300,000 from the previous year. Montgomery County's commitment to public safety is evident by the increase of \$1.8 million primarily representing the County's share of the new regional jail. The general government category increased \$1.7 million due in part to the general reassessment project which began in 2010, \$400,000. 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 had to be returned to the Economic Development Administration. In 2010, the County reimbursed the EDA \$1,181,341 for the federal grant, as it was used toward renovation costs of the County's Government Center. This resulted in the remaining increase in this category. The County's *accrual basis* contribution to schools decreased by \$3.3 million. The Schools implemented a spending freeze during the last part of 2010 in anticipation of additional state revenue cuts. These revenue reductions did not occur, which resulted in a decrease in funding required from the County.

Expenses for business-type activities decreased slightly at \$100,000. The decrease was solely in the Water fund, with Wastewater fund expenditures remaining unchanged.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$32.6 million to the operation of the Schools. Depreciation expense related to the schools totaled \$1.9 million. Total expenses for education were \$34.5 million. This amount represented about 39% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$43.5 million, or 49%. 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 69% of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2010.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2010, the governmental funds reflect a combined fund balance of \$110.3 million, a decrease of \$17 million from June 30, 2009. This decrease is due primarily to spending a portion of the \$77 million bonds issued in 2009. In the current year, bonds totaling only \$8.25 million were issued to fund a portion of the Eastern Montgomery Elementary School.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2010 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 70.4	\$ 70.4	\$ 70.6
Intergovernmental	17.9	21.9	20.6
Other	2.6	3.5	3.3
Total	90.9	95.8	94.5
Expenditures and transfers	92.0	102.6	91.3
Change in fund balance	\$ (1.1)	\$ (6.8)	\$ 3.2

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants were received and budgeted during the fiscal year to account for the \$4 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 2009 budget and the appropriation of grants received throughout the year.

Actual tax revenue exceeded the budgeted amount by only \$200,000. Budgeted intergovernmental revenue exceeded the actual by approximately \$1.3 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 the balance of these funds to the Schools in fiscal year 2010.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the County had invested \$154.7 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2010	2009	2010	2009	2010	2009	2010	2009
Non-depreciable assets								
Land	\$ 13.7	\$ 12.1	\$ 0.3	\$ 0.3	\$ 14.0	\$ 12.4	\$ 0.4	\$ 0.4
Construction in progress	30.8	12.7	-	-	30.8	12.7	0.5	-
Depreciable capital assets								
Infrastructure	-	-	31.9	31.5	31.9	31.5	-	-
Buildings and improvements	108.9	104.9	0.1	0.1	109.0	105.0	41.6	41.3
Machinery and equipment	17.7	15.5	0.6	0.6	18.3	16.1	13.9	13.1
Accumulated depreciation	(36.9)	(33.5)	(12.4)	(11.6)	(49.3)	(45.1)	(38.0)	(36.8)
Total	\$ 134.2	\$ 111.7	\$ 20.5	\$ 20.9	\$ 154.7	\$ 132.6	\$ 18.4	\$ 18.0

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

	Balance June 30, 2009	Net Additions/ (Deletions)	Balance June 30, 2010
Non-depreciable assets			
Land	\$ 12.8	\$ 1.6	\$ 14.4
Construction in progress	12.7	18.6	31.3
Depreciable capital assets			
Infrastructure	31.5	0.4	31.9
Buildings and improvements	146.3	4.3	150.6
Machinery and equipment	29.2	3.0	32.2
Accumulated depreciation	(81.9)	(5.4)	(87.3)
Total	\$ 150.6	\$ 22.5	\$ 173.1

Governmental Activities

In 2010, the County began construction on the new Courthouse project at a cost of \$4.3 million. Construction continued on the Eastern Montgomery Elementary School at a cost of \$15.3 million and construction began on the new Price's Fork Elementary School with a land cost of \$1 million and a construction cost of \$2.2 million.

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, 2010, in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 22.9	\$ 16.4	\$ -	\$ -	\$ 22.9	\$ 16.4
Lease revenue bonds	102.1	122.7	-	-	102.1	122.7
Literary loans	3.0	3.3	-	-	3.0	3.3
Refunding bonds	32.8	20.7	-	-	32.8	20.7
Notes payable	-	-	-	-	-	-
Revenue bonds	-	-	6.3	6.5	6.3	6.5
Total	\$ 160.8	\$ 163.1	\$ 6.3	\$ 6.5	\$ 167.1	\$ 169.6

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, 2010, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is, as of September 2010, 6.7 percent, an increase from the rate a year ago which was 6.3 percent. The current rate is slightly favorable compared to the state's average unemployment rate of 6.8 percent.

The Board of Supervisors increased the tax rate 3 cents to \$0.74 per \$100 of assessed value for calendar year 2010. The county reassesses real property every four years as required by the *Code of Virginia*.

The 2010 budget included the use of \$1,050,000 in fund balance to provide funding for debt service from 2010 through 2015. Assuming no additional debt is issued, debt service costs will begin to level off in 2016. This use of fund balance minimizes the impact of debt service costs on the real estate tax rate in 2010 through 2015.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 32,073,599	\$ 425,375	\$32,498,974	\$ 1,283,567	\$ 604,562	\$ 34,387,103
Receivables, net (Note 5)	2,261,294	528,053	2,789,347	4,418,244	3,820	7,211,411
Due from primary government	-	-	-	5,214,375	-	5,214,375
Due from other governmental units (Note 6)	2,703,411	-	2,703,411	3,136,143	8,300	5,847,854
Internal balances (Note 7)	7,316	(7,316)	-	-	-	-
Prepays	390,236	13,353	403,589	1,465,522	14,492	1,883,603
Inventories	-	21,864	21,864	92,480	5,591,667	5,706,011
Advances to component unit (Note 15)	5,240,816	-	5,240,816	-	-	5,240,816
Restricted assets:						
Cash and cash equivalents (Note 4)	67,647,976	33,900	67,681,876	100,072	-	67,781,948
Investments (Note 4)	12,036,507	-	12,036,507	-	-	12,036,507
Notes receivable	-	-	-	-	3,325,000	3,325,000
Accrued interest receivable	-	-	-	-	260,683	260,683
Notes receivable (Note 15)	1,178,994	-	1,178,994	-	31,848	1,210,842
Lease receivable	-	-	-	-	268,151	268,151
Debt issuance costs, net	1,629,434	67,132	1,696,566	-	13,500	1,710,066
Capital assets: (Note 8)						
Non-depreciable	44,530,332	340,389	44,870,721	394,257	508,750	45,773,728
Depreciable, net	89,723,079	20,178,390	109,901,469	8,717,777	8,770,205	127,389,451
Total assets	259,422,994	21,601,140	281,024,134	24,822,437	19,400,978	325,247,549
LIABILITIES						
Accounts payable and accrued expenses	4,987,606	128,198	5,115,804	129,145	43,987	5,288,936
Accrued payroll and related liabilities	702,441	42,061	744,502	7,467,551	-	8,212,053
Accrued interest payable	2,886,523	10,870	2,897,393	-	-	2,897,393
Amounts held for others	299,279	-	299,279	100,072	-	399,351
Advances from primary government (Note 15)	-	-	-	-	5,240,816	5,240,816
Due to other governmental units (Note 6)	473,578	-	473,578	-	1,178,994	1,652,572
Due to component unit	5,214,375	-	5,214,375	-	-	5,214,375
Unearned revenue (Note 5)	133,822	-	133,822	-	10,000	143,822
Customer deposits	-	33,900	33,900	-	110,000	143,900
Long-term liabilities: (Note 9)						
Due within one year	12,329,355	303,618	12,632,973	1,139,058	347,877	14,119,908
Due in more than one year	151,798,270	6,138,060	157,936,330	5,155,093	10,348,229	173,439,652
Total liabilities	178,825,249	6,656,707	185,481,956	13,990,919	17,279,903	216,752,778
NET ASSETS						
Invested in capital assets, net of related debt	47,134,545	14,245,585	61,380,130	9,112,034	(1,269,511)	69,222,653
Restricted:						
Debt service	11,146,947	-	11,146,947	-	-	11,146,947
Note receivable	-	-	-	-	3,585,683	3,585,683
Unrestricted	22,316,253	698,848	23,015,101	1,719,484	(195,097)	24,539,488
Total net assets	\$ 80,597,745	\$ 14,944,433	\$95,542,178	\$ 10,831,518	\$ 2,121,075	\$ 108,494,771

