



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007



**COUNTY OF MONTGOMERY,
VIRGINIA**

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

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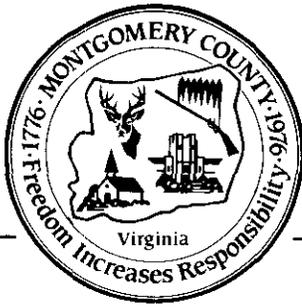
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INTRODUCTORY SECTION



DEPARTMENT OF FINANCIAL & MANAGEMENT SERVICES
MONTGOMERY COUNTY
ANGELA M. HILL, CPA, DIRECTOR

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

December 14, 2007

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

The Comprehensive Annual Financial Report of the County of Montgomery for the year ended June 30, 2007, is hereby submitted as required by state law. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

THE REPORTING ENTITY

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

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

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

ORGANIZATION OF GOVERNMENT

Montgomery County, located in southwestern Virginia, encompasses approximately 395 square miles. Situated some 30 miles southwest of Roanoke off Interstate 81, the County has a population of more than 88,454, including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2000 Census indicates Montgomery County's population increased by 13 percent over the prior decade.

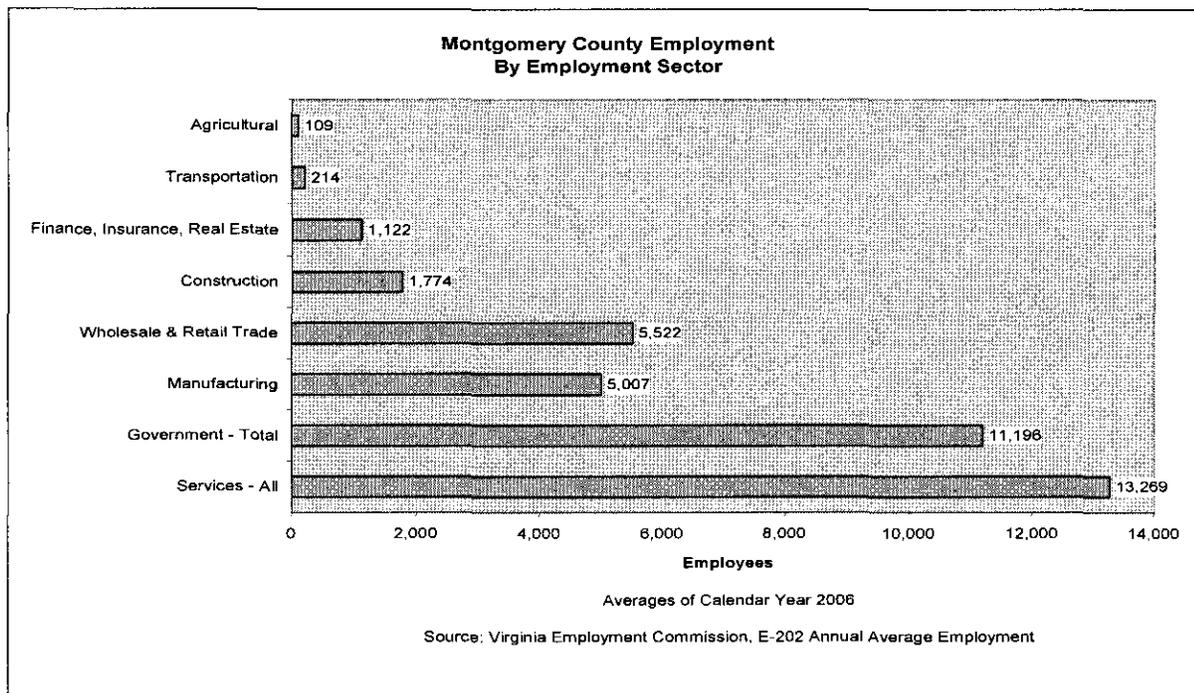
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market remains consistent with the state as a whole. The County's tight labor market is highlighted by its low unemployment rate, which is historically below average in the New River Valley. The average unemployment rate in Montgomery County between July 2006 and June 2007 was 3.07%. The percentage ranged from a low of 2.4% in December 2006 to a high of 3.6% in both July and August 2006. While there were slight fluctuations, the unemployment rate for Montgomery County stayed relatively consistent. The unemployment rate for the County over the past 10 years (1997-2006) averaged 2.81%, reaching a high of 3.6% in 2002 and a low of 1.8% in 1999. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among other New River Valley localities was generally higher than the statewide average of 3.0% for 2006, with Montgomery and Floyd Counties reporting the lowest rates of 3.0% and 3.2% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 3.73% unemployment during the same period. Employment within Montgomery County represented 51.64% of the total civilian labor force in the New River Valley.

As in prior years, service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2006.



Employment growth in 2006 was broad based, covering several economic sectors. The total increase in the number of jobs was 279 across all sectors, resulting in a 0.74% increase over the number of jobs in the previous year. Those areas that experienced growth include services, government, construction, finance, and transportation up 1.8%, 1.98%, 0.85%, 2.09%, and 0.47% respectively. Manufacturing, agriculture, and wholesale/retail trade were down in employment from the prior year 3.91%, 0.91%, and 0.11% respectively.

For the period of 1999 to 2006, Montgomery County's total new capital investment was \$168.8 million with the addition of 3,048 jobs. In FY 2007, Bluestone Industries, an energy company specializing in coal, extended their operation by opening a research and development office in the Virginia Tech Corporate Research Center. This relocation provided \$500,000 in capital investment and employment for eight people. Federal-Mogul Corporation, manufacturers of anti-friction engine and replacement bearings, expanded their existing operations and facility, providing \$12.73 million in new capital investment and creating 71 new jobs. Generic Systems relocated from Ohio to the Threshold Center in Christiansburg Industrial Park. Generic Systems designs, manufactures, and installs robotic finishing and coating paint systems. Their relocation provided \$2 million in new capital investment and 15 jobs. NextGen Aeronautics, an aerospace research and development firm located in the Virginia Tech Corporate Research Center, provided \$1 million in capital investment. United Pet Group, an aquarium and fish food supplier formerly known as Tetra, invested \$1 million and expanded their operations by 76 employees. Lastly, Luna Innovations consolidated their Blacksburg operations to the County's Technology Manufacturing Building in Blacksburg in October. Luna Innovations will lease 34,100 square feet in the building until September 30, 2012, and has invested approximately \$1.5 million in building renovations and equipment. The Economic Development staff, the Industrial Development Authority (IDA), the Economic Development Commission (EDC), and the MBC Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.

Considered one of the five major growth areas in the state, Montgomery County's second largest industry sector, government, provides almost 30 percent of the County's jobs. This percentage reflects the large number of state workers employed by Virginia Tech, a major state university and the largest employer in

the County with approximately 6,800 employees. Approximately 1,870 additional individuals are employed in the Montgomery County Public School System, making education the largest employment classification in the County.

Retail development continues to thrive in Montgomery County. Renovations to the New River Valley Mall are currently underway including a large "Power-Strip" center. The mall project is estimated at \$34.7 million. New retail stores that have already opened include Dick's Sporting Goods Store, a Red Robin restaurant, and a freestanding 14-screen movie theater. In addition to these recent openings, new major chain stores are locating in the Power-Strip Center. These include Bed Bath & Beyond, Best Buy, Old Navy, Olive Garden, Panera Bread, PetSmart, Banfield, Staples, and Shoe Carnival. A Ross Dress for Less is planned to join these retailers in the fall of 2008. A new 15,200 square foot retail center, constructed across from the mall at the corner of US 460 and Pepper's Ferry Road currently houses Starbucks, S&K Menswear, ColdStone Creamery, and a Movie Gallery. In May 2007, the Town of Blacksburg rezoned 40 acres on South Main Street for a 230,000 square foot lifestyle center to include a movie theater, hotel, five restaurants, and several major retailers. Fairmount Properties plans to begin construction in the winter of 2007 with an expected construction cost in excess of \$50 million. Total retail investment in Montgomery County under construction and announced is approximately \$246 million.

The service and manufacturing sectors also provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center and Montgomery Regional Hospital, collectively employ over 1,300 employees. The County's largest industrial employer, Alliant Techsystems, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include EchoStar Communications Corporation (Direct Broadcast Satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group - formerly Poly-Scientific (slip rings and fiber optic components), Electro-Tec Corporation (electrical industrial apparatus), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (Auto Gaskets). The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, has significantly contributed to Montgomery County's economy. The VTCRC has in excess of 23 buildings housing 140 companies and employing in excess of 2,000 individuals. The majority of the tenants located in the VTCRC are research oriented service companies.

In terms of new construction, overall activity in the County during FY 2007 was down from the previous fiscal year. Overall, the number of total building permits for both residential and commercial/government was down 30.52%. Residential building was also down 28.23%, while commercial/government building was down 66.67%. The average assessed value of new property completed in 2006 was approximately \$244,300 compared with the average assessed value for all Montgomery County homes of \$158,100. With the decrease in building permits and recent increases in interest rates, the County is expecting less growth during FY 2008 than it has experienced over the past few years.

MAJOR INITIATIVES

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

For the Year

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for FY 2007 include two areas: *county and school capital improvements and public safety initiatives.*

County and School Capital Improvements

The Capital Improvement Program (CIP) for fiscal years 2007 through 2011 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and school system. The five-year Capital Improvement Program totals \$60,875,483 and is comprised of County Capital Improvements of \$22.8 million and School Capital Improvements of \$38.1 million. Of the County Capital Improvements, \$19.4 million is dedicated to Public Safety improvements, with \$3.96 million earmarked for Fire and Rescue Capital Equipment.

Montgomery County maintains its strong commitment to capital construction projects. In FY 2007, the Board of Supervisors provided \$1.3 million in direct cash contributions to fund County capital projects. Of this \$1.3 million, a total of \$820,000 was provided for the Elliston Fire Station project. The Elliston Fire Station is currently under construction and is being built in the Elliston-Lafayette Industrial Park owned by the County. The current facility is over 45 years old and is extremely cramped with the equipment and vehicles for the volunteer department. The construction of the facility was one of several recommendations provided by the EMSSTAR Group, LLC, in their 2002 comprehensive assessment of fire and rescue services in the County. The station will serve approximately 12,000 citizens in the eastern portion of the County including Ironto, North Fork and Alleghany Springs. The project is currently 98% complete, and is scheduled for occupation in December 2007. \$860,000 was provided in prior years to begin the project. This \$820,000 cash addition provided \$1.7 million in total for the project. In addition to the Elliston Fire Station project, \$500,000 was also provided for Fire and Rescue Capital Equipment needs. Of the \$500,000 provided for Fire and Rescue Capital Equipment, \$350,000 was provided to the Riner Fire Department for the purchase of a new tanker and \$126,000 to Shawsville for the purchase of a new ambulance. \$24,000 has not yet been allocated for a specific project.

Construction has been completed for the 2,844 square foot Rescue Squad substation in the Riner Community of Montgomery County. The substation will operate under the licenses of Christiansburg Rescue Squad and will seek members from the Riner area. The substation has been constructed to offer a quicker response to emergency medical calls in the Riner area. Calls will be answered following the Riner Fire Department call territory. Plans for this station were submitted in 1999 and the project began in September of 2003. The Board of Supervisors advanced \$145,450 from the General Fund in order to begin construction. The advance will be repaid to the County from funds generated by the Christiansburg Rescue Squad volunteers. The total cost of the project is estimated at \$290,000. Cost of construction has been greatly reduced due to donations from local businesses and business contacts made by the squad. The Riner station was completed in early July and was fully operational on July 15, 2007.

In addition to the County capital projects, the County also provided cash funding for new school capital construction. In FY 2007, the County provided \$957,550, or two cents of the real estate tax rate, for new school capital construction. Projects have yet to be finalized, but the County and the Schools are discussing utilizing these funds for the construction of several new schools throughout the County.

Public Safety

Along with capital construction dollars provided for public safety initiatives, the County has continued to focus on the coordination of emergency services through the County's Office of Emergency Services. This office provides preplanning, preparation, mitigation, response and recovery for natural and man-made disasters and major emergencies. This includes the coordination of fire services, emergency medical response, specialty rescue, emergency communications, enhanced 911, and hazardous material response

for the Town of Blacksburg, Town of Christiansburg, and Montgomery County. The department also serves as the focal point for the administration of the Homeland Security Grant funding for the County and other grant funding opportunities.

For the Future

Looking into FY 2008 and beyond, the Board of Supervisors and County staff will pursue several new initiatives in the areas of *public safety and education*.

Currently the County is planning to issue \$130 million in new debt over the next five years for capital infrastructure. Of this \$130 million, approximately \$30 million could be issued for County capital projects and \$100 million for school capital projects.

Public Safety

As the County continues to grow and in order to maintain an adequate level of public safety for the County's citizens, new public facilities are becoming more critical. The FY 2008 – FY 2012 Capital Improvement Program (CIP) includes the funding necessary for several new public safety and judicial facilities. The Courthouse Project will meet the needs of the courts for the next 25 years. In addition to the three current courtrooms, six additional courtrooms are planned, along with the renovation and replacement of the mechanical, plumbing, and electrical systems. In order to allow for a smooth transition during this upgrade, an additional portion of the Government Center complex was renovated in FY 06. This project consists of two phases. The first phase renovated the additional space in the Government Center complex to house the County courts while the courthouse is being renovated. The second phase will be to reconfigure that space for use as the school administration building, once the courts have moved back into the completed courthouse.

In addition to the Courthouse and Government Center renovations, the County plans to participate in a new regional jail initiative. This project proposes a 605-bed capacity (805-bed capacity with double bunking) regional jail facility in Roanoke County to serve Roanoke County, the City of Salem, Montgomery County, and Franklin County. In addition to the regional jail, renovations to the County's local jail are being discussed. These renovations would allow approximately 60 pre-trial inmates to be housed in the County.

The Emergency Services Department is maintaining and looking to strengthen the mutual aid agreements, both in and out of Montgomery County. Also, by focusing on internal proficiency and streamlining their services, this department can better serve the citizens. Additionally, landing sites are also being evaluated within the Montgomery County to provide access points for Carillion Life-Guard 11, a helicopter that can provide transportation for injured individuals. Though not owned or operated by Montgomery County, the addition of helicopter transport will be a vital asset in assisting the Emergency Services department in ensuring the safety and well-being of the citizens.

