COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINANCIAL AND MANAGEMENT SERVICES DEPARTMENT

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COUNTY OF MONTGOMERY, VIRGINIA

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INTRODUCTORY SECTION

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

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

November 30, 2011

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the County of Montgomery for the fiscal year ended June 30, 2011, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unqualified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities has been included.

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

THE REPORTING ENTITY

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

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

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

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ORGANIZATION OF GOVERNMENT

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 395 square miles, and has a population of more than 94,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

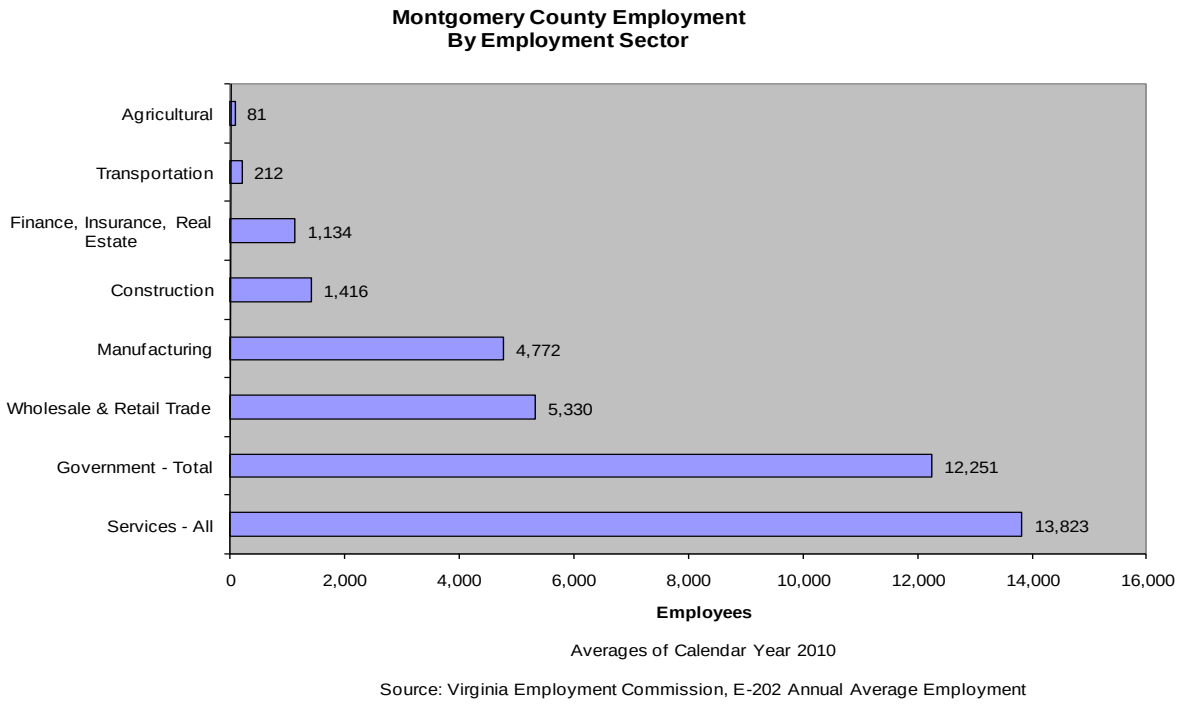
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market remains consistent with the state as a whole. The average unemployment rate in Montgomery County between July 2010 and June 2011 was 6.9%, which is historically below average in the New River Valley. The percentage ranged from a low of 6.1% in April of 2011 to a high of 7.6% in July of 2010. The unemployment rate for the County over the past 10 years (2001-2010) averaged 4.3%, reaching a high of 7.4% in 2010 and a low of 3.0% in 2006. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities was higher than the statewide average of 6.9% for 2010, with Montgomery and Floyd Counties reporting the lowest rates of 7.4% and 7.5% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 9.3% unemployment during the same period. Employment within Montgomery County represented 52% of the total civilian labor force in the New River Valley.

As in prior years, the service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2010.



Employment reductions in 2010 were broad based, covering several economic sectors. The total decrease in the number of jobs was 742 across all sectors, resulting in a 2% decrease from the number of jobs in the previous year. The only two areas that experienced growth were government and transportation, which were up 0.01%, and 10.42% respectively. Services; wholesale and retail trade; manufacturing; construction; finance, insurance, and real estate; and agriculture were all down in employment from the prior year at 3.5%, 0.2%, 2.4%, 6.4%, 2.5%, and 9%, respectively.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center and LewisGale Hospital - Montgomery, collectively employ over 1,300 employees. The County's largest industrial employer, Alliant Techsystems, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include DISH Network Corporation (direct broadcast satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group (aerospace, transportation, military, and communications components), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (automotive gaskets).

The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, is a business/research park that is the catalyst for Montgomery County's high-tech industry cluster. The park currently has 28 buildings, entailing more than one million square feet of office and lab space, and is home to over 140 high-tech companies and research centers which collectively employ more than 2,200 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development oriented companies operating in the information technology, biotechnology, and advanced materials industries. Earlier this year, the VTCRC broke ground on its Phase II expansion which will double the size of the park over the next 20 years. Once Phase II is complete, the VTCRC campus will total 51 buildings and is expected to be home to 240 companies and almost 5,000 workers.

Montgomery County's second largest industry sector, government, provides 31 percent of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large number of state workers employed by Virginia Polytechnic Institute & State University (Virginia Tech), the Commonwealth's largest public university and the largest employer in the County with approximately 12,000 employees. Another 1,700 individuals are employed through the Montgomery County Public School System, making education the largest employment sector in the County.

Since 2000, Montgomery County has experienced $202.7 million in new capital investment (industrial/commercial, non-retail) and the addition of 4,985 related jobs. In fiscal year 2011, Montgomery County had several existing businesses announce expansion plans. These seven companies plan to add 346 jobs and invest $13.3 million in their operations.

Business Expansions, Montgomery County, Virginia, FY 2011

Company Name	Business Description	Date	New Jobs	Investment
CCS, Inc.	Designs, manufactures, and integrates industrial and embedded computers	Apr-2011	40	$1,000,000
Prime Photonics	Designs and manufactures photonic sensor systems	Mar-2011	36	$0
Qualtrax, Inc.	Compliance management software	Mar-2011	10	$1,000,000
FoxGuard Solutions, Inc.	Provides compliance and cyber security solutions to critical infrastructure and key resources sectors	Mar-2011	20	$1,000,000
Modea	HQ; Designs product-focused media; advertising agency	Mar-2011	200	$10,000,000
VTLS, Inc.	HQ; visionary technology in library solutions	Sep-2010	25	$0
Polymer Solutions Incorporated	Laboratory, chemical analysis, physical testing, research and development and litigation services	Jul-2010	15	$300,000

The Economic Development staff, the Economic Development Authority (EDA), the Economic Development Commission (EDC), and the Montgomery/Blacksburg/Christiansburg Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.

In terms of new construction, overall activity in the unincorporated portion of the County during 2010 was down from the previous fiscal year. The number of building permits issued for both residential and commercial/government activities was down by 3%. Residential and governmental permits saw decreases of 2% and 29% respectively, while commercial building activity was flat with no change in the number of permits issued. The decreases in residential and governmental permits are a result of the current slow economic conditions. The average assessed value of new property completed in 2010 was approximately $245,000 compared with the average assessed value for all Montgomery County homes of around $160,000.

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 guidance from 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 2011 include:

The 2011-2015 Capital Improvement Program

The Capital Improvement Program (CIP) for 2011 through 2015 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 $182,900,017 and is comprised of County Capital Improvements of $36.6 million and School Capital Improvements of $146.3 million. County Capital Improvements include construction of a new Courthouse and renovation of the existing Courthouse to a public safety building. Also included is $3.3 million earmarked for fire and rescue capital equipment.

Montgomery County maintains its strong commitment to providing funds for education and public safety. In August 2008, the County issued $77 million in new debt ($70.9 million for new projects and $6.1 million for a debt service reserve) for several County and School capital projects. The projects included two new elementary schools, a new courthouse, and renovations to the old courthouse for use as a public safety building. In November 2009, the County issued an additional $7.3 million in Qualified School Construction Bonds (QSCB) to provide funding for a portion of the new Eastern Montgomery Elementary School cost. In July 2010, the County issued an additional $13.6 million in QSCB, which was allocated primarily to the Price's Fork Elementary School ($7.5 million) and to School Energy Performance Projects ($6 million). QSCB funding is interest free and will supplement the County's 2008 bond issue to complete the two elementary schools. In 2011, the Board of Supervisors provided $340,000 for the purchase of fire and rescue capital equipment.

Completed Capital Projects During the Year

In the area of parks and recreation, the Board of Supervisors provided $67,500 for improvements at the Motor Mile Park during the year. Motor Mile Park was constructed on the previous site of Bethel Elementary School. Built with donations from the Shelor Motor Group, this tournament style baseball facility has a lighted Dixie regulation baseball/softball field with a multi-purpose practice field for a variety

of sports. The improvements provided a drainage system with 600 feet of pipe to collect 40 acres of runoff water and redirect the flow away from the ball field. This project was completed in the fall of 2010.

In the area of public safety, fire and rescue equipment totaling $400,000 was purchased during fiscal year 2011. Christiansburg Fire Department and Riner Rescue Squad each received a first responder vehicle, Elliston Fire Department received a tanker, and Longshop McCoy Fire Department received two brush trucks with skid units.

In the area of education, construction of the Eastern Montgomery Elementary School was completed, with the school officially opening on August 30, 2010. The building has 35 classrooms in two wings -- one for pre-K to second grade; the other for grades three to five. Spectrum Design has received a 2011 Project of Distinction Award from the Virginia Chapter of Council of Educational Facility Planners for its design of the school in Elliston. The 111,057-square-foot design features learning "neighborhoods" that group students by age, a gymnasium, an auditorium, a cafeteria, a music room, and a media center. The school also received a Platinum Design Award from the Virginia School Boards Association in 2010.

For the Future

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

Public Safety and Judicial Administration

As the County continues to grow, new public facilities are critical in order to maintain an adequate level of public safety for the County's citizens. The 2012-2016 Capital Improvement Program (CIP) includes funding necessary for several new public safety and judicial facilities. The Courthouse Project, which involves the construction of a four story courthouse facility and adjacent parking deck, is designed to meet the needs of the courts for the next 25 years. A total of nine courtrooms are planned. The current Courthouse has three courtrooms. The ground breaking for the new Courthouse Project was held on September 18, 2009; construction on the new facility is expected to be completed by April 2012.

The existing Courthouse facility will be renovated into a new public safety building. The building is expected to house the Sheriff, the Court Services unit, and the new Regional 911 Emergency Communications Authority. Construction is planned to begin in June of 2012.

In fiscal year 2009, the Board of Supervisors earmarked one cent of the real estate tax rate to provide the Fire and Rescue Commission with an ongoing source of funding to purchase fire and rescue capital equipment. For the last two fiscal years, this amount was decreased to one half of one cent of the real estate tax rate due to economic conditions. As part of the 2012 budget process, the one half cent was restored, bringing total funding to $700,000 for this function.