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, 2010

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	Economic Development Authority	
Primary Government:										
Governmental activities:										
General government administration	\$ 9,074,011	\$ 474,526	\$ 451,404	\$ -	\$ (8,148,081)	\$ -	\$ (8,148,081)	\$ -	\$ -	\$ (8,148,081)
Judicial administration	3,077,193	523,388	1,174,314	-	(1,379,491)	-	(1,379,491)	-	-	(1,379,491)
Public safety	13,830,467	827,458	6,305,547	-	(6,697,462)	-	(6,697,462)	-	-	(6,697,462)
Public works	5,349,346	296,302	24,882	-	(5,028,162)	-	(5,028,162)	-	-	(5,028,162)
Health and welfare	9,956,048	219,742	7,282,888	-	(2,453,418)	-	(2,453,418)	-	-	(2,453,418)
Education	34,797,557	-	-	-	(34,797,557)	-	(34,797,557)	-	-	(34,797,557)
Parks, recreational, and cultural	2,881,815	618,067	292,775	-	(1,970,973)	-	(1,970,973)	-	-	(1,970,973)
Community development	1,734,477	63,350	24,630	-	(1,646,497)	-	(1,646,497)	-	-	(1,646,497)
Interest on long-term debt	7,501,270	-	-	-	(7,501,270)	-	(7,501,270)	-	-	(7,501,270)
Total governmental activities	88,202,184	3,022,833	15,556,440	-	(69,622,911)	-	(69,622,911)	-	-	(69,622,911)
Business-type activities:										
Water	2,083,021	1,733,194	-	121,300	-	(228,527)	(228,527)	-	-	(228,527)
Wastewater	1,891,498	1,427,083	-	105,114	-	(359,301)	(359,301)	-	-	(359,301)
Total business-type activities	3,974,519	3,160,277	-	226,414	-	(587,828)	(587,828)	-	-	(587,828)
Total primary government	\$ 92,176,703	\$ 6,183,110	\$ 15,556,440	\$ 226,414	(69,622,911)	(587,828)	(70,210,739)	-	-	(70,210,739)
Component Units:										
School Board	\$ 100,648,120	\$ 7,598,156	\$ 63,582,585	\$ -	-	-	-	(29,467,379)	-	(29,467,379)
Economic Development Authority	1,491,755	1,005,830	-	-	-	-	-	-	(485,925)	(485,925)
Total component units	\$ 102,139,875	\$ 8,603,986	\$ 63,582,585	\$ -	-	-	-	(29,467,379)	(485,925)	(29,953,304)
General Revenues:										
General property taxes (Note 5)					60,083,722	-	60,083,722	-	-	60,083,722
Sales and use tax					6,889,322	-	6,889,322	-	-	6,889,322
Utility tax					1,856,684	-	1,856,684	-	-	1,856,684
Motor vehicle license tax					633,025	-	633,025	-	-	633,025
Other local taxes					896,783	-	896,783	-	-	896,783
Intergovernmental revenue, unrestricted					5,117,860	-	5,117,860	-	-	5,117,860
Investment earnings, unrestricted					370,889	2,353	373,242	23,731	207,002	603,975
Investment earnings, restricted for capital projects					1,183,640	-	1,183,640	-	-	1,183,640
Payments from Montgomery County					-	-	-	32,627,919	1,588,505	34,216,424
Total general revenues					77,031,925	2,353	77,034,278	32,651,650	1,795,507	111,481,435
Change in net assets					7,409,014	(585,475)	6,823,539	3,184,271	1,309,582	11,317,392
Net assets – beginning					73,188,731	15,529,908	88,718,639	7,647,247	811,493	97,177,379
Net assets – ending					\$ 80,597,745	\$ 14,944,433	\$ 95,542,178	\$ 10,831,518	\$ 2,121,075	\$ 108,494,771

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 32,073,599	\$ -	\$ 32,073,599
Receivables, net	2,261,294	-	2,261,294
Due from other governmental units	2,703,411	-	2,703,411
Advances to other funds	7,316	-	7,316
Advances to component unit	5,240,815	-	5,240,815
Notes receivable	1,178,994	-	1,178,994
Restricted assets:			
Cash and cash equivalents	299,279	67,348,697	67,647,976
Investments	-	12,036,507	12,036,507
Total assets	<u>\$ 43,764,708</u>	<u>\$ 79,385,204</u>	<u>\$ 123,149,912</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 979,324	\$ 4,008,281	\$ 4,987,605
Accrued payroll and related liabilities	702,441	-	702,441
Due to other governmental units	473,578	-	473,578
Due to component unit	5,214,375	-	5,214,375
Deferred revenue (Note 5)	1,183,604	-	1,183,604
Amounts held for others	299,279	-	299,279
Total liabilities	<u>8,852,601</u>	<u>4,008,281</u>	<u>12,860,882</u>
Fund Balances:			
Reserved (Note 16)	8,653,644	30,943,646	39,597,290
Unreserved, reported in:			
General fund, designated (Note 16)	3,045,011	-	3,045,011
County capital improvements, designated (Note 16)	-	44,433,277	44,433,277
General fund, undesignated	23,213,452	-	23,213,452
Total fund balances	<u>34,912,107</u>	<u>75,376,923</u>	<u>110,289,030</u>
Total liabilities and fund balances	<u>\$ 43,764,708</u>	<u>\$ 79,385,204</u>	<u>\$ 123,149,912</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

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

Ending fund balance – governmental funds		\$	110,289,030
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			134,253,411
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			390,236
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			1,049,782
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.			1,629,434
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			
Long-term debt, including premium, discounts, and deferred costs	\$	(160,287,707)	
Landfill closure/post-closure liability		(1,034,634)	
Compensated absences		(2,292,217)	
Other postemployment benefits		(513,067)	
Accrued interest payable		<u>(2,886,523)</u>	
			<u>(167,014,148)</u>
Net assets of governmental activities		\$	<u><u>80,597,745</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 60,485,641	\$ -	\$ 60,485,641
Other local taxes	10,275,814	-	10,275,814
Permits, privilege fees, and regulatory licenses	768,341	-	768,341
Fines and forfeitures	109,471	-	109,471
Revenue from use of money and property	370,889	1,183,640	1,554,529
Charges for services	732,299	34,730	767,029
Recovered costs	1,220,030	157,963	1,377,993
Intergovernmental	20,674,300	-	20,674,300
Total revenues	<u>94,636,785</u>	<u>1,376,333</u>	<u>96,013,118</u>
EXPENDITURES			
Current operating:			
General government administration	7,699,271	-	7,699,271
Judicial administration	3,035,865	-	3,035,865
Public safety	13,445,144	-	13,445,144
Public works	3,961,336	-	3,961,336
Health and welfare	9,938,623	-	9,938,623
Education	32,813,321	-	32,813,321
Parks, recreation, and cultural	2,821,921	-	2,821,921
Community development	1,436,161	-	1,436,161
Debt service:			
Principal retirement	9,993,084	-	9,993,084
Interest and fiscal charges	7,446,756	77,764	7,524,520
Bond issuance costs	-	377,978	377,978
Capital projects	-	27,406,729	27,406,729
Total expenditures	<u>92,591,482</u>	<u>27,862,471</u>	<u>120,453,953</u>
Excess (deficiency) of revenues over expenditures	<u>2,045,303</u>	<u>(26,486,138)</u>	<u>(24,440,835)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issuance	-	21,598,145	21,598,145
Transfer to escrow agent	-	(14,120,000)	(14,120,000)
Transfers in	2,334,489	1,775,032	4,109,521
Transfers out	(1,775,032)	(2,334,489)	(4,109,521)
Total other financing sources (uses)	<u>559,457</u>	<u>6,918,688</u>	<u>7,478,145</u>
Net change in fund balances	<u>2,604,760</u>	<u>(19,567,450)</u>	<u>(16,962,690)</u>
FUND BALANCES AT JULY 1	<u>32,307,347</u>	<u>94,944,373</u>	<u>127,251,720</u>
FUND BALANCES AT JUNE 30	<u>\$ 34,912,107</u>	<u>\$ 75,376,923</u>	<u>\$ 110,289,030</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

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 \$ (16,962,690)

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 (\$3,726,371) and the loss on disposals (\$53,739) are less than capital outlay (\$26,378,621) in the current period.

22,598,511

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

(401,921)

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	\$ (13,550,000)
Issuance of general obligation bonds	(8,249,998)
Principal repayments:	
General obligation bonds	1,796,046
Lease revenue bonds	20,581,794
Literary fund loans	254,000
Refunding bonds	1,481,244

2,313,086

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	(852,500)
Discount on issuance of general obligation bonds	771,953
Premium on called debt	282,400
Bond issuance costs	377,978
Amortization of bond issuance costs and premium on called debt	(131,088)
Amortization of bond premium	130,747
Amortization of deferred amounts	(140,460)
Interest expense	217,789

656,819

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.

(794,791)

Change in net assets of governmental activities

\$ 7,409,014

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 59,292,648	\$ 59,323,747	\$ 60,297,292	\$ 973,545
Other local taxes	11,063,574	11,063,574	10,283,661	(779,913)
Permits, privilege fees, and regulatory licenses	671,904	715,761	773,435	57,674
Fines and forfeitures	80,000	80,000	109,277	29,277
Revenue from use of money and property	730,663	736,663	370,889	(365,774)
Charges for services	477,525	726,835	749,457	22,622
Recovered costs	707,877	1,209,578	1,310,178	100,600
Intergovernmental	17,873,650	21,935,196	20,595,511	(1,339,685)
Total revenues	<u>90,897,841</u>	<u>95,791,354</u>	<u>94,489,700</u>	<u>(1,301,654)</u>
EXPENDITURES				
Current operating:				
General government administration	7,458,528	9,194,119	7,444,952	1,749,167
Judicial administration	2,629,948	3,071,339	2,935,003	136,336
Public safety	11,453,750	15,460,303	13,217,109	2,243,194
Public works	4,151,751	4,233,535	3,930,883	302,652
Health and welfare	9,590,645	10,514,758	9,829,092	685,666
Education	35,138,059	36,664,315	32,860,148	3,804,167
Parks, recreation, and cultural	2,639,839	3,094,378	2,731,797	362,581
Community development	1,393,437	1,690,903	1,422,607	268,296
Debt service:				
Principal retirement	11,581,342	11,581,342	9,993,084	1,588,258
Interest and fiscal charges	7,448,367	7,448,367	7,446,756	1,611
Total expenditures	<u>93,485,666</u>	<u>102,953,359</u>	<u>91,811,431</u>	<u>11,141,928</u>
Excess (deficiency) of revenues over expenditures	<u>(2,587,825)</u>	<u>(7,162,005)</u>	<u>2,678,269</u>	<u>9,840,274</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,873,545	1,873,545	2,124,316	250,771
Transfers out	(335,720)	(1,564,860)	(1,564,860)	-
Total other financing sources (uses)	<u>1,537,825</u>	<u>308,685</u>	<u>559,456</u>	<u>250,771</u>
Net change in fund balance (cash basis)	<u>\$ (1,050,000)</u>	<u>\$ (6,853,320)</u>	<u>\$ 3,237,725</u>	<u>\$ 10,091,045</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2010