Education

As part of the FY 2008 operating budget, the Board of Supervisors earmarked \$2.5 million or 4 cents of the real estate tax rate for new school capital construction. Combined with the \$957,550 provided in FY 07, \$709,938 provided from the real estate windfall in FY 06, and \$478,775 provided from an unused fuel reserve in FY 07, the County has provided \$4.7 million in cash contributions to help fund school capital needs. Currently under consideration are four new schools. Elliston Lafayette Elementary could be constructed in the eastern portion of the County with an expected cost of approximately \$24.6 million. Prices Fork Elementary could be constructed in the western portion of the County with an expected cost of approximately \$24.6 million. In addition to these two new schools, two additional school projects are being discussed in the Riner and Christiansburg areas of the County.

Department Focus

The Montgomery-Floyd Regional Library serves a population of over 100,000 within two counties. During the past decade, the library system has seen many changes, including the addition of the Meadowbrook branch in Shawsville, as well as an increasing collection. A total collection of over 225,000 is available to citizens with branches in Christiansburg, Blacksburg, Shawsville, Floyd, and a traveling Bookmobile that serves daycares, schools, assisted living homes and outlying areas.

The Montgomery-Floyd Regional Library has also increased the types of media available to its patrons in the past decade, which shows an unwavering commitment to technology. Beyond access to a wide variety of books, the library offers DVDs, books on CD/Cassette, large print books, current bestsellers, music CDs, magazines, newspapers, and a variety of databases available via internet access. Additionally, public computer stations are available for research and casual use. The Library also offers a wireless connection at all four of its branches so that patrons can bring in their own laptops and connect to the internet. With these changes, the library system has seen an increase in visits and circulation numbers. Over 781,000 items were checked out to patrons in fiscal year 2007. That is an 8.9% increase over FY 2006.

Programming has become a much larger focus for the library, with many of the library-sponsored events being well-liked and well-attended. The Montgomery-Floyd Regional Library offers weekly story times for children of all ages, including a lap-sit program for toddlers and their caregivers. Christiansburg also hosts a "Make-and-Take" program in which children can come in for an arts and crafts program and take a special hand-made project home with them.

The Blacksburg branch has also launched the "Mad Science" series. This special programming series focuses on science and is a hands-on approach to learning and problem-solving. Participants work on science projects based on a particular theme while books about the topic are on display. The experiments use everyday items so they can be duplicated at home. This program series initially had a special focus on children, but it has attracted both children and adults, which has created a family-friendly learning experience. Of the seven events hosted in its initial year, an average of 115 participants were in attendance for such events entitled *Float Your Boat*, *Bridge Busters*, *Newspaper Towers*, *Paper Airplanes*, *Tower Power*, and *Blow, Blow, Blow Your Boat*. Over 200 participants attended the *Egg Drop* event, in which participants had to construct a device to protect an egg from a 10-foot drop using only tape and plain paper. In encouraging readership and fostering children's interest in science, this series has received much praise, including the award for "Outstanding Children's Program for 2007" from the Virginia Public Library Director's Association.

The Montgomery-Floyd Regional Library is also focusing on adult development and learning. The Natural Healthcare Series looks at different alternative healthcare options such as a massage, yoga, and healthy eating through various lectures using local experts. The library is also looking to host an all day event, possibly focusing on this area, as a way to provide a service to the community.

In honor of the Jamestown Quadricentennial, which occurs in 2007, the Montgomery-Floyd Regional Library is celebrating the event by participating in a reading, viewing, and discussion series entitled "Lessons of Jamestown: 1607-2007" organized by the Southwest Virginia Public Libraries. Activities for children and adults include book discussions, the viewing of films concerning the Jamestown founding, and lectures with scholars, novelists, and historians. Through researching and discussing topics concerning the colonial founding, the community can gain a better appreciation of how Jamestown has influenced both the regional and national culture.

Currently the Montgomery-Floyd Regional Library is working on a new strategic plan to help guide the library in future endeavors. It is set for completion in the summer of 2007 and will focus on programming, technology, and children's services. Though the strategic plan has not yet been adopted by

the Library Board, the library system is already working towards these goals through their commitment to a broad range of programming and their emphasis on implementing new technology.

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, 2007, reflect cash that will not be received or disbursed until fiscal year 2008.

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

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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

The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All amounts lapse at year-end. Material encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities. Funding for these encumbrances generally are re-appropriated in the subsequent year.

CASH MANAGEMENT

The County Treasurer's banking contract provides a guaranteed interest rate on the County's cash balances, excluding idle bond proceeds. Idle bond proceeds were invested through the State Non-Arbitrage Pool (SNAP) to maximize interest earnings while avoiding arbitrage liability. The County earned interest revenue of approximately \$3 million on all deposits for the year ended June 30, 2007.

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, 2006. 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.

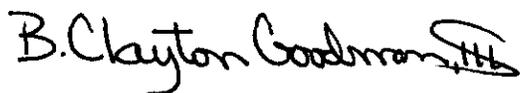
A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



B. Clayton Goodman, III
County Administrator



Angela M. Hill
Director of Financial and Management
Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Montgomery
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



President

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2007**

BOARD OF SUPERVISORS

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

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

COUNTY ADMINISTRATION

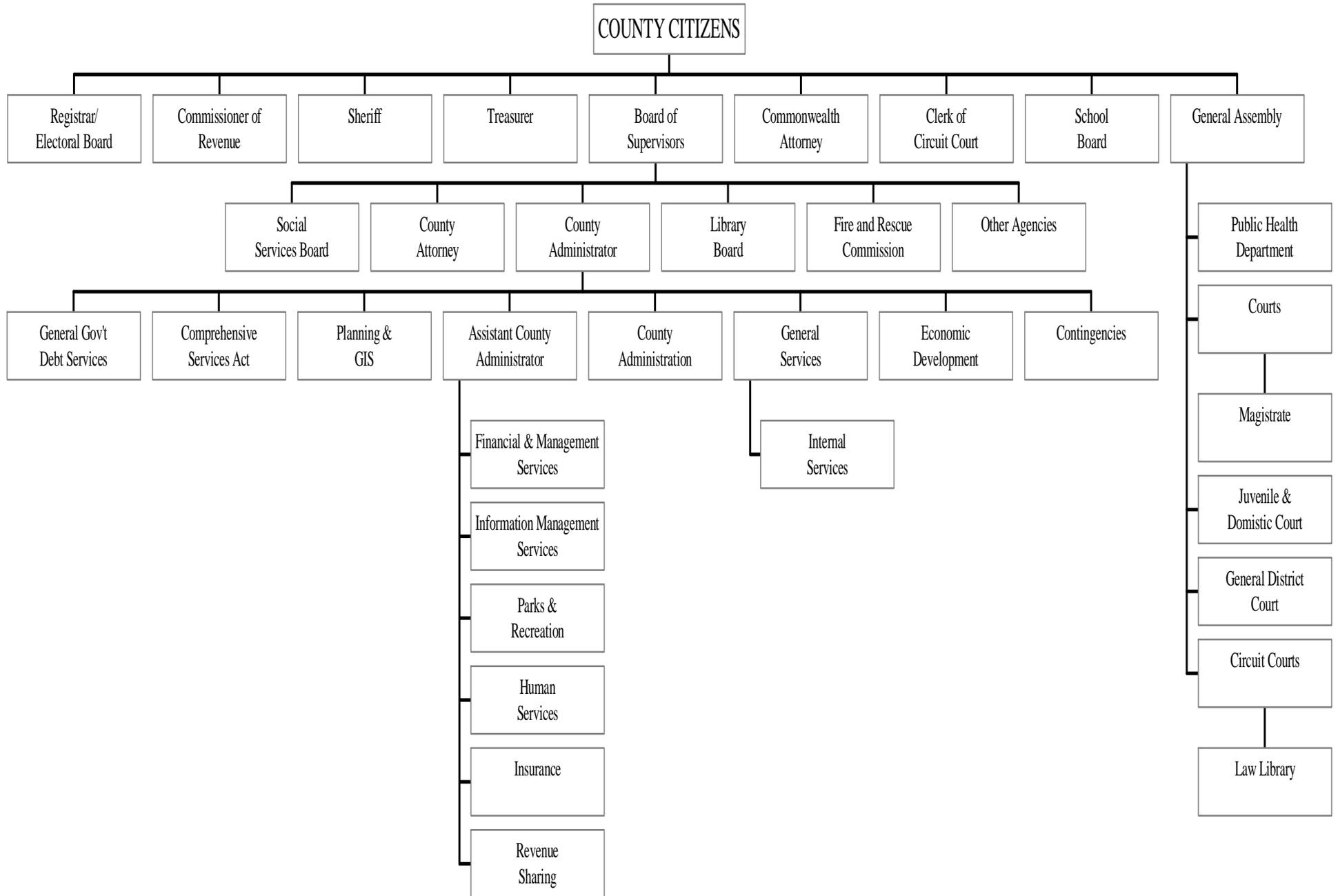
Paula K. Alston	Director of Montgomery Regional Library
Ronald E. Bonnema	Director of General Services/County Engineer
Karen A. Edmonds	Director of Human Resources
L. Carol Edmonds	Assistant County Administrator
Robert C. Fronk	Director of Public Service Authority
B. Clayton Goodman, III	County Administrator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

CONSTITUTIONAL OFFICERS

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

Montgomery County, Virginia

June 30, 2007



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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, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia, as of June 30, 2007, 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 December 13, 2007 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 13, 2007

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, 2007. 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 2007

- Total net assets for governmental activities were \$56 million at June 30, 2007. This figure is based on assets totaling \$165 million and liabilities of \$109 million.
- Total general fund revenues exceeded the final budgeted amount by \$2 million or approximately 2.7 percent. This is due to an increase in the real estate tax rate for taxes due June 5, 2007. The tax rate increase was not budgeted. Actual expenditures were \$8 million less than the final expenditure budget. The County received and included in the final approved budget various grant awards during the year. Due to the timing of the grants, not all were expended before year end. Also, orders had been placed, but goods not received at year end for a total of approximately \$273,000. Finally, the Montgomery County School Board (the Schools) spent approximately \$4.3 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower.
- The business-type activities total net assets at June 30, 2007 were approximately \$15.6 million.
- Repayment of bonded debt totaled just over \$6 million, which accounts for the decrease in bonded debt from the previous year.
- Component Unit-School Board net assets were \$6.6 million at June 30, 2007. Of this amount, \$7.9 million is invested in capital assets, net of related debt.
- Component Unit-IDA net deficit was \$1.5 million at June 30, 2007. This deficit resulted from the transfer of the Technology Manufacturing Building to the County as part of a capital lease/refinancing transaction during fiscal year 2003. Due to the transfer, a loss was recognized on the building.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$18 million, or 13.0% of fiscal year 2007 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent. The ratio exceeded the target as the Schools had a remaining appropriation of more than \$4.3 million at June 30. This was due to several factors including implementation of a change in the state reimbursement system as well as encumbrances of more than \$1.2 million. Subsequent to year end the Board of Supervisors appropriated \$4.3 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 9.9%, which is within the target.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2007	2006	2007	2006	2007	2006	2007	2006
Current and other assets	\$63.9	\$57.9	\$1.0	\$1.1	\$64.9	\$59.0	\$15.2	\$15.8
Capital assets	101.3	101.5	21.6	21.3	122.9	122.8	17.3	16.6
Total assets	\$165.2	\$159.4	\$22.6	\$22.4	\$187.8	\$181.8	\$32.5	\$32.4
Long-term liabilities	\$101.5	\$107.5	\$6.7	\$6.2	\$108.2	\$113.7	\$14.3	\$13.3
Other liabilities	7.6	8.0	0.3	0.5	7.9	8.5	13.1	13.0
Total liabilities	\$109.1	\$115.5	\$7.0	\$6.7	\$116.1	\$122.2	\$27.4	\$26.3
Net assets:								
Invested in capital assets, net of related debt	\$22.5	\$14.0	\$15.0	\$15.2	\$37.5	\$29.2	\$7.4	\$7.6
Restricted	5.0	4.7	1.0	1.0	6.0	5.7	1.2	1.2
Unrestricted	28.6	25.2	(0.4)	(0.5)	28.2	24.7	(3.5)	(2.7)
Total net assets	\$56.1	\$43.9	\$15.6	\$15.7	\$71.7	\$59.6	\$5.1	\$6.1

Governmental Activities

Total net assets shown above for governmental activities are \$56.1 million or \$12.2 million more than in FY 06. The increase in current and other assets of \$6.0 million is due to an increase in cash and cash equivalents. Of this increase, \$4.3 million results from lower than anticipated spending by the Schools in FY 07 and the windfall of \$1.9 million from the calendar year 2007 real estate tax rate increase, which was not budgeted in FY 07. The other primary factor contributing to the change in net assets was the decrease in long-term debt resulting from principal repayments of \$6.0 million.

Business-Type Activities

Total net assets shown above for business-type activities are \$15.6 million, a very slight decrease (\$100,000) from fiscal year 2006.

Component Units

Total net assets shown above for component units are \$5.1 million for FY 07, a decrease from FY 06 of \$1.0 million. This is primarily due to an increase in long-term liabilities for the Industrial Development Authority. The Authority issued approximately \$1 million in notes payable to a local bank for renovations to the Blacksburg Technology Manufacturing Building during the year.

