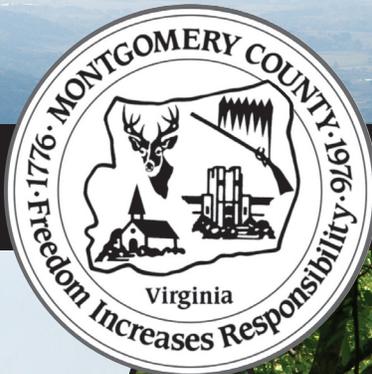


Montgomery County, VA
Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

montgomerycountyva.gov



COUNTY OF MONTGOMERY, VIRGINIA

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Exhibit 1 Statement of Net Assets.....	5
Exhibit 2 Statement of Activities.....	6
Fund Financial Statements	
Exhibit 3 Balance Sheet – Governmental Funds.....	7
Exhibit 4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Cash Basis) – General Fund	11
Exhibit 6 Statement of Net Assets – Proprietary Funds.....	12
Exhibit 7 Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	13
Exhibit 8 Statement of Cash Flows – Proprietary Funds.....	14
Notes to Financial Statements	15
Other Supplementary Information	
Discretely Presented Component Unit – School Board	
Exhibit A-1 Balance Sheet	44
Exhibit A-2 Statement of Revenues, Expenditures, and Changes in Fund Balances	45
Exhibit A-3 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis.....	46
Supporting Schedule	
Schedule 1 Schedule of Expenditures of Federal Awards.....	48

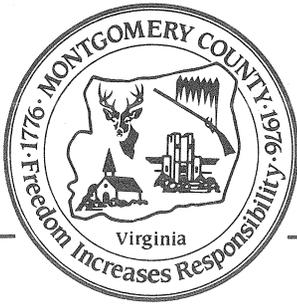
STATISTICAL SECTION

Table 1	Net Assets by Component.....	51
Table 2	Change in Net Assets by Component.....	52
Table 3	Fund Balances – Governmental Funds.....	53
Table 4	Changes in Fund Balances – Governmental Funds	54
Table 5	Assessed Value and Actual Value of Taxable Property	55
Table 6	Principal Property Tax Payers	56
Table 7	Property Tax Levies and Collections.....	57
Table 8	Ratios of Outstanding Debt by Type	58
Table 9	Pledged Revenue Coverage	59
Table 10	Demographic Statistics	60
Table 11	Principal Employers	61
Table 12	Full-Time Equivalent County Government Employees by Function/Program.....	62
Table 13	Operating Indicators by Function/Program.....	63
Table 14	Capital Asset and Infrastructure Statistics by Function/Program	64

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	68
Summary of Compliance Matters	70
Schedule of Findings and Questioned Costs	71

INTRODUCTORY SECTION



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

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

November 26, 2008

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, 2008, 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 various human services agencies 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 88,800 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2000 Census indicates Montgomery County's population increased by 13 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.

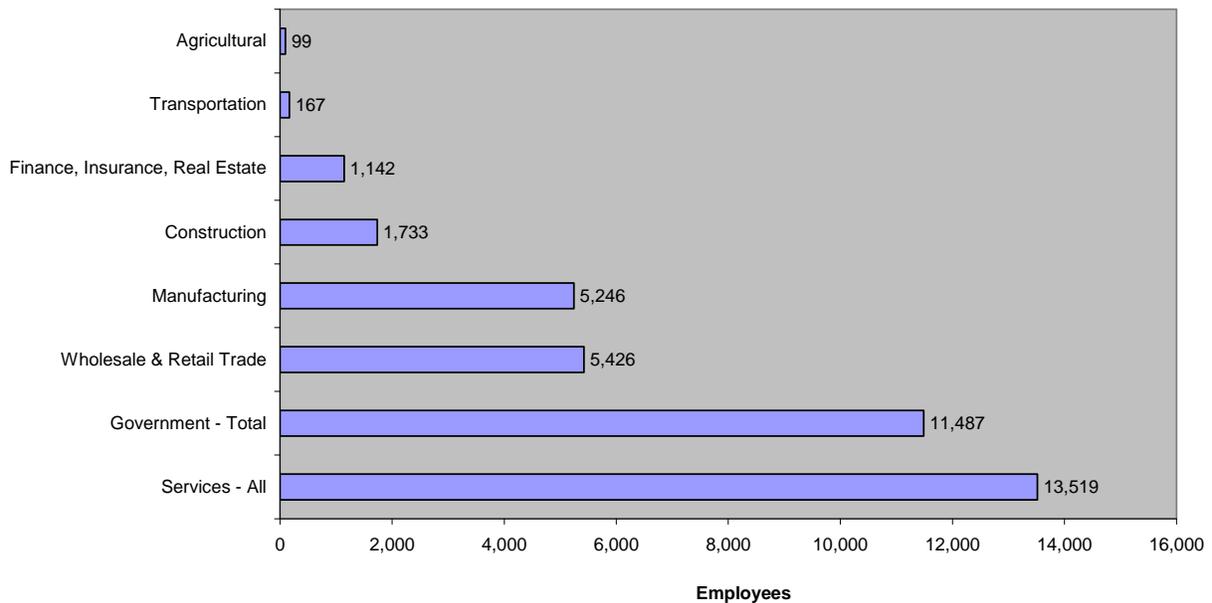
LOCAL ECONOMIC CONDITION AND OUTLOOK

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 2007 and June 2008 was 3.56%. The percentage ranged from a low of 2.9% in September 2007 to a high of 4.8% in June 2008. 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 (1998-2007) averaged 2.9%, 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 higher than the statewide average of 3.0% for 2007, with Montgomery and Floyd Counties reporting the lowest rates of 3.2% and 3.5% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 4.57% unemployment during the same period. Employment within Montgomery County represented 51.32% 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 2007.

**Montgomery County Employment
By Employment Sector**



Averages of Calendar Year 2007

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

Employment growth in 2007 was broad based, covering several economic sectors. The total increase in the number of jobs was 606 across all sectors, resulting in a 1.59% increase over the number of jobs in the previous year. Those areas that experienced growth include services, government, manufacturing, and finance, up 1.88%, 2.60%, 4.77%, and 1.78%, respectively. Wholesale/retail trade, construction, transportation, and agriculture were down in employment from the prior year 1.74%, 2.31%, 21.96%, and 9.17% respectively.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center and Montgomery Regional Hospital, collectively employ over 1,300 employees. The County's largest industrial employer, Alliant Techsystems, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include EchoStar Communications Corporation (Direct Broadcast Satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group (aerospace, transportation, and communications components), which includes Electro-Tec (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 24 buildings housing 140 high-tech companies and employing approximately 2,000 individuals. The majority of the tenants located in the VTCRC are research oriented companies. VTCRC recently announced its Phase II Master Plan which proposes to add 90 acres to the existing 120 acre campus over the next 20 years.

Since 2000, Montgomery County has experienced \$161.11 million in new capital investment (industrial/commercial, non-retail) and the addition of 2,767 related jobs. In FY 2008, New Jersey-based Inorganic Ventures, Inc. announced the relocation of its corporate headquarters and manufacturing facility to the Falling Branch Corporate Park. Inorganic Ventures, Inc. is a chemical Certified Reference Material

(CRM) producer, specializing in the manufacturing of custom inorganic chemical blends and conventional standards. The relocation of Inorganic Ventures, Inc. will provide the County with \$3.03 million in new capital investment and 46 jobs. LacTec USA, a designer and builder of computerized robotic paint delivery systems, also announced the relocation of its Michigan operations to the Christiansburg Industrial Park. Most recently, Schultz-Creehan Holdings, Inc. announced an expansion initiative for its lab and office facilities located in the Virginia Tech Corporate Research Center. Schultz-Creehan is a high-tech engineering firm focused on research and development for the aerospace, defense, medical device and industrial markets. This expansion represents almost \$200 thousand in new capital investment and 17 jobs.

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 1,720 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 and construction of a large "Power Strip" center were both completed in FY 2008. The total cost of the mall project was \$44.7 million. Several major chain stores recently opened in the Power-Strip Center including: Banfield, Bed Bath & Beyond, Best Buy, Old Navy, Olive Garden, Panera Bread, Pet Smart, Staples, Ross Dress for Less and Shoe Carnival. A \$20 million expansion to University Mall has also recently been completed. The University Mall project added approximately 100 thousand square feet of retail and office space to the mall complex, as well as a 400 space parking deck. Construction is currently underway on a town centered development on South Main Street in Blacksburg. The First & Main project will host up to 335,000 square feet of retail space and will cost an estimated \$50 million by its completion. Several national, regional, and local retailers are locating in the First & Main development including: Talbots, Ann Taylor Loft, Coldwater Creek, Books-a-Million, Frank Theatres, Hibbetts Sport and Blue Ridge Mountain Outdoor Sports. A \$50 million redevelopment of the former Red Lion Inn property is currently underway as well. Smith's Landing is a mixed-use development which will include 284 apartments, a 140-room hotel and 5,000 square feet of retail space. Total retail investment in Montgomery County, either under construction or completed during FY 2008, is approximately \$164.7 million.

New construction in the unincorporated portion of the County during FY 2008 was higher than the previous fiscal year, although the second half of the year showed a decline in the number of permits issued. Overall, the number of building permits issued for both residential and commercial /government activities was up by 23.2%. Residential permits saw an increase of 16.62%, while commercial/government building activity was up 325%. The increase in commercial/government building activity is most notably due to expansion activities at the New River Valley Medical Center and the former Life Bible College. The average assessed value of new homes completed in 2007 was approximately \$208,720 compared with the average assessed value for all Montgomery County homes of \$158,958. Due to the national economic slowdown in the residential segment, the County is expecting less new residential growth in 2009. To date, the County has not experienced a significant impact from the national economic downturn.

The Economic Development staff, the Industrial Development Authority (IDA), the Economic Development Commission (EDC), and the Montgomery/Blacksburg/Christiansburg Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity. In FY 2008 alone, the Economic Development Department assisted on ten projects totaling \$18.68 million in new investment and 547 job commitments.

MAJOR INITIATIVES

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

For the Year

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for FY 2008 include:

The 2008-2012 Capital Improvement Program

The Capital Improvement Program (CIP) for fiscal years 2008 through 2012 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 \$221,522,819 and is comprised of County Capital Improvements of \$35.9 million and School Capital Improvements of \$185.6 million. Of the County Capital Improvements, \$35.2 million is dedicated to Public Safety improvements, including \$3.9 million earmarked for Fire and Rescue Capital Equipment.

Montgomery County maintains its strong commitment to capital construction projects. In FY 2008, the Board of Supervisors provided \$847,000 in direct cash contributions to fund County capital projects. Of this \$847,000, \$10,000 was appropriated to complete the Christiansburg-Riner Rescue Station; \$337,000 was provided to assist with the completion of the Blacksburg High School Stadium Addition, and \$500,000 was provided for one-time Fire and Rescue Capital equipment.

As well as the County capital projects, \$2,538,836 or four cents of the FY 08 real estate tax rate was earmarked for debt service related to new school capital construction. A portion of the funds will go toward an elementary school in the Elliston portion of the County. The County and Schools are attempting to find an appropriate tract of land in the Price's Fork area on which to construction another elementary school.

Completed Capital Projects During the Year

Construction was completed in early July 2007 for the 2,844 square foot Rescue Squad substation in the Riner Community of Montgomery County. The substation became fully operational on July 15, 2007, operates under the licenses of Christiansburg Rescue Squad, and is seeking new members from the Riner area. The substation was 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 \$191,395 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 including donations was \$367,875.

In addition to the Christiansburg-Riner Rescue Station, construction was completed on the new Elliston Fire Station located in the Elliston-Lafayette Industrial Park. Built in 1958 to serve the small community of about 2,500 residents, 20 volunteers aged 18 to 60 answered less than 20 fire calls the first year. Today, this community has grown to nearly 10,000 residents with the station's 28 firefighters answering more than 460 emergency calls per year. The new station has 10 fire and rescue vehicles including two boats that will be garaged in the 16,000-square-foot state of the art facility. There are six double bays, a heated

floor that will increase the vehicles' lifespan, bunk rooms, a fitness room, and a full-service kitchen. The facility also has a sophisticated dispatch center. The total cost of this project was just over \$1,670,000.

For the Future

Looking into FY 2009 and beyond, the Board of Supervisors and County staff will pursue several new initiatives in the areas of *public safety and education*.

In August of 2008, the County issued \$77 million in new debt (\$70.9 million for new projects and \$6.1 million for a debt service reserve) for several County and School capital projects. New projects include 2 new elementary schools, a new courthouse, and upgrades to the jail and Sheriff's Office building. Over the next five years, the County plans to issue an additional \$59 million to complete these projects and build a third school. Of this \$130 million issued for projects, approximately \$30 million will be used 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 2009 – FY 2013 Capital Improvement Program (CIP) includes the funding necessary for several new public safety and judicial facilities. The Courthouse Project is designed to 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 addition to the Courthouse project, the County is participating in a new regional jail facility with a 605-bed capacity (805-bed capacity with double bunking), located in Roanoke County to serve Roanoke County, the City of Salem, Montgomery County, and Franklin County. The regional jail is slated to open in March of 2009. The County's local jail will also be renovated, allowing 60 inmates to be housed in the County until they are sentenced by the courts.

The Emergency Services Department is maintaining and preparing to strengthen the mutual aid agreements, both within the County and with surrounding localities. Additionally, landing sites are 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.