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 425,375	\$ -	\$ 425,375
Receivables, net	296,512	231,541	528,053
Due from other funds	471,781	-	471,781
Prepays	7,558	5,795	13,353
Inventories	21,309	555	21,864
Deferred bond costs	1,065	1,919	2,984
Total current assets	1,223,600	239,810	1,463,410
Noncurrent assets:			
Cash and cash equivalents, restricted	33,900	-	33,900
Deferred bond costs	22,887	41,261	64,148
Capital assets:			
Non-depreciable	322,389	18,000	340,389
Depreciable, net	10,960,938	9,217,452	20,178,390
Total noncurrent assets	11,340,114	9,276,713	20,616,827
Total assets	12,563,714	9,516,523	22,080,237
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	74,296	95,963	170,259
Accrued interest payable	6,647	4,223	10,870
Due to other funds	7,316	471,781	479,097
Current portion of noncurrent liabilities	159,838	143,780	303,618
Total current liabilities	248,097	715,747	963,844
Noncurrent liabilities:			
Customer deposits	20,450	13,450	33,900
Due in more than one year	3,738,876	2,399,184	6,138,060
Total noncurrent liabilities	3,759,326	2,412,634	6,171,960
Total liabilities	4,007,423	3,128,381	7,135,804
NET ASSETS			
Invested in capital assets, net of related debt	7,485,252	6,760,333	14,245,585
Unrestricted	1,071,039	(372,191)	698,848
Total net assets	\$ 8,556,291	\$ 6,388,142	\$ 14,944,433

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2010

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,426,307	\$ -	\$ 1,426,307
Wastewater revenues	-	1,189,313	1,189,313
Penalties and reconnection charges	31,617	12,955	44,572
Fees	169,300	82,094	251,394
Miscellaneous	19,274	17,546	36,820
Total operating revenues	<u>1,646,498</u>	<u>1,301,908</u>	<u>2,948,406</u>
OPERATING EXPENSES			
Salaries and wages	393,149	334,522	727,671
Employee benefits	189,826	166,458	356,284
Utilities and telephone	34,381	79,799	114,180
Water and wastewater services	494,463	620,001	1,114,464
Operating supplies, fees, permits	9,040	25,977	35,017
Professional services	132,540	29,467	162,007
Repairs and maintenance	180,937	75,912	256,849
Insurance	19,648	16,112	35,760
Vehicle supplies and miscellaneous	27,068	14,819	41,887
Office supplies and miscellaneous	29,813	8,297	38,110
Amortization	1,065	1,919	2,984
Depreciation	409,440	415,520	824,960
Total operating expenses	<u>1,921,370</u>	<u>1,788,803</u>	<u>3,710,173</u>
Operating loss	<u>(274,872)</u>	<u>(486,895)</u>	<u>(761,767)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	2,353	-	2,353
State grant	22,519	-	22,519
Facility fees	86,696	125,175	211,871
Interest expense	(161,651)	(102,695)	(264,346)
Total nonoperating revenues (expenses)	<u>(50,083)</u>	<u>22,480</u>	<u>(27,603)</u>
Loss before contributions and transfers	(324,955)	(464,415)	(789,370)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	98,781	105,114	203,895
Change in net assets	(226,174)	(359,301)	(585,475)
NET ASSETS AT JULY 1	<u>8,782,465</u>	<u>6,747,443</u>	<u>15,529,908</u>
NET ASSETS AT JUNE 30	<u>\$ 8,556,291</u>	<u>\$ 6,388,142</u>	<u>\$ 14,944,433</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,635,084	\$ 1,344,033	\$ 2,979,117
Payments to suppliers	(803,881)	(967,194)	(1,771,075)
Payments to employees	(561,425)	(480,978)	(1,042,403)
Payments to County for financial services	(89,664)	-	(89,664)
Net cash provided by (used in) operating activities	<u>180,114</u>	<u>(104,139)</u>	<u>75,975</u>
NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	<u>(250,159)</u>	<u>250,159</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>(250,159)</u>	<u>250,159</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	98,781	105,114	203,895
Acquisition and construction of capital assets	(120,742)	(279,512)	(400,254)
Facility fee payments from customers	86,696	125,175	211,871
Proceeds from state grant	22,519	-	22,519
Principal payments on debt	(100,824)	(114,992)	(215,816)
Interest payments on debt	(161,827)	(102,805)	(264,632)
Net cash used in capital and related financing activities	<u>(175,397)</u>	<u>(267,020)</u>	<u>(442,417)</u>
INVESTING ACTIVITIES			
Interest received	<u>2,353</u>	<u>-</u>	<u>2,353</u>
Net decrease in cash and cash equivalents	<u>(243,089)</u>	<u>(121,000)</u>	<u>(364,089)</u>
CASH AND CASH EQUIVALENTS			
Beginning at July 1	<u>702,364</u>	<u>121,000</u>	<u>823,364</u>
Ending at June 30	<u>\$ 459,275</u>	<u>\$ -</u>	<u>\$ 459,275</u>
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 425,375	\$ -	\$ 425,375
Cash and cash equivalents, restricted	33,900	-	33,900
	<u>\$ 459,275</u>	<u>\$ -</u>	<u>\$ 459,275</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (274,872)	\$ (486,895)	\$ (761,767)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	409,440	415,520	824,960
Amortization	1,065	1,919	2,984
(Increase) decrease in:			
Accounts receivable	(13,034)	41,285	28,251
Prepays	(673)	(550)	(1,223)
Inventory	5,466	(271)	5,195
(Decrease) increase in:			
Accounts payable	29,092	(95,989)	(66,897)
Advances payable for operating items	460	-	460
Accrued payroll and related liabilities	4,840	6,212	11,052
Other postemployment benefits	16,710	13,790	30,500
Customer deposits	1,620	840	2,460
Net cash provided by (used in) operating activities	<u>\$ 180,114</u>	<u>\$ (104,139)</u>	<u>\$ 75,975</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	<u>\$ 98,781</u>	<u>\$ 105,114</u>	<u>\$ 203,895</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 Economic Development Authority

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010, the County contributed \$337,669 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, 2010, 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, 2010, the County paid \$762,546 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, 2010, the County paid \$20,409 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2010, the County paid \$1,029,689 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, 2010

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, 2010

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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. Interest capitalized for during the current fiscal year totaled \$5,089.

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/Unearned 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. Unearned revenue in governmental activities consists of property taxes collected prior to their due date.

Long-term Liabilities

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, 2010**

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-term Liabilities (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.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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 \$10,696,833 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)	\$ 3,237,725	\$ -	\$ 258,689
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2010	10,208,226	7,382,428	72,111
June 30, 2009	(10,085,630)	(7,389,457)	(277,713)
Inventory:			
June 30, 2010	-	-	92,480
June 30, 2009	-	-	(105,724)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2010	(7,369,718)	(7,382,428)	(214,268)
June 30, 2009	6,614,157	7,389,457	216,476
Net change in fund balance (GAAP basis)	<u>\$ 2,604,760</u>	<u>\$ -</u>	<u>\$ 42,051</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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)	\$ 99,224,531
Principal and other debt service expenses included in primary Government (Exhibit 4)	<u>10,932,838</u>
Total expenditures for school activities	<u><u>\$ 110,157,369</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, 2010**

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	\$ 39,048,516	NA	34.80%
SNAP	12,036,507	AAA	10.73
Money market accounts	<u>61,132,334</u>	AAAm	<u>54.47</u>
Total	<u>\$ 112,217,357</u>		<u>100.00%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,383,639</u>	NA	<u>100.00%</u>

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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, 2010**

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	\$ 38,715,337	\$ 1,283,567
Investments, restricted	73,168,841	-
Cash and cash equivalents, restricted	<u>333,179</u>	<u>100,072</u>
	<u>\$ 112,217,357</u>	<u>\$ 1,383,639</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	\$ 2,586,617	\$ -	\$ -	\$ 2,586,617
Accounts	<u>-</u>	<u>318,512</u>	<u>249,541</u>	<u>568,053</u>
Gross receivables	2,586,617	318,512	249,541	3,154,670
Less:				
Allowance for uncollectibles	<u>(325,323)</u>	<u>(22,000)</u>	<u>(18,000)</u>	<u>(365,323)</u>
Net total receivables	<u>\$ 2,261,294</u>	<u>\$ 296,512</u>	<u>\$ 231,541</u>	<u>\$ 2,789,347</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 12.6% of the total taxes receivable and is based on historical collection rates.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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	\$ 1,049,782
Property taxes receivable – unearned	<u>133,822</u>
Total deferred revenue	<u>\$ 1,183,604</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, 2010 includes amounts not yet received from the January 1, 2010 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 2010 is \$0.74 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles is \$2.45 per \$100 assessed value. Personal property taxes for the calendar year are due on December 5. Personal property taxes do not create a lien on property.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
	<hr/>
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	<hr/> 93,578
	<hr/> \$ 473,578 <hr/>

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
	<hr/>	<hr/>
<u>Commonwealth of Virginia:</u>		
Metropolitan Planning Organization	\$ 19,772	\$ -
Local sales tax	1,153,465	-
State sales tax	-	1,727,980
Categorical aid – shared expenses	508,498	-
Categorical aid – schools	-	71,981
Non-categorical aid	130,448	-
Excess clerk fees	7,052	-
Virginia public assistance funds	157,682	-
Community services act	386,134	-
 <u>Federal Government:</u>		
Virginia public assistance funds	250,753	-
Homeland security funds	89,607	-
Categorical aid – school grants	<hr/> -	<hr/> 1,336,182
	<hr/> \$ 2,703,411 <hr/>	<hr/> \$ 3,136,143 <hr/>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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	\$ 7,316
Water	Wastewater	<u>471,781</u>
		<u>\$ 479,097</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	\$ 1,775,032
General	County Capital Improvements	\$ 2,334,489