Education

The Prices Fork Elementary School located in the western part of the County was completed and open for operations in November 2011. This project was funded by 2008 bond proceeds and Qualified School Construction bonds. The 111,000 square-foot facility features learning "neighborhoods" that group students by age, a gymnasium, an auditorium, a cafeteria, a music room, and a media center. This project is being built in a similar design as the new Eastern Montgomery Elementary School.

Also, in November 2011, the Board of Supervisors issued an additional $86 million in bonds through the Virginia Public School Authority for the replacement of the Auburn High School, the Blacksburg High School, and the renovation of Auburn Middle School. Additional funding for these projects is anticipated to include insurance proceeds from the old Blacksburg High School gymnasium roof collapse, surplus

bond funds from the Price's Fork and Eastern Montgomery Elementary projects, and $15 million in Qualified School Construction Bonds. The total cost of all three schools is estimated at $124.5 million. Groundbreaking for the new Auburn High School was held in September 2011, with the groundbreaking for Blacksburg High School being held in October 2011.

County Vision

The Board of Supervisors is an elected body of seven members, representing seven voting districts. The Board has both administrative and legislative responsibilities, some of which are discharged in the role of the local governing body and some of which have derived from its function as an administrative subdivision of the state. The Board establishes policies and enacts ordinances governing the County and its citizens.

The Board of Supervisors recently developed the County's first vision statement and strategic plan. In two separate retreats held in 2010, the Board of Supervisors developed its vision for the County, which included a vision statement and seven major strategic aspirations in its view of the County in 2020.

Montgomery County's Vision Statement

Montgomery County is a cohesive, friendly, caring community distinguished by its vibrancy and diversity. We are not a County unto ourselves; by working closely with our towns, institutions that focus on higher and continuing education, and our citizens, we all stand strong. Our strong workforce is known for its skills and intellectual capital, while deep roots in traditional values and beautiful farmlands, mountains and green-spaces ground our community. We foster a high quality of life by offering exceptional citizen services, including educational and recreational opportunities. We recognize that thriving businesses and high tech industries are important to our community and support our prosperity. As a county government, we operate in a business friendly, supportive and transparent manner for the good of all citizens.

The Board's vision focuses on the following aspirations to provide stewardship for our resources and direction for our future:

1. Economic Diversity: Montgomery County is the place to do business
2. Recreation: Montgomery County is the place to have fun
3. County Services: Montgomery County is a quality community
4. Health and Safety: Montgomery County is a safe place to live
5. Education: Montgomery County is a great place for learning
6. Land Use: Montgomery County is a good steward of natural resources
7. Citizen Engagement: Montgomery County is a citizen friendly government

In developing its vision and aspirations, the Board developed two-year priorities, which resulted in 25 specific goals that would allow the County to move toward the seven aspirations for 2020. The County's Leadership Team (consisting of the County's Department Directors) then began the process of using the Board's priorities and goals to establish a work plan to achieve the Board's vision.

County Work Plan

In August of 2010, the County's Leadership Team developed a work/action plan to help the Board and the County achieve its 2020 vision of the County. The work plan consisted of the Board's 25 goals; each with a 12 month objective, a champion and supporting staff, key tasks, and a target date for completion. The work plan was immediately put into action to begin the process of achieving the Board's vision.

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, 2011, reflect cash that will not be received or disbursed until fiscal year 2012.

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

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

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

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, 2010. 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-four consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

F. Craig Meadows
County Administrator

Angela M. Hill
Director of Financial and Management Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

President

Executive Director

BOARD OF SUPERVISORS

James D. Politis, Chair
William (Bill) H. Brown, Vice Chair

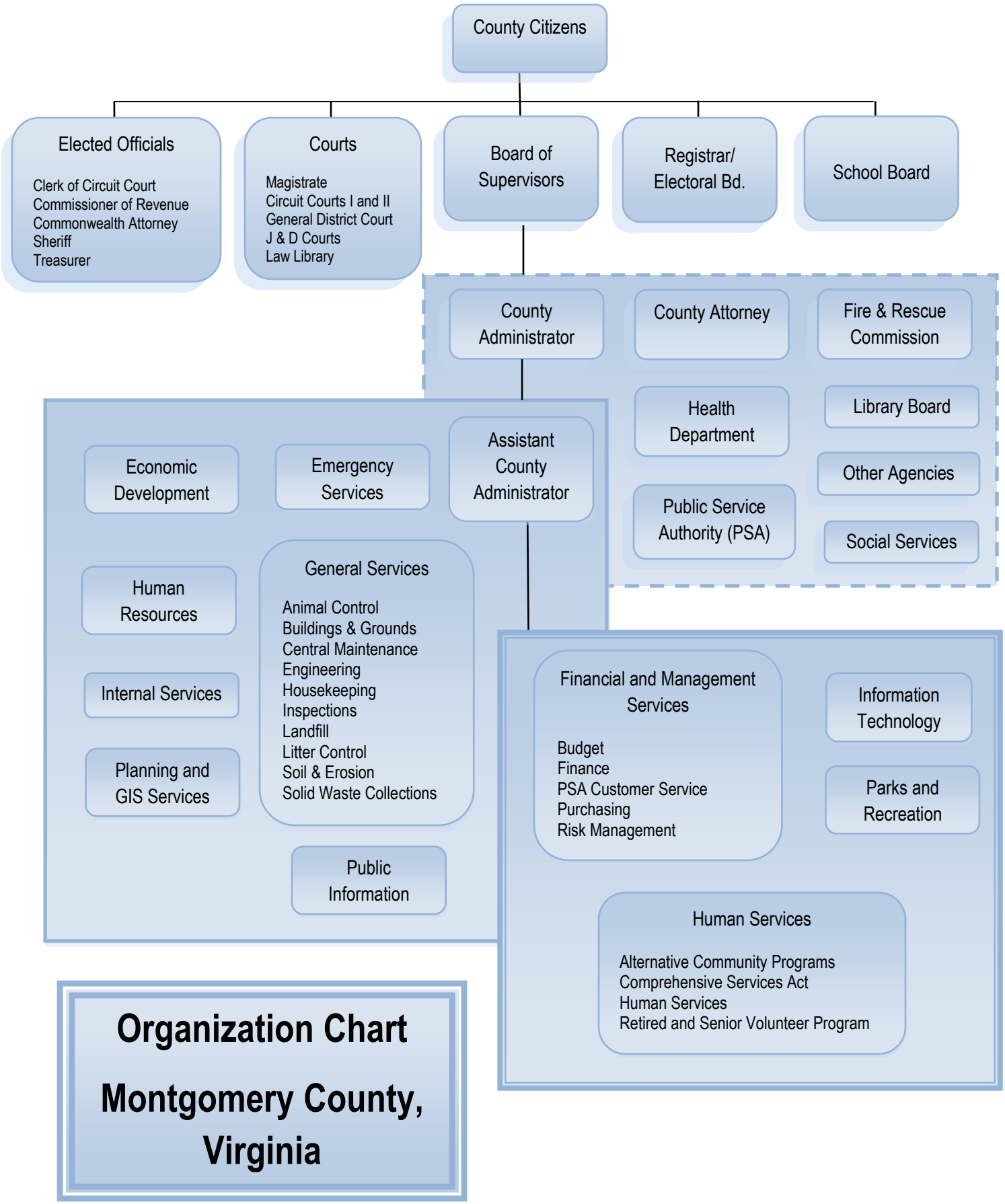
Mary W. Biggs
Gary D. Creed
Doug W. Marrs
John A. Muffo
Annette S. Perkins

COUNTY ADMINISTRATION

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

CONSTITUTIONAL OFFICERS

Bradley W. Finch	Commonwealth Attorney
Alice S. Jones	Commissioner of the Revenue
W. Richard Shelton	Treasurer
J. T. Whitt	Sheriff
Erica W. Williams	Clerk of the Circuit Court



Organization Chart

Montgomery County, Virginia

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FINANCIAL SECTION

BROWNEDWARDS
certified public accountants

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 units, and each major fund of the County of Montgomery, Virginia as of and for the year ended June 30, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 30, 2011 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, fund financial statements of the discretely presented component unit, and statistical section are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The fund financial statements of the discretely presented component unit and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Roanoke, Virginia
November 30, 2011

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, 2011. 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 2011

- Total net assets for governmental activities were $91 million at June 30, 2011. This figure is based on assets totaling $272 million and liabilities of $181 million.

- Total general fund revenues exceeded the final budgeted amount by slightly less than $1 million or approximately 1%. Delinquent property collections exceeded their estimates by $500,000 while personal property tax exceeded the estimate by $400,000. The real estate tax rate was increased effective January 1, resulting in unbudgeted collections at June 30 of approximately $700,000. Grant funds fell below the final budget by approximately $600,000. These grants do not follow the fiscal year, resulting in funds being budgeted but not earned by year end. Actual expenditures were $6.8 million less than the final expenditure budget. A hiring freeze was implemented during the year resulting in savings of approximately $600,000. A portion of the variance is attributable to the timing of grant activity mentioned above. The County received and included in the final approved budget various grant awards during the year; however, not all were expended before year end. Also, orders had been placed, but goods not received at year end of approximately $800,000. Finally, the Montgomery County School Board (the Schools) spent approximately $1.6 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, 2011 were approximately $15 million.

- Qualified school construction bonds totaling $13.37 million were issued during the year and were used toward the construction of the Price's Fork Elementary School and for school energy projects designed to improve energy efficiency at existing schools. Refunding bonds totaling $12.705 million were also issued during the year. These bonds refunded the 2001 lease revenue bonds and reduced total debt service over the next thirteen years by $1.2 million. The economic gain from the refunding – the difference between the present values of the old and new debt service payments – was just over $1 million. Repayment of bonded debt totaled $22.3 million.

- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately $23 million, or 14.7% of fiscal year 2011 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent. The ratio exceeded the target as the Schools had a remaining appropriation of approximately $1.6 million at June 30. Encumbrances for the school operating fund at year end totaled less than $100,000.

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, public works and community development. The County's business-type activities include water and wastewater service for citizens in the unincorporated portion of the County.

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluation of the County's near-term financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. During 2011, the County implemented GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions.* The new standard replaces the previous reserved, unreserved, and designated fund balance categories with five classifications: nonspendable restricted, committed, assigned, and unassigned.

Fund balances are the differences between assets and liabilities in governmental funds.

- Nonspendable fund balance includes amounts that are not in spendable form, or amounts that are required to be maintained intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external providers, such as grantors or bondholders, as well as amounts that are restricted through enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes that are determined by a formal action of the government's highest level of decision making authority.
- Assigned fund balance applies to amounts that are intended for specific purposes as expressed by the governing body or authorized official and applies to remaining resources in any governmental funds other than the general fund.
- Unassigned fund balance includes all amounts not contained in other classifications for the general fund, and deficit fund balances in any other governmental funds.

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of $96 million, a decrease of $14.3 million in comparison with the prior year. The decrease was primarily a result of using bond proceeds received in previous years for the construction of capital assets. Of that amount, $6.4 million was nonspendable, $39.8 million was restricted, $20 million was committed, $6.8 million was assigned, and $23 million was unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23.8% of total general fund expenditures, while total fund balance represents 34.5% of that same amount.