As part of the FY 2009 Budget Process, dollars equivalent to one cent of the real estate tax rate (\$656,855) was earmarked as an ongoing source of funding for Fire and Rescue capital equipment.

Education

Cash contributions toward school capital projects in the amount of \$6.3 million were accumulated from earmarking 2 cents from the real estate tax rate for the past three fiscal years. Surplus dollars remaining at year end of \$1.5 million were also added to these funds.

Funds will support the construction of an elementary school in the eastern portion of the County and another elementary school in the Price's Fork community, each with an estimated cost of \$26.9 million. School projects are also being discussed for the Riner and Christiansburg areas of the County.

Department Focus

Montgomery County's Human Resources Department (HR) serves over 600 employees and directs all phases of human resource management for the County. HR is responsible for recruitment, selection, and

retention efforts, along with compensation and benefit programs. The office is the center of employee training programs, also handling employee events, incentive programs, and employee service awards.

Following national trends, the cost of health care and insurance premiums continues to escalate, straining budgets and forcing benefit plan changes. Montgomery County's Human Resources Department is working to address rising costs through an on-site health clinic and a comprehensive Wellness Program for County employees. Both programs are designed to decrease medical claims rates, reduce health insurance premium costs, decrease sick leave usage, and increase overall employee wellness.

The clinic opened in January 2007 and now serves nearly 280 employees. A Nurse Practitioner, working under the direction of a physician, is available during work hours. Because an on-site visit takes an average of 20 minutes compared to a typical 3 to 4 hour off-site visit, lost work time is reduced. Employees enrolled in the County health insurance program and completing a Health Risk Assessment are eligible to participate. The Health Risk Assessment is a proactive approach to health care, allowing for the early identification of high risk medical conditions.

Implemented by Human Resources, the wellness program includes disease management, stress management, mental health promotion, weight loss, and smoking cessation programs. As an incentive for participation in "wellness" activities such as walking and exercising, employees earn dollars in their Health Reimbursement Arrangement or Health Savings Account to defray the cost of deductibles and medical out-of-pocket expenses for employees. In addition, the County supports onsite programs such as Weight Watchers.

The Human Resources Department is committed to ensuring the success of the new health clinic and wellness program, evaluating programs based on a series of performance measurements. Measures include the number of employees enrolled in the health clinic as a percentage of total eligible, employee satisfaction with the clinic and programs, the number and dollar amount of health claims per year, the percentage of employees who improve their health statistics each year, and employee sick leave usage. Overall, the health clinic and wellness program are designed to help to keep the County's health care expenditures under control while at the same time taking care of employees to keep them healthy, happy, and productive.

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, 2008, reflect cash that will not be received or disbursed until fiscal year 2009.

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 \$2.1 million on all deposits for the year ended June 30, 2008.

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, 2007. 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-one 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, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2008**

BOARD OF SUPERVISORS

Annette S. Perkins, Chair
Doug W. Marrs, Vice Chair

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

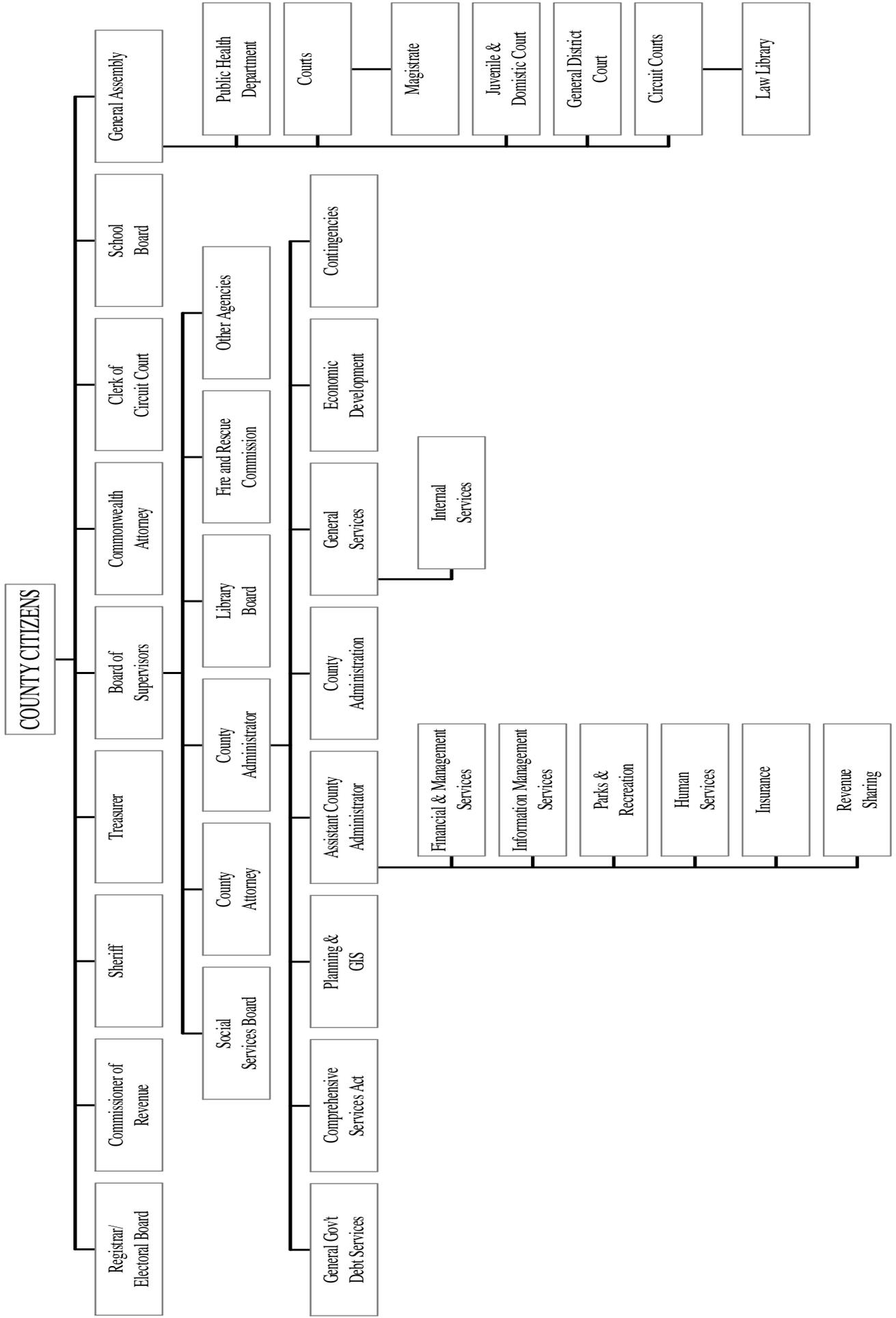
COUNTY ADMINISTRATION

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
Ruth L. Richey	Director of Public Information
Steven M. Sandy	Director of Planning and Inspections
Mitchell B. Haugh	Director of Parks and Recreation
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	Registrar
Jeffrey A. Mersch	Director of Information Management Services

CONSTITUTIONAL OFFICERS

Erica W. Williams	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



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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, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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, individual fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the County's basic financial statements. The individual fund statements and the 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 26, 2008

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, 2008. 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 2008

- Total net assets for governmental activities were \$65 million at June 30, 2008. This figure is based on assets totaling \$169 million and liabilities of \$104 million.
- Total general fund revenues exceeded the final budgeted amount by \$4.8 million or approximately 5.8 percent. This is due to an increase in the real estate tax rate from \$.63 per \$100 of assessed value to \$.71 for taxes due June 5, 2008. 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 \$471,000. Finally, the Montgomery County School Board (the Schools) spent approximately \$3.7 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, 2008 were approximately \$16.1 million.
- Repayment of bonded debt totaled \$12.4 million. This includes a refunding of business-type activity debt of almost \$6.3 million. The remaining reduction of \$6.1 million accounts for the decrease in bonded debt from the previous year.
- Component Unit-School Board net assets were \$7 million at June 30, 2008. Of this amount, \$8 million is invested in capital assets, net of related debt.
- Component Unit-IDA net assets were \$1.8 million at June 30, 2008. Of this amount, \$1.2 million is invested in capital assets, net of related debt.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$21.3 million, or 14.5% of fiscal year 2008 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent. The ratio exceeded the target as the Schools had a remaining appropriation of more than \$3.7 million at June 30. Encumbrances for the school operating fund at year end totaled \$2.4 million. Subsequent to year end the Board of Supervisors appropriated \$3.9 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 11.8%, which is slightly above the target.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is 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	
	2008	2007	2008	2007	2008	2007	2008	2007
Current and other assets	\$64.9	\$63.9	\$1.4	\$1.0	\$66.3	\$64.9	\$19.1	\$15.2
Capital assets	104.5	98.6	21.7	21.9	126.2	120.5	17.2	17.3
Total assets	\$169.4	\$162.5	\$23.1	\$22.9	\$192.5	\$185.4	\$36.3	\$32.5
Long-term liabilities	\$95.8	\$101.5	\$6.8	\$6.7	\$102.6	\$108.2	\$14.4	\$14.3
Other liabilities	8.7	7.6	0.2	0.3	8.9	7.9	13.1	13.1
Total liabilities	\$104.5	\$109.1	\$7.0	\$7.0	\$111.5	\$116.1	\$27.5	\$27.4
Net assets:								
Invested in capital assets, net of related debt	\$29.8	\$19.8	\$15.1	\$15.3	\$44.9	\$35.1	\$6.8	\$7.4
Restricted	5.1	5.0	0.1	1.0	5.2	6.0	4.5	1.2
Unrestricted	30.0	28.6	0.9	(0.4)	30.9	28.2	(2.5)	(3.5)
Total net assets	\$64.9	\$53.4	\$16.1	\$15.9	\$81.0	\$69.3	\$8.8	\$5.1

Governmental Activities

Total net assets shown above for governmental activities are \$64.9 million or \$11.5 million more than in FY 07. Capital assets increased by \$5.9 million resulting from \$9.4 million in capital additions, offset by \$3.5 million in current year depreciation. Of the \$9.4 million of additions, \$7.4 million in projects were added to construction in progress, primarily for the Blacksburg High School Athletic Stadium, \$4.6 million; preliminary work and land purchase for the new Elliston Elementary School, \$1.3 million; and school air conditioning projects, \$1 million. Construction of the new Elliston Fire Station, \$900,000; the purchase of a new tanker truck, \$300,000; a new roll off trash truck, \$100,000; and seven deputy vehicles, \$150,000; comprise the majority of the remaining additions. 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 \$16.1 million, a very slight increase \$0.17 million from fiscal year 2007.

Component Units

Total net assets shown above for component units are \$8.8 million for FY 08, an increase from FY 07 of \$3.7 million. In FY 08 the Industrial Development Authority (IDA) entered into agreements with the Town of Blacksburg (Town) and Blacksburg Motor Partners, LP (LP) to facilitate the rehabilitation of a building for future use by the Town. As part of this agreement, the Town contributed \$3.3 million to the IDA who then loaned the funds to the LP. This resulted in an additional IDA receivable from the LP of \$3.3 million at June 30. See Note 14 for additional detail of this transaction.

Summary of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues								
Program revenues:								
Charges for services	\$ 2.8	\$ 2.3	\$ 3.2	\$ 3.1	\$ 6.0	\$ 5.4	\$ 4.7	\$ 3.7
Operating grants and contributions	15.4	14.3	-	-	15.4	14.3	58.3	56.5
Capital grants and contributions	-	-	0.7	0.4	0.7	0.4	-	-
General revenues:								
Property taxes	54.7	48.4	-	-	54.7	48.4	-	-
Other taxes	11.2	10.7	-	-	11.2	10.7	-	-
Payments from Montgomery County	-	-	-	-	-	-	34.2	29.3
Grants and contributions not restricted to specific purposes	5.2	5.4	-	-	5.2	5.4	-	-
Other	2.0	2.9	-	0.1	2.0	3.0	3.4	0.1
Total revenues	91.3	84.0	3.9	3.6	95.2	87.6	100.6	89.6
Expenses								
General government	7.1	6.6	-	-	7.1	6.6	-	-
Judicial administration	2.4	2.2	-	-	2.4	2.2	-	-
Public safety	11.2	9.6	-	-	11.2	9.6	-	-
Public works	4.6	4.5	-	-	4.6	4.5	-	-
Health and welfare	9.8	9.1	-	-	9.8	9.1	-	-
Education	35.9	30.5	-	-	35.9	30.5	95.4	89.5
Parks, recreation and cultural	2.8	2.8	-	-	2.8	2.8	-	-
Community development	1.3	1.5	-	-	1.3	1.5	1.5	1.1
Water	-	-	2.0	1.9	2.0	1.9	-	-
Waste water	-	-	1.7	1.8	1.7	1.8	-	-
Interest on long-term debt	4.7	5.0	-	-	4.7	5.0	-	-
Total expenses	79.8	71.8	3.7	3.7	83.5	75.5	96.9	90.6
Change in net assets	\$ 11.5	\$ 12.2	\$ 0.2	\$ (0.1)	\$ 11.7	\$ 12.1	\$ 3.7	\$ (1.0)
Net assets-beginning	53.4	41.2	15.9	16.0	69.3	57.2	5.1	6.1
Net assets-endindg	\$ 64.9	\$ 53.4	\$ 16.1	\$ 15.9	\$ 81.0	\$ 69.3	\$ 8.8	\$ 5.1

Revenues

For the fiscal year ended June 30, 2008, revenues from governmental funds totaled \$91 million, an increase of \$7 million. Property taxes increased \$6.3 million over the previous year, as the real estate tax rate increased from \$0.63 per \$100 of assessed value for calendar year 2007 to \$0.71 for calendar year 2008. This resulted in an unbudgeted increase with June 2008 real estate tax billing of approximately \$2.7 million. Combined with the increase related to the December 2007 real estate collection of \$1.9 million, the total increase related to an increase in the real estate tax rate was \$4.6 million. Personal property tax revenue increased by \$400,000 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 fairly constant at \$3.2 million. While water and wastewater rates increased approximately 14 percent and 10.5 percent respectively, fees related to new connections decreased more than \$225,000 due to the timing of new developments requiring connections.