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 and to provide funding for debt service.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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	\$ 12,063,913	\$ 1,677,031	\$ -	\$ 13,740,944
Construction in progress	12,739,749	21,879,960	3,830,321	30,789,388
Total capital assets, not depreciated	24,803,662	23,556,991	3,830,321	44,530,332
Capital assets, depreciated:				
Buildings and improvements	104,936,227	3,986,605	12,658	108,910,174
Machinery and equipment	15,445,053	2,665,346	361,686	17,748,713
Total capital assets, depreciated	120,381,280	6,651,951	374,344	126,658,887
Less accumulated depreciation:				
Buildings and improvements	24,940,372	2,239,287	-	27,179,659
Machinery and equipment	8,589,670	1,487,084	320,605	9,756,149
Total accumulated depreciation	33,530,042	3,726,371	320,605	36,935,808
Total capital assets, depreciated, net	86,851,238	2,925,580	53,739	89,723,079
Capital assets, net	<u>\$111,654,900</u>	<u>\$ 26,482,571</u>	<u>\$ 3,884,060</u>	<u>\$134,253,411</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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
Total capital assets, not depreciated	<u>340,389</u>	<u>-</u>	<u>-</u>	<u>340,389</u>
Capital assets, depreciated:				
Wastewater systems	16,113,203	279,512	-	16,392,715
Water systems	15,395,145	98,781	-	15,493,926
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	622,598	21,961	11,349	633,210
Total capital assets, depreciated	<u>32,235,264</u>	<u>400,254</u>	<u>11,349</u>	<u>32,624,169</u>
Less accumulated depreciation:				
Wastewater systems	6,602,187	406,571	-	7,008,758
Water systems	4,437,935	381,880	-	4,819,815
Buildings and improvements	81,761	2,918	-	84,679
Machinery and equipment	510,285	33,591	11,349	532,527
Less accumulated depreciation	<u>11,632,168</u>	<u>824,960</u>	<u>11,349</u>	<u>12,445,779</u>
Total capital assets, depreciated, net	<u>20,603,096</u>	<u>(424,706)</u>	<u>-</u>	<u>20,178,390</u>
Capital assets, net	<u>\$ 20,943,485</u>	<u>\$ (424,706)</u>	<u>\$ -</u>	<u>\$ 20,518,779</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 107,265
Judicial administration	3,538
Public safety	825,128
Public works	845,124
Health and welfare	13,054
Education	1,886,836
Parks, recreation, and cultural	40,816
Community development	4,610
	<u>\$ 3,726,371</u>
Business-type activities:	
Water	\$ 409,440
Wastewater	415,520
	<u>\$ 824,960</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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	\$ 20,585,121	\$ 436,707
Elementary School – Price's Fork	2,580,982	14,327,497
Courthouse Project	6,015,450	16,103,417
	<u>\$ 29,181,553</u>	<u>\$ 30,867,621</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
Total capital assets, not Depreciated	394,257	-	-	394,257
Capital assets, depreciated:				
Buildings and improvements	31,372,795	152,365	-	31,525,160
Machinery and equipment	13,102,754	1,468,028	653,232	13,917,550
Total capital assets, depreciated	44,475,549	1,620,393	653,232	45,442,710
Less accumulated depreciation:				
Buildings and improvements	28,810,817	597,408	-	29,408,225
Machinery and equipment	6,886,739	1,083,201	653,232	7,316,708
Total accumulated depreciation	35,697,556	1,680,609	653,232	36,724,933
Total capital assets, depreciated, net	8,777,993	(60,216)	-	8,717,777
Capital assets, net	<u>\$ 9,172,250</u>	<u>\$ (60,216)</u>	<u>\$ -</u>	<u>\$ 9,112,034</u>

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

In February 2010, the Blacksburg High School gymnasium roof collapsed. As a result, students were relocated to other facilities in the County and one-year lease agreements were signed for mobile classrooms with annual lease payments totaling approximately \$98,000. An insurance claim was filed with the School Board's insurance carrier who estimated a settlement amount of approximately \$4,418,244, which is shown at year end as a receivable in the School Operating fund and in the School Board Component Unit. The amount is shown as deferred as it was not available at year end.

In November 2010, the Board of Supervisors agreed to support a plan to replace Auburn High School, Blacksburg High School, and Auburn Middle School. The School Board estimates the total cost of these projects at \$124.5 million.

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Note 9. Long-term Debt

Current Year Defeasance of Debt

2009A Issue

On July 9, 2009, the County issued \$13,550,000 in 2009A refunding bonds. Proceeds of the bonds, with an average interest rate of 4.74%, were used to advance refund the Series 1999B and 1999C lease revenue bonds maturing January 15, 2010 to January 15, 2021 with an average interest rate of 5.11%. The net proceeds of approximately \$14,480,164 (after payment of \$166,718 in issuance costs and \$78,623 in underwriter's compensation plus \$852,500 in bond premiums) and an additional \$325,110 of 1999B and 1999C debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments on the 1999B and 1999C bonds. As a result, the 1999B and 1999C bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refundings on the 1999B and 1999C issues resulted in a call premium of \$282,400. This is reported in the accompanying financial statements as a subtraction from bonds payable, and is being amortized over the life of the new bonds as a component of interest expense through the year 2021. The County completed the advance refunding to reduce its total debt service payments over the next eleven years by \$1,110,811 and to obtain economic gain (difference between the present values of the old and new debt service payments) of \$598,355.

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Note 9. Long-term Debt (Continued)

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 16,440,972	\$ 8,249,998	\$ 1,796,046	\$ 22,894,924	\$ 2,251,177
Lease revenue bonds	122,659,398	-	20,581,794	102,077,604	6,577,774
Literary fund loans	3,258,140	-	254,000	3,004,140	254,140
Refunding bonds	20,711,889	13,550,000	1,481,244	32,780,645	1,560,168
Landfill post-closure	525,441	509,193	-	1,034,634	81,544
Other post-employment benefits	250,000	342,067	79,000	513,067	-
Compensated absences	2,294,384	1,604,552	1,606,719	2,292,217	1,604,552
Governmental activities long-term liabilities	<u>\$ 166,140,224</u>	<u>\$ 24,255,810</u>	<u>\$ 25,798,803</u>	<u>\$ 164,597,231</u>	<u>\$ 12,329,355</u>
Business-type Activities:					
Revenue bonds	\$ 6,456,726	\$ -	\$ 194,334	\$ 6,262,392	\$ 203,227
Notes payable	32,284	-	21,482	10,802	10,802
Other post-employment benefits	10,000	38,104	7,604	40,500	-
Compensated absences	116,932	127,984	116,932	127,984	89,589
Business-type activities long-term liabilities	<u>\$ 6,615,942</u>	<u>\$ 166,088</u>	<u>\$ 340,352</u>	<u>\$ 6,441,678</u>	<u>\$ 303,618</u>
Component Unit – School Board					
Other post-employment benefits	\$ 1,316,000	\$ 1,622,000	\$ 341,000	\$ 2,597,000	\$ -
Compensated absences	3,621,058	1,186,093	1,110,000	3,697,151	1,139,058
Component unit – school board long-term liabilities	<u>\$ 4,937,058</u>	<u>\$ 2,808,093</u>	<u>\$ 1,451,000</u>	<u>\$ 6,294,151</u>	<u>\$ 1,139,058</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, 2010**

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
2011	\$ 2,251,177	\$ 696,732	\$ 6,577,774	\$ 4,716,416	\$ 1,560,168	\$ 1,467,457	\$ 254,140	\$ 90,124
2012	2,066,529	608,962	6,705,271	4,452,744	2,974,700	1,411,534	250,000	82,500
2013	1,920,249	531,784	5,484,351	4,143,118	3,034,879	1,295,045	250,000	75,000
2014	1,839,849	459,169	5,565,081	3,921,261	3,130,751	1,180,867	250,000	67,500
2015	1,840,329	388,892	5,652,533	3,686,222	3,227,362	1,052,724	250,000	60,000
2016-2020	8,102,907	944,301	29,714,910	14,470,828	15,877,785	3,023,211	1,250,000	187,500
2021-2025	3,903,296	68,174	27,397,684	7,293,503	2,975,000	148,750	500,000	22,500
2026-2030	970,588	-	14,980,000	1,872,500	-	-	-	-
	<u>\$ 22,894,924</u>	<u>\$ 3,698,014</u>	<u>\$102,077,604</u>	<u>\$ 44,556,592</u>	<u>\$ 32,780,645</u>	<u>\$ 9,579,588</u>	<u>\$ 3,004,140</u>	<u>\$ 585,124</u>