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2011	2010	2011	2010	2011	2010	2011	2010
Current and other assets	$112.5	$125.2	$1.3	$1.1	$113.8	$126.3	$21.0	$25.8
Capital assets	159.1	134.2	20.2	20.5	179.3	154.7	17.3	18.4
Total assets	$271.6	$259.4	$21.5	$21.6	$293.1	$281.0	$38.3	$44.2
Long-term liabilities	$165.9	$164.1	$6.3	$6.4	$172.2	$170.5	$17.9	$16.9
Other liabilities	15.0	14.7	0.2	0.3	15.2	15.0	14.1	14.4
Total liabilities	$180.9	$178.8	$6.5	$6.7	$187.4	$185.5	$32.0	$31.3
Net assets:								
Invested in capital assets, net of related debt	$55.6	$47.1	$14.2	$14.2	$69.8	$61.3	$7.2	$7.7
Restricted	11.1	11.2	0.0	0.0	11.1	11.2	3.6	3.6
Unrestricted	24.0	22.3	0.8	0.7	24.8	23.0	(4.5)	1.6
Total net assets	$90.7	$80.6	$15.0	$14.9	$105.7	$95.5	$6.3	$12.9

Governmental Activities

Total net assets shown above for governmental activities are $90.7 million or $10.1 million more than in 2010. Capital assets increased by $24.9 million resulting from $29.2 million in capital additions, offset by $4.3 million in current year depreciation. Of the $29.2 million of additions, construction in progress for the new Courthouse added $10.4 million and for the new Price's Fork Elementary School added $11.1 million. The new Eastern Montgomery Elementary School was completed, with additional costs of $1.4 million in the current year. Energy improvements at various existing schools throughout the County added another $3.5 million, and costs associated with transitioning students from Blacksburg High School as a result of the gymnasium collapse accounted for just over $1.5 million. The remaining additions consisted of various smaller dollar items such as vehicles and small paving projects. An interest free Qualified School Construction Bond issuance was completed in November 2011 to provide partial funding, $7.5 million, for the new Price's Fork Elementary School and $5.87 million for the school energy improvement projects. However, the majority of bonds used to fund the capital additions were issued in prior years.

Business-Type Activities

Total net assets shown above for business-type activities are $15 million, relatively unchanged from the previous year balance of $14.9 million.

Component Units

Total net assets shown above for component units are $6.4 million for 2011, a decrease of $6.5 million from 2010. The Blacksburg High School gymnasium roof collapsed in February 2010, resulting in a receivable for related insurance proceeds of $4.4 million which increased net assets. These funds were received in 2011 and transferred to the Capital Projects fund to help offset the cost of replacing the school. Additionally, the liability for other post-employment benefits for the Schools increased $1.3 million.

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	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Program revenues:								
Charges for services	$ 2.9	$ 3.0	$ 3.8	$ 3.2	$ 6.7	$ 6.2	$ 5.3	$ 8.6
Operating grants and contributions	13.3	15.6	-	-	13.3	15.6	56.6	63.6
Capital grants and contributions	-	-	0.1	0.2	0.1	0.2	-	-
General revenues:								
Property taxes	63.8	60.1	-	-	63.8	60.1	-	-
Other taxes	10.6	10.2	-	-	10.6	10.2	-	-
Payments from Montgomery County	-	-	-	-	-	-	37.0	34.2
Grants and contributions not restricted to specific purposes	5.0	5.1	-	-	5.0	5.1	-	-
Contributions from other governments	5.3	-	-	-	5.3	-	-	-
Other	0.7	1.6	-	-	0.7	1.6	0.3	0.2
Total revenues	101.6	95.6	3.9	3.4	105.5	99.0	99.2	106.6
Expenses								
General government	7.7	9.1	-	-	7.7	9.1	-	-
Judicial administration	2.8	3.1	-	-	2.8	3.1	-	-
Public safety	13.3	13.8	-	-	13.3	13.8	-	-
Public works	5.1	5.3	-	-	5.1	5.3	-	-
Health and welfare	9.6	10.0	-	-	9.6	10.0	-	-
Education	41.0	34.8	-	-	41.0	34.8	104.5	100.6
Parks, recreation and cultural	2.9	2.9	-	-	2.9	2.9	-	-
Community development	1.7	1.7	-	-	1.7	1.7	1.4	1.5
Water	-	-	2.1	2.1	2.1	2.1	-	-
Waste water	-	-	1.7	1.9	1.7	1.9	-	-
Interest on long-term debt	7.3	7.5	-	-	7.3	7.5	-	-
Total expenses	91.4	88.2	3.8	4.0	95.2	92.2	105.9	102.1
Change in net assets	10.2	7.4	0.1	(0.6)	10.3	6.8	(6.7)	4.5
Net assets-beginning	80.6	73.2	14.9	15.5	95.5	88.7	13.0	8.5
Net assets-endindg	$ 90.8	$ 80.6	$ 15.0	$ 14.9	$ 105.8	$ 95.5	$ 6.3	$ 13.0

Revenues

For the fiscal year ended June 30, 2011, revenues from governmental activities totaled $101.6 million, an increase of $6 million. The real estate tax rate was increased 3 cents per hundred dollars of assessed value for calendar year 2011, resulting in a revenue increase of $2.1 million. Additionally, the School Operating Component Unit contributed $5.25 million in insurance recoveries to the Governmental Activities. These funds will provide a portion of the amount needed to replace Blacksburg High School, following the gymnasium roof collapse. These increases were offset by declines in operating grants and contributions of $2.3 million as some large grants were received in 2010 that were not received in 2011.

Charges for services from business-type activities totaled $3.8 million. Water fees increased approximately 2.6% effective July 1, 2010 resulting in an increase in charges for services of approximately $600,000.

Component unit revenues total $99.2 million, including a $37 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 $12.6 million, which would have brought the total transfer to $49.6 million under the previous method of accounting.

Expenses / Expenditures

Expenses for governmental activities totaled $91.4 million in 2011, an increase of $3.2 million from the previous year. Montgomery County's commitment to education is evident by the increase of $6.2 million spent in this category. The Schools implemented a spending freeze during the last part of 2010, in anticipation of additional state cuts. These revenue reductions did not occur, resulting in a decrease in County funding needed by the Schools in 2010. In 2011, the schools did not impose a spending freeze, rather, they spent significantly more funds provided by the County. Local funds were also needed to pay for a portion of the costs associated with relocating students into other facilities after the Blacksburg High School gymnasium collapse. Other areas remained steady or decreased. From 2010 to 2011, the general government category decreased $1.4 million. In 1999, the Economic Development Authority (EDA) entered into an agreement with the Economic Development Administration for a federal grant in the amount of $1,181,341. The EDA was not able to use the grant for its intended purpose, and an acceptable substitute project could not be identified. Therefore, the funds had to be returned to the Economic Development Administration. In 2010, the County reimbursed the EDA $1,181,341 for the federal grant, as it was used toward renovation costs of the County's Government Center. The decrease in this category is also due to the completion of the general reassessment project. The project began in 2009 and continued through 2010, and into the first half of 2011; therefore, costs in 2011 decreased. A hiring freeze was in place during 2011 which lowered expenses throughout the County by approximately $600,000. Departments continued to monitor spending closely and manage budgets carefully resulting in additional savings from 2010.

Expenses for business-type activities decreased by $200,000. The decrease was solely in the Wastewater fund, with Water fund expenses remaining unchanged.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed $37 million to the operation of the Schools. Depreciation expense related to the schools totaled $1.5 million. Total expenses for education were $41 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 $53.6 million, or 58.6%. 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 72% of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2011.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2011, the governmental funds reflect a combined fund balance of $96 million, a decrease of $14.3 million from June 30, 2010. This decrease is due primarily to spending a portion of the $77 million bonds issued in 2009. In the current year, bonds totaling only $13.37 million were issued to fund the school energy projects and a portion of the Price's Fork Elementary School.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2011 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	$ 72.0	$ 72.1	$ 73.9
Intergovernmental	17.3	19.5	18.5
Other	2.6	3.0	3.1
Total	91.9	94.6	95.5
Expenditures and transfers	92.1	103.2	96.8
Change in fund balance	$ (0.2)	$ (8.6)	$ (1.3)

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants were received and budgeted during the fiscal year to account for the $2.2 million increase in this category. Budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

There is a significant increase in the final budget for expenditures over the original budget primarily resulting from encumbrances and carryovers from the 2010 budget and the appropriation of grants received and one-time expenditures throughout the year.

Actual tax revenue exceeded the budgeted amount by $1.8 million. Effective January 1, 2011, the real estate tax rate was increased two cents per $100 of assessed value. This was not included in the budgeted amounts due to the timing of the increase, resulting in additional revenue of approximately $700,000. Delinquent property taxes exceeded the budget by $500,000, and personal property taxes exceeded the estimate by $400,000. This was a result of implementing a new valuation process for personal property. 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 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 $1.6 million lower than the budgeted amount. This is due to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The County transferred the balance of these funds to the Schools in fiscal year 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the County had invested $159.1 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2011	2010	2011	2010	2011	2010	2011	2010
Non-depreciable assets								
Land	$ 13.9	$ 13.7	$ 0.3	$ 0.3	$ 14.2	$ 14.0	$ 0.4	$ 0.4
Construction in progress	31.4	30.8	-	-	31.4	30.8	-	0.5
Depreciable capital assets								
Infrastructure	-	-	32.5	31.9	32.5	31.9	-	-
Buildings and improvements	128.2	108.9	0.1	0.1	128.3	109.0	42.1	41.6
Machinery and equipment	18.2	17.7	0.6	0.6	18.8	18.3	14.6	13.9
Accumulated depreciation	(32.6)	(36.9)	(13.3)	(12.4)	(45.9)	(49.3)	(39.8)	(38.0)
Total	**$ 159.1**	**$ 134.2**	**$ 20.2**	**$ 20.5**	**$ 179.3**	**$ 154.7**	**$ 17.3**	**$ 18.4**

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

	Balance June 30, 2010	Net Additions/ (Deletions)	Balance June 30, 2011
Non-depreciable assets			
Land	$ 14.4	$ 0.2	$ 14.6
Construction in progress	31.3	0.1	31.4
Depreciable capital assets			
Infrastructure	31.9	0.6	32.5
Buildings and improvements	150.6	19.8	170.4
Machinery and equipment	32.2	1.2	33.4
Accumulated depreciation	(87.3)	1.6	(85.7)
Total	**$ 173.1**	**$ 23.5**	**$ 196.6**

Governmental Activities

In 2011, the County continued construction on the new Courthouse project at a cost of $10.4 million and on the new Price's Fork Elementary School with a cost of $11.1 million. The Eastern Montgomery Elementary School, with a total cost of $22.8 million was completed and transferred from construction in progress to buildings and improvements. Current year costs on this project totaled $1.4 million.

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

Long Term Debt

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2011, in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General obligation bonds	$ 34.0	$ 22.9	$ -	$ -	$ 34.0	$ 22.9
Lease revenue bonds	82.2	102.1	-	-	82.2	102.1
Literary loans	2.8	3.0	-	-	2.8	3.0
Refunding bonds	43.9	32.8	-	-	43.9	32.8
Revenue bonds	-	-	6.1	6.3	6.1	6.3
Total	$ 162.9	$ 160.8	$ 6.1	$ 6.3	$ 169.0	$ 167.1

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

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

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Net debt per capita should remain under $2,000. Net debt is defined as any and all debt that is tax-supported.
4. Net debt as a percentage of estimated market value of taxable property should target 3% but not exceed 4%.
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%.
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, 2011, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is, as of September 2011, 6.8 percent, an increase from the rate a year ago which was 6.7 percent. The current rate is slightly higher than the state's average unemployment rate of 6.4 percent.