Component unit revenues total \$100.6 million, including a \$34.2 million transfer from the general fund. GASB 34 requires that school debt service is included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$7 million, which would have brought the total transfer to \$41.2 million under the previous method of accounting. The revenues also include the \$3.3 million contribution from the Town of Blacksburg discussed previously.

Expenses

Expenses for governmental activities totaled \$79.8 million in fiscal year 2008, an increase of \$7 million from the previous year. A new compensation and classification plan was implemented in FY 06. The third phase of implementation resulted in an increase in salary and benefit expenses of \$180,000 in the current year. Additionally, \$1.1 million was used to provide a five percent salary increase on July 1, and a one percent increase on each employee's anniversary date. Montgomery County's ongoing commitment to education is demonstrated through the increase \$5.4 million in funding from 2007. Additionally, its commitment to public safety is evident by the increase of \$1.6 million which was used for the compensation plan mentioned above, as well as, an increase of nearly \$500,000 to cover the cost of outsourcing inmates. This was necessary to reduce the number of inmates housed at the County's jail to a manageable number.

Expenses for business-type activities remained steady at \$3.7 million. Water fund expenses increased approximately \$100,000, while Waste Water fund expenditures decreased approximately \$100,000.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$34.2 million to the operation of the Schools. Depreciation expense related to the Schools totaled \$1.7 million for total education expense of \$35.9 million. This amount represented about 45% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$41.2 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 74 percent of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2008.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2008, the governmental funds reflect a combined fund balance of \$57.0 million, unchanged from June 30, 2007.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2008 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 61.2	\$ 61.3	\$ 65.5
Intergovernmental	18.0	20.0	19.0
Other	3.5	3.8	5.3
Total	<u>82.7</u>	<u>85.1</u>	<u>89.8</u>
Expenditures and transfers	<u>82.9</u>	<u>93.8</u>	<u>85.8</u>
Change in fund balance	\$ (0.2)	\$ (8.7)	\$ 4.0

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants were received and budgeted during the fiscal year to account for the \$2 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 2007 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 2008 real estate taxes. The real estate tax rate was increased from \$0.63 per \$100 of assessed value to \$0.71 effective with the June 5, 2008 tax collections. This increase, which totaled approximately \$2.6 million, was not budgeted. Additional unbudgeted growth of approximately \$1.4 million occurred in public service corporation property taxes, personal property and recordation taxes. Budgeted intergovernmental revenue exceeded the actual by approximately \$1 million. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Expenditures and transfers actual ending balances were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was significantly lower than the budgeted amount. This is due to the lower than anticipated amount of school expenditures during the year as previously discussed, as well as the timing of payments by the schools at year end. The County did transfer the balance of these funds to the Schools in fiscal year 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, 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	
	2008	2007	2008	2007	2008	2007	2008	2007
Non-depreciable assets								
Land	\$ 9.1	\$ 8.4	\$ 0.3	\$ 0.3	\$ 9.4	\$ 8.7	\$ 0.4	\$ 0.4
Construction in progress	8.1	1.9	-	-	8.1	1.9	0.2	0.1
Depreciable capital assets								
Infrastructure	-	-	31.5	30.9	31.5	30.9	-	-
Buildings and improvements	103.7	102.2	0.1	0.1	103.8	102.3	40.3	40.2
Machinery and equipment	14.1	13.5	0.6	0.5	14.7	14.0	11.8	11.2
Accumulated depreciation	(30.5)	(27.5)	(10.8)	(10.0)	(41.3)	(37.5)	(35.5)	(34.7)
Total	\$ 104.5	\$ 98.5	\$ 21.7	\$ 21.8	\$ 126.2	\$ 120.3	\$ 17.2	\$ 17.2

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

	Balance June 30, 2007	Net Additions/ (Deletions)	Balance June 30, 2008
Non-depreciable assets			
Land	\$ 9.1	\$ 0.7	\$ 9.8
Construction in progress	2.0	6.3	8.3
Depreciable capital assets			
Infrastructure	30.9	0.6	31.5
Buildings and improvements	142.5	1.6	144.1
Machinery and equipment	25.2	1.3	26.5
Accumulated depreciation	(72.2)	(4.6)	(76.8)
Total	\$ 137.5	\$ 5.9	\$ 143.4

Governmental Activities

In fiscal year 2008, land was purchased and construction began on the Blacksburg High School athletic field with a cost of \$4.6 million. Additionally, preliminary work and land purchase for the Elliston Elementary School resulted in capital asset increases of \$1.3 million. School air conditioning projects added another \$1 million in capital assets.

The County's capital improvement fund in fiscal year 2008 included funding of approximately \$19.5 million for County capital spending and approximately \$6.2 million for School capital items. The most significant items include renovations to the County Courthouse, information technology, fire and rescue equipment, school athletic fields, preliminary work on two new elementary schools 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, 2008, in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 18.3	\$ 20.0	\$ -	\$ -	\$ 18.3	\$ 20.0
Lease revenue bonds	51.3	54.7	-	-	51.3	54.7
Literary loans	3.5	3.8	-	-	3.5	3.8
Refunding bonds	21.2	21.7	-	-	21.2	21.7
Notes payable	-	-	-	0.1	-	0.1
Revenue bonds	-	-	6.6	6.5	6.6	6.5
Total	\$ 94.3	\$ 100.2	\$ 6.6	\$ 6.6	\$ 100.9	\$ 106.8

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, 2008, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is, as of September 2008, 4.1 percent, which is a slight increase from the rate a year ago which was 3.07 percent. This compares favorably to the state's average unemployment rate of 4.2 percent. Inflationary trends in the region also compare favorably to national indices.

The Board of Supervisors raised the tax rate from \$0.63 per \$100 of assessed value for calendar year 2007 to \$0.71 for 2008. 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, 2008

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 32,760,462	\$ 500,355	\$ 33,260,817	\$ 1,902,520	\$ 551,558	\$ 35,714,895
Investments (Note 4)	-	-	-	-	43,941	43,941
Receivables, net (Note 5)	1,806,850	564,427	2,371,277	-	-	2,371,277
Due from primary government	-	-	-	4,167,916	-	4,167,916
Due from other governmental units (Note 6)	3,004,864	-	3,004,864	2,515,956	-	5,520,820
Internal balances (Note 7)	7,615	(7,615)	-	-	-	-
Prepays	419,323	10,699	430,022	679,259	-	1,109,281
Inventories	-	69,484	69,484	137,503	5,440,167	5,647,154
Advances to component unit (Note 14)	5,329,845	-	5,329,845	-	-	5,329,845
Restricted assets:						
Cash and cash equivalents (Note 4)	303,464	195,130	498,594	43,258	-	541,852
Investments (Note 4)	19,595,128	-	19,595,128	-	-	19,595,128
Note Receivable (Note 14)	-	-	-	-	3,325,000	3,325,000
Notes receivable (Note 14)	1,178,994	-	1,178,994	-	269,001	1,447,995
Debt issuance costs, net	537,106	73,100	610,206	-	25,500	635,706
Capital assets: (Note 8)			-			
Non-depreciable	17,208,565	365,405	17,573,970	536,780	15,126	18,125,876
Depreciable, net	87,244,800	21,316,302	108,561,102	7,477,566	9,145,994	125,184,662
Total assets	169,397,016	23,087,287	192,484,303	17,460,758	18,816,287	228,761,348
LIABILITIES						
Accounts payable and accrued expenses	1,615,568	158,254	1,773,822	981,588	12,827	2,768,237
Accrued payroll and related liabilities	67,509	-	67,509	6,628,608	-	6,696,117
Accrued interest payable	1,814,176	8,374	1,822,550	-	-	1,822,550
Amounts held for others	303,465	-	303,465	43,258	-	346,723
Advances from primary government (Note 14)	-	-	-	-	5,329,845	5,329,845
Due to other governmental units (Note 6)	477,894	-	477,894	-	-	477,894
Due to component unit	4,167,916	-	4,167,916	-	-	4,167,916
Unearned revenue (Note 5)	235,391	-	235,391	-	46,292	281,683
Customer deposits	-	30,970	30,970	-	50,000	80,970
Long-term liabilities: (Note 9)						
Due within one year	7,655,738	262,353	7,918,091	1,965,000	260,801	10,143,892
Due in more than one year	88,133,812	6,527,594	94,661,406	842,658	11,291,813	106,795,877
Total liabilities	104,471,469	6,987,545	111,459,014	10,461,112	16,991,578	138,911,704
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	28,639,210	15,138,853	43,778,063	8,014,346	(1,212,500)	50,579,909
Restricted:						
Debt service	5,112,996	-	5,112,996	-	-	5,112,996
Unexpended grant proceeds	-	43,160	43,160	-	1,181,431	1,224,591
Note receivable (Note 14)	-	-	-	-	3,325,000	3,325,000
Unrestricted	31,173,341	917,729	32,091,070	(1,014,700)	(1,469,222)	29,607,148
Total net assets (deficit)	\$ 64,925,547	\$ 16,099,742	\$ 81,025,289	\$ 6,999,646	\$ 1,824,709	\$ 89,849,644

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, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Units			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			School Board	Industrial Development Authority	Total		
					Governmental Activities	Business-type Activities	Total					
Primary Government:												
Governmental activities:												
General government administrator	\$ 7,066,410	\$ 787,461	\$ 525,745	\$ -	\$ (5,753,204)	\$ -	\$ -	\$ -	\$ -	\$ (5,753,204)		
Judicial administration	2,438,896	468,872	1,146,768	-	(823,256)	-	-	-	-	(823,256)		
Public safety	11,202,874	975,375	5,469,606	-	(4,757,893)	-	-	-	-	(4,757,893)		
Public works	4,567,363	105,007	30,355	-	(4,432,001)	-	-	-	-	(4,432,001)		
Health and welfare	9,808,845	197,124	7,404,546	-	(2,207,175)	-	-	-	-	(2,207,175)		
Education	35,899,972	-	222,509	-	(35,677,463)	-	-	-	-	(35,677,463)		
Parks, recreational, and cultural	2,779,839	275,723	595,358	-	(1,908,758)	-	-	-	-	(1,908,758)		
Community development	1,259,379	31,601	8,112	-	(1,219,666)	-	-	-	-	(1,219,666)		
Interest on long-term debt	4,696,145	-	-	-	(4,696,145)	-	-	-	-	(4,696,145)		
Total governmental activities	79,719,723	2,841,163	15,402,999	-	(61,475,561)	-	-	-	-	(61,475,561)		
Business-type activities:												
Water	2,069,891	1,811,280	-	603,527	-	344,916	-	-	-	344,916		344,916
Wastewater	1,660,687	1,389,060	-	87,687	-	(183,940)	-	-	-	(183,940)		(183,940)
Total business-type activities	3,730,578	3,200,340	-	691,214	-	160,976	-	-	-	160,976		160,976
Total primary government	\$ 83,450,301	\$ 6,041,503	\$ 15,402,999	\$ 691,214	\$ (61,475,561)	\$ 160,976	\$ -	\$ -	\$ -	\$ (61,314,585)	\$ -	\$ (61,314,585)
Component Units:												
School Board	\$ 95,370,363	\$ 3,192,512	\$ 58,266,444	\$ -	\$ -	\$ -	\$ (33,911,407)	\$ -	\$ -	\$ (33,911,407)	\$ -	\$ (33,911,407)
Industrial Development Authority	1,501,564	1,499,480	-	-	-	-	-	(2,084)	(2,084)	-	-	(2,084)
Total component units	\$ 96,871,927	\$ 4,691,992	\$ 58,266,444	\$ -	\$ -	\$ -	\$ (33,911,407)	\$ (2,084)	\$ (2,084)	\$ (33,913,491)	\$ -	\$ (33,913,491)
General Revenues:												
General property taxes					54,666,779					54,666,779		54,666,779
Sales and use tax					7,382,254					7,382,254		7,382,254
Utility tax					1,786,988					1,786,988		1,786,988
Motor vehicle license tax					579,305					579,305		579,305
Other local taxes					1,359,341					1,359,341		1,359,341
Intergovernmental revenue, unrestricted					5,216,412					5,216,412		5,216,412
Investment earnings, unrestricted					1,213,008		10,658			1,223,666	26,273	1,277,804
Investment earnings, restricted for capital projects					834,256		-			834,256		834,256
Contribution from Town of Blacksburg (Note 14)					-		-			-	3,325,000	3,325,000
Payments from Montgomery County					-		-			-	34,236,711	34,236,711
Total general revenues					73,038,343		10,658			73,049,001	34,264,576	110,664,850
Change in net assets					11,562,782		171,634			11,734,416	353,169	15,436,774
Net assets – beginning, as restated (Note 20)					53,362,765		15,928,108			69,290,873	6,646,477	74,412,870
Net assets – ending					\$ 64,925,547		\$ 16,099,742			\$ 81,025,289	\$ 6,999,646	\$ 89,849,644