Year Ended June 30	Business-type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2011	\$ 203,227	\$ 260,097	\$ 10,802	\$ 101
2012	197,437	250,788	-	-
2013	185,968	242,640	-	-
2014	193,931	234,677	-	-
2015	202,235	226,373	-	-
2016-2020	1,148,720	994,320	-	-
2021-2025	1,416,631	726,409	-	-
2026-2030	1,738,552	396,087	-	-
2031-2035	975,691	53,825	-	-
	<u>\$ 6,262,392</u>	<u>\$ 3,385,216</u>	<u>\$ 10,802</u>	<u>\$ 101</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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	\$ 170,000	\$ -
School Construction Bonds	4.9 - 6.6	01/15/92	2012	1,893,607	241,239	-
School Construction Bonds	5.1 - 5.5	04/29/93	2012	3,000,000	325,000	-
School Construction Bonds	4.5 - 5.0	11/18/93	2014	3,000,000	120,000	-
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	1,365,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	1,846,155	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	2,385,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	8,192,532	-
Qualified School Construction Bonds	0.0	11/13/09	2027	8,249,998	8,249,998	-
					<u>\$ 22,894,924</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	\$ 1,025,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	1,495,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	12,680,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	3,932,302	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	3,932,302	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	7,858,000	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	71,155,000	-
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	51,321
Water and Sewer Refunding Bond	4.50	06/20/08	2033	6,500,479	-	6,211,071
					<u>\$ 102,077,604</u>	<u>\$ 6,262,392</u>
<u>Refunding Bonds:</u>						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 1,195,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,205,645	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,475,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,320,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	12,585,000	-
					32,780,645	-
Less deferred costs					(1,452,564)	-
Plus bond premium					1,724,638	-
Less bond discount					(741,680)	-
					<u>\$ 32,311,039</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 4,140	\$ -
State Literary Fund Loan	3.0	01/20/01	2021	5,000,000	3,000,000	-
Note Payable	8.3	08/09/01	2011	163,000	-	10,802
					<u>\$ 3,004,140</u>	<u>\$ 10,802</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 \$51,321 and \$754, 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, 2010

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 \$1,034,634 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2010. 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 is available on their website at <http://www.varetire.org/pdf/publications/2009-Annual-Report.pdf> or 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, 2010**

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 2010 was 14.76% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2010 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, 2010, 2009, and 2008, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$5,219,339, \$6,394,419, and \$6,455,298 and represented 13.81%, 13.81%, and 15.30% of annual covered payroll, respectively, and 100% of the required contributions for 2010, 2009, and 2008. The School Board's contribution rate for non-professional employees for the fiscal year ended 2010 was 12.30% of the annual covered payroll. The current year contributions were reduced in the last three months of the year because of a VRS holiday.

Annual Pension Cost

For fiscal year 2010, the County's annual pension costs of \$2,303,590 and the School Board's annual pension cost of \$645,356 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, 2009 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% to 5.6% 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, 2010	\$ 2,303,590	100%	\$ -
June 30, 2009	\$ 2,244,187	100%	\$ -
June 30, 2008	\$ 1,953,667	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, 2010	\$ 645,356	100%	\$ -
June 30, 2009	\$ 649,754	100%	\$ -
June 30, 2008	\$ 651,980	100%	\$ -

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Analysis of Funding Progress for Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Montgomery						
June 30, 2009	\$ 49,227,067	\$ 58,942,366	\$ 9,715,299	83.52%	\$ 15,689,708	61.92%
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%
County of Montgomery School Board						
June 30, 2009	\$ 15,263,072	\$ 18,309,606	\$ 3,046,534	83.36%	\$ 5,289,613	57.59%
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%

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.

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, under a single-employer plan. The retiree pays the premium for these benefits. The County or the School Board may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 12. Other Post-Employment Benefits (Continued)

Plan Description and Benefits Provided

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

Membership

At July 1, 2009, the number of County participants was 396, consisting of 389 active and 7 inactive. The number of School participants was 1,131, consisting of 1,086 active and 45 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, 2010, the County's annual OPEB cost (expense) of \$342,067 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 \$513,067 for the year ended June 30, 2010.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Annual required contribution	\$ 311,717	\$ 37,283	\$ 349,000
Interest on net OPEB obligation	9,579	821	10,400
Adjustment to annual required contribution	<u>(15,965)</u>	<u>(1,368)</u>	<u>(17,333)</u>
Annual OPEB cost	305,331	36,736	342,067
Less contributions made	<u>(72,764)</u>	<u>(6,236)</u>	<u>(79,000)</u>
Increase in net OPEB obligation	232,567	30,500	263,067
Net OPEB obligation – beginning of year	<u>240,000</u>	<u>10,000</u>	<u>250,000</u>
Net OPEB obligation – end of year	<u>\$ 472,567</u>	<u>\$ 40,500</u>	<u>\$ 513,067</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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, 2010, the School's annual OPEB cost (expense) of \$1,622,000 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 \$2,597,000 for the year ended June 30, 2010.

Annual required contribution	\$ 1,657,000
Interest on net OPEB obligation	52,700
Adjustment to annual required contribution	<u>(87,700)</u>
Annual OPEB cost	1,622,000
Less contributions made	<u>(341,000)</u>
Increase in net OPEB obligation	1,281,000
Net OPEB obligation-beginning of year	<u>1,316,000</u>
Net OPEB obligation-end of year	<u><u>\$ 2,597,000</u></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 2010 are as follows. Since this is the second year for implementing GASB 45, the same information cannot be reported for the preceding year.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
County:			
June 30, 2010	\$ 342,067	23.09%	\$ 513,067
June 30, 2009	\$ 339,000	23.30%	\$ 250,000
School Board:			
June 30, 2010	\$ 1,622,000	21.02%	\$ 2,597,000
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, 2010**

Note 12. Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress (Continued)

Required Supplementary Information						
Schedule of Funding Progress – Other Post Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County:						
July 1, 2009	\$ -	\$ 3,309,453	\$ 3,309,453	0%	\$ 15,634,455	21.17%
July 1, 2007	\$ -	\$ 3,059,585	\$ 3,059,585	0%	\$ 17,311,608	17.67%
School Board:						
July 1, 2009	\$ -	\$ 14,324,780	\$ 14,324,780	0%	\$ 46,462,305	30.83%
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, 2009 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, 2010 is 28 years.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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.

Wastewater Treatment Plant

In order to comply with the Virginia Department of Environmental Quality inspection that was performed in June 2010, the County must repair an ultraviolet system control at the wastewater treatment plant. Management estimates the repairs to cost no more than \$130,000.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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	\$ 3,110,943
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	<u>2,128,780</u>
	<u>\$ 5,240,816</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 – Economic Development Authority had deficits in unrestricted net assets of (\$372,191), and (\$195,097), 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	\$ 1,895,215	\$ 30,943,646	\$ 970,657
Advances and notes receivable	6,419,809	-	-
Law library	245,813	-	-
Grants	92,807	-	-
Inventories	-	-	92,480
Total reserved fund balance	<u>\$ 8,653,644</u>	<u>\$ 30,943,646</u>	<u>\$ 1,063,137</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 16. Net Assets/Fund Balance (Continued)

Designations of Fund Balance:

Designated fund balances are comprised of the following:

	General Fund	Capital Improvements Fund
Designated for:		
Capital projects	\$ 500,000	\$ 44,433,277
Landfill	250,000	-
Facilities and maintenance	723,000	-
Road maintenance	51,500	-
Technology	140,717	-
Automobile graveyard	116,533	-
Rainy Day – County	1,000,000	-
Rainy Day – Schools	263,261	-
	<u>\$ 3,045,011</u>	<u>\$ 44,433,277</u>
Total designated fund balance	<u>\$ 3,045,011</u>	<u>\$ 44,433,277</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 Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which 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 this standard, but does not expect them to be material.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 19. Subsequent Events

County

Bond Issuances

In July 2010, the County issued 16 year Virginia Public School Authority, Qualified School Construction Bonds totaling \$13,370,000. These are interest free bonds and are funded through the American Recovery and Reinvestment Act. Annual principal payments will begin June 15, 2012, and on each June 15th thereafter until the final maturity date (June 15, 2027). The proceeds will be used for a portion of the construction cost of the new Prices Fork Elementary School and School Energy Projects.

In November 2010, the County issued 12 year lease revenue refunding bonds totaling \$12,705,000. Principal is payable annually beginning January 15, 2011. Interest is payable semi-annually beginning on January 15, 2011, and on each January 15 and July 15 thereafter until the final maturity date (January 15, 2023). Interest rates range from 2 percent to 4 percent. The proceeds were used to refund a portion of the 2001 refunding bonds.

Economic Development Authority

Industrial Access Fund Grant

On August 27, 2010, the Authority entered into an agreement with a Property Owner, the Town of Blacksburg, and the Virginia Department of Transportation (VDOT) to develop 69.99 acres of industrial zoned property in the Town of Blacksburg. It is the Authority and Town's desire to market the property to qualifying industries and to develop the property to create high quality employment opportunities and investment that will benefit the citizens of the Town and the County. VDOT has awarded the Town an Industrial Access Fund Grant, subject to the Town entering into an agreement with VDOT and providing a local match. The match will be used to assist the Town in funding the construction of an industrial access road to the property. The Authority, Town, and Property Owner have agreed to share in certain costs associated with both the development of the property and with accepting the grant from VDOT, including sharing the responsibility to repay VDOT for the grant if VDOT's requirement for a minimum qualifying investment of \$3.125 million is not met within the required five years. The Authority's share of potential grant repayment is \$237,500.