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	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues								
Program revenues:								
Charges for services	\$ 2.3	\$ 2.0	\$ 3.1	\$ 3.1	\$ 5.4	\$ 5.1	\$ 3.7	\$ 3.6
Operating grants and contributions	14.3	13.5	-	-	14.3	13.5	56.5	50.3
Capital grants and contributions	-	0.1	-	-	-	0.1	-	-
General revenues:								
Property taxes	48.4	44.6	-	-	48.4	44.6	-	-
Other taxes	10.7	10.5	-	-	10.7	10.5	-	-
Payments from Montgomery County	-	-	-	-	-	-	29.3	30.2
Grants and contributions not restricted to specific purposes	5.4	5.6	-	-	5.4	5.6	-	-
Other	2.9	1.9	0.5	0.2	3.4	2.1	0.1	-
Total revenues	84.0	78.2	3.6	3.3	87.6	81.5	89.6	84.1
Expenses								
General government	6.6	6.6	-	-	6.6	6.6	-	-
Judicial administration	2.2	1.8	-	-	2.2	1.8	-	-
Public safety	9.6	9.2	-	-	9.6	9.2	-	-
Public works	4.5	4.2	-	-	4.5	4.2	-	-
Health and welfare	9.1	8.3	-	-	9.1	8.3	-	-
Education	30.5	31.7	-	-	30.5	31.7	89.5	84.4
Parks, recreation and cultural	2.8	3.1	-	-	2.8	3.1	-	-
Community development	1.5	1.3	-	-	1.5	1.3	1.1	1.1
Water	-	-	1.9	1.7	1.9	1.7	-	-
Waste water	-	-	1.8	1.6	1.8	1.6	-	-
Interest on long-term debt	5.0	5.1	-	-	5.0	5.1	-	-
Total expenses	71.8	71.3	3.7	3.3	75.5	74.6	90.6	85.5
Change in net assets	\$ 12.2	\$ 6.9	\$ (0.1)	\$ -	\$ 12.1	\$ 6.9	\$ (1.0)	\$ (1.4)
Net assets-beginning	43.9	37.0	15.7	15.7	59.6	52.7	6.1	7.5
Net assets-endindg	\$ 56.1	\$ 43.9	\$ 15.6	\$ 15.7	\$ 71.7	\$ 59.6	\$ 5.1	\$ 6.1

Revenues

For the fiscal year ended June 30, 2007, revenues from governmental funds totaled \$84.0 million, an increase of \$5.8 million. Property taxes increased \$3.8 million over the previous year. While the tax rate for calendar year 2007 was \$0.63 compared to \$0.74 for calendar year 2006, a reassessment of real estate values was effective in the County on January 1, 2007. When the new property values are considered this is actually an increase of \$0.06 from a revenue neutral rate of \$0.57. This resulted in an unbudgeted increase with June 2007 real estate tax billing of approximately \$1.9 million. Personal property tax revenue increased by \$500,000 due to increased personal property values in the County. Real estate values also increased as a result of new growth during this period, accounting for a portion of the increase.

Charges for services from business-type activities remained constant at \$3.1 million, as water and wastewater rates remained unchanged from 2007.

Component unit revenues total \$89.6 million, including a \$29.3 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 \$6.8 million, which would have brought the total transfer to \$36.1 million under the previous method of accounting.

Expenses / Expenditures

Expenses for governmental activities totaled \$71.8 million in fiscal year 2007, an increase of \$500,000 from the previous year. Typically, this increase would have been significantly higher. As discussed previously, however, School expenses were lower than anticipated during the year. This resulted in a decrease of \$1.2 million in education expense. This decrease was offset by increases in several areas. A new compensation and classification plan was implemented in FY 06. The second phase of implementation resulted in an increase in salary and benefit expenses of \$215,000 in the current year. The Commonwealth Attorney's office received 3 additional positions which were funded in part by the State Compensation Board, resulting in an expenditure increase of \$150,000. The Clerk of Circuit Court purchased computer software with state funding at a cost of approximately \$123,000. The Sheriff's Department received four additional positions which were funded in part by the State Compensation Board, as well as additional funding for the home electronic monitoring program resulting in an expense increase of \$500,000. In the community development category, the County passed through \$150,000 in Governor's Opportunity Funds to a local industry.

Expenditures for business-type activities totaled \$3.7 million, an increase of approximately \$400,000. Water fund expenditures increased approximately \$180,000, while Waste Water fund expenditures increased approximately \$170,000. The Public Service Authority director position was vacant for most of the prior fiscal year but was filled for the entire current fiscal year, resulting in higher salary and benefit costs in both funds. The County Administrator served as interim director in the prior year, but received no compensation from the Authority. Both funds reflected increases in water and waste water services expense categories as a result in rate increases from some localities that provide these services to the Authority.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$30.5 million to the operation of the Schools, including \$1.8 million for depreciation and other expenses not included in the transfer to the Schools. This amount represented about 42% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$37.3 million, or 52%. 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 73 percent of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2007.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2007, the governmental funds reflect a combined fund balance of \$57.0 million, an increase of \$6.6 million from the fiscal year ended June 30, 2006. A portion of this increase is due the Schools spending approximately \$4.3 million less than anticipated during the year. This was due to several factors including an implementation of a change in the state reimbursement system as well as encumbrances of more than \$1.2 million. Subsequent to year end, the Board of Supervisors appropriated \$4.3 million of undesignated fund balance to the school operating and school nutrition fund. Additionally, the increased tax rate related to the June 2007 real estate taxes resulted in a windfall of \$1.8 million. The tax increase was not budgeted and therefore not expended during 2007.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2007 in millions:

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Revenues			
Taxes	\$ 57.3	\$ 57.3	\$ 59.0
Intergovernmental	17.0	18.7	18.3
Other	2.8	3.4	4.2
Total	<u>77.1</u>	<u>79.4</u>	<u>81.5</u>
Expenditures and transfers	<u>77.1</u>	<u>85.7</u>	<u>77.6</u>
Change in fund balance	<u>\$ -</u>	<u>\$ (6.3)</u>	<u>\$ 3.9</u>

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 \$1.7 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 2006 budget and the appropriation of grants received throughout the year.

Actual tax revenue exceeded the budgeted amount due to the tax rate increase related to the June 2007 real estate taxes. A reassessment of real property was in place effective January 2007. A revenue neutral tax rate after the reassessment was \$0.57 per \$100 of assessed value. The approved tax rate of \$0.63 was an increase over this rate of \$0.06. This increase, which totaled approximately \$1.9 million, was not budgeted. Budgeted intergovernmental revenue exceeded the actual by approximately \$400,000. 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 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the County had invested \$122.8 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2007	2006	2007	2006	2007	2006	2007	2006
Non-depreciable assets								
Land	\$ 9.7	\$ 9.5	\$ 0.3	\$ 0.3	\$ 10.0	\$ 9.8	\$ 0.4	\$ 0.4
Construction in progress	1.9	4.9	-	0.1	1.9	5.0	0.1	0.3
Depreciable capital assets								
Infrastructure	-	-	30.6	29.5	30.6	29.5	-	-
Buildings and improvements	104.5	99.6	0.1	0.1	104.6	99.7	40.2	39.6
Machinery and equipment	13.5	12.7	0.5	0.6	14.0	13.3	11.2	10.4
Accumulated depreciation	(28.3)	(25.2)	(10.0)	(9.3)	(38.3)	(34.5)	(34.7)	(34.1)
Total	\$ 101.3	\$ 101.5	\$ 21.5	\$ 21.3	\$ 122.8	\$ 122.8	\$ 17.2	\$ 16.6

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

	Balance June 30, 2006	Net Additions/ (Deletions)	Balance June 30, 2007
Non-depreciable assets			
Land	\$ 10.2	\$ 0.2	\$ 10.4
Construction in progress	5.3	(3.3)	2.0
Depreciable capital assets			
Infrastructure	29.5	1.1	30.6
Buildings and improvements	139.3	5.5	144.8
Machinery and equipment	23.7	1.5	25.2
Accumulated depreciation	(68.6)	(4.4)	(73.0)
Total	\$ 139.4	\$ 0.6	\$ 140.0

In fiscal year 2007 renovations to the previously unfinished portion of the Government Center were completed resulting in an increase of approximately \$4.4 million in buildings and improvements with a corresponding reduction in construction in progress. The other major addition was the Shawsville Water System improvement project.

The County's capital improvement program in fiscal year 2007 included funding of approximately \$20.1 million for County capital spending and approximately \$3.3 million for School capital items. The most significant items include renovations to the County Courthouse, information technology, fire and rescue equipment, school athletic fields, and capital maintenance to various schools.

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

Long Term Debt

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2007, in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 20.0	\$ 21.9	\$ -	\$ -	\$ 20.0	\$ 21.9
Lease revenue bonds	54.7	57.9	-	-	54.7	57.9
Literary loans	3.8	4.0	-	-	3.8	4.0
Refunding bonds	21.7	22.5	-	-	21.7	22.5
Notes payable	-	-	0.1	0.1	0.1	0.1
Revenue bonds	-	-	6.5	6.0	6.5	6.0
Total	\$ 100.2	\$ 106.3	\$ 6.6	\$ 6.1	\$ 106.8	\$ 112.4

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

The Montgomery County Board of Supervisors adopted the following debt policy on 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, 2007, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is currently 3.07 percent, which is a slight increase from the rate a year ago which was 2.88 percent. This compares favorably to the state's average unemployment rate of 3.00 percent. Inflationary trends in the region also compare favorably to national indices.

The Board of Supervisors lowered the tax rate from \$0.74 per \$100 of assessed value for calendar year 2006 to \$0.63 for 2007. This was due primarily to the reassessment of real estate values which was effective for calendar year 2007. The County reassesses real property every four years as required by the Code of Virginia. No undesignated fund balance was planned in the 2008 budget.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 30,005,551	\$ 207,033	\$ 30,212,584	\$ 1,531,262	\$ 433,169	\$ 32,177,015
Investments (Note 4)	-	-	-	-	42,518	42,518
Receivables, net (Note 5)	1,313,635	476,378	1,790,013	-	-	1,790,013
Due from primary government	-	-	-	3,516,291	-	3,516,291
Due from other governmental units (Note 6)	2,789,468	112,884	2,902,352	2,528,094	-	5,430,446
Internal balances (Note 7)	7,072	(7,072)	-	-	-	-
Prepays	372,159	9,294	381,453	535,683	-	917,136
Inventories	-	14,009	14,009	117,563	5,735,973	5,867,545
Advances to component unit (Note 14)	5,948,570	-	5,948,570	-	-	5,948,570
Restricted assets:						
Cash and cash equivalents (Note 4)	259,471	271,801	531,272	92,240	473,342	1,096,854
Investments (Note 4)	21,463,296	-	21,463,296	-	-	21,463,296
Notes receivable (Note 14)	1,178,994	-	1,178,994	-	193,339	1,372,333
Debt issuance costs, net	575,645	-	575,645	-	9,157	584,802
Capital assets: (Note 8)			-			
Non-depreciable	11,548,287	349,719	11,898,006	506,082	8,774	12,412,862
Depreciable, net	89,715,689	21,219,385	110,935,074	7,432,179	9,362,236	127,729,489
Total assets	165,177,837	22,653,431	187,831,268	16,259,394	16,258,508	220,349,170
LIABILITIES						
Accounts payable and accrued expenses	1,246,487	309,856	1,556,343	419,784	174,825	2,150,952
Accrued payroll and related liabilities	67,577	-	67,577	6,435,960	-	6,503,537
Accrued interest payable	1,920,459	19,692	1,940,151	-	-	1,940,151
Amounts held for others	259,471	-	259,471	92,240	-	351,711
Advances from primary government (Note 14)	-	-	-	-	5,948,570	5,948,570
Due to other governmental units (Note 6)	473,690	-	473,690	-	-	473,690
Due to component unit	3,516,291	-	3,516,291	-	-	3,516,291
Unearned revenue (Note 5)	106,129	-	106,129	-	-	106,129
Customer deposits	-	26,560	26,560	-	50,000	76,560
Long-term liabilities: (Note 9)						
Due within one year	7,367,011	217,236	7,584,247	1,865,000	10,430,599	19,879,846
Due in more than one year	94,130,357	6,449,073	100,579,430	799,933	1,178,994	102,558,357
Total liabilities	109,087,472	7,022,417	116,109,889	9,612,917	17,782,988	143,505,794
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	22,500,252	14,983,849	37,484,101	7,938,261	(484,793)	44,937,569
Restricted:						
Debt service	4,969,141	245,240	5,214,381	-	-	5,214,381
Carilion expansion	-	831,000	831,000	-	-	831,000
Unexpended grant proceeds	-	-	-	-	1,181,431	1,181,431
Unrestricted	28,620,972	(429,075)	28,191,897	(1,291,784)	(2,221,118)	24,678,995
Total net assets (deficit)	\$ 56,090,365	\$ 15,631,014	\$ 71,721,379	\$ 6,646,477	\$ (1,524,480)	\$ 76,843,376

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, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total
					Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	
Primary Government:										
Governmental activities:										
General government administration	\$ 6,557,984	\$ 329,060	\$ 487,311	\$ -	\$ (5,741,613)	\$ -	\$ (5,741,613)	\$ -	\$ -	\$ (5,741,613)
Judicial administration	2,249,997	516,991	874,337	-	(858,669)	-	(858,669)	-	-	(858,669)
Public safety	9,626,003	616,714	5,174,036	24,121	(3,811,132)	-	(3,811,132)	-	-	(3,811,132)
Public works	4,526,234	125,741	24,671	-	(4,375,822)	-	(4,375,822)	-	-	(4,375,822)
Health and welfare	9,068,033	97,629	6,702,471	-	(2,267,933)	-	(2,267,933)	-	-	(2,267,933)
Education	30,503,869	-	452,930	-	(30,050,939)	-	(30,050,939)	-	-	(30,050,939)
Parks, recreational, and cultural	2,838,989	262,381	560,965	-	(2,015,643)	-	(2,015,643)	-	-	(2,015,643)
Community development	1,483,596	100,598	209,888	-	(1,173,110)	-	(1,173,110)	-	-	(1,173,110)
Interest on long-term debt	4,960,510	-	-	-	(4,960,510)	-	(4,960,510)	-	-	(4,960,510)
Total governmental activities	71,815,215	2,049,114	14,486,609	24,121	(55,255,371)	-	(55,255,371)	-	-	(55,255,371)
Business-type activities:										
Water	1,910,227	1,825,499	-	383,166	-	298,438	298,438	-	-	298,438
Wastewater	1,745,966	1,299,129	-	-	-	(446,837)	(446,837)	-	-	(446,837)
Total business-type activities	3,656,193	3,124,628	-	383,166	-	(148,399)	(148,399)	-	-	(148,399)
Total primary government	\$ 75,471,408	\$ 5,173,742	\$ 14,486,609	\$ 407,287	(55,255,371)	(148,399)	(55,403,770)	-	-	(55,403,770)
Component Units:										
School Board	\$ 89,467,048	\$ 2,996,365	\$ 56,455,065	\$ -	-	-	-	(30,015,618)	-	(30,015,618)
Industrial Development Authority	1,069,965	747,525	-	14,891	-	-	-	-	(307,549)	(307,549)
Total component units	\$ 90,537,013	\$ 3,743,890	\$ 56,455,065	\$ 14,891	-	-	-	(30,015,618)	(307,549)	(30,323,167)
General Revenues:										
General property taxes					48,402,715	-	48,402,715	-	-	48,402,715
Sales and use tax					7,183,512	-	7,183,512	-	-	7,183,512
Utility tax					1,685,416	-	1,685,416	-	-	1,685,416
Motor vehicle license tax					560,350	-	560,350	-	-	560,350
Other local taxes					1,309,476	-	1,309,476	-	-	1,309,476
Intergovernmental revenue, unrestricted					5,405,234	-	5,405,234	-	-	5,405,234
Investment earnings, unrestricted					1,203,722	19,547	1,223,269	33,359	55,935	1,312,563
Investment earnings, restricted for capital projects					1,770,317	-	1,770,317	-	-	1,770,317
Payments from Montgomery County					-	-	-	29,092,004	165,000	29,257,004
Transfers (Note 7)					(93,413)	93,413	-	-	-	-
Total general revenues and transfers					67,427,329	112,960	67,540,289	29,125,363	220,935	96,886,587
Change in net assets					12,171,958	(35,439)	12,136,519	(890,255)	(86,614)	11,159,650
Net assets – beginning					43,918,407	15,666,453	59,584,860	7,536,732	(1,437,866)	65,683,726
Net assets – ending					\$ 56,090,365	\$ 15,631,014	\$ 71,721,379	\$ 6,646,477	\$ (1,524,480)	\$ 76,843,376