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General</u>	<u>County Capital Improvements</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 27,352,205	\$ 5,408,257	\$ 32,760,462
Receivables, net	1,806,850	-	1,806,850
Due from other governmental units	3,004,864	-	3,004,864
Advances to other funds	7,615	-	7,615
Advances to component unit	5,329,845	-	5,329,845
Notes receivable	1,178,994	-	1,178,994
Restricted assets:			
Cash and cash equivalents	303,464	-	303,464
Investments	-	19,595,128	19,595,128
Total assets	<u>\$ 38,983,837</u>	<u>\$ 25,003,385</u>	<u>\$ 63,987,222</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 623,888	\$ 991,680	\$ 1,615,568
Accrued payroll and related liabilities	67,509	-	67,509
Due to other governmental units	477,894	-	477,894
Due to component unit	4,167,916	-	4,167,916
Deferred revenue (Note 5)	816,529	-	816,529
Amounts held for others	303,465	-	303,465
Total liabilities	<u>6,457,201</u>	<u>991,680</u>	<u>7,448,881</u>
Fund Balances:			
Reserved (Note 15)	7,486,334	4,191,510	11,677,844
Unreserved, reported in:			
General fund, designated (Note 15)	3,690,312	-	3,690,312
County capital improvements, designated (Note 15)	-	19,820,195	19,820,195
General fund, undesignated	21,349,990	-	21,349,990
Total fund balances	<u>32,526,636</u>	<u>24,011,705</u>	<u>56,538,341</u>
Total liabilities and fund balances	<u>\$ 38,983,837</u>	<u>\$ 25,003,385</u>	<u>\$ 63,987,222</u>

(Continued)

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

COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

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

Ending fund balance – governmental funds		\$ 56,538,341
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		104,453,365
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		419,323
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		581,138
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.		1,951,178
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-term debt, including premium	\$ (94,556,447)	
Landfill closure/post-closure liability	(525,066)	
Compensated absences	(2,122,109)	
Accrued interest payable	(1,814,176)	
	<u>(99,017,798)</u>	<u>(99,017,798)</u>
Net assets of governmental activities		<u>\$ 64,925,547</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 54,403,295	\$ -	\$ 54,403,295
Other local taxes	11,107,888	-	11,107,888
Permits, privilege fees and regulatory licenses	729,667	-	729,667
Fines and forfeitures	95,562	-	95,562
Revenue from use of money and property	1,213,008	834,256	2,047,264
Charges for services	862,222	-	862,222
Recovered costs	2,200,022	5,887	2,205,909
Intergovernmental	19,567,213	-	19,567,213
Total revenues	<u>90,178,877</u>	<u>840,143</u>	<u>91,019,020</u>
EXPENDITURES			
Current operating:			
General government administration	7,015,626	-	7,015,626
Judicial administration	2,438,012	-	2,438,012
Public safety	10,535,822	-	10,535,822
Public works	3,701,378	-	3,701,378
Health and welfare	9,792,247	-	9,792,247
Education	34,291,547	-	34,291,547
Parks, recreation and cultural	2,764,351	-	2,764,351
Community development	1,255,640	-	1,255,640
Debt service:			
Principal retirement	5,951,191	-	5,951,191
Interest and fiscal charges	4,675,570	-	4,675,570
Capital projects	-	9,038,054	9,038,054
Total expenditures	<u>82,421,384</u>	<u>9,038,054</u>	<u>91,459,438</u>
Excess (deficiency) of revenues over expenditures	<u>7,757,493</u>	<u>(8,197,911)</u>	<u>(440,418)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	4,460,735	4,460,735
Transfers out	(4,460,735)	-	(4,460,735)
Total other financing sources (uses)	<u>(4,460,735)</u>	<u>4,460,735</u>	<u>-</u>
Net change in fund balances	<u>3,296,758</u>	<u>(3,737,176)</u>	<u>(440,418)</u>
FUND BALANCES AT JULY 1	<u>29,229,878</u>	<u>27,748,881</u>	<u>56,978,759</u>
FUND BALANCES AT JUNE 30	<u>\$ 32,526,636</u>	<u>\$ 24,011,705</u>	<u>\$ 56,538,341</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

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 \$ (440,418)

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 (\$3,462,798) and the loss on disposals (\$37,845) are less than capital outlay (\$9,417,632) in the current period. 5,916,989

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 263,486

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	1,807,971	
Lease revenue bonds	3,379,157	
Literary fund loans	254,000	
Refunding bonds	<u>510,063</u>	
		5,951,191

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	21,869	
Amortization of deferred amounts	(110,188)	
Interest expense	<u>106,283</u>	
		(20,575)

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. (107,891)

Change in net assets of governmental activities \$ 11,562,782

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, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 50,729,254	\$ 50,751,730	\$ 54,521,202	\$ 3,769,472
Other local taxes	10,529,318	10,536,955	11,024,687	487,732
Permits, privilege fees and regulatory licenses	704,668	747,048	728,959	(18,089)
Fines and forfeitures	190,000	190,000	97,844	(92,156)
Revenue from use of money and property	970,000	970,000	1,213,008	243,008
Charges for services	623,519	878,321	868,216	(10,105)
Recovered costs	1,036,245	1,300,989	2,573,611	1,272,622
Intergovernmental	17,926,057	19,676,003	18,797,055	(878,948)
Total revenues	<u>82,709,061</u>	<u>85,051,046</u>	<u>89,824,582</u>	<u>4,773,536</u>
EXPENDITURES				
Current operating:				
General government administration	7,037,522	7,646,245	6,970,860	675,385
Judicial administration	2,297,452	2,701,209	2,576,588	124,621
Public safety	9,581,089	11,288,823	10,509,807	779,016
Public works	4,016,609	4,192,538	3,794,611	397,927
Health and welfare	9,255,452	10,138,379	9,371,594	766,785
Education	33,643,358	37,952,002	33,862,073	4,089,929
Parks, recreation, and cultural	2,472,703	3,111,414	2,782,094	329,320
Community development	1,327,797	1,483,634	1,261,230	222,404
Debt service:				
Principal retirement	5,865,708	5,883,971	5,951,191	(67,220)
Interest and fiscal charges	4,903,496	4,885,233	4,230,910	654,323
Total expenditures	<u>80,401,186</u>	<u>89,283,448</u>	<u>81,310,958</u>	<u>7,972,490</u>
Excess (deficiency) of revenues over expenditures	<u>2,307,875</u>	<u>(4,232,402)</u>	<u>8,513,624</u>	<u>12,746,026</u>
OTHER FINANCING USES:				
Transfers out	<u>(2,538,836)</u>	<u>(4,460,735)</u>	<u>(4,460,735)</u>	<u>-</u>
Total other financing uses	<u>(2,538,836)</u>	<u>(4,460,735)</u>	<u>(4,460,735)</u>	<u>-</u>
Net change in fund balances	<u>\$ (230,961)</u>	<u>\$ (8,693,137)</u>	<u>\$ 4,052,889</u>	<u>\$ 12,746,026</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 500,355	\$ -	\$ 500,355
Receivables, net	324,063	240,364	564,427
Due from other funds	278,711	-	278,711
Prepays	5,708	4,991	10,699
Inventories	69,212	272	69,484
Deferred bond costs	1,065	1,919	2,984
Total current assets	<u>1,179,114</u>	<u>247,546</u>	<u>1,426,660</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	74,130	121,000	195,130
Deferred bond costs	25,017	45,099	70,116
Capital assets:			
Non-depreciable	322,389	43,016	365,405
Depreciable, net	11,591,093	9,725,209	21,316,302
Total noncurrent assets	<u>12,012,629</u>	<u>9,934,324</u>	<u>21,946,953</u>
Total assets	<u>13,191,743</u>	<u>10,181,870</u>	<u>23,373,613</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	62,415	95,839	158,254
Accrued interest payable	5,102	3,272	8,374
Due to other funds	7,615	278,711	286,326
Current portion of noncurrent liabilities	125,455	136,898	262,353
Total current liabilities	<u>200,587</u>	<u>514,720</u>	<u>715,307</u>
Noncurrent liabilities:			
Customer deposits	18,540	12,430	30,970
Due in more than one year	3,919,776	2,607,818	6,527,594
Total noncurrent liabilities	<u>3,938,316</u>	<u>2,620,248</u>	<u>6,558,564</u>
Total liabilities	<u>4,138,903</u>	<u>3,134,968</u>	<u>7,273,871</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,937,842	7,201,011	15,138,853
Restricted:			
Unexpended grant proceeds	43,160	-	43,160
Unrestricted	1,071,838	(154,109)	917,729
Total net assets	<u>\$ 9,052,840</u>	<u>\$ 7,046,902</u>	<u>\$ 16,099,742</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,530,363	\$ -	\$ 1,530,363
Wastewater revenues	-	1,213,050	1,213,050
Penalties and reconnection charges	28,244	17,203	45,447
Fees	192,429	81,166	273,595
Miscellaneous	10,166	7,053	17,219
Total operating revenues	<u>1,761,202</u>	<u>1,318,472</u>	<u>3,079,674</u>
OPERATING EXPENSES			
Salaries and wages	395,195	337,395	732,590
Employee benefits	158,831	133,722	292,553
Utilities and telephone	28,181	49,690	77,871
Water and wastewater services	530,288	415,538	945,826
Operating supplies, fees, permits	5,234	31,651	36,885
Professional services	110,344	17,810	128,154
Repairs and maintenance	169,247	88,918	258,165
Insurance	18,616	17,073	35,689
Vehicle supplies and miscellaneous	32,266	21,616	53,882
Office supplies and miscellaneous	37,086	11,656	48,742
Depreciation	401,979	412,942	814,921
Total operating expenses	<u>1,887,267</u>	<u>1,538,011</u>	<u>3,425,278</u>
Operating loss	<u>(126,065)</u>	<u>(219,539)</u>	<u>(345,604)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	10,033	625	10,658
Federal grant	158,434	-	158,434
Gain on sale of assets	251	985	1,236
Facility fees	49,827	69,603	119,430
Interest expense	(182,624)	(122,676)	(305,300)
Total nonoperating revenues (expenses)	<u>35,921</u>	<u>(51,463)</u>	<u>(15,542)</u>
Loss before contributions	(90,144)	(271,002)	(361,146)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	<u>445,093</u>	<u>87,687</u>	<u>532,780</u>
Change in net assets	354,949	(183,315)	171,634
NET ASSETS AT JULY 1, as restated (Note 20)	<u>8,697,891</u>	<u>7,230,217</u>	<u>15,928,108</u>
NET ASSETS AT JUNE 30	<u>\$ 9,052,840</u>	<u>\$ 7,046,902</u>	<u>\$ 16,099,742</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Business-type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,706,097	\$ 1,289,938	\$ 2,996,035
Payments to suppliers	(880,722)	(708,873)	(1,589,595)
Payments to employees	(528,756)	(451,349)	(980,105)
Payments to County for financial services	(97,274)	-	(97,274)
Net cash provided by operating activities	<u>199,345</u>	<u>129,716</u>	<u>329,061</u>
NON-CAPITAL FINANCING ACTIVITIES			
Interfund borrowing	<u>97,783</u>	<u>(97,783)</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Bond issuance costs	(26,082)	(47,018)	(73,100)
Acquisition and construction of capital assets	(203,934)	-	(203,934)
Proceeds from sale of capital assets	251	985	1,236
Facility fee payments from customers	49,827	69,603	119,430
Proceeds from federal grant	271,318	-	271,318
Proceeds from indebtedness	3,975,640	2,524,839	6,500,479
Principal payments on debt	(48,801)	(78,700)	(127,501)
Principal payments on debt from current refunding	(3,916,062)	(2,378,316)	(6,294,378)
Interest payments on debt	(195,098)	(121,520)	(316,618)
Net cash used in capital and related financing activities	<u>(92,941)</u>	<u>(30,127)</u>	<u>(123,068)</u>
INVESTING ACTIVITIES			
Interest received	<u>10,033</u>	<u>625</u>	<u>10,658</u>
Net increase in cash and cash equivalents	214,220	2,431	216,651
CASH AND CASH EQUIVALENTS			
Beginning at July 1	<u>360,265</u>	<u>118,569</u>	<u>478,834</u>
Ending at June 30	<u>\$ 574,485</u>	<u>\$ 121,000</u>	<u>\$ 695,485</u>
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 500,355	\$ -	\$ 500,355
Cash and cash equivalents, restricted	74,130	121,000	195,130
	<u>\$ 574,485</u>	<u>\$ 121,000</u>	<u>\$ 695,485</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (126,065)	\$ (219,539)	\$ (345,604)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	401,979	412,942	814,921
(Increase) decrease in:			
Accounts receivable	(57,615)	(30,434)	(88,049)
Prepays	(1,071)	(334)	(1,405)
Inventory	(55,480)	5	(55,475)
(Decrease) increase in:			
Accounts payable	9,274	(54,592)	(45,318)
Advances payable for operating items	543	-	543
Accrued payroll and related liabilities	25,270	19,768	45,038
Customer deposits	2,510	1,900	4,410
Net cash provided by operating activities	<u>\$ 199,345</u>	<u>\$ 129,716</u>	<u>\$ 329,061</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	<u>\$ 455,093</u>	<u>\$ 87,687</u>	<u>\$ 542,780</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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, 2008

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, 2008, the County contributed \$136,915 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, 2008, the County paid \$50,000 toward operations of the Authority.