OTHER SUPPLEMENTARY INFORMATION

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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2010

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,283,567	\$ 1,283,567
Receivables, net	4,418,244	-	4,418,244
Due from primary government	5,214,375	-	5,214,375
Due from other governmental units	3,064,032	72,111	3,136,143
Inventories	-	92,480	92,480
Cash and cash equivalents, restricted	100,072	-	100,072
	<u>\$ 12,796,723</u>	<u>\$ 1,448,158</u>	<u>\$ 14,244,881</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 129,145	\$ -	\$ 129,145
Accrued payroll and related liabilities	7,253,283	214,268	7,467,551
Amounts held for others	100,072	-	100,072
Deferred revenue	5,314,223	-	5,314,223
	<u>12,796,723</u>	<u>214,268</u>	<u>13,010,991</u>
Fund Balances:			
Reserved for:			
Encumbrances	970,657	-	970,657
Inventories	-	92,480	92,480
Unreserved	(970,657)	1,141,410	170,753
	<u>-</u>	<u>1,233,890</u>	<u>1,233,890</u>
Total fund balances	<u>-</u>	<u>1,233,890</u>	<u>1,233,890</u>
Total liabilities and fund balances	<u>\$ 12,796,723</u>	<u>\$ 1,448,158</u>	<u>\$ 14,244,881</u>
Adjustments for the Statement of Net Assets (Exhibit 1)			
Total fund balances			\$ 1,233,890
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			9,112,034
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.			1,465,522
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			5,314,223
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.			(6,294,151)
Net assets of governmental activities			<u>\$ 10,831,518</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, 2010**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from use of money and property	\$ 129,483	\$ 23,731	\$ 153,214
Charges for services	84,022	2,051,036	2,135,058
Recovered costs	643,915	-	643,915
Intergovernmental	94,202,752	2,131,643	96,334,395
	<hr/>	<hr/>	<hr/>
Total revenues	95,060,172	4,206,410	99,266,582
EXPENDITURES			
Current:			
Instruction	73,424,878	-	73,424,878
Administration, attendance, and health	3,626,793	-	3,626,793
Pupil transportation	5,164,364	-	5,164,364
Operations and maintenance	12,697,288	-	12,697,288
Non-instructional	146,849	-	146,849
School nutrition	-	4,164,359	4,164,359
	<hr/>	<hr/>	<hr/>
Total expenditures	95,060,172	4,164,359	99,224,531
Excess of revenues over expenditures	<hr/>	<hr/>	<hr/>
	-	42,051	42,051
Net change in fund balances	-	42,051	42,051
FUND BALANCE AT JULY 1	<hr/>	<hr/>	<hr/>
	-	1,191,839	1,191,839
FUND BALANCE AT JUNE 30	<hr/>	<hr/>	<hr/>
	\$ -	\$ 1,233,890	\$ 1,233,890
Reconciliation to the Statement of Activities (Exhibit 2)			
Net change in fund balances – total governmental funds			\$ 42,051
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 (\$1,620,393) exceeded depreciation (\$1,680,609).			(60,216)
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.			4,565,809
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/>
			(1,363,373)
Change in net assets of governmental activities			<hr/>
			\$ 3,184,271

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, 2010**

	School Operating				School Cafeteria			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ 1,500	\$ 1,500	\$ 129,483	\$ 127,983	\$ -	\$ -	\$ 23,731	\$ 23,731
Charges for services	17,000	17,000	84,022	67,022	2,209,614	2,209,614	2,051,036	(158,578)
Recovered costs	337,500	644,267	643,915	(352)	-	-	-	-
Intergovernmental	96,068,724	97,850,021	94,362,146	(3,487,875)	1,563,101	1,720,459	2,337,245	616,786
Total revenues	96,424,724	98,512,788	95,219,566	(3,293,222)	3,772,715	3,930,073	4,412,012	481,939
EXPENDITURES								
Current:								
Instruction	74,775,041	75,110,095	73,584,272	1,525,823	-	-	-	-
Administration, attendance, and health	3,974,854	4,002,736	3,626,793	375,943	-	-	-	-
Pupil transportation	4,509,496	5,264,636	5,164,364	100,272	-	-	-	-
Operations and maintenance	13,152,849	13,965,479	12,697,288	1,268,191	-	-	-	-
Non-instructional	12,484	169,842	146,849	22,993	-	-	-	-
School nutrition	-	-	-	-	3,772,715	4,155,073	4,153,323	1,750
Total expenditures	96,424,724	98,512,788	95,219,566	3,293,222	3,772,715	4,155,073	4,153,323	1,750
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (225,000)	\$ 258,689	\$ 483,689

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

<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>		
Community Facilities Loans and Grants	10.780	\$ 25,000
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	601,291
<u>Department of Agriculture and Consumer Services:</u>		
National School Lunch Program	10.555	236,300
<u>Department of Education:</u>		
School Breakfast Program	10.553	405,758
National School Lunch Program	10.555	1,597,250
ARRA Child Nutrition Discretionary Grants Limited Availability	10.579	106,653
Schools and Roads – Grants to States	10.665	37,579
<u>Department of Homeland Security:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services:</u>		
Interoperable Emergency Communications	97.055	102,431
State Homeland Security Program	97.073	358,332
<u>Department Of Justice:</u>		
<u>Direct Payments:</u>		
Public Safety Partnership and Community Policing Grants	16.710	100,000
Recovery Act Edward Byrne Memorial Justice Assistance Grant	16.804	38,938
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	4,060
Crime Victim Assistance	16.575	109,646
Violence Against Women Formula Grant	16.588	29,386
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
State and Community Highway Safety	20.600	87,975
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Basic Grants to States	84.002	69,821
Title I: Grants to Local Educational Agencies	84.010	1,613,227
Title I: State Agency Program for Neglected and Delinquent Children	84.013	30,409
Special Education - Grants to States	84.027	2,464,955
Career and Technical Education - Basic Grants to States	84.048	283,047
Special Education - Preschool Grants	84.173	74,494
Safe and Drug Free Schools and Communities - State Grants	84.186	51,507
Innovative Education Program Statistics	84.298	840
English Language Acquisition Grants	84.365	51,439
Improving Teacher Quality State Grants	84.367	411,876
School Improvement Grants	84.377	48,062
Title I Grants to Local Educational Agencies, Recovery Act	84.389	639,569

(Continued)

**SCHEDULE 1
(Continued)**

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title (Continued)</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education (Continued):</u>		
<u>Pass-through Payments (Continued):</u>		
<u>Department of Education (Continued):</u>		
Special Education Grants to States, Recovery Act	84.391	\$ 759,109
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	5,162,649
Learn and Serve America - School and Community Based Programs	94.004	19,779
<u>Department of Compensaton Board:</u>		
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	228,952
<u>Department of Health and Human Services:</u>		
<u>Direct Payments:</u>		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	40,280
<u>Pass-through Payments:</u>		
<u>Department of Aging:</u>		
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	59,796
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	36,273
Temporary Assistance for Needy Families	93.558	557,114
Refugee and Entrant Assistance - State Administered Programs	93.566	1,327
Low Income Home Energy Assistance	93.568	26,781
Child Care and Development Block Grant	93.575	289,890
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	354,130
Chafee Education and Training Vouchers Program	93.599	1,090
Child Welfare Services - State Grants	93.645	1,807
Foster Care - Title IV-E	93.658	404,975
Foster Care - Title IV-E - ARRA	93.658	31,853
Adoption Assistance	93.659	164,871
Adoption Assistance - ARRA	93.659	18,460
Social Service Block Grant	93.667	227,080
Chafee Foster Care Independence Program	93.674	8,588
ARRA - Child Care and Development Block Grant	93.713	121,649
Children's Health Insurance Program	93.767	26,070
Medical Assistance Program	93.778	332,065
Total Expenditures of Federal Awards		\$ 18,454,433

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, 2010, the School Board had food commodities totaling \$52,029 in inventory.

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STATISTICAL SECTION

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

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

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

TABLE 1

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities								
Invested in capital assets, net of related debt	\$ 47,134,545	\$ 36,330,270	\$ 28,639,210	\$ 22,500,252	\$ 13,946,058	\$ 13,971,101	\$ 9,826,302	\$ 3,945,490
Restricted	11,146,947	11,262,042	5,112,996	4,969,141	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	22,316,253	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>\$ 80,597,745</u>	<u>\$ 73,188,731</u>	<u>\$ 64,925,547</u>	<u>\$ 56,090,365</u>	<u>\$ 43,918,407</u>	<u>\$ 36,395,713</u>	<u>\$ 30,843,402</u>	<u>\$ 28,225,672</u>
Business-type activities								
Invested in capital assets, net of related debt	\$ 14,245,583	\$ 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	698,850	954,433	917,729	(429,075)	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	<u>\$ 14,944,433</u>	<u>\$ 15,529,908</u>	<u>\$ 16,099,742</u>	<u>\$ 15,631,014</u>	<u>\$ 15,666,453</u>	<u>\$ 15,812,023</u>	<u>\$ 15,943,141</u>	<u>\$ 15,048,022</u>
Primary government								
Invested in capital assets, net of related debt	\$ 61,380,128	\$ 50,905,745	\$ 43,778,063	\$ 37,484,101	\$ 29,099,282	\$ 29,717,762	\$ 25,909,013	\$ 18,746,104
Restricted	11,146,947	11,262,042	5,156,156	6,045,381	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	23,015,103	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>\$ 95,542,178</u>	<u>\$ 88,718,639</u>	<u>\$ 81,025,289</u>	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>	<u>\$ 46,786,543</u>	<u>\$ 43,273,694</u>