The Board of Supervisors increased the tax rate to $0.75 per $100 of assessed value for calendar year 2012. The general reassessment of real property, which occurs every four years as required by the *Code of Virginia*, was effective for the 2012 land book. When considering the reassessed values, the revenue neutral tax rate was $0.73 per $100 of assessed value. The approved tax rate of $0.75 per $100 of assessed value represents a two cent increase.

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.

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BASIC FINANCIAL STATEMENTS

EXHIBIT 1

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	$ 40,110,080	$ 561,978	$ 40,672,058	$ 1,538,998	$ 355,268	$ 42,566,324
Receivables, net (Note 5)	2,645,087	536,096	3,181,183	-	7,447	3,188,630
Due from primary government	-	-	-	4,833,111	-	4,833,111
Due from other governmental units (Note 6)	2,617,725	-	2,617,725	3,011,404	7,782	5,636,911
Internal balances (Note 7)	7,710	(7,710)	-	-	-	-
Prepaids	319,317	12,948	332,265	1,476,397	13,741	1,822,403
Inventories	-	28,911	28,911	119,679	5,599,617	5,748,207
Advances to component unit (Note 15)	5,211,109	-	5,211,109	-	-	5,211,109
Restricted assets:						
Cash and cash equivalents (Note 4)	306,141	37,300	343,441	7,035	-	350,476
Investments (Note 4)	58,088,126	-	58,088,126	-	-	58,088,126
Notes receivable	-	-	-	-	3,325,000	3,325,000
Accrued interest receivable	-	-	-	-	268,183	268,183
Notes receivable (Note 15)	1,178,994	-	1,178,994	-	3,153	1,182,147
Lease receivable	-	-	-	-	372,060	372,060
Debt issuance costs, net	2,009,591	64,148	2,073,739	-	7,500	2,081,239
Capital assets: (Note 8)						
Non-depreciable	45,307,053	340,389	45,647,442	394,257	49,524	46,091,223
Depreciable, net	113,832,900	19,920,803	133,753,703	7,892,250	8,997,727	150,643,680
Total assets	271,633,833	21,494,863	293,128,696	19,273,131	19,007,002	331,408,829
LIABILITIES						
Accounts payable and accrued expenses	5,834,117	163,037	5,997,154	281,995	35,783	6,314,932
Accrued payroll and related liabilities	827,725	35,090	862,815	7,205,812	-	8,068,627
Accrued interest payable	2,605,825	10,570	2,616,395	-	-	2,616,395
Amounts held for others	306,141	-	306,141	7,035	-	313,176
Advances from primary government (Note 15)	-	-	-	-	5,211,109	5,211,109
Due to other governmental units (Notes 6 and 15)	486,855	-	486,855	-	1,178,994	1,665,849
Due to component unit	4,833,111	-	4,833,111	-	-	4,833,111
Unearned revenue (Note 5)	155,230	-	155,230	-	10,000	165,230
Customer deposits	-	37,300	37,300	-	110,000	147,300
Long-term liabilities: (Note 9)						
Due within one year	13,067,818	275,361	13,343,179	1,119,104	380,408	14,842,691
Due in more than one year	152,767,142	5,959,408	158,726,550	6,485,915	9,929,222	175,141,687
Total liabilities	180,883,964	6,480,766	187,364,730	15,099,861	16,855,516	219,320,107
NET ASSETS						
Invested in capital assets, net of related debt	55,522,450	14,203,773	69,726,223	8,286,507	(1,114,739)	76,897,991
Restricted:						
Debt service	11,146,947	-	11,146,947	-	-	11,146,947
Note receivable	-	-	-	-	3,593,183	3,593,183
Unrestricted	24,080,472	810,324	24,890,796	(4,113,237)	(326,958)	20,450,601
Total net assets	$ 90,749,869	$ 15,014,097	$105,763,966	$ 4,173,270	$ 2,151,486	$112,088,722

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

EXHIBIT 2

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
					Primary Government			Component Units		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority	Total
Primary Government:										
Governmental activities:										
General government administration	$ 7,725,594	$ 550,854	$ 192,415	$ -	$ (6,982,325)	$ -	$ (6,982,325)	$ -	$ -	$ (6,982,325)
Judicial administration	2,784,098	504,099	1,142,225	-	(1,137,774)	-	(1,137,774)	-	-	(1,137,774)
Public safety	13,329,812	723,997	4,176,063	-	(8,429,752)	-	(8,429,752)	-	-	(8,429,752)
Public works	5,114,845	305,159	28,693	-	(4,780,993)	-	(4,780,993)	-	-	(4,780,993)
Health and welfare	9,590,573	195,029	6,864,283	-	(2,531,261)	-	(2,531,261)	-	-	(2,531,261)
Education	41,033,802	-	636,980	-	(40,396,822)	-	(40,396,822)	-	-	(40,396,822)
Parks, recreational, and cultural	2,872,328	594,212	223,231	-	(2,054,885)	-	(2,054,885)	-	-	(2,054,885)
Community development	1,670,510	31,787	-	-	(1,638,723)	-	(1,638,723)	-	-	(1,638,723)
Interest on long-term debt	7,303,475	-	-	-	(7,303,475)	-	(7,303,475)	-	-	(7,303,475)
Total governmental activities	91,425,037	2,905,137	13,263,890	-	(75,256,010)	-	(75,256,010)	-	-	(75,256,010)
Business-type activities:										
Water	2,066,038	1,834,729	-	77,398	-	(153,911)	(153,911)	-	-	(153,911)
Wastewater	1,712,959	1,442,204	-	492,233	-	221,478	221,478	-	-	221,478
Total business-type activities	3,778,997	3,276,933	-	569,631	-	67,567	67,567	-	-	67,567
Total primary government	$ 95,204,034	$ 6,182,070	$ 13,263,890	$ 569,631	(75,256,010)	67,567	(75,188,443)	-	-	(75,188,443)
Component Units:										
School Board	$ 104,468,568	$ 4,127,366	$ 56,634,865	$ -	-	-	-	(43,706,337)	-	(43,706,337)
Industrial Development Authority	1,433,798	1,169,562	-	-	-	-	-	-	(264,236)	(264,236)
Total component units	$ 105,902,366	$ 5,296,928	$ 56,634,865	$ -	-	-	-	(43,706,337)	(264,236)	(43,970,573)
General Revenues:										
General property taxes (Note 5)					63,793,078	-	63,793,078	-	-	63,793,078
Sales and use tax					7,218,180	-	7,218,180	-	-	7,218,180
Utility tax					1,877,600	-	1,877,600	-	-	1,877,600
Motor vehicle license tax					643,643	-	643,643	-	-	643,643
Other local taxes					865,683	-	865,683	-	-	865,683
Intergovernmental revenue, unrestricted					5,010,686	-	5,010,686	-	-	5,010,686
Investment earnings, unrestricted					332,786	2,097	334,883	17,930	202,361	555,174
Investment earnings, restricted for capital projects					416,478	-	416,478	-	-	416,478
Payments from Montgomery County					-	-	-	42,280,159	92,286	42,372,445
Contribution from Schools (Note 7)					5,250,000	-	5,250,000	(5,250,000)	-	-
Total general revenues and transfers					85,408,134	2,097	85,410,231	37,048,089	294,647	122,752,967
Change in net assets					10,152,124	69,664	10,221,788	(6,658,248)	30,411	3,593,951
Net assets – beginning					80,597,745	14,944,433	95,542,178	10,831,518	2,121,075	108,494,771
Net assets – ending					$ 90,749,869	$ 15,014,097	$ 105,763,966	$ 4,173,270	$ 2,151,486	$ 112,088,722

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

EXHIBIT 3

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	County Capital Improvements	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 30,785,824	$ 9,324,256	$ 40,110,080
Receivables, net	2,645,087	-	2,645,087
Due from other governmental units	2,617,725	-	2,617,725
Advances to other funds	7,710	-	7,710
Advances to component unit	5,211,109	-	5,211,109
Notes receivable	1,178,994	-	1,178,994
Restricted assets:			
Cash and cash equivalents	306,141	-	306,141
Investments	-	58,088,126	58,088,126
Total assets	$ 42,752,590	$ 67,412,382	$ 110,164,972
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 928,031	$ 4,838,405	$ 5,766,436
Accrued payroll and related liabilities	895,406	-	895,406
Due to other governmental units	486,855	-	486,855
Due to component unit	4,833,111	-	4,833,111
Deferred revenue (Note 5)	1,908,728	-	1,908,728
Amounts held for others	306,141	-	306,141
Total liabilities	9,358,272	4,838,405	14,196,677
Fund Balances:			
Nonspendable	6,390,103	-	6,390,103
Restricted	163,400	39,588,913	39,752,313
Committed	1,637,026	18,336,052	19,973,078
Assigned	2,153,987	4,649,012	6,802,999
Unassigned	23,049,802	-	23,049,802
Total fund balances	33,394,318	62,573,977	95,968,295
Total liabilities and fund balances	$ 42,752,590	$ 67,412,382	$ 110,164,972

(Continued)

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

EXHIBIT 3
(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

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

Ending fund balance – governmental funds		$ 95,968,295
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		159,139,953
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		319,317
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,753,498
Debt issuance costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.		2,009,591
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-term debt, including premium, discounts, and deferred amounts	$ (161,705,593)	
Landfill closure/post-closure liability	(1,050,163)	
Compensated absences	(2,275,840)	
Other postemployment benefits	(803,364)	
Accrued interest payable	(2,605,825)	
		(168,440,785)
Net assets of governmental activities		$ 90,749,869

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

EXHIBIT 4

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	$ 63,089,362	$ -	$ 63,089,362
Other local taxes	10,605,105	-	10,605,105
Permits, privilege fees, and regulatory licenses	666,849	-	666,849
Fines and forfeitures	116,968	-	116,968
Revenue from use of money and property	332,786	416,478	749,264
Charges for services	733,701	-	733,701
Recovered costs	1,160,388	233,408	1,393,796
Intergovernmental	18,274,576	-	18,274,576
Total revenues	94,979,735	649,886	95,629,621
EXPENDITURES			
Current operating:			
General government administration	7,659,535	-	7,659,535
Judicial administration	2,760,189	-	2,760,189
Public safety	12,729,447	-	12,729,447
Public works	4,286,792	-	4,286,792
Health and welfare	9,609,463	-	9,609,463
Education	37,065,839	-	37,065,839
Parks, recreation, and cultural	2,807,902	-	2,807,902
Community development	1,365,242	-	1,365,242
Debt service:			
Principal retirement	11,218,254	-	11,218,254
Interest and fiscal charges	7,360,740	-	7,360,740
Bond issuance costs	-	517,284	517,284
Capital projects	-	30,369,502	30,369,502
Total expenditures	96,863,403	30,886,786	127,750,189
Excess (deficiency) of revenues over expenditures	(1,883,668)	(30,236,900)	(32,120,568)
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	13,370,000	13,370,000
Issuance of refunding bonds	-	12,705,000	12,705,000
Bond premium	-	181,804	181,804
Premium on called bonds	-	(1,026,966)	(1,026,966)
Transfer to escrow agent	(993,027)	(11,686,978)	(12,680,005)
Contributions from component unit	-	5,250,000	5,250,000
Transfers in	3,225,264	1,866,358	5,091,622
Transfers out	(1,866,358)	(3,225,264)	(5,091,622)
Total other financing sources	365,879	17,433,954	17,799,833
Net change in fund balances	(1,517,789)	(12,802,946)	(14,320,735)
FUND BALANCES AT JULY 1	34,912,107	75,376,923	110,289,030
FUND BALANCES AT JUNE 30	$ 33,394,318	$ 62,573,977	$ 95,968,295