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 23,299,316	\$ 6,706,235	\$ 30,005,551
Receivables, net	1,313,635	-	1,313,635
Due from other governmental units	2,789,468	-	2,789,468
Advances to other funds	7,072	-	7,072
Advances to component unit	5,948,570	-	5,948,570
Notes receivable	1,178,994	-	1,178,994
Restricted assets:			
Cash and cash equivalents	259,471	-	259,471
Investments	-	21,463,296	21,463,296
Total assets	<u>\$ 34,796,526</u>	<u>\$ 28,169,531</u>	<u>\$ 62,966,057</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 825,837	\$ 420,650	\$ 1,246,487
Accrued payroll and related liabilities	67,578	-	67,578
Due to other governmental units	473,690	-	473,690
Due to component unit	3,516,291	-	3,516,291
Deferred revenue (Note 5)	423,781	-	423,781
Amounts held for others	259,471	-	259,471
Total liabilities	<u>5,566,648</u>	<u>420,650</u>	<u>5,987,298</u>
Fund Balances:			
Reserved (Note 15)	7,931,552	1,435,016	9,366,568
Unreserved, reported in:			
General fund, designated (Note 15)	3,314,747	-	3,314,747
County capital improvements, designated (Note 15)	-	26,313,865	26,313,865
General fund, undesignated	17,983,579	-	17,983,579
Total fund balances	<u>29,229,878</u>	<u>27,748,881</u>	<u>56,978,759</u>
Total liabilities and fund balances	<u>\$ 34,796,526</u>	<u>\$ 28,169,531</u>	<u>\$ 62,966,057</u>

(Continued)

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

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 48,595,774	\$ -	\$ 48,595,774
Other local taxes	10,738,753	-	10,738,753
Permits, privilege fees and regulatory licenses	527,087	-	527,087
Fines and forfeitures	120,036	-	120,036
Revenue from use of money and property	1,236,339	1,770,317	3,006,656
Charges for services	863,610	-	863,610
Recovered costs	1,611,108	27,165	1,638,273
Intergovernmental	18,816,073	-	18,816,073
Total revenues	<u>82,508,780</u>	<u>1,797,482</u>	<u>84,306,262</u>
EXPENDITURES			
Current operating:			
General government administration	6,191,149	-	6,191,149
Judicial administration	2,248,802	-	2,248,802
Public safety	9,584,764	-	9,584,764
Public works	3,807,202	-	3,807,202
Health and welfare	9,063,818	-	9,063,818
Education	28,899,311	-	28,899,311
Parks, recreation and cultural	2,802,108	-	2,802,108
Community development	1,509,152	-	1,509,152
Debt service:			
Principal retirement	6,043,486	14,959	6,058,445
Interest and fiscal charges	4,935,156	-	4,935,156
Capital projects	-	2,535,393	2,535,393
Total expenditures	<u>75,084,948</u>	<u>2,550,352</u>	<u>77,635,300</u>
Excess (deficiency) of revenues over expenditures	<u>7,423,832</u>	<u>(752,870)</u>	<u>6,670,962</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	3,390,967	3,390,967
Transfers out	(3,484,380)	-	(3,484,380)
Total other financing sources (uses)	<u>(3,484,380)</u>	<u>3,390,967</u>	<u>(93,413)</u>
Net change in fund balances	3,939,452	2,638,097	6,577,549
FUND BALANCES AT JULY 1	25,290,426	25,110,784	50,401,210
FUND BALANCES AT JUNE 30	<u>\$ 29,229,878</u>	<u>\$ 27,748,881</u>	<u>\$ 56,978,759</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

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 \$ 6,577,549

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 (\$3,488,746) and the loss on disposals (\$32,617) exceeds capital outlay (\$3,248,035) in the current period. (273,328)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount is the net change in these revenues. (193,061)

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.

Principal repayments:

General obligation bonds	1,804,329	
Lease revenue bonds	3,237,379	
Literary fund loans	254,000	
Refunding bonds	<u>762,737</u>	
		6,058,445

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:

Amortization of bond issuance costs	(38,539)	
Amortization of bond premium	21,868	
Amortization of deferred amounts	(110,187)	
Interest expense	<u>101,504</u>	
		(25,354)

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. This amount is the net change in these expenses. 27,707

Change in net assets of governmental activities \$ 12,171,958

COUNTY OF MONTGOMERY, VIRGINIA

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

GENERAL FUND

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 47,094,265	\$ 47,110,000	\$ 48,308,771	\$ 1,198,771
Other local taxes	10,204,442	10,210,113	10,654,796	444,683
Permits, privilege fees and regulatory licenses	542,645	544,645	533,654	(10,991)
Fines and forfeitures	160,000	160,000	125,984	(34,016)
Revenue from use of money and property	773,147	773,747	1,236,339	462,592
Charges for services	578,675	822,422	873,181	50,759
Recovered costs	772,939	1,060,746	1,463,055	402,309
Intergovernmental	16,971,649	18,707,602	18,340,043	(367,559)
Total revenues	<u>77,097,762</u>	<u>79,389,275</u>	<u>81,535,823</u>	<u>2,146,548</u>
EXPENDITURES				
Current operating:				
General government administration	6,681,252	6,982,628	6,162,635	819,993
Judicial administration	1,922,915	2,321,055	2,174,267	146,788
Public safety	8,805,252	10,305,398	9,542,501	762,897
Public works	3,801,692	3,994,477	3,802,122	192,355
Health and welfare	8,547,085	9,270,958	8,726,942	544,016
Education	32,055,661	33,821,349	29,110,788	4,710,561
Parks, recreation, and cultural	2,300,780	3,132,435	2,842,108	290,327
Community development	1,256,371	1,678,094	1,553,460	124,634
Debt service:				
Principal retirement	5,865,708	5,883,971	5,368,405	515,566
Interest and fiscal charges	4,903,496	4,885,233	4,935,156	(49,923)
Total expenditures	<u>76,140,212</u>	<u>82,275,598</u>	<u>74,218,384</u>	<u>8,057,214</u>
Excess (deficiency) of revenues over expenditures	<u>957,550</u>	<u>(2,886,323)</u>	<u>7,317,439</u>	<u>10,203,762</u>
OTHER FINANCING USES:				
Transfers out	<u>(957,550)</u>	<u>(3,390,967)</u>	<u>(3,390,967)</u>	<u>-</u>
Total other financing uses	<u>(957,550)</u>	<u>(3,390,967)</u>	<u>(3,390,967)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (6,277,290)</u>	<u>\$ 3,926,472</u>	<u>\$ 10,203,762</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 207,033	\$ -	\$ 207,033
Receivables, net	266,448	209,930	476,378
Due from other governmental unit	112,884	-	112,884
Due from other funds	376,494	-	376,494
Prepays	4,637	4,657	9,294
Inventories	13,732	277	14,009
Total current assets	981,228	214,864	1,196,092
Noncurrent assets:			
Cash and cash equivalents, restricted	153,232	118,569	271,801
Capital assets:			
Non-depreciable	322,389	27,330	349,719
Depreciable, net	11,422,038	9,797,347	21,219,385
Total noncurrent assets	11,897,659	9,943,246	21,840,905
Total assets	12,878,887	10,158,110	23,036,997
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	159,425	150,431	309,856
Accrued interest payable	17,576	2,116	19,692
Due to other funds	7,072	376,494	383,566
Current portion of noncurrent liabilities	97,056	120,180	217,236
Total current liabilities	281,129	649,221	930,350
Noncurrent liabilities:			
Customer deposits	16,030	10,530	26,560
Due in more than one year	3,912,128	2,536,945	6,449,073
Total noncurrent liabilities	3,928,158	2,547,475	6,475,633
Total liabilities	4,209,287	3,196,696	7,405,983
NET ASSETS			
Invested in capital assets, net of related debt	7,779,565	7,204,284	14,983,849
Restricted:			
Debt service	126,671	118,569	245,240
Carilion expansion	831,000	-	831,000
Unrestricted	(67,636)	(361,439)	(429,075)
Total net assets	\$ 8,669,600	\$ 6,961,414	\$ 15,631,014

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2007

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,331,207	\$ -	\$ 1,331,207
Wastewater revenues	-	1,053,623	1,053,623
Penalties and reconnection charges	28,037	18,629	46,666
Fees	282,774	104,555	387,329
Miscellaneous	69,480	33,675	103,155
Total operating revenues	1,711,498	1,210,482	2,921,980
OPERATING EXPENSES			
Salaries and wages	342,991	334,167	677,158
Employee benefits	155,519	150,361	305,880
Utilities and telephone	27,494	54,637	82,131
Water and wastewater services	485,243	518,632	1,003,875
Operating supplies, fees, permits	7,375	25,372	32,747
Professional services	108,931	18,210	127,141
Repairs and maintenance	173,505	68,975	242,480
Insurance	15,577	20,122	35,699
Vehicle supplies and miscellaneous	21,965	19,877	41,842
Bad debts	4,793	13,982	18,775
Office supplies and miscellaneous	36,491	8,131	44,622
Depreciation	375,151	402,163	777,314
Total operating expenses	1,755,035	1,634,629	3,389,664
Operating loss	(43,537)	(424,147)	(467,684)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	18,996	551	19,547
Federal grant	383,166	-	383,166
Gain on sale of assets	8,811	1,295	10,106
Facility fees	109,983	101,334	211,317
Interest expense	(159,985)	(125,319)	(285,304)
Total nonoperating revenues (expenses)	360,971	(22,139)	338,832
Income (loss) before transfers	317,434	(446,286)	(128,852)
TRANSFERS (Note 7)			
Change in net assets	317,434	(352,873)	(35,439)
NET ASSETS AT JULY 1	8,352,166	7,314,287	15,666,453
NET ASSETS AT JUNE 30	\$ 8,669,600	\$ 6,961,414	\$ 15,631,014

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

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,691,864	\$ 1,195,887	\$ 2,887,751
Payments to suppliers	(873,826)	(734,039)	(1,607,865)
Payments to employees	(499,179)	(489,840)	(989,019)
Payments to County for financial services	(218,613)	-	(218,613)
Net cash provided by (used in) operating activities	<u>100,246</u>	<u>(27,992)</u>	<u>72,254</u>
NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	<u>(265,960)</u>	<u>265,960</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(862,279)	(121,607)	(983,886)
Proceeds from sale of capital assets	8,811	1,295	10,106
Facility fee payments from customers	109,983	101,334	211,317
Proceeds from Federal grant	270,282	-	270,282
Proceeds from indebtedness	603,500	-	603,500
Principal payments on debt	(50,321)	(78,902)	(129,223)
Interest payments on debt	(145,384)	(125,352)	(270,736)
Net cash used in capital and related financing activities	<u>(65,408)</u>	<u>(223,232)</u>	<u>(288,640)</u>
INVESTING ACTIVITIES			
Interest received	18,996	551	19,547
Net increase (decrease) in cash and cash equivalents	<u>(212,126)</u>	<u>15,287</u>	<u>(196,839)</u>
CASH AND CASH EQUIVALENTS			
Beginning at July 1	572,391	103,282	675,673
Ending at June 30	<u>\$ 360,265</u>	<u>\$ 118,569</u>	<u>\$ 478,834</u>
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 207,033	\$ -	\$ 207,033
Cash and cash equivalents, restricted	153,232	118,569	271,801
	<u>\$ 360,265</u>	<u>\$ 118,569</u>	<u>\$ 478,834</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (43,537)	\$ (424,147)	\$ (467,684)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	375,151	402,163	777,314
(Increase) decrease in:			
Accounts receivable	(15,171)	(1,043)	(16,214)
Prepays	(449)	1,960	1,511
Inventory	(10,038)	599	(9,439)
(Decrease) increase in:			
Accounts payable	(80,461)	(2,642)	(83,103)
Advances payable for operating items	(124,910)	-	(124,910)
Accrued payroll and related liabilities	(669)	(5,312)	(5,981)
Customer deposits	330	430	760
Net cash provided by (used in) operating activities	<u>\$ 100,246</u>	<u>\$ (27,992)</u>	<u>\$ 72,254</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset purchases included in accounts payable at year end	\$ 112,884	\$ -	\$ 112,884
Transfer from County included as a reduction in advances payable	<u>\$ 93,413</u>	<u>\$ -</u>	<u>\$ 93,413</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

Montgomery County School Board

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

Montgomery County Industrial Development Authority

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007, the County contributed \$129,496 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, 2007, 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 five years, and the Waste Authority has negotiated with an adjacent authority for shared use of a new permitted landfill with an anticipated operating life of 30 years. For the year ended June 30, 2007, the County paid \$753,861 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, 2007, the County paid \$13,655 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 will each be responsible for a per diem cost based on prisoner days used. The new jail is currently under construction and is expected to be operational by the spring of 2009. No payments were made to the WVRJA during fiscal year 2007.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The County reports the following major governmental funds:

General Fund – 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, 2007

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 expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

Receivables

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

Inventories

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$13,838 of interest was capitalized.