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Expenses								
Governmental activities								
General government	\$ 9,074,011	\$ 7,381,364	\$ 7,066,410	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	3,077,193	2,658,492	2,438,896	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	13,830,467	11,957,163	11,202,874	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	5,349,346	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	2,881,815	3,022,711	2,779,839	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	9,956,048	10,490,545	9,808,845	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,734,477	1,264,454	1,259,379	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	34,797,557	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	7,501,270	7,389,389	4,696,145	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	88,202,184	87,951,973	79,719,723	71,815,215	71,155,281	69,448,996	69,907,234	63,028,214
Business-type activities								
Water and Sewage	3,974,519	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	3,974,519	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	\$ 92,176,703	\$ 92,022,235	\$ 83,450,301	\$ 75,471,408	\$ 74,481,619	\$ 72,898,977	\$ 73,439,811	\$ 66,048,333
Program Revenues								
Governmental activities								
Charges for services								
Public Safety	\$ 827,458	\$ 917,866	\$ 978,375	\$ 616,714	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public Works	296,302	123,341	105,007	125,741	127,070	151,767	-	58,671
Other Activities	1,899,073	1,565,954	1,757,781	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	15,556,440	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	18,579,273	17,691,731	18,244,162	16,559,844	15,623,515	15,339,719	15,235,508	12,135,377
Business-type activities								
Charges for services								
Water and Sewage	3,160,277	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	226,414	16,714	691,214	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	3,386,691	3,381,198	3,891,554	3,507,794	3,135,282	3,312,505	4,828,718	2,602,619
Total primary government program revenues	\$ 21,965,964	\$ 21,072,929	\$ 22,135,716	\$ 20,067,638	\$ 18,758,797	\$ 18,652,224	\$ 20,064,226	\$ 14,737,996
Net (expense) revenue								
Governmental activities	\$ (69,622,911)	\$ (70,260,242)	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	(587,828)	(689,064)	160,976	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	\$ (70,210,739)	\$ (70,949,306)	\$ (61,314,585)	\$ (55,403,770)	\$ (55,722,822)	\$ (54,246,753)	\$ (53,375,585)	\$ (51,310,337)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	\$ 60,083,722	\$ 59,872,099	\$ 54,666,779	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	6,889,322	7,086,741	7,382,254	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,529,808	1,526,049	1,938,646	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,856,684	1,877,884	1,786,988	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,117,860	5,181,174	5,216,412	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	1,554,529	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	77,031,925	78,163,726	73,038,343	67,427,329	62,475,949	57,599,206	54,149,721	52,053,237
Business-type activities:								
Investment earnings	2,353	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	2,353	119,230	10,658	112,960	120,792	6,358	(14,841)	3,153
Total primary government	\$ 77,034,278	\$ 78,282,956	\$ 73,049,001	\$ 67,540,289	\$ 62,596,741	\$ 57,605,564	\$ 54,134,880	\$ 52,056,390
Changes in Net Assets								
Governmental activities	\$ 7,409,014	\$ 7,903,484	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	(585,475)	(569,834)	171,634	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	\$ 6,823,539	\$ 7,333,650	\$ 11,734,416	\$ 12,136,519	\$ 6,873,919	\$ 3,358,811	\$ 759,295	\$ 746,053

TABLE 3

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

	<u>2010</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>
General Fund										
Reserved	\$ 8,653,644	\$ 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
Unreserved	26,258,463	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
Total general fund	<u>\$ 34,912,107</u>	<u>\$ 32,307,347</u>	<u>\$ 32,526,636</u>	<u>\$ 29,229,878</u>	<u>\$ 25,290,426</u>	<u>\$ 24,401,175</u>	<u>\$ 25,890,063</u>	<u>\$ 24,256,288</u>	<u>\$ 24,527,223</u>	<u>\$ 23,885,769</u>
All Other Governmental Funds										
Reserved	\$ 30,943,646	\$ 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
Capital projects funds	44,433,277	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
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 75,376,923</u>	<u>\$ 94,944,373</u>	<u>\$ 24,011,705</u>	<u>\$ 27,748,881</u>	<u>\$ 25,110,784</u>	<u>\$ 31,054,677</u>	<u>\$ 33,941,332</u>	<u>\$ 17,825,192</u>	<u>\$ 9,826,036</u>	<u>\$ 15,502,219</u>

TABLE 4

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
Taxes	\$ 70,761,455	\$ 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
Permits, privilege fees, and licenses	768,341	678,798	729,667	527,087	451,339	581,026	432,106	354,475	224,463	200,284
Fines and forfeitures	109,471	86,587	95,562	120,036	191,713	181,336	137,311	172,252	167,757	85,283
Revenue from use of money and property	1,554,529	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
Charges for services	767,029	770,575	862,222	863,610	1,099,916	774,474	791,975	588,551	494,449	368,471
Other	1,377,993	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
Intergovernmental	20,674,300	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
Total revenues	96,013,118	95,098,893	91,019,020	84,306,262	78,126,568	72,954,211	69,405,022	66,965,576	61,203,423	59,394,448
Expenditures										
General government	7,699,271	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
Judicial administration	3,035,865	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
Public safety	13,445,144	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
Public works	3,961,336	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
Parks, recreation, and cultural	2,821,921	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
Health and welfare	9,938,623	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
Education	32,813,321	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
Community development	1,436,161	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
Nondepartmental	-	-	-	-	-	-	-	-	129,482	37,216
Capital projects	27,406,729	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
Debt service										
Principal	9,993,084	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
Interest and other costs	7,902,498	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
Total expenditures	120,453,953	102,047,180	91,459,438	77,635,300	83,802,333	85,284,054	71,440,558	79,496,955	35,446,981	31,210,418
Excess of revenues over (under) expenditures	(24,440,835)	(6,948,287)	(440,418)	6,670,962	(5,675,765)	(12,329,843)	(2,035,536)	(12,531,379)	25,756,442	28,184,030
Other Financing Sources (Uses)										
Proceeds from borrowing	21,598,145	77,000,000	-	-	-	18,779,866	20,000,000	-	-	15,088,350
Bond premium	-	775,666	-	-	-	-	-	-	-	-
Bond discount	-	-	-	-	-	-	-	-	-	-
Premium on called bonds	-	-	-	-	-	-	-	-	-	-
Payments to bond escrow agents	(14,120,000)	-	-	-	-	(19,562,999)	-	-	-	(3,323,550)
Proceeds from sale of capital assets/real estat	-	-	-	-	-	8,940,593	-	-	-	-
Transfers in	4,109,521	5,522,084	4,460,375	3,390,967	-	719,056	8,348	2,038,905	-	41,950
Transfers out	(4,109,521)	(5,636,084)	(4,460,375)	(3,484,380)	-	(719,056)	(8,348)	(2,038,905)	(30,791,171)	(31,227,502)
Total other financing sources (uses)	7,478,145	77,661,666	-	(93,413)	-	8,157,460	20,000,000	-	(30,791,171)	(19,420,752)
Net change in fund balances	\$ (16,962,690)	\$ 70,713,379	\$ (440,418)	\$ 6,577,549	\$ (5,675,765)	\$ (4,172,383)	\$ 17,964,464	\$ (12,531,379)	\$ (5,034,729)	\$ 8,763,278
Debt service as a percentage of noncapital expenditures	19.02%	16.44%	12.95%	14.64%	14.94%	25.29%	15.29%	14.65%	7.14%	5.91%

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)
2010	\$ 6,932,701,500	\$ 555,498,413	\$ 114,428,458	\$ 29,055,945	\$ 196,055,790	\$7,827,740,106	\$ 0.91
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

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

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

Source: Assessor's Office

TABLE 6

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

Taxpayer	Fiscal Year 2010			Fiscal Year 2001		
	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Appalachian Power Company	\$ 79,243,669	1	1.01%	\$ -	-	0.00%
PR Financing (NRV Mall)	68,333,200	2	0.87%	-	-	0.00%
Roger Woody	62,620,300	3	0.80%	-	-	0.00%
Foxridge	61,604,900	4	0.79%	46,196,300	1	2.40%
Hash Investments/SHAH Development	55,527,200	5	0.71%	11,078,300	8	0.58%
Verizon	42,839,060	6	0.55%	-	-	0.00%
Norfolk and Western	35,455,355	7	0.45%	-	-	0.00%
SHP-The Village at Blacksburg LLC	29,811,000	8	0.38%	17,157,100	3	0.89%
Maple Ridge	27,372,900	9	0.35%	-	-	0.00%
BSE AH APTS LLC	25,380,800	10	0.32%	14,065,100	5	0.73%
HCA Montgomery Regional Hospital	-	-	0.00%	15,494,200	4	0.81%
Crown American Financing	-	-	0.00%	25,148,600	2	1.31%
Wal-Mart	-	-	0.00%	12,260,300	6	0.64%
Christiansburg Marketplace	-	-	0.00%	11,909,700	7	0.62%
Windsor Hills	-	-	0.00%	10,328,500	9	0.54%
First National Bank of Christiansburg	-	-	0.00%	8,864,300	10	0.46%
	<u>\$ 488,188,384</u>		<u>6.23%</u>	<u>\$ 172,502,400</u>		<u>8.98%</u>

Source: Assessor's Office

TABLE 7

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2010	\$ 65,675,785	\$ 63,563,693	96.78%	\$ -	\$ 63,563,693	96.78%
2009	63,512,890	62,203,892	97.94%	1,394,834	61,648,532	97.06%
2008	61,764,615	57,387,250	92.91%	1,200,547	60,055,100	97.23%
2007	55,679,245	52,198,510	93.75%	1,329,977	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	42,428,890	95.23%	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%

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
2010	\$ 22,894,924	\$ 22,894,924	0.29%	250.51	\$ 102,077,604	\$ 3,004,140	\$ 32,780,645
2009	\$ 16,440,972	\$ 16,440,972	0.21%	181.63	\$ 122,659,398	\$ 3,258,140	\$ 20,711,889
2008	\$ 18,247,238	\$ 18,247,238	0.24%	205.41	\$ 51,296,675	\$ 3,512,140	\$ 21,219,776
2007	\$ 20,055,209	\$ 20,055,209	0.27%	226.73	\$ 54,675,833	\$ 3,766,140	\$ 21,729,839
2006	\$ 21,859,538	\$ 21,859,538	0.39%	248.69	\$ 57,913,212	\$ 4,020,140	\$ 22,492,576
2005	\$ 23,665,926	\$ 23,665,926	0.43%	281.87	\$ 61,025,101	\$ 4,274,140	\$ 23,263,453
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