Montgomery Regional Solid Waste Authority

The County is a member of the Montgomery Regional Solid Waste Authority (the "Waste Authority"), which was created by a joint resolution by the County, the Town of Blacksburg, the Town of Christiansburg, and Virginia Tech. The Waste Authority is governed by a five member board whereby the governing body of each member jurisdiction appoints one board member and all jurisdictions jointly appoint a fifth member. The Waste Authority, which began operation in August 1995, operates a sanitary landfill and recycling facility. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. All Waste Authority operations are financed by tipping fees and the individual jurisdictions are not liable for the debt of the Waste Authority. The remaining life of the landfill is estimated at two years, and the Waste Authority has negotiated with an adjacent authority for shared use of a new permitted landfill with an anticipated operating life of 30 years. For the year ended June 30, 2008, the County paid \$726,716 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, 2008, the County paid \$14,821 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 2008.

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, 2008

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, which 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, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Fund Equity

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

Receivables

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

Inventories

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

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets

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

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

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

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

Compensated Absences

County and School Board employees are granted a specified number of days of leave with pay each year. Amounts recorded reflect unused vacation and compensatory leave, and the amount of sick leave payable upon termination including applicable employer related taxes, in accordance with respective policies. The cost of accumulated vacation and sick leave pay is accounted for as a liability in the government-wide financial statements and proprietary fund type statements. A liability for these amounts is reported in the governmental funds when the amounts 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, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period but do not recognize long-term liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Repayments and issuance costs are reported as debt service expenditures.

Encumbrances

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

Estimates

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

Net Assets/Fund Equity

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

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

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Budgetary Information (Continued)

- Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- The Appropriations Resolution places legal restrictions on expenditures at the organizational level. Each organization represents a major County function, such as County Administration, Financial and Management Services, Information Management Services, etc. Only the Board of Supervisors can revise the appropriation for each fund and function. The County Administrator may amend the budget within organizations and the School Board is authorized to transfer budgeted amounts within the school system's major categories, which include administration, instruction, attendance, health, etc. School system revisions between these major categories requires approval by the Board of Supervisors.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Project Fund. Program and project budgets are utilized for the Capital Projects Fund where funds remaining at the end of the year are reappropriated each year until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- Appropriations lapse on June 30 for all County units. The Board of Supervisors approved additional General Fund appropriations of \$8,471,176 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)	\$ 4,052,889	\$ 154,551	\$ 216,707
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2008	10,511,639	6,623,513	-
June 30, 2007	(10,813,958)	(5,965,756)	-
Inventory:			
June 30, 2008	-	-	137,503
June 30, 2007	-	-	(117,563)
Accounts, salaries and other amounts payable to other entities/funds:			
June 30, 2008	(5,337,207)	(7,399,673)	(210,523)
June 30, 2007	4,883,395	6,642,714	213,030
Net change in fund balance (GAAP basis)	<u>\$ 3,296,758</u>	<u>\$ 55,349</u>	<u>\$ 239,154</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 95,447,299
Principal and other debt service expenses included in primary Government (Exhibit 4)	7,033,343
Total expenditures for school activities	\$ 102,480,642

Note 4. Deposits and Investments

Deposits

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

Investments

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

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 4. Deposits and Investments (Continued)

Investments (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 33,759,411	NA	63.27%
SNAP	14,482,132	AAA	27.15
Money market accounts	<u>5,112,996</u>	AAAm	<u>9.58</u>
Total	<u>\$ 53,354,539</u>		<u>100.00%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,945,778</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. The County adheres to state statutes when evaluating credit risk on investments.

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. The County has no formal policy in regards to interest rate risk.

Custodial Credit Risk

As required by the Code of Virginia, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the County's investments 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, 2008**

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	\$ 33,260,817	\$ 1,902,520
Investments, restricted	19,595,128	-
Cash and cash equivalents, restricted	<u>498,594</u>	<u>43,258</u>
	<u>\$ 53,354,539</u>	<u>\$ 1,945,778</u>

Restricted Amounts

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

Note 5. Receivables

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Receivables				
Taxes	\$ 2,188,386	\$ -	\$ -	\$ 2,188,386
Accounts	<u>108,506</u>	<u>339,063</u>	<u>252,364</u>	<u>699,933</u>
Gross receivables	2,296,892	339,063	252,364	2,888,319
Less:				
Allowance for uncollectibles	<u>(490,042)</u>	<u>(15,000)</u>	<u>(12,000)</u>	<u>(517,042)</u>
Net total receivables	<u>\$ 1,806,850</u>	<u>\$ 324,063</u>	<u>\$ 240,364</u>	<u>\$ 2,371,277</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 22% of the total taxes receivable and is based on historical collection rates.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 5. Receivables (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	\$ 581,138
Property taxes receivable – unearned	<u>235,391</u>
Total deferred revenue	<u><u>\$ 816,529</u></u>

Property Taxes

The County levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by the Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the County. Public utility property is assessed by the Commonwealth. All property is assessed at 100% of fair market value and reassessed every four years as of January 1. The Commissioner of Revenue, by authority of County ordinance, prorates billings for property incomplete as of January 1, but completed during the year.

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30, 2008 includes amounts not yet received from the January 1, 2008 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 2008 is \$0.71 per \$100 of assessed value.

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

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	<u>97,894</u>
	<u><u>\$ 477,894</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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

Due from other governmental units consists of the following:

	<u>General Fund</u>	<u>Component Unit – School Board</u>
<u>Commonwealth of Virginia:</u>		
Metropolitan planning organization	\$ 3,855	\$ -
Local sales tax	1,268,553	-
State sales tax	-	1,740,141
Categorical aid – shared expenses	803,155	-
Categorical aid – schools	-	77,160
Non-categorical aid	148,263	-
Excess clerk fees	21,354	-
Virginia public assistance funds	154,293	-
Community services act	380,198	-
<u>Federal Government:</u>		
Virginia public assistance funds	225,193	-
Categorical aid – school grants	-	698,655
	<u>\$ 3,004,864</u>	<u>\$ 2,515,956</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	\$ 7,615
Water	Wastewater	<u>278,711</u>
		<u>\$ 286,326</u>

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 4,460,735

Transfers between funds were to support capital projects.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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	\$ 8,512,948	\$ 2,051,258	\$ -	\$ 10,564,206
Construction in progress	1,854,002	5,927,606	1,137,249	6,644,359
Total capital assets, not depreciated	<u>10,366,950</u>	<u>7,978,864</u>	<u>1,137,249</u>	<u>17,208,565</u>
Capital assets, depreciated				
Buildings and improvements	102,176,612	1,617,584	114,952	103,679,244
Machinery and equipment	13,528,731	958,433	349,661	14,137,503
Total capital assets, depreciated	<u>115,705,343</u>	<u>2,576,017</u>	<u>464,613</u>	<u>117,816,747</u>
Less accumulated depreciation:				
Buildings and improvements	20,072,508	2,499,764	77,107	22,495,165
Machinery and equipment	7,463,409	963,034	349,661	8,076,782
Total accumulated depreciation	<u>27,535,917</u>	<u>3,462,798</u>	<u>426,768</u>	<u>30,571,947</u>
Total capital assets, depreciated, net	<u>88,169,426</u>	<u>(886,781)</u>	<u>37,845</u>	<u>87,244,800</u>
Capital assets, net	<u>\$ 98,536,376</u>	<u>\$ 7,092,083</u>	<u>\$ 1,175,094</u>	<u>\$104,453,365</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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	9,330	15,687	-	25,017
Total capital assets, not depreciated	<u>349,719</u>	<u>15,687</u>	<u>-</u>	<u>365,406</u>
Capital assets, depreciated				
Wastewater systems	15,998,402	72,000	-	16,070,402
Water systems	14,901,884	493,262	-	15,395,146
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	538,934	42,882	15,500	566,316
Total capital assets, depreciated	<u>31,543,538</u>	<u>608,144</u>	<u>15,500</u>	<u>32,136,182</u>
Less accumulated depreciation:				
Wastewater systems	5,797,122	401,698	-	6,198,820
Water systems	3,682,227	375,269	-	4,057,496
Buildings and improvements	75,925	2,918	-	78,843
Machinery and equipment	465,185	35,036	15,500	484,721
Less accumulated depreciation	<u>10,020,459</u>	<u>814,921</u>	<u>15,500</u>	<u>10,819,880</u>
Total capital assets, depreciated, net	<u>21,523,079</u>	<u>(206,778)</u>	<u>-</u>	<u>21,316,302</u>
Capital assets, net	<u>\$ 21,872,798</u>	<u>\$ (191,091)</u>	<u>\$ -</u>	<u>\$ 21,681,708</u>

* Restated, see Note 20

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 32,827
Judicial administration	884
Public safety	703,156
Public works	861,293
Health and welfare	16,598
Education	1,811,249
Parks, recreation, and cultural	33,052
Community development	3,739
	<u>\$ 3,462,798</u>
Business-type activities:	
Water	\$ 401,979
Wastewater	412,942
	<u>\$ 814,921</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Balance</u>
Elementary School – Elliston	\$ 511,485	\$ 463,515
Elementary School – Price's Fork	151,875	622,762
New Courthouse	<u>738,010</u>	<u>2,123,428</u>
	<u>\$ 1,401,370</u>	<u>\$ 3,209,705</u>

Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 394,257	\$ -	\$ -	\$ 394,257
Construction in progress	<u>111,825</u>	<u>142,523</u>	<u>111,825</u>	<u>142,523</u>
Total capital assets, not depreciated	<u>506,082</u>	<u>142,523</u>	<u>111,825</u>	<u>536,780</u>
Buildings and improvements	30,338,570	-	-	30,338,570
Machinery and equipment	<u>11,159,635</u>	<u>1,416,528</u>	<u>844,119</u>	<u>11,732,044</u>
Total capital assets, depreciated	<u>41,498,205</u>	<u>1,416,528</u>	<u>844,119</u>	<u>42,070,614</u>
Less accumulated depreciation:				
Buildings and improvements	27,480,551	677,073	-	28,157,624
Machinery and equipment	<u>6,585,475</u>	<u>692,478</u>	<u>842,529</u>	<u>6,435,424</u>
Total accumulated depreciation	<u>34,066,026</u>	<u>1,369,551</u>	<u>842,529</u>	<u>34,593,048</u>
Total capital assets, depreciated, net	<u>7,432,179</u>	<u>46,977</u>	<u>1,590</u>	<u>7,477,566</u>
Capital assets, net	<u>\$ 7,938,261</u>	<u>\$ 189,500</u>	<u>\$ 113,415</u>	<u>\$ 8,014,346</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, 2008

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	\$ 20,055,209	\$ -	\$ 1,807,971	\$ 18,247,238	\$ 1,806,266
Lease revenue bonds	54,675,833	-	3,379,157	51,296,675	3,537,277
Literary fund loans	3,766,140	-	254,000	3,512,140	254,000
Refunding bonds	21,729,839	-	510,063	21,219,776	507,887
Landfill post-closure	540,908	-	15,843	525,066	60,308
Compensated absences	1,951,212	1,090,000	919,103	2,122,109	1,490,000
Governmental activities long-term liabilities	<u>\$ 102,719,141</u>	<u>\$ 1,090,000</u>	<u>\$ 6,886,137</u>	<u>\$ 96,923,004</u>	<u>\$ 7,655,738</u>
Business-type Activities:					
Revenue bonds	\$ 6,515,070	\$ 6,500,479	\$ 6,404,820	\$ 6,610,729	\$ 155,567
Notes payable	70,184	-	17,059	53,125	18,521
Compensated absences	81,055	126,093	81,055	126,093	88,265
Business-type activities long-term liabilities	<u>\$ 6,666,309</u>	<u>\$ 6,626,572</u>	<u>\$ 6,502,934</u>	<u>\$ 6,789,947</u>	<u>\$ 262,353</u>
Component Unit – School Board					
Compensated absences	<u>\$ 2,664,933</u>	<u>\$ 1,965,000</u>	<u>\$ 1,822,275</u>	<u>\$ 2,807,658</u>	<u>\$ 1,965,000</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, 2008**

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
2009	1,806,266	891,308	3,537,277	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	1,434,955	531,784	2,879,350	1,726,192	1,924,879	802,420	250,000	75,000
2014-2018	6,681,083	1,590,551	16,623,232	6,386,030	9,755,898	2,784,715	1,250,000	262,500
2019-2023	3,181,770	269,986	15,899,797	2,185,681	6,095,000	609,538	1,000,000	75,000
2024-2028	-	-	752,180	15,721	-	-	-	-
	<u>\$ 18,247,238</u>	<u>\$ 5,392,571</u>	<u>\$ 51,296,675</u>	<u>\$ 19,011,320</u>	<u>\$ 21,219,776</u>	<u>\$ 7,888,280</u>	<u>\$ 3,512,140</u>	<u>\$ 788,232</u>