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

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

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		$ (14,320,735)
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 ($4,345,310) and the loss on disposals ($420,507) are less than capital outlay ($29,652,359) in the current period.		24,886,542
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		703,716
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.		
Issuance of lease revenue bonds	$ (12,705,000)	
Issuance of general obligation bonds	(13,370,000)	
Principal repayments:		
General obligation bonds	2,251,177	
Lease revenue bonds	19,832,774	
Literary fund loans	254,140	
Refunding bonds	1,560,168	
		(2,176,741)
Governmental funds report the effect of bond issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrued, regardless of when it is due. The net effect of those differences are as follows:		
Premium on issuance of lease revenue bonds	(181,804)	
Premium on called debt	1,026,966	
Bond issuance costs	517,284	
Amortization of bond issuance costs and premium on called debt	(316,930)	
Amortization of bond premium	138,905	
Amortization of deferred amounts	(45,409)	
Interest expense	280,698	
		1,419,710
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.		(360,368)
Change in net assets of governmental activities		$ 10,152,124

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

EXHIBIT 5

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (CASH BASIS)
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	$ 61,722,552	$ 61,753,149	$ 63,445,086	$ 1,691,937
Other local taxes	10,312,372	10,312,372	10,518,067	205,695
Permits, privilege fees, and regulatory licenses	720,105	722,546	683,599	(38,947)
Fines and forfeitures	100,000	100,000	116,125	16,125
Revenue from use of money and property	452,099	452,099	332,786	(119,313)
Charges for services	538,134	763,948	719,953	(43,995)
Recovered costs	697,368	967,377	1,170,228	202,851
Intergovernmental	17,341,913	19,486,194	18,535,091	(951,103)
Total revenues	91,884,543	94,557,685	95,520,935	963,250
EXPENDITURES				
Current operating:				
General government administration	7,453,927	9,412,852	7,681,888	1,730,964
Judicial administration	2,707,709	2,900,691	2,759,649	141,042
Public safety	11,790,085	13,414,400	12,655,967	758,433
Public works	4,136,674	4,793,971	4,334,574	459,397
Health and welfare	9,652,362	9,980,587	9,535,891	444,696
Education	35,749,871	39,061,199	37,447,103	1,614,096
Parks, recreation, and cultural	2,490,893	3,085,823	2,809,165	276,658
Community development	1,302,774	1,563,582	1,371,358	192,224
Debt service:				
Principal retirement	10,839,238	12,129,238	11,218,254	910,984
Interest and fiscal charges	6,923,745	7,612,907	7,360,740	252,167
Total expenditures	93,047,278	103,955,250	97,174,589	6,780,661
Excess (deficiency) of revenues over expenditures	(1,162,735)	(9,397,565)	(1,653,654)	7,743,911
OTHER FINANCING SOURCES (USES)				
Payments to escrow agent	-	-	(993,027)	(993,027)
Transfers in	1,893,883	3,226,065	3,225,264	(801)
Transfers out	(908,748)	(2,435,106)	(1,866,358)	568,748
Total other financing sources (uses)	985,135	790,959	365,879	(425,080)
Net change in fund balance (cash basis)	$ (177,600)	$ (8,606,606)	$ (1,287,775)	$ 7,318,831

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

EXHIBIT 6

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 561,978	$ -	$ 561,978
Receivables, net	298,062	238,034	536,096
Due from other funds	424,431	(424,431)	-
Prepaids	6,849	6,099	12,948
Inventories	28,361	550	28,911
Deferred bond costs	1,065	1,919	2,984
Total current assets	1,320,746	(177,829)	1,142,917
Noncurrent assets:			
Cash and cash equivalents, restricted	37,300	-	37,300
Deferred bond costs	21,822	39,342	61,164
Capital assets:			
Non-depreciable	322,389	18,000	340,389
Depreciable, net	10,611,493	9,309,310	19,920,803
Total noncurrent assets	10,993,004	9,366,652	20,359,656
Total assets	12,313,750	9,188,823	21,502,573
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	68,288	129,839	198,127
Accrued interest payable	6,463	4,107	10,570
Due to other funds	7,710	-	7,710
Current portion of noncurrent liabilities	162,886	112,475	275,361
Total current liabilities	245,347	246,421	491,768
Noncurrent liabilities:			
Customer deposits	22,520	14,780	37,300
Due in more than one year	3,641,406	2,318,002	5,959,408
Total noncurrent liabilities	3,663,926	2,332,782	5,996,708
Total liabilities	3,909,273	2,579,203	6,488,476
NET ASSETS			
Invested in capital assets, net of related debt	7,240,949	6,962,824	14,203,773
Unrestricted	1,163,528	(353,204)	810,324
Total net assets	$ 8,404,477	$ 6,609,620	$ 15,014,097

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

EXHIBIT 7

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	$ 1,494,277	$ -	$ 1,494,277
Wastewater revenues	-	1,264,013	1,264,013
Penalties and reconnection charges	32,587	13,735	46,322
Fees	182,598	80,302	262,900
Miscellaneous	25,769	16,161	41,930
Total operating revenues	1,735,231	1,374,211	3,109,442
OPERATING EXPENSES			
Salaries and wages	375,200	313,090	688,290
Employee benefits	191,376	161,042	352,418
Utilities and telephone	38,170	67,374	105,544
Water and wastewater services	466,299	462,043	928,342
Operating supplies, fees, permits	55,253	33,288	88,541
Professional services	122,430	23,961	146,391
Repairs and maintenance	167,498	76,829	244,327
Insurance	16,816	14,657	31,473
Vehicle supplies and miscellaneous	32,574	21,356	53,930
Bad debts	4,659	4,170	8,829
Office supplies and miscellaneous	30,643	6,906	37,549
Amortization	1,065	1,919	2,984
Depreciation	411,387	429,662	841,049
Total operating expenses	1,913,370	1,616,297	3,529,667
Operating loss	(178,139)	(242,086)	(420,225)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	2,097	-	2,097
Gain on disposal of capital asset	2,975	-	2,975
Facility fees	104,157	72,163	176,320
Interest expense	(157,327)	(100,832)	(258,159)
Total nonoperating revenues (expenses)	(48,098)	(28,669)	(76,767)
Loss before contributions and transfers	(226,237)	(270,755)	(496,992)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	61,942	492,233	554,175
CAPITAL CONTRIBUTIONS FROM STATE GRANTS	12,481	-	12,481
Change in net assets	(151,814)	221,478	69,664
NET ASSETS AT JULY 1	8,556,291	6,388,142	14,944,433
NET ASSETS AT JUNE 30	$ 8,404,477	$ 6,609,620	$ 15,014,097

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

EXHIBIT 8

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	$ 1,731,092	$ 1,364,878	$ 3,095,970
Payments to suppliers	(845,092)	(673,027)	(1,518,119)
Payments to employees	(555,535)	(475,796)	(1,031,331)
Payments to County for financial services	(96,869)	-	(96,869)
Net cash provided by operating activities	233,596	216,055	449,651
NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	47,350	(47,350)	-
Net cash provided by (used in) noncapital financing activities	47,350	(47,350)	-
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(29,287)	(29,287)
Facility fee payments from customers	104,157	72,163	176,320
Proceeds from state grant	12,481	-	12,481
Proceeds from the sale of capital assets	2,975	-	2,975
Principal payments on debt	(105,142)	(110,633)	(215,775)
Interest payments on debt	(157,511)	(100,948)	(258,459)
Net cash used in capital and related financing activities	(143,040)	(168,705)	(311,745)
INVESTING ACTIVITIES			
Interest received	2,097	-	2,097
Net increase in cash and cash equivalents	140,003	-	140,003
CASH AND CASH EQUIVALENTS			
Beginning at July 1	459,275	-	459,275
Ending at June 30	$ 599,278	$ -	$ 599,278
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	$ 561,978	$ -	$ 561,978
Cash and cash equivalents, restricted	37,300	-	37,300
	$ 599,278	$ -	$ 599,278
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (178,139)	$ (242,086)	$ (420,225)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	411,387	429,662	841,049
Amortization	1,065	1,919	2,984
(Increase) decrease in:			
Accounts receivable	(1,550)	(6,493)	(8,043)
Prepaids	709	(304)	405
Inventory	(7,052)	5	(7,047)
(Decrease) increase in:			
Accounts payable	(6,329)	41,168	34,839
Advances payable for operating items	394	-	394
Accrued payroll and related liabilities	(1,756)	(19,384)	(21,140)
Other postemployment benefits	12,797	10,238	23,035
Customer deposits	2,070	1,330	3,400
Net cash provided by operating activities	$ 233,596	$ 216,055	$ 449,651
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	$ 61,942	$ 492,233	$ 554,175

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

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

Montgomery County School Board

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

Montgomery County Economic Development Authority

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

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, 2011, the County contributed $363,040 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, 2011, 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 one year, 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, 2011, the County paid $772,921 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, 2011, the County paid $19,137 toward operations of the MPO.

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the year ended June 30, 2011, the County paid $2,505,963 to the WVRJA.

New River Valley Emergency Communications Regional Authority

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority will provide quality and reliable 911 dispatch and emergency communication services to the community and agencies in these localities. The County has one member on the Board of this organization. During fiscal year 2011, the County did not contribute any funds toward the operations of the Communications Authority.

B. Government-Wide and Fund Financial Statements

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

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

The County reports the following major governmental funds:

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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.

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.

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 uncollectible amounts calculated by management using historical collection data, specific account analysis, and management's judgment.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories

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

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

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest capitalized for during the current fiscal year totaled $8,417.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Deferred/Unearned Revenues

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

Long-term Liabilities

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.

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 Balances

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Net Assets/Fund Balances (Continued)

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable –** Amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans or advances.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the County Board of Supervisors; to be reported as committed, amounts cannot be used for any other purposes unless the Board of Supervisors takes action to remove or change the constraint. The Board of Supervisors adopts the amount to be included as revenue stabilization when the budget is approved. The Board must adopt a separate resolution appropriating these funds prior to their expenditure.
- **Assigned** – Amounts the County intends to use for a specified purpose; intent can be expressed by the governing body or by the County Administrator who has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Supervisors establishes fund balance commitments by passage of resolutions. Assigned fund balance is established by the Board of Supervisors by passage of resolutions appropriating funds for specific purpose, including but not limited to the purchase of capital assets, construction, or debt service.