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

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

Compensated Absences

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

Deferred Revenues

Deferred revenue in the general fund consists primarily of property taxes not collected within 60 days of year end and property taxes collected prior to their due date. Deferred revenue in governmental activities consists of property taxes collected prior to their due date.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period but 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 the enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations.

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

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

- Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the County and School Board for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the related financing.
- Public hearings are conducted to obtain citizen comments.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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

Budgetary Information (Continued)

- Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- The Appropriations Resolution places legal restrictions on expenditures at the organizational level. Each organization represents a major County function, such as County Administration, Financial and Management Services, Information Management Services, etc. Only the Board of Supervisors can revise the appropriation for each fund and function. The County Administrator may amend the budget within organizations and the School Board is authorized to transfer budgeted amounts within the school system's categories, which include administration, instruction, attendance, health, etc.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Projects 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 \$6,135,386 during the fiscal year ended June 30 primarily for transfers for public safety, health and welfare, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	<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)	\$ 3,926,472	\$ 75,177	\$ 274,113
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2007	10,813,957	5,965,756	-
June 30, 2006	(10,969,107)	(7,008,627)	-
Inventory:			
June 30, 2007	-	-	117,563
June 30, 2006	-	-	(82,422)
Accounts, salaries and other amounts payable to other entities/funds:			
June 30, 2007	(4,883,395)	(6,642,714)	(213,030)
June 30, 2006	5,051,525	7,610,408	192,495
Net change in fund balance (GAAP basis)	<u>\$ 3,939,452</u>	<u>\$ -</u>	<u>\$ 288,719</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 89,546,136
Principal and other debt service expenses included in primary Government (Exhibit 4)	6,805,112
Total expenditures for school activities	\$ 96,351,248

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, 2007**

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	\$ 30,743,856	NA	58.89%
SNAP	16,494,155	AAA	31.59
Money market accounts	<u>4,969,141</u>	AAA _m	<u>9.52</u>
Total	<u>\$ 52,207,152</u>		<u>100.00%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,623,502</u>	NA	<u>100.00%</u>

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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	\$ 30,212,584	\$ 1,531,262
Investments, restricted	21,463,296	-
Cash and cash equivalents, restricted	<u>531,272</u>	<u>92,240</u>
	<u>\$ 52,207,152</u>	<u>\$ 1,623,502</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 renovations to the County Courthouse.

Note 5. Receivables, Deferred Revenue, and Property Taxes

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Receivables				
Taxes	\$ 2,201,058	\$ -	\$ -	\$ 2,201,058
Accounts	<u>-</u>	<u>280,448</u>	<u>221,930</u>	<u>502,378</u>
Gross receivables	2,201,058	280,448	221,930	2,703,436
Less:				
Allowance for uncollectibles	<u>(887,423)</u>	<u>(14,000)</u>	<u>(12,000)</u>	<u>(913,423)</u>
Net total receivables	<u>\$ 1,313,635</u>	<u>\$ 266,448</u>	<u>\$ 209,930</u>	<u>\$ 1,790,013</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 40% of the total taxes receivable and is based on historical collection rates.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 5. Receivables, Deferred Revenue, and Property Taxes (Continued)

Deferred Revenue

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

Property taxes receivable – unavailable	\$	317,652
Property taxes receivable – unearned		106,129
Total deferred revenue	\$	423,781

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, 2007 includes amounts not yet received from the January 1, 2007 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 2007 is \$0.63 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.

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

<u>Commonwealth of Virginia:</u>		
Governor's Opportunity Fund	\$	380,000
Delinquent fees collected by the Commonwealth's Attorney		93,690
	\$	473,690

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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

Due from other governmental units consists of the following:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
<u>Commonwealth of Virginia:</u>		
Metropolitan planning organization	\$ 36,032	\$ -
Local sales tax	1,219,614	
State sales tax	42,387	1,643,719
Categorical aid – shared expenses	502,390	-
Categorical aid – schools	-	66,935
Non-categorical aid	149,610	-
Excess clerk fees	27,196	-
Virginia public assistance funds	133,758	-
Community services act	435,615	-
<u>Federal Government:</u>		
Virginia public assistance funds	242,866	-
Rural development funds	112,884	-
Categorical aid – school grants	-	817,440
	<u>\$ 2,902,352</u>	<u>\$ 2,528,094</u>

Note 7. Interfund Balances and Transfers

Interfund balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 7,072
Water	Wastewater	376,494
		<u>\$ 383,566</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, which was repaid subsequent to year end. The primary purpose of the Interfund balance between the Water fund and Wastewater fund is for negative pooled unrestricted cash amounts.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 3,390,967
Wastewater	General	93,413
		<u>\$ 3,484,380</u>

Transfers between funds were to support capital projects.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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	\$ 9,538,291	\$ 165,994	\$ 10,000	\$ 9,694,285
Construction in progress	4,908,739	1,343,934	4,398,671	1,854,002
Total capital assets, not depreciated	<u>14,447,030</u>	<u>1,509,928</u>	<u>4,408,671</u>	<u>11,548,287</u>
Capital assets, depreciated				
Buildings and improvements	99,623,852	4,867,668	-	104,491,520
Machinery and equipment	12,667,325	1,269,110	407,704	13,528,731
Total capital assets, depreciated	<u>112,291,177</u>	<u>6,136,778</u>	<u>407,704</u>	<u>118,020,251</u>
Less accumulated depreciation:				
Buildings and improvements	18,403,999	2,437,154	-	20,841,153
Machinery and equipment	6,796,904	1,051,592	385,087	7,463,409
Total accumulated depreciation	<u>25,200,903</u>	<u>3,488,746</u>	<u>385,087</u>	<u>28,304,562</u>
Total capital assets, depreciated, net	<u>87,090,274</u>	<u>2,648,032</u>	<u>22,617</u>	<u>89,715,689</u>
Capital assets, net	<u>\$101,537,304</u>	<u>\$ 4,157,960</u>	<u>\$ 4,431,288</u>	<u>\$101,263,976</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	45,821	-	36,491	9,330
Total capital assets, not depreciated	<u>386,210</u>	<u>-</u>	<u>36,491</u>	<u>349,719</u>
Capital assets, depreciated				
Wastewater systems	15,634,731	93,743	-	15,728,474
Water systems	13,890,291	976,593	-	14,866,884
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	554,355	48,372	63,793	538,934
Total capital assets, depreciated	<u>30,183,695</u>	<u>1,118,708</u>	<u>63,793</u>	<u>31,238,610</u>
Less accumulated depreciation:				
Wastewater systems	5,404,596	391,401	-	5,795,997
Water systems	3,331,345	350,773	-	3,682,118
Buildings and improvements	73,007	2,918	-	75,925
Machinery and equipment	496,756	32,222	63,793	465,185
Less accumulated depreciation	<u>9,305,704</u>	<u>777,314</u>	<u>63,793</u>	<u>10,019,225</u>
Total capital assets, depreciated, net	<u>20,877,991</u>	<u>341,394</u>	<u>-</u>	<u>21,219,385</u>
Capital assets, net	<u>\$ 21,264,201</u>	<u>\$ 341,394</u>	<u>\$ 36,491</u>	<u>\$ 21,569,104</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 35,846
Judicial administration	1,195
Public safety	694,579
Public works	897,977
Health and welfare	17,587
Education	1,811,249
Parks, recreation, and cultural	26,574
Community development	3,739
	<u>\$ 3,488,746</u>
Business-type activities:	
Water	\$ 375,151
Wastewater	402,163
	<u>\$ 777,314</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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>
Elliston Fire Station	\$ 738,010	\$ 882,990

Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 394,257	\$ -	\$ -	\$ 394,257
Construction in progress	-	111,825	-	111,825
Total capital assets, not depreciated	394,257	111,825	-	506,082
Buildings and improvements	30,678,653	-	340,083	30,338,570
Machinery and equipment	10,323,255	1,431,336	594,956	11,159,635
Total capital assets, depreciated	41,001,908	1,431,336	935,039	41,498,205
Less accumulated depreciation:				
Buildings and improvements	27,176,092	637,530	333,071	27,480,551
Machinery and equipment	6,486,640	675,272	576,437	6,585,475
Total accumulated depreciation	33,662,732	1,312,802	909,508	34,066,026
Total capital assets, depreciated, net	7,339,176	118,534	25,531	7,432,179
Capital assets, net	<u>\$ 7,733,433</u>	<u>\$ 230,359</u>	<u>\$ 25,531</u>	<u>\$ 7,938,261</u>

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

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

Note 9. Long-term Debt

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

Primary Government

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	\$ 21,859,538	\$ -	\$ 1,804,329	\$ 20,055,209	\$ 1,807,971
Lease revenue bonds	57,913,212	-	3,237,379	54,675,833	3,379,157
Literary fund loans	4,020,140	-	254,000	3,766,140	254,000
Refunding bonds	22,492,576	-	762,737	21,729,839	510,063
Landfill post-closure	687,953	-	147,045	540,908	55,820
Compensated absences	1,793,921	1,608,295	1,451,004	1,951,212	1,360,000
Governmental activities long-term liabilities	<u>\$108,767,340</u>	<u>\$ 1,608,295</u>	<u>\$ 7,656,494</u>	<u>\$102,719,141</u>	<u>\$ 7,367,011</u>
Business-type Activities:					
Revenue bonds	\$ 6,024,984	\$ 603,500	\$ 113,414	\$ 6,515,070	\$ 119,131
Notes payable	85,993	-	15,809	70,184	17,050
Compensated absences	87,035	81,055	87,035	81,055	81,055
Business-type activities long-term liabilities	<u>\$ 6,198,012</u>	<u>\$ 684,555</u>	<u>\$ 216,258</u>	<u>\$ 6,666,309</u>	<u>\$ 217,236</u>
Component Unit – School Board					
Compensated absences	<u>\$ 2,565,157</u>	<u>\$ 1,964,776</u>	<u>\$ 1,865,000</u>	<u>\$ 2,664,933</u>	<u>\$ 1,865,000</u>

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007**

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
2008	\$ 1,807,971	\$ 985,387	\$ 3,379,157	\$ 2,577,793	\$ 510,063	\$ 980,339	\$ 254,000	\$ 112,984
2009	1,806,266	891,308	3,537,278	2,424,335	507,887	958,269	254,000	105,364
2010	1,796,046	795,287	3,696,796	2,262,176	516,244	935,297	254,000	97,744
2011	1,765,883	700,643	3,862,773	2,095,141	520,168	911,382	254,140	90,124
2012	1,581,235	613,012	4,045,270	1,916,044	1,899,700	886,659	250,000	82,500
2013-2017	6,904,396	1,943,704	15,851,631	7,161,175	9,830,777	3,205,037	1,250,000	300,000
2018-2022	4,393,412	448,616	16,792,273	2,994,406	7,945,000	991,635	1,250,000	112,500
2023-2027	-	-	3,510,655	158,043	-	-	-	-
	<u>\$ 20,055,209</u>	<u>\$ 6,377,957</u>	<u>\$ 54,675,833</u>	<u>\$ 21,589,113</u>	<u>\$ 21,729,839</u>	<u>\$ 8,868,618</u>	<u>\$ 3,766,140</u>	<u>\$ 901,216</u>

Year Ended June 30	Business-type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2008	\$ 119,131	\$ 298,223	\$ 17,050	\$ 5,164
2009	128,446	279,230	18,511	3,703
2010	138,284	285,484	20,098	2,116
2011	145,248	278,520	14,525	464
2012	135,905	271,199	-	-
2013-2017	681,095	1,264,165	-	-
2018-2022	857,839	1,087,421	-	-
2023-2027	1,066,615	846,461	-	-
2028-2032	1,327,177	588,411	-	-
2033-2037	1,182,303	283,601	-	-
2038-2042	585,952	88,222	-	-
2043-2047	147,075	16,312	-	-
	<u>\$ 6,515,070</u>	<u>\$ 5,587,249</u>	<u>\$ 70,184</u>	<u>\$ 11,447</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 9. Long-term Debt (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>General Obligation Bonds:</u>						
School Construction Bonds	6.100 - 8.100%	12/15/90	2010	\$ 3,250,000	\$ 685,000	\$ -
School Construction Bonds	4.850 - 6.600	01/15/92	2012	1,893,607	574,121	-
School Construction Bonds	5.100 - 5.500	04/29/93	2012	3,000,000	740,000	-
School Construction Bonds	4.475 - 5.000	11/18/93	2014	3,000,000	425,000	-
School Construction Bonds	4.600 - 5.800	05/02/96	2017	3,870,000	1,950,000	-
School Construction Bonds	4.350 - 5.350	11/20/97	2018	4,211,116	2,471,334	-
School Construction Bonds	4.100 - 5.350	04/30/98	2019	5,300,000	3,180,000	-
Virginia Public School Authority Bonds	3.100 - 5.100	11/01/01	2022	13,025,026	10,029,754	-
					<u>\$ 20,055,209</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	3.3 - 5.0%	06/01/99	2019	\$ 9,695,000	\$ 6,735,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	2,395,000	-
Lease Revenue Bond	4.0 - 5.0	06/1999	2021	11,680,000	9,225,000	-
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	3,485,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	14,660,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,544,803	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,544,803	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	9,086,227	-
Rural Development Water Revenue Bond	5.0	01/22/91	2031	295,000	-	238,988
Rural Development Water Revenue Bond	5.0	02/18/94	2034	1,271,700	-	1,098,144
Rural Development Water Revenue Bond	4.5	09/19/96	2036	363,000	-	324,406
Rural Development Sewer Revenue Bond	4.5	08/28/95	2035	603,215	-	525,270
Rural Development Sewer Revenue Bond	4.5	03/20/97	2037	1,071,300	-	963,498
Rural Development Sewer Revenue Bond	4.5	02/23/99	2040	1,000,000	-	925,832
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	135,608
Rural Development Water Revenue Bond	4.5	01/28/03	2043	1,763,700	-	1,699,824
Rural Development Water Revenue Bond	4.375	08/22/06	2047	97,500	-	97,500
Rural Development Water Revenue Bond	4.25	08/22/06	2047	506,000	-	506,000
					<u>\$ 54,675,833</u>	<u>\$ 6,515,070</u>
<u>Refunding Bonds:</u>						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 1,975,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,574,839	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,670,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,510,000	-
					21,729,839	-
Less deferred costs					(1,524,260)	-
Plus bond premium					302,487	-
					<u>\$ 20,508,066</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 16,140	\$ -
State Literary Fund Loan	3.0	01/2001	2021	5,000,000	3,750,000	-
Note Payable	8.25	08/09/01	2011	163,000	-	70,184
					<u>\$ 3,766,140</u>	<u>\$ 70,184</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 9. Long-term Debt (Continued)

The Virginia Resource Authority Revenue Bond is non-interest bearing. The Public Service Authority imputes interest on this debt at a rate of 6%. The face amount outstanding and unamortized discount at year end is \$156,222 and \$20,614, respectively.