Fiscal Year	Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable	Capital Leases				
2010	\$ 6,262,392	\$ 10,802	\$ -	\$ 167,030,507	6.76%	\$ 1,828	
2009	\$ 6,456,726	\$ 32,284	\$ -	\$ 169,559,409	7.86%	\$ 1,873	
2008	\$ 6,610,729	\$ 53,125	\$ -	\$ 100,939,683	4.75%	\$ 1,136	
2007	\$ 6,515,070	\$ 70,184	\$ -	\$ 106,812,275	4.58%	\$ 1,208	
2006	\$ 6,024,984	\$ 85,993	\$ -	\$ 112,396,443	5.71%	\$ 1,279	
2005	\$ 6,132,906	\$ 101,197	\$ -	\$ 118,462,723	6.02%	\$ 1,411	
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	-	\$ 1,159	

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

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	
2010	\$ 3,402,690	\$ 2,895,875	506,815	\$ 194,334	\$ 264,346	1.10
2009	\$ 3,387,714	\$ 2,985,765	401,949	\$ 154,003	\$ 277,225	0.93
2008	\$ 3,090,332	\$ 2,610,357	479,975	\$ 155,567	\$ 273,069	1.12
2007	\$ 2,941,527	\$ 2,612,350	329,177	\$ 129,223	\$ 285,304	0.79
2006	\$ 2,693,843	\$ 2,284,438	409,405	\$ 123,126	\$ 290,593	0.99
2005	\$ 2,683,885	\$ 2,434,942	248,943	\$ 110,661	\$ 293,368	0.62
2004	\$ 2,785,678	\$ 2,518,845	266,833	\$ 95,740	\$ 286,651	0.70
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

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**

Fiscal Year Ended (1)	Population (2)	Total Personal Income (2)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2010	91,394	\$ 2,470,786,962	\$ 25,545	9,494	7.30%
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%

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

Source: Population, personal income, and unemployment - Economic Development Department
Public School enrollment - School Board Administration

N/A - Not available

TABLE 11

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

Employer	Fiscal Year 2010		Fiscal Year 2000	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Tech	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	3
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	2
Alliant TechSystems, Inc	1,000 and over	4	1,000 and over	4
Moog, Inc (Formerly Litton Poly-Scientific)	1,000 and over	5	500 to 999	6
Dish Network (Formerly Echosphere Corporation)	500 to 999	6	-	-
Carilion New River Valley Medical Center	500 to 999	7	500 to 999	5
Lexington Rowe Furniture, Inc.	500 to 999	8	-	-
Montgomery Regional Hospital	500 to 999	9	500 to 999	8
Town of Blacksburg	500 to 999	10	250 to 499	10
Federal-Mogul Corporation	-	-	500 to 999	7
Hubble Lighting, Inc.	-	-	500 to 999	9

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>2010</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>
General government										
County administration	13.50	13.50	13.50	14.00	14.00	13.00	14.00	14.00	13.00	11.00
Information management services	9.50	10.50	8.50	8.50	8.50	8.50	8.00	8.00	8.00	6.00
Finance	8.50	8.50	8.50	8.50	8.50	8.50	9.50	9.50	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	19.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
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	7.50	7.00	7.00	7.00	6.00	6.00	6.00	6.50
Public Safety										
Sheriff	124.50	135.50	129.00	126.00	122.00	122.00	112.00	112.50	107.00	108.00
Animal control	4.25	4.00	4.00	4.20	4.20	4.20	4.20	4.20	4.20	4.20
Inspections	5.00	5.00	5.00	5.00	5.00	4.50	4.00	4.00	3.00	3.50
Judicial	23.00	23.00	22.00	18.00	18.50	18.50	18.00	18.50	18.50	19.00
Refuse collection	23.00	23.00	24.20	24.20	23.50	23.50	23.50	23.50	25.56	23.36
Other public works										
Engineering	2.00	2.00	2.00	2.00	2.00	2.00	3.00	2.00	2.00	1.00
Building and grounds	9.00	9.00	9.00	9.00	8.00	8.00	8.00	9.00	9.00	7.00
Housekeeping	9.00	9.00	9.00	9.00	9.10	8.60	8.60	9.60	9.60	5.60
Other	3.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00
Parks, recreation, and cultural	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00
Library	23.88	23.88	24.38	24.13	31.25	31.25	30.75	30.75	30.63	30.63
Water/Sewer	18.00	19.00	19.00	19.00	19.00	21.00	21.00	19.00	20.00	23.00
Health and Welfare	70.50	74.50	72.00	72.00	67.50	67.50	66.50	66.50	66.50	66.50
Community development	11.00	11.00	11.00	11.00	11.00	10.00	10.00	10.00	10.00	10.00
Total	<u>410.13</u>	<u>427.88</u>	<u>417.58</u>	<u>409.53</u>	<u>407.05</u>	<u>406.05</u>	<u>394.05</u>	<u>393.05</u>	<u>384.49</u>	<u>376.79</u>

Source: County Approved Budget

TABLE 13

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

Function/Program	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General government										
Fleet vehicles	233	220	217	224	218	208	200	203	196	203
Judicial administration										
Sheriff										
Inmates housed	40,716	68,835	77,416	63,619	77,948	60,052	51,417	49,130	51,149	51,656
Inmate transports	2,857	3,160	3,064	3,511	3,319	3,290	2,409	2,459	2,464	2,126
Courts worked	983	983	1,012	912	915	846	843	789	809	806
Public safety										
Sheriff										
Physical arrests	2,141	1,868	3,739	3,767	3,311	3,233	3,242	2,686	2,811	2,849
Traffic violations	2,774	2,763	3,451	4,268	5,029	6,171	4,824	4,208	5,942	5,538
Public works										
Refuse collection										
Refuse collected (pounds per day)	71,212	69,484	76,671	77,089	77,293	78,094	76,551	69,272	N/A	N/A
Recyclables collected (pounds per day)	4,838	5,252	5,791	6,231	6,402	6,312	6,132	6,576	N/A	N/A
Parks, recreation, and cultural										
Parks and recreation										
Total programs	263	247	235	199	154	160	141	113	N/A	N/A
Total registrants	3,104	3,125	3,375	3,328	2,909	3,982	2,748	2,362	N/A	N/A
Library										
Volumes in collection	242,243	243,427	227,327	226,093	212,004	201,235	198,310	194,091	196,425	191,047
Total volumes borrowed	871,296	892,655	783,708	781,608	717,708	645,560	610,238	591,060	559,846	495,860
Water										
Number of customer accounts	2,640	2,642	2,615	2,554	2,534	2,532	2,500	2,300	2,300	2,300
Miles of distribution lines	92	92	92	88	88	87	86	85	77	76
Average daily consumption	739,956	829,736	840,183	802,445	879,298	870,444	803,000	730,000	825,000	670,000
Sewer										
Number of customer accounts	1,372	1,356	1,337	1,247	1,225	1,211	1,173	1,139	1,050	1,050
Waste/Water treated (million gallons per year)	222	191	165	196	175	191	202	N/A	N/A	N/A
Average daily consumption	486,030	522,650	505,610	536,191	N/A	N/A	N/A	N/A	N/A	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>2010</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>
Public safety										
Law enforcement vehicles	92	94	82	83	83	80	79	79	79	79
Fire and rescue stations	10	10	10	8	8	8	8	6	6	6
Parks, recreation, and cultural										
Parks/athletic fields	8	7	5	2	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	92	92	92	88	66	66	66	66	58	58
Sanitary sewers (miles)	62	62	62	60	44	44	44	44	44	44

Source: County departments

COMPLIANCE SECTION

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

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

We have audited the 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, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2010. 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as discussed in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.**

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs as Item 07-1 to be a material weakness.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. **The results of our tests disclosed two 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 10-1 and 10-2.**

We noted certain matters that we reported to management of the County in a separate letter dated November 30, 2010.

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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 County of Montgomery, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, 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.

Internal Control over Compliance (Continued)

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

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 deficiencies, 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.**

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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2010

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2010

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, 2010**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was 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*. **Item 07-1 was deemed to be a material weakness.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 **no audit findings related to major programs**.
7. The programs tested as major are:

<u>Name of Program:</u>	<u>CFDA #</u>
Child Nutrition Cluster	10.553, 10.555
Title I: Grants to Local Educational Agencies Cluster	84.010, 84.013
ARRA – Title I: Grants to Local Educational Agencies	84.389
Special Education Cluster	84.027, 84.173, 84.391
State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394
Temporary Assistance for Needy Families	93.558
Child Care Development Cluster	93.575, 93.596
ARRA – Child Care Development	93.713
Foster Care – Title IV-E	96.658
ARRA – Foster Care – Title IV-E	93.658
State Administrative Matching Grants for the Supplement Nutrition Assistance Program	10.561

8. The **threshold for** distinguishing Type A and B programs was **\$553,633**.
9. The County was **not** determined to be a **low-risk auditee**.

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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.

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

None noted.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

10-1: Disclosure Statements

Condition:

Five out of sixty-one members of County appointed boards and seven out of seven School Board members did not file their statements of economic interest by the required deadline.

Recommendation:

Management should ensure all economic interest forms are submitted by the state mandated deadline.

10-2: Outstanding Checks

Condition:

Testing of bank statements revealed outstanding checks that were greater than five years old.

Recommendation:

A thorough review of all outstanding checks should be performed by management and any checks that qualify as unclaimed property should be submitted to the state.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2010

Auditor Reference Number:

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.

Current Status:

No similar findings were made in the 2010 audit.

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.

Current Status:

No similar findings were made in the 2010 audit.

09-4: Homeland Security – Reporting – CFDA 97.073

Condition:

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

Current Status:

No similar findings were made in the 2010 audit.