Year Ended June 30	Business-type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2009	\$ 155,567	\$ 273,069	\$ 18,521	\$ 3,693
2010	194,334	268,990	20,108	2,106
2011	203,227	260,097	14,496	451
2012	195,873	250,788	-	-
2013	185,968	242,640	-	-
2014-2018	1,056,324	1,082,971	-	-
2019-2023	1,302,686	840,354	-	-
2024-2028	1,606,506	536,534	-	-
2029-2033	1,710,244	168,087	-	-
	<u>\$ 6,610,729</u>	<u>\$ 3,923,530</u>	<u>\$ 53,125</u>	<u>\$ 6,250</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
General Obligation Bonds:						
School Construction Bonds	6.1 - 8.1%	12/15/90	2010	\$ 3,250,000	\$ 520,000	\$ -
School Construction Bonds	4.9 - 6.6	01/15/92	2012	1,893,607	466,693	-
School Construction Bonds	5.1 - 5.5	04/29/93	2012	3,000,000	595,000	-
School Construction Bonds	4.5 - 5.0	11/18/93	2014	3,000,000	305,000	-
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	1,755,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	2,266,557	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	2,915,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	9,423,988	-
					<u>\$ 18,247,238</u>	<u>\$ -</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 9. Long-term Debt (Continued)

Details of long-term indebtedness are as follows: (Continued)

Revenue Bonds:

	<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>
Lease Revenue Bond	3.3 - 5.0%	06/01/99	2019	\$ 9,695,000	\$ 6,310,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	1,960,000	-
Lease Revenue Bond	4.0 - 5.0	06/1999	2021	11,680,000	8,750,000	-
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	2,855,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	14,030,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,349,061	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,349,061	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	8,693,553	-
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	110,250
Water and Sewer Refunding Bond	4.2	06/01/08	2032	6,500,479	-	6,500,479
					<u>\$ 51,296,675</u>	<u>\$ 6,610,729</u>

Refunding Bonds:

Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 1,705,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,459,776	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,605,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,450,000	-
					21,219,776	-
Less deferred costs					(1,414,072)	-
Plus bond premium					280,618	-
					<u>\$ 20,086,322</u>	<u>\$ -</u>

Other Long-Term Debt:

State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 12,140	\$ -
State Literary Fund Loan	3.0	01/2001	2021	5,000,000	3,500,000	-
Note Payable	8.3	08/09/01	2011	163,000	-	53,125
					<u>\$ 3,512,140</u>	<u>\$ 53,125</u>

The Virginia Resource Authority Revenue Bond is non-interest bearing. The Public Service Authority imputes interest on this debt at a rate of 6%. The face amount outstanding and unamortized discount at year end is \$121,506 and \$11,256, 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.

Business-type activities – Current Year Refunding

On June 20, 2008, the Authority issued a \$6,500,479 water and sewer refunding bond maturing December 2032, with interest at 4.20%, per annum. The Authority issued the bond to refund certain water and sewer bonds outstanding which totaled \$6,294,370 and had maturity dates ranging from January 2031 to August 2046 and interest rates from 4.25% to 5.00%. The current refunding reduced total debt service payments over the next 38 years by \$1,397,845. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$222,638.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 10. Landfill Post-Closure Care

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations 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 \$525,066 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2008. 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, firefighters 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, firefighters and sheriffs), payable monthly, for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. (1.85% sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). 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. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters 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 downloaded from their website at <http://www.varetire.org/Pdf/Publications/2007annurept.pdf> or obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

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 2008 was 13.89% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2008 were 15.30% 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, 2008, 2007, and 2006, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$6,455,298, \$5,868,151, and \$4,552,147 and represented 15.30%, 14.20%, and 11.62% of annual covered payroll, respectively, and 100% of the required contributions for 2008, 2007, and 2006. The School Board's contribution rate for non-professional employees for the fiscal year ended 2008 was 14.22% of the annual covered payroll.

Annual Pension Cost

For fiscal year 2008, the County's annual pension costs of \$1,953,667 and the School Board's annual pension cost of \$6,455,298 for professional and non-professional employees, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 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's and School Board's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Three-Year Trend Information for the County of Montgomery

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 1,953,667	100%	\$ -
June 30, 2007	\$ 1,776,974	100%	\$ -
June 30, 2006	\$ 1,585,575	100%	\$ -

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 651,980	100%	\$ -
June 30, 2007	\$ 646,216	100%	\$ -
June 30, 2006	\$ 403,551	100%	\$ -

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 11. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Required Supplementary Information						
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, 2007	\$ 43,327,988	\$ 49,365,548	\$ 6,037,560	87.77%	\$ 14,049,819	42.97%
June 30, 2006	\$ 38,506,508	\$ 44,049,801	\$ 5,543,293	87.42%	\$ 13,422,335	41.30%
June 30, 2005	\$ 35,829,105	\$ 42,169,432	\$ 6,340,327	84.96%	\$ 12,799,499	49.54%
County of Montgomery School Board						
June 30, 2007	\$ 13,996,813	\$ 15,489,280	\$ 1,492,467	90.36%	\$ 4,573,541	32.63%
June 30, 2006	\$ 12,296,487	\$ 14,291,941	\$ 1,995,454	86.04%	\$ 4,473,216	44.61%
June 30, 2005	\$ 11,599,426	\$ 14,414,850	\$ 2,815,424	80.47%	\$ 4,225,591	66.63%

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, 2008

Note 13. Commitments and Contingencies

Litigation

Various other claims are pending against the County. In the opinion of County management, after consulting with legal counsel, the potential loss on all claims will not materially affect the County's financial position.

In October 2007, the County received twenty-six Notice of Claims with unspecified amounts in connection with the Virginia Tech shootings. Twenty-two of the individuals who filed Notice of Claim with the County have signed Settlement Agreements with the Commonwealth releasing the County of all claims. It is not anticipated that the remaining four individuals will file suit. It is the opinion of legal 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.

In July 2008, the Administrator for the Estate of the Montgomery Regional Hospital security guard killed by a Montgomery County inmate in August 2006, filed a lawsuit against the Montgomery County Sheriff and three deputies. It is the opinion of legal counsel that the County has no liability exposure because the Sheriff's Office is a constitutional office that is a separate legal entity from the County. The defendants have denied the allegations and are vigorously defending the matter.

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 and Specific Component Unit Items –
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:

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

**Note 14. Transactions with Component Unit and Specific Component Unit Items –
Industrial Development Authority (Continued)**

Advances to Component Unit: (Continued)

Construction of the Falling Branch Industrial Park	\$ 3,110,942
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	<u>2,217,810</u>
	<u>\$ 5,329,845</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.

Restricted Note Receivable – IDA:

During 2008 the IDA entered into agreements with the Town of Blacksburg (“Town”) and Blacksburg Motor Partners, LP (“LP”) to facilitate the rehabilitation of the Blacksburg Motor Company building for future use by the Town. The agreements are as follows:

- The Town contributed \$3,325,000 to the IDA which was then loaned to the LP in the form of a note receivable, discussed below. Upon demand by the Town, the IDA shall repay any funds that have been collected on the note receivable from the LP. As of June 30, no repayments had been recovered by the IDA.
- On March 31, 2008 the IDA entered into the note mentioned above. The note will accrue interest at six percent monthly. Upon the earlier of three months after the receipt of a certificate of occupancy or fifteen months after the date of the note, the note will be converted to a permanent loan. This loan will be amortized over 25 years with equal payments of principal and interest. The loan will be secured by the conditions that, upon default, the IDA may terminate the lease between the IDA and the LP (discussed below) and retain title to the leasehold improvements and any furniture, fixtures, or other assets of the project.
- The IDA will lease the rehabilitated facility from the Town for a nominal annual rent for a term of 40 years, and sublease the facility to the LP under similar terms. The Town also entered a co-development agreement with the LP under which it will, in exchange for a fee, provide various services and personnel for the project.
- The LP will lease the facility to BMC Tenant, LP (“Tenant LP”). Tenant LP will lease the facility to the Town. Both leases are for a term of 35 years, starting when a certificate of occupancy is obtained. As of June 30, 2008, the lease payment terms have not been defined.

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 15. Net Assets/Fund Balance

Restricted Net Assets:

Net assets are restricted in the amount of \$43,160 for the remaining grant balance for the Shawsville Water Project.

Additionally, net assets are restricted for debt service reserves in the amount of \$5,112,996 in the Governmental Activities.

Deficit Unrestricted Net Assets:

At June 30, the Wastewater Fund, the Component Unit – School Board, and the Component Unit – IDA had deficits in unrestricted net assets of \$154,109, \$1,014,700, and \$1,469,222, 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	\$ 471,083	\$ 4,191,1510	\$ 2,386,721
Advances and notes receivable	6,508,839	-	-
Law library	166,643	-	-
Grants	339,769	-	-
Inventories	-	-	137,503
Total reserved fund balance	<u>\$ 7,486,334</u>	<u>\$ 4,191,510</u>	<u>\$ 2,524,224</u>

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 15. Net Assets/Fund Balance (Continued)

Designations of Fund Balance:

Designated fund balances are comprised of the following:

	<u>General Fund</u>	<u>Capital Improvements Fund</u>
Designated for:		
Debt service	\$ 500,000	\$ -
Capital projects	500,000	19,820,195
Landfill	250,000	-
Facilities and maintenance	723,000	-
Road maintenance	51,500	-
Technology	21,513	-
Fuel	208,105	-
Automobile graveyard	109,033	-
Rainy Day	1,000,000	-
School capital	327,161	-
	<u>\$ 3,690,312</u>	<u>\$ 19,820,195</u>
Total designated fund balance		

Note 16. Concentrations

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

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 expense 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, fifty-five retirees are eligible and 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. New Accounting Standards

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

Note 18. New Accounting Standards (Continued)

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.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides specific guidance on the recognition, initial measurement, and amortization of intangible assets. **Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect them to be material.** This statement will be effective for the year ending June 30, 2010.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that most of the derivative instruments covered in its scope will be reported at fair value. **Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect them to be material.** This statement will be effective for the year ending June 30, 2010.

Note 19. Subsequent Event

Bond Issuance

On August 21, 2008, the County issued 20 year lease revenue bonds totaling \$77,000,000. Principal is payable annually beginning February 1, 2009. Interest is payable semi-annually beginning on February 1, 2009, and on each February 1 and August 1 thereafter until the final maturity date (February 1, 2029). Interest rates range from 3.25 percent to 5.00 percent. The proceeds will be used to construct a new County Courthouse, two new public schools, renovations to the old County Courthouse for conversion to a public safety building, improvements to the County jail, construction of an athletic stadium at Blacksburg High School, and to reimburse the County for associated land purchases and other costs previously incurred for these projects.

Note 20. Restatement of Net Assets

The following is a summary of the restatement of net assets at June 30, 2007:

	Governmental Activities	Water	Wastewater
	<u> </u>	<u> </u>	<u> </u>
Net assets, June 30, 2007, as previously stated	\$ 56,090,365	\$ 8,669,600	\$ 6,961,414
Restatement to record errors in capital assets	(2,727,600)	34,891	268,803
Restatement to correct expense in correct period	-	(6,600)	-
Net assets, June 30, 2007, as restated	<u>\$ 53,362,765</u>	<u>\$ 8,697,891</u>	<u>\$ 7,230,217</u>

**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, 2008

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 869,667	\$ 1,032,853	\$ 1,902,520
Due from primary government	4,167,916	-	4,167,916
Due from other governmental units	2,515,956	-	2,515,956
Inventories	-	137,503	137,503
Cash and cash equivalents, restricted	43,258	-	43,258
	<u>\$ 7,596,797</u>	<u>\$ 1,170,356</u>	<u>\$ 8,767,153</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 970,268	\$ 11,320	\$ 981,588
Accrued payroll and related liabilities	6,429,405	199,203	6,628,608
Amounts held for others	43,258	-	43,258
Deferred revenue	60,359	-	60,359
	<u>7,503,290</u>	<u>210,523</u>	<u>7,713,813</u>
Fund Balances:			
Reserved for:			
Encumbrances	2,386,721	-	2,386,721
Inventories	-	137,503	137,503
Unreserved	(2,293,214)	822,330	(1,470,884)
	<u>93,507</u>	<u>959,833</u>	<u>1,053,340</u>
Total fund balances	<u>\$ 93,507</u>	<u>\$ 959,833</u>	<u>\$ 1,053,340</u>
Total liabilities and fund balances	<u>\$ 7,596,797</u>	<u>\$ 1,170,356</u>	<u>\$ 8,767,153</u>
Adjustments for the Statement of Net Assets (Exhibit 1)			
Total fund balances			\$ 1,053,340
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			8,014,346
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net assets.			679,259
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			60,359
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.			(2,807,658)
Net assets of governmental activities			<u>\$ 6,999,646</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, 2008

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from use of money and property	\$ 1,351	\$ 27,865	\$ 29,216
Charges for services	72,353	2,279,454	2,351,807
Recovered costs	562,338	-	562,338
Intergovernmental	90,860,916	1,937,525	92,798,441
Total revenues	<u>91,496,958</u>	<u>4,244,844</u>	<u>95,741,802</u>
EXPENDITURES			
Current:			
Instruction	70,702,277	-	70,702,277
Administration, attendance and health	3,456,010	-	3,456,010
Pupil transportation	4,878,755	-	4,878,755
Operations and maintenance	12,308,926	-	12,308,926
Non-instructional	95,641	-	95,641
School nutrition	-	4,005,690	4,005,690
Total expenditures	<u>91,441,609</u>	<u>4,005,690</u>	<u>95,447,299</u>
Excess of revenues over expenditures	<u>55,349</u>	<u>239,154</u>	<u>294,503</u>
Net change in fund balances	55,349	239,154	294,503
FUND BALANCE AT JULY 1	<u>38,158</u>	<u>720,679</u>	<u>758,837</u>
FUND BALANCE AT JUNE 30	<u>\$ 93,507</u>	<u>\$ 959,833</u>	<u>\$ 1,053,340</u>
Reconciliation to the Statement of Activities (Exhibit 2)			
Net change in fund balances – total governmental funds			\$ 294,503
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 (\$1,447,226) is more than depreciation (\$1,369,551) and the loss on the disposition of assets of (\$1,590) in the current period.			76,085
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.			(18,270)
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.			851
Change in net assets of governmental activities			<u>\$ 353,169</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
 BUDGET AND ACTUAL – CASH BASIS
 DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
 For the Year Ended June 30, 2008