Restricted Amounts

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Minimum Fund Balance Policy

The General Fund reserve target is eight to ten percent of general fund plus school operating fund revenues. For the purpose of determining if the target has been met, the unassigned fund balance of the general fund is then compared to the general fund plus school operating fund revenues, excluding the general fund transfer to the school operating fund.

Other governmental funds of the County do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by the Board of Supervisors.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2011 total $808,172 in the general fund and $9,670,647 in the capital projects fund.

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.
- 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.

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

Budgetary Information (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Project Fund. Program and project budgets are utilized for the Capital Projects Fund where funds remaining at the end of the year are reappropriated each year until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- Appropriations lapse on June 30 for all County units. The Board of Supervisors approved additional General Fund appropriations of $10,907,972 during the fiscal year ended June 30 primarily for transfers for public safety, health and welfare, education, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	Primary Government	Component Unit – School Board	
	General Fund	Operating	Cafeteria
Net change in fund balance (budgetary basis)	$ (1,287,775)	$ -	$ 255,431
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2011	9,751,897	7,280,056	-
June 30, 2010	(10,208,226)	(7,382,428)	(72,111)
Inventory:			
June 30, 2011	-	-	119,679
June 30, 2010	-	-	(92,480)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2011	(7,143,403)	(7,280,056)	(205,751)
June 30, 2010	7,369,718	7,382,428	214,268
Net change in fund balance (GAAP basis)	$ (1,517,789)	$ -	$ 219,036

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)	$ 97,093,048
Principal and other debt service expenses included in primary Government (Exhibit 4)	12,617,273
Total expenditures for school activities	$ 109,710,321

Note 4. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Note 4. Deposits and Investments (Continued)

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.

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

Investment Type	Fair Value	Standard and Poor's Credit Rating	Percentage of Portfolio
Primary Government			
Demand deposits	$ 41,015,500	NA	41%
SNAP	4,055,413	AAA	4
Money market accounts	54,032,712	AAAm	55
Total	$ 99,103,625		100%
Component Unit – School Board			
Demand deposits	$ 1,546,033	NA	100%

Credit Risk

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

Note 4. Deposits and Investments (Continued)

Concentration of Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

The previous items are reflected in the statements as follows:

	Primary Government	Component Unit – School Board
Deposits and investments		
Cash and cash equivalents	$ 40,672,058	$ 1,538,998
Investments, restricted	58,088,126	-
Cash and cash equivalents, restricted	343,441	7,035
	$ 99,103,625	$ 1,546,033

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 two new school buildings, and renovation of an old high school for use as a middle school.

Note 5. Receivables

Receivables are as follows:

	General	Water	Wastewater	Total
Receivables				
Taxes	$ 3,061,933	$ -	$ -	$ 3,061,933
Accounts	-	322,062	258,034	580,096
Gross receivables	3,061,933	322,062	258,034	3,642,029
Less:				
Allowance for uncollectibles	(416,846)	(24,000)	(20,000)	(460,846)
Net total receivables	$ 2,645,087	$ 298,062	$ 238,034	$ 3,181,183

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 13.6% of the total taxes receivable and is based on historical collection rates.

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

Deferred and Unearned Revenue

Property taxes receivable – unavailable	$ 1,753,498
Property taxes receivable – unearned	155,230
Total deferred revenue	$ 1,908,728

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, 2011 includes amounts not yet received from the January 1, 2011 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 2011 is $0.74 per $100 of assessed value.

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

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
Commonwealth of Virginia:	
Governor's Opportunity Fund	$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	106,855
	$ 486,855

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
Commonwealth of Virginia:		
Metropolitan Planning Organization	$ 43,363	$ -
Local sales tax	1,207,361	-
State sales tax	-	1,744,458
Categorical aid – shared expenses	462,025	-
Categorical aid – schools	-	86,889
Non-categorical aid	141,236	-
Excess clerk fees	5,699	-
Virginia public assistance funds	173,924	-
Community services act	323,611	-
Fire program funds	8,927	-
Federal Government:		
Virginia public assistance funds	251,579	-
Categorical aid – school grants	-	1,180,057
	$ 2,617,725	$ 3,011,404

Note 7. Interfund Balances and Transfers

Interfund balances consisted of the following:

Receivable Fund	Payable Fund	Amount
General	Water	$ 7,710
Water	Wastewater	424,431
		$ 432,141

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 it 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.

Transfer In	Transfer Out	Amount
County Capital Improvements	General	$ 1,866,358
General	County Capital Improvements	$ 3,225,264

Transfers to the County Capital Improvements fund from the General fund were to support capital projects. Transfers to the General fund from the County Capital Improvements fund were to provide funding for debt service.

Note 8. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 13,740,944	$ 145,555	$ -	$ 13,886,499
Construction in progress	30,789,388	23,416,395	22,785,229	31,420,554
Total capital assets, not depreciated	44,530,332	23,561,950	22,785,229	45,307,053
Capital assets, depreciated:				
Buildings and improvements	108,910,174	27,768,211	8,468,490	128,209,895
Machinery and equipment	17,748,713	1,107,427	608,546	18,247,594
Total capital assets, depreciated	126,658,887	28,875,638	9,077,036	146,457,489
Less accumulated depreciation:				
Buildings and improvements	27,179,659	2,210,215	8,054,158	21,335,716
Machinery and equipment	9,756,149	2,135,095	602,371	11,288,873
Total accumulated depreciation	36,935,808	4,345,310	8,656,529	32,624,589
Total capital assets, depreciated, net	89,723,079	24,530,328	420,507	113,832,900
Capital assets, net	$134,253,411	$ 48,092,278	$ 23,205,736	$159,139,953

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
Total capital assets, not depreciated	340,389	-	-	340,389
Capital assets, depreciated:				
Wastewater systems	16,392,715	521,520	-	16,914,235
Water systems	15,493,926	61,942	-	15,555,868
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	633,210	-	6,975	626,235
Total capital assets, depreciated	32,624,169	583,462	6,975	33,200,656
Less accumulated depreciation:				
Wastewater systems	7,008,758	421,998	-	7,430,756
Water systems	4,819,815	384,328	-	5,204,143
Buildings and improvements	84,679	2,918	-	87,597
Machinery and equipment	532,527	31,805	6,975	557,357
Less accumulated depreciation	12,445,779	841,049	6,975	13,279,853
Total capital assets, depreciated, net	20,178,390	(257,587)	-	19,920,803
Capital assets, net	$ 20,518,779	$ (257,587)	$ -	$ 20,261,192

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	$ 126,668
Judicial administration	3,538
Public safety	889,440
Public works	846,676
Health and welfare	10,362
Education	2,425,578
Parks, recreation, and cultural	38,438
Community development	4,610
	$ 4,345,310
Business-type activities:	
Water	$ 411,387
Wastewater	429,662
	$ 841,049

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

Project	Spent to Date	Remaining Balance
Elementary School – Price's Fork	$ 13,346,157	$ 3,868,335
Courthouse Project	16,157,733	7,026,234
Public Safety Building	-	926,000
	$ 29,503,890	$ 11,820,569

Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 394,257	$ -	$ -	$ 394,257
Total capital assets, not Depreciated	394,257	-	-	394,257
Capital assets, depreciated:				
Buildings and improvements	31,525,160	-	-	31,525,160
Machinery and equipment	13,917,550	717,652	111,481	14,523,721
Total capital assets, depreciated	45,442,710	717,652	111,481	46,048,881
Less accumulated depreciation:				
Buildings and improvements	29,408,225	488,499	-	29,896,724
Machinery and equipment	7,316,708	1,054,680	111,481	8,259,907
Total accumulated depreciation	36,724,933	1,543,179	111,481	38,156,631
Total capital assets, depreciated, net	8,717,777	(825,527)	-	7,892,250
Capital assets, net	$ 9,112,034	$ (825,527)	$ -	$ 8,286,507

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

Note 9. Long-Term Debt

Current Year Defeasance of Debt

2010 Issue

On November 23, 2010, the County issued $12,705,000 in 2010 refunding bonds. Proceeds of the bonds, with an average interest rate of 2.71%, were used to current and advance refund the Series 2001 lease revenue bonds maturing January 15, 2011 to January 15, 2023 with an average interest rate of 5.2%. The net proceeds of approximately $13,706,966 (after payment of $136,951 in issuance costs and $123,575 in underwriter's compensation plus $181,804 in bond premiums) and an additional $993,027 County funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments on the 2001 bonds. As a result, the 2001 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The refunding on the 2001 issue resulted in a call premium of $1,026,966. This is reported in the accompanying financial statements as a subtraction from bonds payable, and is being amortized over the life of the new bonds as a component of interest expense through the year 2023. The County completed the refunding to reduce its total debt service payments over the next thirteen years by $1,177,291 and to obtain economic gain (difference between the present values of the old and new debt service payments) of $1,015,675.

Note 9. Long-Term Debt (Continued)

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	$ 22,894,924	$ 13,370,000	$ 2,251,177	$ 34,013,747	$ 2,551,529
Lease revenue bonds	102,077,604	-	19,832,774	82,244,830	4,670,271
Literary fund loans	3,004,140	-	254,140	2,750,000	250,000
Refunding bonds	32,780,645	12,705,000	1,560,168	43,925,477	3,914,700
Landfill post-closure	1,034,634	15,529	-	1,050,163	88,230
Other post-employment benefits	513,067	338,645	48,348	803,364	-
Compensated absences	2,292,217	1,576,711	1,593,088	2,275,840	1,593,088
Governmental activities long-term liabilities	$ 164,597,231	$ 28,005,885	$ 25,539,695	$ 167,063,421	$ 13,067,818
Business-Type Activities:					
Revenue bonds	$ 6,262,392	$ -	$ 204,973	$ 6,057,419	$ 195,691
Notes payable	10,802	-	10,802	-	-
Other post-employment benefits	40,500	23,035	-	63,535	-
Compensated absences	127,984	113,815	127,984	113,815	79,670
Business-type activities long-term liabilities	$ 6,441,678	$ 136,850	$ 343,759	$ 6,234,769	$ 275,361

Component Unit – School Board

Other post-employment benefits	$ 2,597,000	$ 1,652,535	$ 373,620	$ 3,875,915	$ -
Compensated absences	3,697,151	1,151,057	1,119,104	3,729,104	1,119,104
Component unit – school board long-term liabilities	$ 6,294,151	$ 2,803,592	$ 1,492,724	$ 7,605,019	$ 1,119,104

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

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
2012	$ 2,551,529	$ 1,318,909	$ 4,670,271	$ 3,766,510	$ 3,914,700	$ 1,733,422	$ 250,000	$ 82,500
2013	2,405,249	1,241,731	4,709,351	3,553,405	3,989,879	1,598,133	250,000	75,000
2014	2,609,849	1,169,116	4,750,081	3,372,236	4,105,751	1,464,855	250,000	67,500
2015	2,610,329	1,098,839	4,792,533	3,179,985	4,222,362	1,317,212	250,000	60,000
2016	2,761,626	1,027,883	4,836,777	2,985,941	4,164,763	1,154,973	250,000	52,500
2017-2021	11,991,081	4,225,344	24,915,794	11,538,847	21,133,022	3,141,051	1,250,000	150,000
2022-2026	7,693,790	3,568,665	22,335,023	5,828,245	2,395,000	123,250	250,000	7,500
2027-2031	1,390,294	709,947	11,235,000	1,123,500	-	-	-	-
	$ 34,013,747	$ 14,360,434	$ 82,244,830	$ 35,348,669	$ 43,925,477	$ 10,532,896	$ 2,750,000	$ 495,000