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

Note 10. Landfill Post-Closure Care

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations require the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas have been detected at the landfills, therefore, the Department of Environmental Quality has required an additional ten-year monitoring period. The \$540,908 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2007. Actual costs for post-closure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plan

Plan Description

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 2007 was 13.32% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2007 were 14.20% for professional employees and 14.22% 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, 2007, 2006, and 2005, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$5,868,151, \$4,552,147, and \$4,189,551 representing 14.20%, 11.62%, and 10.45% of annual covered payroll, respectively, and 100% of the required contributions for 2007, 2006, and 2005. The School Board's contribution rate for non-professional employees for the fiscal year ended 2007 was 14.22% of the annual covered payroll.

Annual Pension Cost

For fiscal year 2007, the County's annual pension costs of \$1,766,974 and the School Board's annual pension cost of \$6,514,366 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, 2006 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 3.75% to 5.60% 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 and School Board's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Three-Year Trend Information for the County of Montgomery

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 1,766,974	100%	\$ -
June 30, 2006	\$ 1,585,575	100%	\$ -
June 30, 2005	\$ 1,510,919	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, 2007	\$ 646,216	100%	\$ -
June 30, 2006	\$ 403,551	100%	\$ -
June 30, 2005	\$ 345,209	100%	\$ -

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Analysis of Funding Progress for Defined Benefit Pension Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Montgomery						
June 30, 2006	\$ 38,506,508	\$ 44,049,801	\$ 5,543,293	87.42%	\$ 13,422,335	41.30%
June 30, 2005	\$ 35,829,105	\$ 42,169,432	\$ 6,340,327	84.96%	\$ 12,799,499	49.54%
June 30, 2004	\$ 34,297,672	\$ 38,767,280	\$ 4,469,608	88.47%	\$ 11,929,802	37.47%
County of Montgomery School Board						
June 30, 2006	\$ 12,296,487	\$ 14,291,941	\$ 1,995,454	86.04%	\$ 4,473,216	44.61%
June 30, 2005	\$ 11,599,426	\$ 14,414,850	\$ 2,815,424	80.47%	\$ 4,225,591	66.63%
June 30, 2004	\$ 11,324,263	\$ 11,843,761	\$ 519,498	95.61%	\$ 3,947,983	13.16%

Note 12. Risk Management

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 13. Commitments and Contingencies

Litigation

The County has received twenty-six notices of claim related to the April 16, 2007 Virginia Tech shootings. Although no suit has been filed to date naming the County as a party defendant, based on the number of claims filed, a suit is possible. The County intends to vigorously defend any litigation naming the County as a party defendant. It is the opinion of counsel that the potential for an unfavorable outcome should the County be named as a party defendant is not likely based on the defenses available to the County and its employees.

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.

Special Purpose Grants

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

Incentive Liability

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

Note 14. Transactions with Component Unit – Industrial Development Authority

Advances to Component Unit:

Non-interest bearing advances from the County for the purchase of capital items such as land and buildings are to be repaid from the sales of land and other revenues of the IDA. There is no first deed of trust held by the County for the properties. Therefore, there is opportunity for these properties to be encumbered with additional financing upon approval of the County on a project-by-project basis. Advances consist of the following:

Construction of the Falling Branch Industrial Park	\$ 3,238,541
Improvements to the Elliston Lafayette Industrial Park	1,093
Construction/improvements to the Blacksburg Industrial Park	475,788
Repayment of debt	2,233,148
	<u>\$ 5,948,570</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.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 15. Net Assets/Fund Balance

Restricted Net Assets:

The Public Service Authority entered an agreement with Carilion New River Valley Medical Center (“Carilion”) in 1995 for expansion of water and wastewater services to a new Carilion facility. Carilion paid all costs related to the expansion; however, costs in excess of \$1.7 million, which amounted to approximately \$1 million, are to be reimbursed to Carilion by the Authority to the extent of 100% of availability and connection fees collected related to the expansion through 2005, and 50% of such fees from 2005 through 2008. Through June 30, the Authority has reimbursed Carilion in the amount of \$175,750, the total amount paid. Because repayment is contingent on collection of future fees, a liability is not recognized; however, net assets are restricted in the amount of \$831,000.

Additionally, net assets are restricted for debt service reserves in the amount of \$4,969,141 and \$245,240 in the Governmental Activities and Business-type Activities, respectively.

Deficit Net Assets – Component Unit – IDA:

A deficit in net assets of \$1,524,480 exists resulting from the loss on the transfer of the Technology Manufacturing building to Montgomery County. It is expected that future lease revenue, proceeds from sale of property, and debt repayments will provide positive net assets.

Deficit Unrestricted Net Assets:

At June 30, the Water and Wastewater Funds, the Component Unit – School Board, and the Component Unit – IDA had deficits in unrestricted net assets of \$67,636, \$361,439, \$1,291,784, and \$2,221,118, respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers 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	\$ 273,818	\$ 1,435,016	\$ 1,225,026
Advances and notes receivable	7,127,563	-	-
Law library	154,834	-	-
Grants	375,337	-	286,314
Inventories	-	-	117,563
	<hr/>	<hr/>	<hr/>
Total reserved fund balance	<u>\$ 7,931,552</u>	<u>\$ 1,435,016</u>	<u>\$ 1,628,903</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 15. Net Assets/Fund Balance (Continued)

Designations of Fund Balance:

Designated fund balances are comprised of the following:

	General Fund	Capital Improvements Fund
Designated for:		
Debt service	\$ 500,000	\$ -
Capital projects	500,000	26,313,865
Landfill	250,000	-
Facilities and maintenance	723,000	-
Road maintenance	372,460	-
Technology	72,513	-
School capital	896,774	-
Total designated fund balance	\$ 3,314,747	\$ 26,313,865

Note 16. Concentrations

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

Note 17. Other Post-Employment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition and display of OPEB expenses and related liabilities in the financial statements. Management has not completed the process of evaluating the effects of adopting this standard, and is therefore unable to disclose the impact of adoption. This statement will be effective for the year ended June 30, 2009.

The County and School Board provides post-retirement healthcare benefits to retiring employees who are eligible for retirement benefits until those employees are eligible for Medicare. Currently, fourteen County retirees and sixty-three School Board retirees are receiving these benefits. The retiree pays the entire health insurance premium; however, they are allowed to remain on the County's and School Board's policies.

Note 18. Other Matters

In February 2007, the County sold the former Bethel Elementary School Property to a developer for \$550,000 for 5.06 acres of land for the purpose of locating a hotel, restaurant, medical office building and/or professional office building on the front portion of the property. The real estate sales agreement also included the development of a sports complex on 5.213 additional acres on the back portion of the property. The sports complex is to include a Dixie Youth size baseball field with lights, a regulation football field, and an overlay regulation soccer field. Upon completion, the sports complex will be conveyed, at the sole expense of the developer, to the County for public use by County residents. The complex is to be completed no later than March 30, 2008, unless a written extension of time is granted by the County. The market value, as determined by an independent appraiser, of the entire 10.219 acres was \$950,000. This results in an appraised value of \$465,378 for the 5.006 acres of land to be developed and sold by the purchaser, which is \$84,622 less than the sales price.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 19. New Accounting Standards

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

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, addresses the accounting and reporting of transactions where an interest in expected cash flows from specific receivables or specific future revenues is exchanged for immediate cash payments, and establishes criteria to determine whether the proceeds received should be a revenue or a liability. The statement also addresses intra-entity transfers of assets (including capital assets), and requires that the transferee should recognize the assets received at the carrying value of the transferor. Management does not believe that the effects of adopting this standard will be material. This statement will be effective for the year ended June 30, 2008.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for certain obligations to address the effects of existing pollution through pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care. Upon the occurrence of certain events, a government is required to estimate expected pollution remediation outlays and determine whether those outlays should be accrued as a liability, or, if appropriate, capitalized when goods and services are received. Management does not believe that the effects of adopting this standard will be material. This statement will be effective for the year ended June 30, 2009.

Note 20. Subsequent Events

Primary Government:

In August 2007, the County purchased approximately 86 acres land at a cost of \$1,285,500.

In September 2007, the County entered into a purchase option agreement to purchase approximately 20 acres of land at a cost of \$700,000.

Component Unit – IDA Debt Issuance:

On September 26, 2007, the Authority issued taxable revenue bonds totaling \$10,567,876. Interest is payable in arrears and both interest and principal will be paid monthly, beginning on November 1, 2007 and the 1st day of each month thereafter until the maturity date (October 1, 2012), over a 20 year amortization with a fixed interest rate of 6 percent. The proceeds of the debt were used to pay the \$9,486,000 revenue bonds, the \$843,160 note payable, and \$208,716 of the advances payable, to the County.

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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, 2007

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 715,116	\$ 816,146	\$ 1,531,262
Due from primary government	3,516,291	-	3,516,291
Due from other governmental units	2,528,094	-	2,528,094
Inventories	-	117,563	117,563
Cash and cash equivalents, restricted	92,240	-	92,240
	<u>6,851,741</u>	<u>933,709</u>	<u>7,785,450</u>
Total assets	<u>\$ 6,851,741</u>	<u>\$ 933,709</u>	<u>\$ 7,785,450</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 406,961	\$ 12,823	\$ 419,784
Accrued payroll and related liabilities	6,235,753	200,207	6,435,960
Amounts held for others	92,240	-	92,240
Deferred revenue	78,629	-	78,629
	<u>6,813,583</u>	<u>213,030</u>	<u>7,026,613</u>
Total liabilities	<u>6,813,583</u>	<u>213,030</u>	<u>7,026,613</u>
Fund Balances:			
Reserved for:			
Grants	286,314	-	286,314
Encumbrances	1,225,026	-	1,225,026
Inventories	-	117,563	117,563
Unreserved	<u>(1,473,182)</u>	<u>603,116</u>	<u>(870,066)</u>
Total fund balances	<u>38,158</u>	<u>720,679</u>	<u>758,837</u>
Total liabilities and fund balances	<u>\$ 6,851,741</u>	<u>\$ 933,709</u>	<u>\$ 7,785,450</u>

Adjustments for the Statement of Net Assets (Exhibit 1)

Total fund balances	\$ 758,837
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.	7,938,261
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.	535,683
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	78,629
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(2,664,933)</u>
Net assets of governmental activities	<u>\$ 6,646,477</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, 2007

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from use of money and property	\$ 1,050	\$ 33,359	\$ 34,409
Charges for services	58,037	2,172,611	2,230,648
Miscellaneous	33,328	-	33,328
Recovered costs	507,125	-	507,125
Intergovernmental	85,461,115	1,568,230	87,029,345
Total revenues	<u>86,060,655</u>	<u>3,774,200</u>	<u>89,834,855</u>
EXPENDITURES			
Current:			
Instruction	66,665,176	-	66,665,176
Administration, attendance and health	3,282,182	-	3,282,182
Pupil transportation	4,421,558	-	4,421,558
Operations and maintenance	11,601,760	-	11,601,760
Non-instructional	89,979	-	89,979
School nutrition	-	3,485,481	3,485,481
Total expenditures	<u>86,060,655</u>	<u>3,485,481</u>	<u>89,546,136</u>
Excess of revenues over expenditures	<u>-</u>	<u>288,719</u>	<u>288,719</u>
Net change in fund balances	-	288,719	288,719
FUND BALANCE AT JULY 1	<u>38,158</u>	<u>431,960</u>	<u>470,118</u>
FUND BALANCE AT JUNE 30	<u>\$ 38,158</u>	<u>\$ 720,679</u>	<u>\$ 758,837</u>

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds \$ 288,719

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 (\$1,543,161) is more than depreciation (\$1,312,802) and the loss on the disposition of assets of (\$25,531) in the current period. 204,828

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. (1,258,062)

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. (125,740)

Change in net assets of governmental activities \$ (890,255)

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, 2007**

	School Operating				School Cafeteria			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ 5,000	\$ 5,000	\$ 1,050	\$ (3,950)	\$ -	\$ -	\$ 33,359	\$ 33,359
Charges for services	20,000	20,000	58,037	38,037	2,382,013	2,382,013	2,172,611	(209,402)
Miscellaneous	35,000	68,328	33,328	(35,000)	-	-	-	-
Recovered costs	150,000	414,353	507,125	92,772	-	-	-	-
Intergovernmental	86,126,163	88,839,833	85,167,295	(3,672,538)	1,203,705	1,203,705	1,568,230	364,525
Total revenues	86,336,163	89,347,514	85,766,835	(3,580,679)	3,585,718	3,585,718	3,774,200	188,482
EXPENDITURES								
Current:								
Instruction	66,856,369	67,444,189	66,296,179	1,148,010	-	-	-	-
Administration, attendance and health	3,422,401	3,484,106	3,282,182	201,924	-	-	-	-
Pupil transportation	3,903,686	5,196,409	4,421,558	774,851	-	-	-	-
Operations and maintenance	12,119,162	13,123,137	11,601,760	1,521,377	-	-	-	-
Non-instructional	34,545	99,673	89,979	9,694	-	-	-	-
School nutrition	-	-	-	-	3,585,718	3,733,209	3,500,087	233,122
Total expenditures	86,336,163	89,347,514	85,691,658	3,655,856	3,585,718	3,733,209	3,500,087	233,122
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 75,177	\$ 75,177	\$ -	\$ (147,491)	\$ 274,113	\$ 421,604