	School Operating				School Cafeteria				
	Budgeted Amounts		Actual		Budgeted Amounts		Actual		Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final			
REVENUES									
Revenue from use of money and property	\$ 1,500	\$ 1,500	\$ 1,351	\$ (149)	\$ -	\$ -	\$ 27,865	\$ 27,865	\$ 27,865
Charges for services	14,000	14,000	72,353	58,353	2,382,013	2,382,013	2,279,454	(102,559)	(102,559)
Recovered costs	274,500	527,734	562,338	34,604	-	-	-	-	-
Intergovernmental	89,451,696	94,103,076	90,449,764	(3,653,312)	1,203,705	1,351,196	1,937,525	586,329	586,329
Total revenues	89,741,696	94,646,310	91,085,806	(3,560,504)	3,585,718	3,733,209	4,244,844	511,635	511,635
EXPENDITURES									
Current:									
Instruction	69,632,799	71,259,508	70,191,923	1,067,585	-	-	-	-	-
Administration, attendance and health	3,531,291	3,594,128	3,456,010	138,118	-	-	-	-	-
Pupil transportation	4,024,646	5,056,062	4,878,755	177,307	-	-	-	-	-
Operations and maintenance	12,517,087	14,662,840	12,308,926	2,353,914	-	-	-	-	-
Non-instructional	35,873	73,772	95,641	(21,869)	-	-	-	-	-
School nutrition	-	-	-	-	3,585,718	3,733,209	4,028,137	(294,928)	(294,928)
Total expenditures	89,741,696	94,646,310	90,931,255	3,715,055	3,585,718	3,733,209	4,028,137	(294,928)	(294,928)
Excess of revenues over expenditures	\$ -	\$ -	\$ 154,551	\$ 154,551	\$ -	\$ -	\$ 216,707	\$ 216,707	\$ 216,707

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

<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	\$ 158,434
<u>Pass-through Payments:</u>		
<u>Department of Social Services</u>		
Food Stamp Administration	10.561	490,540
<u>Department of Agriculture and Consumer Services</u>		
Food Distribution – Commodities	10.555	262,526
<u>Department of Education:</u>		
National School Breakfast Program	10.553	334,451
National School Lunch Program	10.555	1,281,949
Summer Food Service Program for Children	10.559	46,747
Federal Land Use (Forest Reserve)	10.665	3,759
<u>Department Of Justice:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services</u>		
Juvenile Justice and Delinquency Prevention - Allocation to States (Title II)	16.540	53,958
Crime Victim Assistance	16.575	108,876
Byrne JAG Grant	16.738	2,352
<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	37,861
State and Community Highway Safety (154 Transfer Funds)	20.607	4,115
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Grants to States	84.002	98,574
Title I: Grants to Local Educational Agencies	84.010	1,492,152
Special Education - Grants to States	84.027	2,082,277
Vocational Education - Basic Grants to States	84.048	150,510
Special Education - Preschool Grants	84.173	82,082
Drug Free Schools and Communities-State Grants	84.186	25,804
Innovative Education Program Statistics	84.298	23,662
Advanced Placement Incentive Program	84.330	3,339
No Child Left Behind Act	84.367	487,727
Technology Literacy Challenge Fund	84.318	17,321
Learn & Serve	94.004	37,060
Language Acquisition - Title III	84.365	30,124
Title -1-Neglected & Delinquent Children	84.013	33,203

(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	\$ 433,835
 <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	59,436
 <u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	79,146
Temporary Assistance to Needy Families	93.558	410,490
Child Care and Development Block Grant	93.575	404,991
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	395,607
Foster Care - Title IV-E	93.658	409,406
Adoption Assistance	93.659	119,509
Social Service Block Grant	93.667	526,045
Low Income Home Energy Assistance	93.568	10,182
Chafee Foster Care Independence Program	93.674	6,169
Medical Assistance Program	93.778	349,718
Refugee and Entrant Assistance	93.566	1,841
Chafee Education and Training	93.599	3,735
Child Welfare Services	93.645	2,990
State Children's Insurance Program	93.767	20,314
 Total Expenditures of Federal Awards		 \$ 10,582,817

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, 2008, the School Board had food commodities totaling \$94,284 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.

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

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

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

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Expenses						
Governmental activities						
General government	\$ 7,066,410	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	2,438,896	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	11,202,874	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	4,567,363	4,526,234	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreation and cultural	2,779,839	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	9,808,845	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,259,379	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	35,899,972	30,503,869	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	4,696,145	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	<u>79,719,723</u>	<u>71,815,215</u>	<u>71,155,281</u>	<u>69,448,996</u>	<u>69,907,234</u>	<u>63,028,214</u>
Business-type activities						
Water and Sewage	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total business-type activities expense	<u>3,730,578</u>	<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>\$ 83,450,301</u>	<u>\$ 75,471,408</u>	<u>\$ 74,481,619</u>	<u>\$ 72,898,977</u>	<u>\$ 73,439,811</u>	<u>\$ 66,048,333</u>
Program Revenues						
Governmental activities						
Charges for services						
Public Safety	\$ 975,375	\$ 616,714	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public Works	105,007	125,741	127,070	151,767	-	58,671
Other Activities	1,760,781	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	15,402,999	14,486,609	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	-	24,121	81,630	150,000	465,343	-
Total governmental activities program revenues	<u>18,244,162</u>	<u>16,559,844</u>	<u>15,623,515</u>	<u>15,339,719</u>	<u>15,235,508</u>	<u>12,135,377</u>
Business-type activities						
Charges for services						
Water and Sewage	3,200,340	3,124,628	3,088,605	3,141,551	2,829,152	2,587,336
Capital grants and contributions	691,214	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	<u>3,891,554</u>	<u>3,507,794</u>	<u>3,135,282</u>	<u>3,312,505</u>	<u>4,828,718</u>	<u>2,602,619</u>
Total primary government program revenues	<u>\$ 22,135,716</u>	<u>\$ 20,067,638</u>	<u>\$ 18,758,797</u>	<u>\$ 18,652,224</u>	<u>\$ 20,064,226</u>	<u>\$ 14,737,996</u>
Net (expense) revenue						
Governmental activities	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	160,976	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	<u>\$ (61,314,585)</u>	<u>\$ (55,403,770)</u>	<u>\$ (55,722,822)</u>	<u>\$ (54,246,753)</u>	<u>\$ (53,375,585)</u>	<u>\$ (51,310,337)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 54,666,779	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	7,382,254	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,938,646	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,786,988	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,216,412	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	2,047,264	2,974,039	1,932,190	1,658,701	861,541	591,555
Gain on sale of property	-	-	-	729,859	(47,313)	-
Other	-	-	-	-	2,376	89,294
Transfers	-	(93,413)	(109,381)	-	-	-
Total governmental activities	<u>\$ 73,038,343</u>	<u>\$ 67,427,329</u>	<u>\$ 62,475,949</u>	<u>\$ 57,599,206</u>	<u>\$ 54,149,721</u>	<u>\$ 52,053,237</u>
Business-type activities:						
Investment earnings	\$ 10,658	\$ 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>10,658</u>	<u>112,960</u>	<u>120,792</u>	<u>6,358</u>	<u>(14,841)</u>	<u>3,153</u>
Total primary government	<u>\$ 73,049,001</u>	<u>\$ 67,540,289</u>	<u>\$ 62,596,741</u>	<u>\$ 57,605,564</u>	<u>\$ 54,134,880</u>	<u>\$ 52,056,390</u>
Changes in Net Assets						
Governmental activities	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	171,634	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	<u>\$ 11,734,416</u>	<u>\$ 12,136,519</u>	<u>\$ 6,873,919</u>	<u>\$ 3,358,811</u>	<u>\$ 759,295</u>	<u>\$ 746,053</u>

TABLE 3

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Fund										
Reserved	\$ 7,486,334	\$ 7,931,552	\$ 8,425,959	\$ 8,048,551	\$ 8,424,045	\$ 8,646,272	\$ 8,667,252	\$ 8,510,558	\$ 8,030,521	\$ 2,706,359
Unreserved	25,040,302	21,298,326	16,864,467	16,352,624	17,466,018	15,610,016	15,859,971	15,375,211	22,523,616	26,526,884
Total general fund	\$ 32,526,636	\$ 29,229,878	\$ 25,290,426	\$ 24,401,175	\$ 25,890,063	\$ 24,256,288	\$ 24,527,223	\$ 23,885,769	\$ 30,554,137	\$ 29,233,243
All Other Governmental Funds										
Reserved	\$ 4,191,510	\$ 1,435,016	\$ 862,735	\$ 1,844,841	\$ 1,130,668	\$ 17,184,645	\$ -	\$ 859,725	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	-	-	-	-	-	-	95,988	80,915	70,573	61,772
Capital projects funds	19,820,195	26,313,865	24,248,049	29,209,836	32,810,664	640,547	9,730,048	14,561,579	-	-
Debt service funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 24,011,705	\$ 27,748,881	\$ 25,110,784	\$ 31,054,677	\$ 33,941,332	\$ 17,825,192	\$ 9,826,036	\$ 15,502,219	\$ 70,573	\$ 61,772

TABLE 4

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenues										
Taxes	\$ 65,511,183	\$ 59,334,527	\$ 54,989,515	\$ 50,738,457	\$ 48,842,024	\$ 46,888,359	\$ 43,046,576	\$ 40,566,368	\$ 37,829,575	\$ 37,740,962
Permits, privilege fees, and licenses	729,667	527,087	451,339	581,026	432,106	354,475	224,463	200,284	189,197	185,143
Fines and forfeitures	95,562	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	2,047,264	3,006,656	1,932,190	1,658,701	1,073,542	591,555	937,531	1,625,474	1,142,127	979,792
Charges for services	862,222	863,610	1,099,916	774,474	791,975	588,551	494,449	368,471	490,729	460,736
Other	2,205,909	1,638,273	1,443,439	1,364,845	1,097,902	1,280,981	1,105,203	1,798,254	1,150,252	904,120
Intergovernmental	19,567,213	18,816,073	18,018,456	17,655,372	17,030,162	17,089,403	15,227,444	14,750,314	12,077,443	9,722,560
Total revenues	91,019,020	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	7,015,626	6,191,149	6,294,484	6,046,564	5,177,651	5,358,391	5,211,059	4,086,626	3,566,242	3,707,361
Judicial administration	2,438,012	2,248,802	1,821,661	1,801,538	1,627,346	1,626,738	1,644,861	1,392,493	1,336,618	1,260,605
Public safety	10,535,822	9,584,764	8,864,490	8,931,893	7,048,833	6,427,463	6,000,194	5,586,072	5,462,939	5,110,728
Public works	3,701,378	3,807,202	3,326,950	3,252,988	3,450,922	2,998,968	2,616,065	2,511,498	2,549,067	2,031,390
Parks, recreation and cultural	2,764,351	2,802,108	2,856,007	2,513,263	2,195,196	2,197,940	2,303,966	2,431,255	1,990,488	1,944,835
Health and welfare	9,792,247	9,063,818	8,241,369	8,338,220	7,813,659	7,679,219	6,718,789	6,160,972	6,091,972	5,386,041
Education	34,291,547	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	1,255,640	1,509,152	1,200,930	1,590,531	1,804,638	1,205,104	1,327,321	2,595,427	1,216,013	1,402,709
Nondepartmental	-	-	-	-	-	-	129,482	37,216	-	65,911
Capital projects	9,038,054	2,535,393	10,295,741	3,358,473	4,135,721	13,629,018	7,471,946	4,824,794	1,576,513	3,071,797
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	5,951,191	6,058,445	5,943,154	16,442,154	4,951,763	4,325,425	747,900	687,551	802,551	367,550
Interest	4,675,570	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	91,459,438	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	(440,418)	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	4,460,375	3,390,967	-	719,056	8,348	2,038,905	-	41,950	-	772
Transfers out	(4,460,375)	(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	\$ (440,418)	\$ 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 non-capital expenditures	12.95%	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)
2008	\$ 6,669,686,500	\$ 529,368,631	\$ 118,621,114	\$ 32,342,481	\$ 181,116,686	\$7,531,135,412	\$ 0.91
2007	\$ 6,493,543,300	\$ 495,833,387	\$ 124,587,600	\$ 31,606,662	\$ 181,050,272	\$7,326,621,221	\$ 0.84
2006	\$ 4,841,218,900	\$ 487,862,951	\$ 122,587,600	\$ 33,021,661	\$ 140,490,906	\$5,625,182,018	\$ 0.97
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$5,459,000,654	\$ 1.00
2004	\$ 4,556,115,600	\$ 443,006,567	\$ 120,450,318	\$ 21,433,774	\$ 133,583,496	\$5,274,589,755	\$ 0.98
2003	\$ 4,448,367,800	\$ 442,692,427	\$ 123,656,471	\$ 20,185,299	\$ 162,853,761	\$5,197,755,758	\$ 0.99
2002	\$ 3,312,672,860	\$ 456,164,099	\$ 106,272,277	\$ 21,621,381	\$ 160,770,587	\$4,057,501,204	\$ 1.05
2001	\$ 3,229,462,900	\$ 449,847,984	\$ 106,852,005	\$ 21,034,191	\$ 146,158,930	\$3,953,356,010	\$ 1.05
2000	\$ 3,117,677,700	\$ 418,001,821	\$ 114,031,603	\$ 24,843,670	\$ 145,504,090	\$3,820,058,884	\$ 1.05
1999	\$ 3,002,758,100	\$ 358,504,261	\$ 97,233,025	\$ 17,974,756	\$ 161,001,491	\$3,637,471,633	\$ 1.04