Year Ended June 30	Business-Type Activities Revenue Bonds	
	Principal	Interest
2012	$ 195,691	$ 250,276
2013	185,968	242,640
2014	193,931	234,677
2015	202,235	226,373
2016	210,894	217,714
2017-2021	1,197,906	945,134
2022-2026	1,477,288	665,751
2027-2031	1,795,866	321,973
2032-2033	597,640	20,068
	$ 6,057,419	$ 3,124,606

Note 9. Long-Term Debt (Continued)

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	4.9 - 6.6%	01/15/92	2012	$ 1,893,607	$ 122,725	$ -
School Construction Bonds	5.1 - 5.5	04/29/93	2012	3,000,000	205,000	-
School Construction Bonds	4.5 - 5.0	11/18/93	2014	3,000,000	65,000	-
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	1,170,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	1,630,130	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	2,120,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	7,566,188	-
Qualified School Construction Bonds	0.0	11/13/09	2027	8,249,998	7,764,704	
Qualified School Construction Bonds	0.0	7/	2027	13,370,000	13,370,000	
					$ 34,013,747	$ -
Revenue Bonds:						
Lease Revenue Bond	4.2%	01/14/04	2024	$ 5,000,000	$ 3,710,564	$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	3,710,564	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	7,413,702	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	67,410,000	-
Virginia Resource Authority Revenue	0.0	05/15/92	2012	295,000	-	17,357
Water and Sewer Refunding Bond	4.2	06/20/08	2033	6,500,479	-	6,040,062
					$ 82,244,830	$ 6,057,419
Refunding Bonds:						
Refunding Bond	4.7%	01/15/01	2015	$ 4,315,000	$ 945,000	$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,065,477	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,410,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,255,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	11,545,000	
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	12,705,000	
					43,925,477	-
Less deferred costs					(2,299,727)	-
Plus bond premium					1,767,537	-
Less bond discount					(696,271)	
					$ 42,697,016	$ -
Other Long-Term Debt:						
State Literary Fund Loan	3.0%	01/20/01	2021	$ 5,000,000	$ 2,750,000	$ -

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 $17,357 and $-0-, respectively.

Note 10. Landfill Post-Closure Care

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations required the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas were detected at the landfills in prior years; therefore, the Department of Environmental Quality required an additional ten-year monitoring period. The $1,050,163 reported as landfill post-closure care liability represents what it would cost to perform all post-closure care in 2011. 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. All full-time, salaried permanent (professional) employees of public school divisions and participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is -0-%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available on their website at http://www.varetire.org/pdf/publications/2009-Annual-Report.pdf or may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

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 2011 was 15.51% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2011 were 8.93% for professional employees and 13.78% 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, 2011, 2010, and 2009, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were $4,038,498, $5,219,339, and $6,394,419 and represented 8.93%, 13.81%, and 13.81% of annual covered payroll, respectively, and 100% of the required contributions for 2011, 2010, and 2009. The School Board's contribution rate for non-professional employees for the fiscal year ended 2011 was 13.78% of the annual covered payroll.

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For fiscal year 2011, the County's annual pension costs of $2,198,841 and the School Board's annual pension cost of $712,576 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, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return, (b) projected salary increases of 3% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the County and School Board assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's and School Board's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Three-Year Trend Information for the County of Montgomery

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 2,198,841	100%	$ -
June 30, 2010	2,303,590	100%	$ -
June 30, 2009	2,244,187	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, 2011	$ 712,576	100%	$ -
June 30, 2010	645,356	100%	$ -
June 30, 2009	649,754	100%	$ -

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, 2010	$ 50,224,046	$ 64,774,003	$ 14,549,957	77.54%	$ 15,362,771	94.71%
June 30, 2009	49,227,067	58,942,366	9,715,299	83.52%	15,689,708	61.92%
June 30, 2008	47,839,048	55,218,354	7,379,306	86.64%	15,160,532	48.67%
County of Montgomery School Board						
June 30, 2010	$ 15,141,699	$ 20,065,258	$ 4,923,559	75.46%	$ 5,231,566	94.11%
June 30, 2009	15,263,072	18,309,606	3,046,534	83.36%	5,289,613	57.59%
June 30, 2008	15,372,474	16,680,918	1,308,444	92.16%	4,661,093	28.07%

Note 12. Other Post-Employment Benefits

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

Plan Description and Benefits Provided

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

Membership

At July 1, 2011, the number of County participants was 429, consisting of 408 active and 21 inactive. The number of School participants was 1,143, consisting of 1,081 active and 62 inactive participants.

Funding Policy

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

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

The components of the County's annual OPEB cost (expense) for the fiscal year ended June 30, 2011 of $361,680 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $48,348 for retirees, resulted in a net OPEB obligation of $866,899 for the year ended June 30, 2011.

	Governmental Activities	Business-type Activities	Total
Annual required contribution	$ 360,176	$ 24,880	$ 385,056
Interest on net OPEB obligation	32,296	2,768	35,064
Adjustment to annual required contribution	(53,827)	(4,613)	(58,440)
Annual OPEB cost	338,645	23,035	361,680
Less contributions made	(48,348)	-	(48,348)
Increase in net OPEB obligation	290,297	23,035	313,332
Net OPEB obligation – beginning of year	513,067	40,500	553,567
Net OPEB obligation – end of year	$ 803,364	$ 63,535	$ 866,899

Note 12. Other Post-Employment Benefits (Continued)

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

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2011 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $373,620 for retirees, resulted in a net OPEB obligation of $3,875,915 for the year ended June 30, 2011.

Annual required contribution	$ 1,721,788
Interest on net OPEB obligation	103,880
Adjustment to annual required contribution	(173,133)
Annual OPEB cost	1,652,535
Less contributions made	(373,620)
Increase in net OPEB obligation	1,278,915
Net OPEB obligation-beginning of year	2,597,000
Net OPEB obligation-end of year	$ 3,875,915

The County's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for last three years are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
County:			
June 30, 2011	$ 361,680	13.37%	$ 866,899
June 30, 2010	342,067	23.09%	553,567
June 30, 2009	339,000	23.30%	250,000
School Board:			
June 30, 2011	$ 1,652,535	22.61%	$ 3,875,915
June 30, 2010	1,622,000	21.02%	2,597,000
June 30, 2009	1,657,000	20.58%	1,316,000

Funded Status and Funding Progress

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

Note 12. Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County:						
July 1, 2011	$ -	$ 4,106,276	$ 4,106,276	0%	$ 16,246,735	25.27%
July 1, 2009	-	3,309,453	3,309,453	0%	15,634,455	21.17%
July 1, 2007	-	3,059,585	3,059,585	0%	17,311,608	17.67%
School Board:						
July 1, 2011	$ -	$ 14,645,338	$ 14,645,338	0%	$ 46,019,363	31.82%
July 1, 2009	-	14,324,780	14,324,780	0%	46,462,305	30.83%
July 1, 2007	-	15,334,284	15,334,284	0%	39,704,333	38.62%

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4% discount rate and an initial annual healthcare cost trend of 11% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5%. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2011 is 27 years.

Note 13. Risk Management

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

Note 14. Commitments and Contingencies

Litigation

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

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

Special Purpose Grants

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

Incentive Liability

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

Note 15. Transactions with Component Units

Economic 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 EDA. There is no first deed of trust held by the County for the properties. Therefore, there is opportunity for these properties to be encumbered with additional financing upon approval of the County on a project-by-project basis.

Advances consist of the following:

Construction of the Falling Branch Industrial Park	$ 3,110,943
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	2,099,073
	$ 5,211,109

Note receivable from Component Unit:

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

Schools

In February 2010, the Blacksburg High School gymnasium roof collapsed. An insurance claim was filed with the School Board's insurance carrier who settled the claim for $5,250,000. A portion of this amount, $4,418,244, was recorded as a receivable in the School Operating fund and in the School Board Component Unit at June 30, 2010. That amount was shown as deferred as it was not available at year end. The entire $5,250,000 settlement was contributed by the School Board to the Primary Government in the current year.

Note 16. Net Assets/Fund Balance

Deficit Unrestricted Net Assets:

At June 30, the Wastewater Fund and the Component Unit – Economic Development Authority had deficits in unrestricted net assets of ($353,204), and ($326,958), respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

Note 16. Net Assets/Fund Balance (Continued)

Fund Balance:

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the governmental funds are presented below:

	General Fund	Capital Improvements Fund
Fund Balances:		
Nonspendable:		
Inventories	$ -	$ -
Long-term advances and notes receivable	6,390,103	-
Restricted:		
Judicial administration	-	17,195,507
Public safety	163,400	-
Education	-	12,661,043
Debt service reserves	-	9,732,363
Committed:		
General government administration	347,631	162,649
Judicial administration	200,650	7,923,147
Public safety	90,277	1,578,718
Public works	218,670	-
Education	-	8,351,038
Parks, recreation, and culture	141,738	-
Community development	138,060	320,500
Economic stabilization	500,000	-
Assigned:		
General government administration	378,575	-
Public safety	8,054	-
Education	1,642,446	4,649,012
Parks, recreation, and culture	124,912	-
Unassigned:	23,049,802	-
Total reserved fund balance	$ 33,394,318	$ 62,573,977

Note 17. Concentrations

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

Note 18. New Accounting Standards

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

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* was issued address issues related to the use of the alternative measurement method, and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The statement amends GASB No. 45, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. This statement will be effective for the year ending June 30, 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the "substantively the same governing body" criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

Note 18. New Accounting Standards (Continued)

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position,* is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,* was issued to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit provider. The statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The statement will be effective for the year ending June 30, 2012.

Management has not yet evaluated the effects, if any, of adopting these standards.

Note 19. Subsequent Events

County

In November 2011, the County issued 20 year General Obligation Bonds through the Virginia Public School Authority totaling $86,115,000 at an average coupon rate of 4.998%. Annual principal payments will begin January 15, 2013, and on each January 15th thereafter until the final maturity date (June 15, 2032). The proceeds will be used for a portion of the construction cost of the new Blacksburg High School, new Auburn High School, and renovation of the Auburn Middle School.

Public Service Authority

In August 2011, the PSA entered into a purchase agreement for a three-year lease of a backhoe. An initial cost of $23,989 was paid in August, and a payment of $7,413 is due quarterly thereafter beginning November 5, 2011 and ending May 5, 2013. The total amount of the obligation will be $47,978 plus interest at 8%.

Economic Development Authority

In November 2011, the EDA entered into post-closing and performance sales agreements for the sale of Lot 1B in the Falling Branch Corporate Park to BackCountry.com. In accordance with the agreements, the EDA transferred the property to Backcountry.com at no cost. Terms of the agreement include that BackCountry.com invest a minimum of $19 million in new facilities, and create 216 full-time jobs within three years of receiving the Certificate of Occupancy from the Town of Christiansburg. The total incentive grant liability is not to exceed $800,000 over the five-year eligibility period. The EDA will also be responsible for the expense incurred for the expedited review of building plans through a third-party reviewer.