SUPPORTING SCHEDULE

SCHEDULE 1

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
<u>Direct Payments:</u>		
Water and Waste Disposal	10.760	\$ 986,666
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Food Stamp Administration	10.561	416,722
<u>Department of Education:</u>		
National School Breakfast Program	10.553	288,151
National School Lunch Program	10.555	1,158,566
Federal Land Use (Forest Reserve)	10.665	2,214
<u>Department Of Justice:</u>		
<u>Direct Payments:</u>		
Bulletproof Vest Partnership Program	16.607	8,104
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Juvenile Justice and Delinquency Prevention - Allocation to States (Title II)	16.540	62,919
Crime Victim Assistance	16.575	109,386
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
State and Community Highway Safety (402 Funds)	20.600	9,705
Occupant Protection	20.602	5,100
State and Community Highway Safety (154 Transfer Funds)	20.607	10,875
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Grants to States	84.002	122,640
Title I: Grants to Local Educational Agencies	84.010	1,482,512
Special Education – Grants to States	84.027	2,492,203
Vocational Education – Basic Grants to States	84.048	161,560
Special Education – Preschool Grants	84.173	110,793
Drug Free Schools and Communities – State Grants	84.186	74,982
Innovative Education Program Statistics	84.298	24,878
Title I: Comprehensive School Reform	84.332	101,171
No Child Left Behind Act	84.367	316,310
Technology Literacy Challenge Fund	84.318	71,688
Learn & Serve	94.004	20,561
Emergency Impact Aide	84.938	33,660
Language Acquisition - Title III	84.365	58,314
Title I - Neglected and Delinquent Children	84.013	14,103

(Continued)

**SCHEDULE 1
(Continued)**

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007**

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services:</u>		
Direct Payments:		
Department of Substance Abuse and Mental Health Services		
Projects of Regional and National Significance	93.243	\$ 246,433
 <u>Pass-through Payments:</u>		
<u>Department of Aging:</u>		
Support Services – Title III, Part B –		
Grants for State and Community Programs on Aging	93.044	59,561
 <u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	160,212
Temporary Assistance to Needy Families	93.558	576,390
Child Care and Development Block Grant	93.575	445,992
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	377,927
Foster Care – Title IV-E	93.658	526,122
Adoption Assistance	93.659	85,593
Social Service Block Grant	93.667	412,638
Low Income Home Energy Assistance	93.568	30,581
Chafee Foster Care Independence Program	93.674	3,937
Medical Assistance Program	93.778	354,916
Refugee and Entrant Assistance	93.566	415
Chafee Educaiton and Training	93.599	503
Child Welfare Services	93.603	118
State Children's Insurance Program	93.767	740
Total Expenditures of Federal Awards		\$ 11,425,861

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, 2007, the School Board had food commodities totaling \$76,751 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.	8-10
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.	11-12
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.	13-15

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

TABLE 1

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

	Fiscal Year				
	2007	2006	2005	2004	2003
Governmental activities					
Invested in capital assets, net of related debt	\$ 22,500,252	\$ 13,946,058	\$ 13,971,101	\$ 9,826,302	\$ 3,945,490
Restricted	4,969,141	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	28,620,972	25,197,204	17,799,039	14,700,359	(1,550,735)
Total governmental activities net assets	<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	\$ 14,983,849	\$ 15,153,224	\$ 15,746,661	\$ 16,082,711	\$ 14,800,614
Restricted	1,076,240	1,066,910	1,034,403	1,021,135	1,433,982
Unrestricted	(429,075)	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	<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	\$ 37,484,101	\$ 29,099,282	\$ 29,717,762	\$ 25,909,013	\$ 18,746,104
Restricted	6,045,381	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	28,191,897	24,643,523	16,829,998	13,539,654	(2,737,309)
Total primary government net assets	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>	<u>\$ 46,786,543</u>	<u>\$ 43,273,694</u>

TABLE 2

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

	Fiscal Year				
	2007	2006	2005	2004	2003
Expenses					
Governmental activities					
General government	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	4,526,234	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreation and cultural	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	30,503,869	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	<u>71,815,215</u>	<u>71,155,281</u>	<u>69,448,996</u>	<u>69,907,234</u>	<u>63,028,214</u>
Business-type activities					
Water and Wastewater	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total business-type activities expense	<u>3,656,193</u>	<u>3,326,338</u>	<u>3,449,981</u>	<u>3,532,577</u>	<u>3,020,119</u>
Total primary government expenses	<u>\$ 75,471,408</u>	<u>\$ 74,481,619</u>	<u>\$ 72,898,977</u>	<u>\$ 73,439,811</u>	<u>\$ 66,048,333</u>
Program Revenues					
Governmental activities					
Charges for services					
Public Safety	\$ 616,714	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public Works	125,741	127,070	151,767	-	58,671
Other Activities	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	14,486,609	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	24,121	81,630	150,000	465,343	-
Total governmental activities program revenues	<u>16,559,844</u>	<u>15,623,515</u>	<u>15,339,719</u>	<u>15,235,508</u>	<u>12,135,377</u>
Business-type activities					
Charges for services					
Water and Sewage	3,124,628	3,088,605	3,141,551	2,829,152	2,587,336
Capital grants and contributions	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	<u>3,507,794</u>	<u>3,135,282</u>	<u>3,312,505</u>	<u>4,828,718</u>	<u>2,602,619</u>
Total primary government program revenues	<u>\$ 20,067,638</u>	<u>\$ 18,758,797</u>	<u>\$ 18,652,224</u>	<u>\$ 20,064,226</u>	<u>\$ 14,737,996</u>
Net (expense) revenue					
Governmental activities	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	<u>\$ (55,403,770)</u>	<u>\$ (55,722,822)</u>	<u>\$ (54,246,753)</u>	<u>\$ (53,375,585)</u>	<u>\$ (51,310,337)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	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	(93,413)	(109,381)	-	-	-
Total governmental activities	<u>67,427,329</u>	<u>62,475,949</u>	<u>57,599,206</u>	<u>54,149,721</u>	<u>52,053,237</u>
Business-type activities:					
Investment earnings	19,547	11,411	6,358	922	3,153
Gain on sale of property	-	-	-	(15,763)	-
Transfers	93,413	109,381	-	-	-
Total business-type activities	<u>112,960</u>	<u>120,792</u>	<u>6,358</u>	<u>(14,841)</u>	<u>3,153</u>
Total primary government	<u>\$ 67,540,289</u>	<u>\$ 62,596,741</u>	<u>\$ 57,605,564</u>	<u>\$ 54,134,880</u>	<u>\$ 52,056,390</u>

(Continued)

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

	Fiscal Year				
	2007	2006	2005	2004	2003
Changes in Net Assets					
Governmental activities	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	<u>\$ 12,136,519</u>	<u>\$ 6,873,919</u>	<u>\$ 3,358,811</u>	<u>\$ 759,295</u>	<u>\$ 746,053</u>

TABLE 3

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
General Fund									
Reserved	\$ 7,931,552	\$ 8,425,959	\$ 8,048,551	\$ 8,424,045	\$ 8,646,272	\$ 8,667,252	\$ 8,510,558	\$ 8,030,521	\$ 2,706,359
Unreserved	21,298,326	16,864,467	16,352,624	17,466,018	15,610,016	15,859,971	15,375,211	22,523,616	26,526,884
Total general fund	<u>\$ 29,229,878</u>	<u>\$ 25,290,426</u>	<u>\$ 24,401,175</u>	<u>\$ 25,890,063</u>	<u>\$ 24,256,288</u>	<u>\$ 24,527,223</u>	<u>\$ 23,885,769</u>	<u>\$ 30,554,137</u>	<u>\$ 29,233,243</u>
All Other Governmental Funds									
Reserved	\$ 1,435,016	\$ 862,735	\$ 1,844,841	\$ 1,130,668	\$ 17,184,645	\$ -	\$ 859,725	\$ -	\$ -
Unreserved, reported in:									
Special revenue funds	-	-	-	-	-	95,988	80,915	70,573	61,772
Capital projects funds	26,313,865	24,248,049	29,209,836	32,810,664	640,547	9,730,048	14,561,579	-	-
Total all other governmental funds	<u>\$ 27,748,881</u>	<u>\$ 25,110,784</u>	<u>\$ 31,054,677</u>	<u>\$ 33,941,332</u>	<u>\$ 17,825,192</u>	<u>\$ 9,826,036</u>	<u>\$ 15,502,219</u>	<u>\$ 70,573</u>	<u>\$ 61,772</u>

TABLE 4

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

	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenues									
Taxes	\$ 59,334,527	\$ 54,989,515	\$ 50,738,457	\$ 48,842,024	\$ 46,888,359	\$ 43,046,576	\$ 40,566,368	\$ 37,829,575	\$ 37,740,962
Permits, privilege fees, and licenses	527,087	451,339	581,026	432,106	354,475	224,463	200,284	189,197	185,143
Fines and forfeitures	120,036	191,713	181,336	137,311	172,252	167,757	85,283	99,353	65,580
Revenue from use of money and property	3,006,656	1,932,190	1,658,701	1,073,542	591,555	937,531	1,625,474	1,142,127	979,792
Charges for services	863,610	1,099,916	774,474	791,975	588,551	494,449	368,471	490,729	460,736
Other	1,638,273	1,443,439	1,364,845	1,097,902	1,280,981	1,105,203	1,798,254	1,150,252	904,120
Intergovernmental	18,816,073	18,018,456	17,655,372	17,030,162	17,089,403	15,227,444	14,750,314	12,077,443	9,722,560
Total revenues	84,306,262	78,126,568	72,954,211	69,405,022	66,965,576	61,203,423	59,394,448	52,978,676	50,058,893
Expenditures									
General government	6,191,149	6,294,484	6,046,564	5,177,651	5,358,391	5,211,059	4,086,626	3,566,242	3,707,361
Judicial administration	2,248,802	1,821,661	1,801,538	1,627,346	1,626,738	1,644,861	1,392,493	1,336,618	1,260,605
Public safety	9,584,764	8,864,490	8,931,893	7,048,833	6,427,463	6,000,194	5,586,072	5,462,939	5,110,728
Public works	3,807,202	3,326,950	3,252,988	3,450,922	2,998,968	2,616,065	2,511,498	2,549,067	2,031,390
Parks, recreation and cultural	2,802,108	2,856,007	2,513,263	2,195,196	2,197,940	2,303,966	2,431,255	1,990,488	1,944,835
Health and welfare	9,063,818	8,241,369	8,338,220	7,813,659	7,679,219	6,718,789	6,160,972	6,091,972	5,386,041
Education	28,899,311	29,917,075	28,731,743	27,894,248	28,723,773	26,385	24,362	24,116	22,905
Community development	1,509,152	1,200,930	1,590,531	1,804,638	1,205,104	1,327,321	2,595,427	1,216,013	1,402,709
Nondepartmental	-	-	-	-	-	129,482	37,216	-	65,911
Capital projects	2,535,393	10,295,741	3,358,473	4,135,721	13,629,018	7,471,946	4,824,794	1,576,513	3,071,797
Debt service									
Principal	6,058,445	5,943,154	16,442,154	4,951,763	4,325,425	747,900	687,551	802,551	367,550
Interest	4,935,156	5,040,472	4,276,687	5,340,581	5,324,916	1,249,013	872,152	561,813	574,666
Total expenditures	77,635,300	83,802,333	85,284,054	71,440,558	79,496,955	35,446,981	31,210,418	25,178,332	24,946,498
Excess of revenues over (under) expenditures	6,670,962	(5,675,765)	(12,329,843)	(2,035,536)	(12,531,379)	25,756,442	28,184,030	27,800,344	25,112,395
Other Financing Sources (Uses)									
Proceeds from borrowing	-	-	18,779,866	20,000,000	-	-	15,088,350	-	9,585,358
Payments to bond escrow agents	-	-	(19,562,999)	-	-	-	(3,323,550)	-	-
Proceeds from sale of capital assets/real estate	-	-	8,940,593	-	-	-	-	27,687	34,987
Transfers in	3,390,967	-	719,056	8,348	2,038,905	-	41,950	-	772
Transfers out	(3,484,380)	-	(719,056)	(8,348)	(2,038,905)	(30,791,171)	(31,227,502)	(26,498,336)	(24,733,473)
Total other financing sources (uses)	(93,413)	-	8,157,460	20,000,000	-	(30,791,171)	(19,420,752)	(26,470,649)	(15,112,356)
Net change in fund balances	\$ 6,577,549	\$ (5,675,765)	\$ (4,172,383)	\$ 17,964,464	\$ (12,531,379)	\$ (5,034,729)	\$ 8,763,278	\$ 1,329,695	\$ 10,000,039
Debt service as a percentage of noncapital expenditures	14.64%	14.94%	25.29%	15.29%	14.65%	7.14%	5.91%	5.78%	4.31%

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)
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	0.87
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$5,459,000,654	0.90
2004	\$ 4,556,115,600	\$ 443,006,567	\$ 120,450,318	\$ 21,433,774	\$ 133,583,496	\$5,274,589,755	0.88
2003	\$ 4,448,367,800	\$ 442,692,427	\$ 123,656,471	\$ 20,185,299	\$ 162,853,761	\$5,197,755,758	0.90
2002	\$ 3,312,672,860	\$ 456,164,099	\$ 106,272,277	\$ 21,621,381	\$ 160,770,587	\$4,057,501,204	0.96
2001	\$ 3,229,462,900	\$ 449,847,984	\$ 106,852,005	\$ 21,034,191	\$ 146,158,930	\$3,953,356,010	0.96
2000	\$ 3,117,677,700	\$ 418,001,821	\$ 114,031,603	\$ 24,843,670	\$ 145,504,090	\$3,820,058,884	0.96
1999	\$ 3,002,758,100	\$ 358,504,261	\$ 97,233,025	\$ 17,974,756	\$ 161,001,491	\$3,637,471,633	0.95
1998	\$ 2,319,517,000	\$ 349,951,144	\$ 81,212,304	\$ 19,618,798	\$ 114,146,732	\$2,884,445,978	1.00