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

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

TABLE 6

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

Taxpayer	Fiscal Year 2008			Fiscal Year 1999		
	Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Appalacian Power Company	\$ 68,030,946	1	1.02%	\$ -	-	0.00%
PR Financing (NRV Mall)	66,789,100	2	1.00%	25,148,600	2	1.31%
Foxridge Associates	61,604,900	3	0.92%	42,187,900	1	2.19%
Roger Woody	52,698,900	4	0.79%	-	-	0.00%
Verizon	42,483,580	5	0.64%	-	-	0.00%
Hash Investments/SHAH Development	38,604,800	6	0.58%	-	-	0.00%
Norfolk and Western	32,670,136	7	0.49%	-	-	0.00%
SHP-The Village at Blacksburg LLC	29,811,000	8	0.45%	-	-	0.00%
Maple Ridge	22,572,900	9	0.34%	-	-	0.00%
CSB LLC	19,121,900	10	0.29%	10,454,500	8	0.54%
HCA Montgomery Regional Hospital	-		0.00%	17,888,400	3	0.93%
WHGMH Realty LLC	-		0.00%	17,157,100	4	0.89%
Wal-Mart	-		0.00%	12,260,300	5	0.64%
Faison & Associates	-		0.00%	11,909,700	6	0.62%
Windsor Hills	-		0.00%	10,328,500	8	0.54%
First National Bank of Christiansburg	-		0.00%	9,121,200	9	0.47%
Hubbell Lightning	-		0.00%	7,844,400	10	0.41%
	<u>\$ 434,388,162</u>		<u>6.52%</u>	<u>\$ 164,300,600</u>		<u>8.54%</u>

TABLE 7

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 61,764,615	\$ 58,299,193	94.39%	\$ 418,034	\$ 58,717,227	95.07%
2007	55,679,245	52,198,510	93.75%	497,625	52,696,135	94.64%
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%

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
2008	\$ 18,247,238	\$ 18,247,238	0.24%	205.41	\$ 51,296,675	\$ 3,512,140	\$ 21,219,776	\$ -
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839	-
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576	-
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453	-
2004	26,075,223	26,075,223	0.49%	304.57	90,975,000	4,544,972	4,078,005	-
2003	27,749,414	27,749,414	0.53%	327.23	63,685,000	4,839,154	5,641,347	-
2002	16,767,837	16,767,837	0.41%	198.91	65,270,000	19,266,065	6,044,141	-
2001	18,219,563	18,219,563	0.46%	231.22	56,475,000	5,317,068	6,261,678	-
2000	23,953,309	23,953,309	0.63%	309.93	25,940,000	538,300	2,199,278	-
1999	25,809,555	25,809,555	0.71%	336.50	26,375,000	759,532	2,267,256	56,562

Fiscal Year	Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable	Capital Leases			
2008	\$ 6,610,729	\$ 53,125	\$ -	\$ 100,939,683	4.75%	\$ 1,136
2007	6,515,070	70,184	-	106,812,275	4.58%	1,208
2006	6,024,984	85,993	-	112,396,443	5.71%	1,279
2005	6,132,906	101,197	-	118,462,723	6.02%	1,411
2004	6,226,079	118,685	-	132,017,964	7.56%	1,542
2003	5,860,325	163,035	-	107,938,275	6.41%	1,273
2002	4,628,932	266,539	-	112,243,514	7.80%	1,331
2001	4,702,347	337,181	214	91,313,051	-	1,159
2000	4,767,878	320,828	1,126	57,720,719	-	747
1999	4,123,919	322,086	2,025	59,715,935	-	779

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	
2008	\$ 3,369,432	\$ 2,610,357	\$ 759,075	\$ 155,567	\$ 273,069	1.77
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

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

TABLE 10

**County of Montgomery, Virginia
Demographic Statistics
Last Ten Fiscal Years**

Fiscal Year Ended (1)	Population (2)	Total Personal Income (2)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2008	88,834	\$ 2,122,928,000	\$ 23,898	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
2004	85,614	1,745,840,688	20,392	9,311	2.60%
2003	84,800	1,683,195,200	19,849	9,170	2.60%
2002	84,300	1,439,591,100	17,077	9,062	2.60%
2001	78,797	N/A	N/A	9,052	2.90%
2000	77,286	N/A	N/A	9,169	2.20%
1999	76,700	N/A	N/A	9,144	2.30%

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

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

N/A - Not available

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

Employer	Fiscal Year 2008			Fiscal Year 1999		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Virginia Tech	6,900	1	17.49%	6,000	1	17.49%
Montgomery County Public Schools	1,720	2	5.32%	1,750	2	5.10%
Virginia Tech Corporate Research Center	2,100	3	4.36%	1,100	4	3.21%
Alliant TechSystems	1,400	4	3.55%	1,193	3	3.48%
Moog	1,100	5	2.79%	-	-	0.00%
Carilion NRV Medical Center	900	6	2.28%	500	8	1.46%
Echostar	800	7	2.03%	-	-	0.00%
Rowe Furniture	676	8	1.71%	-	-	0.00%
Town of Blacksburg	600	9	1.52%	-	-	0.00%
Columbia Montgomery Regional Hospital	574	10	1.46%	500	9	1.46%
Hubble Lighting, Inc.	397	10	2.16%	600	7	1.75%
Litton	-	-	0.00%	-	-	0.00%
Federal-Mogul Corporation	-	-	0.00%	700	5	2.04%
Litton Poly-Scientific	-	-	0.00%	700	6	2.04%
Corning Incorporated	-	-	0.00%	260	10	0.76%
	<u>17,167</u>		<u>44.67%</u>	<u>13,303</u>		<u>38.79%</u>

Source: Economic Development Department

TABLE 12

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

Function/Program	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General government										
County Administration	13.50	14.00	14.00	13.00	14.00	14.00	13.00	11.00	10.50	10.00
Information management services	8.50	8.50	8.50	8.50	8.00	8.00	8.00	6.00	6.00	6.00
Finance	8.50	8.50	8.50	8.50	9.50	9.50	5.50	5.50	5.50	5.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	19.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	21.00	16.50
Treasurer	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Other	7.50	7.00	7.00	7.00	6.00	6.00	6.00	6.50	5.50	5.50
Public Safety										
Sheriff	129.00	126.00	122.00	122.00	112.00	112.50	107.00	108.00	105.50	104.50
Animal control	4.00	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.25
Inspections	5.00	5.00	5.00	4.50	4.00	4.00	3.00	3.50	3.50	3.50
Judicial	22.00	18.00	18.50	18.50	18.00	18.50	18.50	19.00	17.00	17.00
Refuse collection	24.20	24.20	23.50	23.50	23.50	23.50	25.56	23.36	20.50	18.96
Other public works										
Engineering	2.00	2.00	2.00	2.00	3.00	2.00	2.00	1.00	1.50	-
Building and grounds	9.00	9.00	8.00	8.00	8.00	9.00	9.00	7.00	6.00	11.50
Housekeeping	9.00	9.00	9.10	8.60	8.60	9.60	9.60	5.60	5.50	-
Other	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00
Parks, recreation and cultural	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00
Library	24.38	24.13	31.25	31.25	30.75	30.75	30.63	30.63	32.33	34.25
Water/Sewer	21.00	21.00	21.00	21.00	21.00	20.00	20.00	23.00	21.00	20.00
Health and Welfare	72.00	72.00	67.50	67.50	66.50	66.50	66.50	66.50	66.50	61.00
Community development	11.00	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00
Total	419.58	411.53	409.05	406.05	394.05	394.05	384.49	376.79	370.08	355.46

TABLE 13

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

Function/Program	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Government										
Fleet vehicles	217	224	218	208	200	203	196	203	190	192
Judicial Administration										
Sheriff										
Inmates housed	77,416	63,619	77,948	60,052	51,417	49,130	51,149	51,656	45,149	44,066
Inmate transports	3,064	3,511	3,319	3,290	2,409	2,459	2,464	2,126	2,013	1,917
Courts worked	1,012	912	915	846	843	789	809	806	710	573
Public safety										
Sheriff										
Physical arrests	3,739	3,767	3,311	3,233	3,242	2,686	2,811	2,849	5,111	4,985
Traffic violations	3,451	4,268	5,029	6,171	4,824	4,208	5,942	5,538	2,905	3,344
Public works										
Refuse collection										
Refuse collected (pounds per day)	76,671	77,089	77,293	78,094	76,551	69,272	N/A	N/A	N/A	N/A
Recyclables collected (pounds per day)	5,791	6,231	6,402	6,312	6,132	6,576	N/A	N/A	N/A	N/A
Parks, recreation and cultural										
Parks and recreation										
Total programs	235	199	154	160	141	113	N/A	N/A	N/A	N/A
Total registrants	2,931	3,328	2,897	4,094	2,884	2,781	N/A	N/A	N/A	N/A
Library										
Volumes in collection	227,327	226,093	212,004	201,235	198,310	194,091	196,425	191,047	181,932	163,801
Total volumes borrowed	783,708	781,608	717,708	645,560	610,238	591,060	559,846	495,860	487,201	481,453
Water										
Number of customer accounts	2,615	2,554	2,534	2,532	2,500	2,300	2,300	2,300	2,135	2,350
Miles of distribution lines	92	88	88	87	86	85	77	76	74	73
Average daily consumption	840,183	802,445	879,298	870,444	803,000	730,000	825,000	670,000	800,000	730,000
Sewer										
Number of customer accounts	1,337	1,247	1,225	1,211	1,173	1,139	1,050	1,050	1,086	1,275
Waste/Water treated (million gallons per year)	165	196	175	191	202	N/A	N/A	N/A	N/A	N/A
Average daily consumption	505,610	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>	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Public safety										
Law enforcement vehicles	82	83	83	80	79	79	79	79	79	74
Fire stations	10	8	8	8	8	6	6	6	6	6
Parks, recreation and cultural										
Parks/athletic fields	5	2	2	2	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	92	88	66	66	66	66	58	58	58	53
Sanitary sewers (miles)	62	60	44	44	44	44	44	44	44	44

Source: County departments

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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, 2008 which collectively comprise the County's basic financial statements and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. **We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs as Items 07-1, 07-3, 08-1, and 08-2 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 all of the items referred to above are material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 08-4, 08-5, 08-6, and 08-7.**

We noted certain matters that we reported to management of the County in a separate letter dated November 26, 2008.

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

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

Brown, Edwards & Company, S. L. P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 26, 2008

**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, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County of Montgomery, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed one instance of non-compliance with those requirements, that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying schedule of findings and questions costs as Item 08-3.

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.**

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 26, 2008

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2008

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, 2008

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Four significant deficiencies** relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Items 07-1, 07-3, 08-1, and 08-2 were deemed to be material weaknesses.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding related to major programs**.
7. The programs tested as major are:

<u>Name of Program:</u>	<u>CFDA #</u>
No Child Left Behind Act	84.367
Child Nutrition Cluster	10.553, 10.555
Special Education Cluster	84.027, 84.173
Social Service Block Grant	93.667
Projects of Regional and National Significance	93.243

8. The **threshold for** distinguishing Type A and B programs was \$ **317,485**.
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, 2008**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

07-3: Capital Assets (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

08-1: Industrial Development Authority – Note Receivable and Contribution (Material Weakness)

Condition:

A material error was noted in the IDA's financial statements related to an unrecorded note receivable and contribution. Management does not have an appropriate review process in place to ensure agreements signed by the Authority have been accounted for appropriately.

Recommendation:

Steps should be taken to ensure that agreements entered into by the Authority have been accounted for appropriately.

Management's Response:

The auditee concurs. Procedures have been implemented to ensure that Finance Department staff receive copies of all agreements so they can be accounted for properly.

08-2: School Board – Held Deposits (Material Weakness)

Condition:

The School Board is holding deposits for an unreasonable amount of time and is not depositing the funds in a timely manner. This resulted in a material error in cash at year end.

Recommendation:

Steps should be taken to ensure that all deposits are made in a timely manner.

Management's Response:

Auditee concurs. Procedures have been put in place requiring all checks be deposited upon receipt.

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

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

08-3: School Nutrition Cluster – 10.553 and 10.555

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

08-4: 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.

08-5: Special Welfare Accounts – Reconciliation

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs. Monthly reconciliations are now performed.

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

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

08-6: Disclosure Statements

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs.

08-7: Special Welfare – Unexpended Funds

Condition:

During the County's cleanup of the Special Welfare Account, it was determined that eight individuals who previously left custody still had funds remaining with the County.

Recommendation:

Steps should be taken to return unexpected funds to the individual leaving custody, refunded to the applicable funding service, or escheated to the state.

Management's Response:

The auditee concurs.