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

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

TABLE 6

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

Taxpayer	Fiscal Year 2007			Fiscal Year 1998		
	Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Foxridge Associates	\$ 61,604,900	1	0.95%	\$ 33,167,700	1	1.72%
PR Financing (NRV Mall)	47,273,000	2	0.73%	18,685,400	2	0.97%
Roger Woody	47,188,300	3	0.73%	-	-	0.00%
Appalacian Power Company	41,347,242	4	0.64%	-	-	0.00%
Hash Investments/SHAH Development	33,693,800	5	0.52%	-	-	0.00%
SHP-The Village at Blacksburg LLC	29,811,000	6	0.46%	-	-	0.00%
Verizon	29,047,895	7	0.45%	-	-	0.00%
Norfolk and Western	27,516,846	8	0.42%	-	-	0.00%
CSB LLC	19,121,900	9	0.29%	-	-	0.00%
Maple Ridge	18,889,000	10	0.29%	-	-	0.00%
HCA Montgomery Regional Hospital	-		0.00%	13,576,600	3	0.71%
Faison & Associates	-		0.00%	10,342,800	4	0.54%
WHGMH Realty LLC	-		0.00%	10,003,900	5	0.52%
Wal-Mart	-		0.00%	9,764,800	6	0.51%
First National Bank of Christiansburg	-		0.00%	8,031,900	7	0.42%
Windsor Hills	-		0.00%	7,906,700	8	0.41%
Corning Glass Works	-		0.00%	7,152,700	9	0.37%
Hubbell Lightning	-		0.00%	6,718,000	10	0.35%
	<u>\$ 355,493,883</u>		<u>5.47%</u>	<u>\$ 125,350,500</u>		<u>6.52%</u>

TABLE 7

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	\$ 55,679,245	\$ 52,198,510	93.75%	\$ -	\$ 52,198,510	93.75%
2006	50,424,489	48,355,245	95.90%	711,137	49,066,382	97.31%
2005	44,555,181	42,844,219	96.16%	2,397,271	45,241,490	101.54%
2004	43,871,083	41,752,442	95.17%	1,893,266	43,645,708	99.49%
2003	42,351,459	35,183,970	83.08%	2,650,755	37,834,725	89.34%
2002	40,381,556	33,151,368	82.10%	1,417,000	34,568,368	85.60%
2001	33,225,652	31,561,292	94.99%	833,193	32,394,485	97.50%
2000	32,086,559	30,988,504	96.58%	1,235,990	32,224,494	100.43%
1999	29,709,210	28,870,145	97.18%	1,347,873	30,218,018	101.71%
1998	27,801,422	26,680,752	95.97%	1,093,783	27,774,535	99.90%

TABLE 8

County of Montgomery, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt				Other Governmental Activities Debt			
	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds	Capital Leases
2007	\$ 20,055,209	\$ 20,055,209	0.27%	\$ 226.73	\$ 54,675,833	\$ 3,766,140	\$ 21,729,839	\$ -
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576	-
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453	-
2004	26,075,223	26,075,223	0.49%	304.57	90,975,000	4,544,972	4,078,005	-
2003	27,749,414	27,749,414	0.53%	327.23	63,685,000	4,839,154	5,641,347	-
2002	16,767,837	16,767,837	0.41%	198.91	65,270,000	19,266,065	6,044,141	-
2001	18,219,563	18,219,563	0.46%	231.22	56,475,000	5,317,068	6,261,678	-
2000	23,953,309	23,953,309	0.63%	309.93	25,940,000	538,300	2,199,278	-
1999	25,809,555	25,809,555	0.71%	336.50	26,375,000	759,532	2,267,256	56,562
1998	27,406,052	27,406,052	0.95%	359.19	-	980,764	-	239,853

Fiscal Year	Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable	Capital Leases				
2007	\$ 6,515,070	\$ 70,184	\$ -	\$ 106,812,275	4.58%	\$ 1,207.55	
2006	6,024,984	85,993	-	112,396,443	5.71%	1,278.69	
2005	6,132,906	101,197	-	118,462,723	6.02%	1,410.96	
2004	6,226,079	118,685	-	132,017,964	7.56%	1,542.01	
2003	5,860,325	163,035	-	107,938,275	6.41%	1,272.86	
2002	4,628,932	266,539	-	112,243,514	7.80%	1,331.48	
2001	4,702,347	337,181	214	91,313,051	-	1,158.84	
2000	4,767,878	320,828	1,126	57,720,719	-	746.85	
1999	4,123,919	322,086	2,025	59,715,935	-	778.56	
1998	3,855,994	379,330	675	32,862,668	-	430.70	

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	
2007	\$ 2,941,527	\$ 2,612,350	\$ 329,177	\$ 129,223	\$ 285,304	0.79
2006	2,693,843	2,284,438	409,405	123,126	290,593	0.99
2005	2,683,885	2,434,942	248,943	110,661	293,368	0.62
2004	2,785,678	2,518,845	266,833	95,740	286,651	0.70
2003	2,347,509	2,093,744	253,765	76,660	217,772	0.86
2002	2,322,748	1,992,121	330,627	84,875	209,557	1.12
2001	2,592,104	1,955,357	636,747	131,218	248,090	1.68
2000	1,999,644	1,768,267	231,377	73,829	185,271	0.89
1999	1,919,007	1,385,949	533,058	64,628	186,028	2.13
1998	1,478,902	1,436,126	42,776	38,648	163,790	0.21

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.

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

Fiscal Year Ended (1)	Population (2)	Total Personal Income (2)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2007	88,454	\$ 2,090,787,198	\$ 23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
2004	85,614	1,745,840,688	20,392	9,311	2.60%
2003	84,800	1,683,195,200	19,849	9,170	2.60%
2002	84,300	1,439,591,100	17,077	9,062	2.60%
2001	78,797	N/A	N/A	9,052	2.90%
2000	77,286	N/A	N/A	9,169	2.20%
1999	76,700	N/A	N/A	9,144	2.30%
1998	76,300	N/A	N/A	9,227	2.20%

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

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

N/A - Not available

TABLE 11

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

Employer	Fiscal Year 2007			Fiscal Year 1998		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Virginia Tech	7,013	1	38.21%	5,800	1	41.69%
Montgomery County Public Schools	2,029	2	11.05%	1,400	2	10.06%
Virginia Tech Corporate Research Center	2,000	3	10.90%	1,100	4	7.91%
Alliant TechSystems	1,436	4	7.82%	1,193	3	8.58%
Moog	1,007	5	5.49%	-	-	0.00%
Carilion NRV Medical Center	1,000	6	5.45%	-	-	0.00%
Echostar	800	7	4.36%	-	-	0.00%
Rowe Furniture	689	8	3.75%	-	-	0.00%
Columbia Montgomery Regional Hospital	530	9	2.89%	-	-	0.00%
Hubble Lighting, Inc.	397	10	2.16%	600	7	4.31%
Litton	-		0.00%	-	-	0.00%
Federal-Mogul Corporation	-		0.00%	700	5	5.03%
Litton Poly-Scientific	-		0.00%	700	6	5.03%
Corning Incorporated	-		0.00%	250	8	1.80%
Wolverine Gasket and Manufacturing Co.	-		0.00%	250	9	1.80%
Electro-Tec Corporation	-		0.00%	200	10	1.44%
	<u>16,901</u>		<u>92.08%</u>	<u>12,193</u>		<u>87.65%</u>

Source: Economic Development Department

TABLE 12

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

<u>Function/Program</u>	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General government										
County Administration	14.00	14.00	13.00	14.00	14.00	13.00	11.00	10.50	10.00	N/A
Information management services	8.50	8.50	8.50	8.00	8.00	8.00	6.00	6.00	6.00	N/A
Finance	8.50	8.50	8.50	9.50	9.50	5.50	5.50	5.50	5.50	N/A
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	N/A
Commissioner of Revenue	18.00	18.00	18.00	18.00	18.00	18.00	18.00	21.00	16.50	N/A
Treasurer	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	N/A
Other	7.00	7.00	7.00	6.00	6.00	6.00	6.50	5.50	5.50	N/A
Public Safety										
Sheriff	126.00	122.00	122.00	112.00	112.50	107.00	108.00	105.50	104.50	N/A
Animal control	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.25	N/A
Inspections	5.00	5.00	4.50	4.00	4.00	3.00	3.50	3.50	3.50	N/A
Judicial	18.00	18.50	18.50	18.00	18.50	18.50	19.00	17.00	17.00	N/A
Refuse collection	24.20	23.50	23.50	23.50	23.50	25.56	23.36	20.50	18.96	N/A
Other public works										
Engineering	2.00	2.00	2.00	3.00	2.00	2.00	1.00	1.50	-	N/A
Building and grounds	9.00	8.00	8.00	8.00	9.00	9.00	7.00	6.00	11.50	N/A
Housekeeping	9.00	9.10	8.60	8.60	9.60	9.60	5.60	5.50	-	N/A
Other	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	N/A
Parks, recreation and cultural	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	N/A
Library	24.13	31.25	31.25	30.75	30.75	30.63	30.63	32.33	34.25	N/A
Water/Sewer	21.00	21.00	21.00	21.00	20.00	20.00	23.00	21.00	20.00	N/A
Health and Welfare	72.00	67.50	67.50	66.50	66.50	66.50	66.50	66.50	61.00	N/A
Community development	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	N/A
Total	<u>411.53</u>	<u>409.05</u>	<u>406.05</u>	<u>394.05</u>	<u>394.05</u>	<u>384.49</u>	<u>376.79</u>	<u>370.08</u>	<u>355.46</u>	<u>-</u>

TABLE 13

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

<u>Function/Program</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
General Government										
Fleet vehicles	224	218	208	200	203	196	203	190	192	180
Judicial Administration										
Sheriff										
Inmates Housed	63,619	77,948	60,052	51,417	49,130	51,149	51,656	45,149	44,066	36,650
Inmate Transports	3,511	3,319	3,290	2,409	2,459	2,464	2,126	2,013	1,917	1,878
Courts Worked	912	915	846	843	789	809	806	710	573	543
Public safety										
Sheriff										
Physical arrests	3,767	3,311	3,233	3,242	2,686	2,811	2,849	5,111	4,985	4,857
Traffic violations	4,268	5,029	6,171	4,824	4,208	5,942	5,538	2,905	3,344	1,969
Public works										
Refuse collection										
Refuse collected (pounds per day)	77,089	77,293	78,094	76,551	69,272	N/A	N/A	N/A	N/A	N/A
Recyclables collected (pounds per day)	6,231	6,402	6,312	6,132	6,576	N/A	N/A	N/A	N/A	N/A
Parks, recreation and cultural										
Parks and recreation										
Total programs	199	154	160	141	113	N/A	N/A	N/A	N/A	N/A
Total registrants	3,328	2,897	4,094	2,884	2,781	N/A	N/A	N/A	N/A	N/A
Library										
Volumes in collection	226,093	212,004	201,235	198,310	194,091	196,425	191,047	181,932	163,801	152,342
Total volumes borrowed	781,608	717,708	645,560	610,238	591,060	559,846	495,860	487,201	481,453	489,599
Water										
Number of customer accounts	2,554	2,534	2,532	2,500	2,300	2,300	2,300	2,135	2,350	2,200
Miles of distribution lines	88	88	87	86	85	77	76	74	73	68
Average daily consumption	802,445	879,298	870,444	803,000	730,000	825,000	670,000	800,000	730,000	708,000
Sewer										
Number of customer accounts	1,247	1,225	1,211	1,173	1,139	1,050	1,050	1,086	1,275	1,250
Waste/Water treated (million gallons per year)	196	175	191	202	N/A	N/A	N/A	N/A	N/A	N/A
Average daily consumption	536,191	N/A								

Source: County departments

N/A - Not available

TABLE 14

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

<u>Function/Program</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Public safety										
Law enforcement vehicles	83	83	80	79	79	79	79	79	74	74
Fire stations	8	8	8	8	6	6	6	6	6	6
Parks, recreation and cultural										
Parks/athletic fields	2	2	2	2	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	88	66	66	66	66	58	58	58	53	53
Sanitary sewers (miles)	60	44	44	44	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, 2007 which collectively comprise the County's basic financial statements and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statement that is more than inconsequential will not be prevented or detected by the County's internal control. **We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs as Items 07-1, 07-2, and 07-3 to be significant deficiencies in internal control over financial reporting.**

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

Internal Control over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. **However, we believe Item 07-1 referred to above 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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as Items 07-4, 07-5, 07-6, and 07-7.**

We noted certain matters that we reported to management of the County in a separate letter dated December 13, 2007.

The County's responses to 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 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
December 13, 2007

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

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

Compliance

We have audited the compliance of the County of Montgomery, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County of Montgomery, Virginia complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

This report is intended solely for the information 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
December 13, 2007

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2007

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, 2007

A. SUMMARY OF AUDIT RESULTS

- 1. The auditor's report expresses an unqualified opinion on the financial statements.
2. Three significant deficiencies relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. 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 the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. The audit disclosed no audit findings relating to major programs.
7. The programs tested as major are:

Table with 2 columns: Name of Program, CFDA #. Rows include Water and Waste Disposal, Food Stamp Administration, Temporary Assistance to Needy Families, Child Care and Development Cluster, Foster Care - Title IV-E, Child Nutrition Cluster, and Special Education Cluster.

- 8. The threshold for distinguishing Type A and B programs was \$ 342,776.
9. The County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

07-2: Compensated Absences (Significant Deficiency)

Condition:

The School's compensated absences were materially overstated.

Recommendation:

Steps should be taken to insure that compensated absences are recorded timely and accurately.

Management's Response:

The auditee concurs.

07-3: Capital Assets (Significant Deficiency)

Condition:

The County and School Board are not capturing all capital asset transactions.

Recommendation:

Steps should be taken to ensure that all capital asset transactions are captured.

Management's Response:

The auditee concurs.

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

None

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

07-4: Submission of Financial Report to the Auditor of Public Accounts by November 30.

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs.

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

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

07-5: Contingency Management Plan – Department of Social Services

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs.

07-6: Special Welfare Accounts – Reconciliation

Condition:

The Department of Social Services did not reconcile monthly special welfare and dedicated accounts with the Treasurer's records.

Recommendation:

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

Management's Response:

The auditee concurs.

07-7: Disclosure Statements

Condition:

Twelve out of forty-six members of County appointed boards and two out of seven School Board members did not file their statements of economic interest by the required deadline. Also noted one County appointed board member out of the forty-six tested who did not submit the required statement.

Recommendation:

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

Management's Response:

The auditee concurs.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2007

Auditor
Reference No.

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

Condition:

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

Current Status:

No similar findings were noted in the 2007 audit.

06-4: Foster Care – CFDA 93.658

Condition:

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

Current Status:

No similar findings were noted in the 2007 audit.