Note 19. Subsequent Events (Continued)

Economic Development Authority (Continued)

In November 2011, the EDA entered into an amendment extending a lease originally set to expire September 20, 2012, through November 30, 2014. Monthly lease payments under the amendment will be $39,125 beginning December 1, 2011 through November 30, 2014. Additionally, the tenant will no longer be responsible for utility or common area maintenance fees.

Subsequent to year end, the EDA awarded a contract for the Falling Branch Storm Water Management project of approximately $320,000.

Subsequent to year end, the EDA entered into a performance agreement with a total potential incentive of $400,000.

Subsequent to year end, the EDA was approved for a $9.5 million refinancing of the current outstanding revenue bonds. This transaction is to take place in 2012.

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.

EXHIBIT A-1

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2011

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ -	$ 1,538,998	$ 1,538,998
Due from primary government	4,833,111	-	4,833,111
Due from other governmental units	3,011,404	-	3,011,404
Inventories	-	119,679	119,679
Cash and cash equivalents, restricted	7,035	-	7,035
Total assets	$ 7,851,550	$ 1,658,677	$ 9,510,227
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	$ 275,161	$ 6,834	$ 281,995
Accrued payroll and related liabilities	7,006,895	198,917	7,205,812
Amounts held for others	7,035	-	7,035
Deferred revenue	562,459	-	562,459
Total liabilities	7,851,550	205,751	8,057,301
Fund Balances:			
Nonspendable	-	119,679	119,679
Assigned	50,965	1,333,247	1,384,212
Unassigned	(50,965)	-	(50,965)
Total fund balances	-	1,452,926	1,452,926
Total liabilities and fund balances	$ 7,851,550	$ 1,658,677	$ 9,510,227

Adjustments for the Statement of Net Assets (Exhibit 1)

Total fund balances	$ 1,452,926
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.	8,286,507
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.	1,476,397
Revenues in the statement of activities that do not provide current finanical resources are not reported as revenues in the funds.	562,459
Long-term liabilities, including compensated absences and other post-employment benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(7,605,019)
Net assets of governmental activities	$ 4,173,270

EXHIBIT A-2

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, 2011

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	$ 66,191	$ 17,930	$ 84,121
Charges for services	93,385	2,075,138	2,168,523
Recovered costs	5,971,988	91,210	6,063,198
Intergovernmental	92,240,205	2,006,037	94,246,242
Total revenues	98,371,769	4,190,315	102,562,084
EXPENDITURES			
Instruction	71,439,213	-	71,439,213
Administration, attendance, and health	3,608,237	-	3,608,237
Pupil transportation	4,528,104	-	4,528,104
Operations and maintenance	13,435,206	-	13,435,206
Non-instructional	111,009	-	111,009
School nutrition	-	3,971,279	3,971,279
Total expenditures	93,121,769	3,971,279	97,093,048
Excess (deficiency) of revenues over expenditures	5,250,000	219,036	5,469,036
OTHER FINANCING USES			
Contributions to primary government	(5,250,000)	-	(5,250,000)
Total other financing uses	(5,250,000)	-	(5,250,000)
Net change in fund balances	-	219,036	219,036
FUND BALANCE AT JULY 1	-	1,233,890	1,233,890
FUND BALANCE AT JUNE 30	$ -	$ 1,452,926	$ 1,452,926

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds	$ 219,036
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 ($717,652) exceeded depreciation ($1,543,179).	(825,527)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in these revenues.	(4,751,764)
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.	(1,299,993)
Change in net assets of governmental activities	$ (6,658,248)

EXHIBIT A-3

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – CASH BASIS
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
For the Year Ended June 30, 2011

	School Operating				School Cafeteria			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual		Original	Final	Actual	
REVENUES								
Revenue from use of money and property	$ 1,500	$ 1,500	$ 66,191	$ 64,691	$ -	$ -	$ 17,930	$ 17,930
Charges for services	17,000	17,000	93,385	76,385	2,209,614	2,209,614	2,075,138	(134,476)
Recovered costs	337,500	563,313	5,986,796	5,423,483	-	-	91,210	91,210
Intergovernmental	88,260,820	92,719,003	92,325,769	(393,234)	1,563,101	1,720,459	2,078,148	357,689
Total revenues	88,616,820	93,300,816	98,472,141	5,171,325	3,772,715	3,930,073	4,262,426	332,353
EXPENDITURES								
Instruction	68,352,835	71,269,512	71,539,585	(270,073)	-	-	-	-
Administration, attendance, and health	3,527,493	3,561,061	3,608,237	(47,176)	-	-	-	-
Pupil transportation	4,169,542	4,387,026	4,528,104	(141,078)	-	-	-	-
Operations and maintenance	12,556,336	14,071,311	13,435,206	636,105	-	-	-	-
Non-instructional	10,614	11,906	111,009	(99,103)	-	-	-	-
School nutrition	-	-	-	-	3,772,715	4,155,073	4,006,995	148,078
Total expenditures	88,616,820	93,300,816	93,222,141	78,675	3,772,715	4,155,073	4,006,995	148,078
Excess (deficiency) of revenues over expenditures	-	-	5,250,000	5,250,000	-	(225,000)	255,431	480,431
OTHER FINANCING USES								
Contributions to primary government	-	-	(5,250,000)	(5,250,000)	-	-	-	-
Total other financing uses	-	-	(5,250,000)	(5,250,000)	-	-	-	-
Net Change	$ -	$ -	$ -	$ -	$ -	$ (225,000)	$ 255,431	$ 480,431

SUPPORTING SCHEDULE

SCHEDULE 1

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title	Federal CFDA Number	Federal Expenditures
Department of Agriculture:		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ 583,763
Department of Agriculture and Consumer Services:		
National School Lunch Program	10.555	277,607
Department of Education:		
School Breakfast Program	10.553	401,356
National School Lunch Program	10.555	1,546,059
Schools and Roads -Grants to States	10.665	34,747
Department of Commerce:		
Pass-through Payments:		
Department of Virginia Information Technologies Agency:		
Public Safety Interoperable Communications Grant Program	11.555	44,582
Department of Homeland Security:		
Pass-through Payments:		
Department of Emergency Services:		
Interoperable Emergency Communications	97.055	63,569
Department Of Justice:		
Direct Payments:		
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	14,011
Pass-through Payments:		
Department of Criminal Justice Services:		
Crime Victim Assistance	16.575	100,131
ARRA Stop Violence Against Women Formula Grant	16.588	38,973
Department of Transportation:		
Pass-through Payments:		
Department of Motor Vehicles:		
State and Community Highway Safety	20.600	41,448
Alcohol	20.601	3,009
State and Community Highway Safety	20.607	22,714
Department of Education:		
Pass-through Payments:		
Department of Education:		
Adult Education Basic Grants to States	84.002	68,997
Title I: Grants to Local Educational Agencies	84.010	1,686,956
Title I: State Agency Program for Neglected and Delinquent Children	84.013	24,811
Special Education - Grants to States	84.027	1,914,025
Career and Technical Education - Basic Grants to States	84.048	161,861
Special Education- Preschool Grants	84.173	46,995
Safe and Drug Free Schools and Communities -State Grants	84.186	25,196
Education Technology Formula Grant	84.318	28,372
English Language Acquisition Grants	84.365	23,460
Improving Teacher Quality State Grants	84.367	411,604
School Improvement Grants	84.377	56,818
Educational Technology Grant, Recovery Act	84.386	37,100
Title I Grants to Local Educational Agencies, Recovery Act	84.389	395,106

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title (Continued)	Federal CFDA Number	Federal Expenditures
Department of Education: (Continued)		
Pass-through Payments: (Continued)		
Department of Education: (Continued)		
Special Education Grants to States, Recovery Act	84.391	$ 1,287,820
Special Education Preschool Grants, Recovery Act	84.392	84,788
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	1,083,706
Education Jobs Fund, Recovery Act	84.410	995,718
Learn and Serve America - School and Community Based Programs	94.004	23,815
Department of Health and Human Services:		
Pass-through Payments:		
Department of Aging:		
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	60,679
Department of Social Services:		
Promoting Safe and Stable Families	93.556	31,330
Temporary Assistance for Needy Families	93.558	565,555
Refugee and Entrant Assistance – State Administered Programs	93.566	2,975
Low Income Home Energy Assistance	93.568	30,857
Child Care and Development Block Grant	93.575	355,896
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	289,177
Child Welfare Services-State Grants	93.645	2,096
Foster Care - Title IV-E	93.658	443,585
Foster Care - Title IV-E - ARRA	93.658	18,789
Adoption Assistance	93.659	156,244
Adoption Assistance - ARRA	93.659	10,253
Social Service Block Grant	93.667	375,689
Chafee Foster Care Independence Program	93.674	9,478
ARRA-Child Care and Development Block Grant	93.713	42,357
Children's Health Insurance Program	93.767	16,470
Medical Assistance Program	93.778	332,199
Total Expenditures of Federal Awards		$ 14,272,746

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, 2011, the School Board had food commodities totaling $80,925 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.

Contents **Table**

Financial Trends **1-4**
These tables contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.

Revenue Capacity **5-7**
These tables contain information to help the reader assess the factors affecting the County's ability to generate its property and sales taxes.

Debt Capacity **8-9**
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.

Demographic and Economic Information **10-12**
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.

Operating Information **13-14**
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.

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 Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2011	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Governmental activities									
Invested in capital assets, net of related debt	$ 55,522,450	$ 47,134,545	$ 36,330,270	$ 28,639,210	$ 22,500,252	$ 13,946,058	$ 13,971,101	$ 9,826,302	$ 3,945,490
Restricted	11,146,947	11,146,947	11,262,042	5,112,996	4,969,141	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	24,080,472	22,316,253	25,596,419	31,173,341	28,620,972	25,197,204	17,799,039	14,700,359	(1,550,735)
Total governmental activities net assets	$ 90,749,869	$ 80,597,745	$ 73,188,731	$ 64,925,547	$ 56,090,365	$ 43,918,407	$ 36,395,713	$ 30,843,402	$ 28,225,672
Business-type activities									
Invested in capital assets, net of related debt	$ 14,203,773	$ 14,245,583	$ 14,575,475	$ 15,138,853	$ 14,983,849	$ 15,153,224	$ 15,746,661	$ 16,082,711	$ 14,800,614
Restricted	-	-	-	43,160	1,076,240	1,066,910	1,034,403	1,021,135	1,433,982
Unrestricted	810,324	698,850	954,433	917,729	(429,075)	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	$ 15,014,097	$ 14,944,433	$ 15,529,908	$ 16,099,742	$ 15,631,014	$ 15,666,453	$ 15,812,023	$ 15,943,141	$ 15,048,022
Primary government									
Invested in capital assets, net of related debt	$ 69,436,810	$ 61,380,128	$ 50,905,745	$ 43,778,063	$ 37,484,101	$ 29,099,282	$ 29,717,762	$ 25,909,013	$ 18,746,104
Restricted	11,146,947	11,146,947	11,262,042	5,156,156	6,045,381	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	25,180,209	23,015,103	26,550,852	32,091,070	28,191,897	24,643,523	16,829,998	13,539,654	(2,737,309)
Total primary government net assets	$105,763,966	$ 95,542,178	$ 88,718,639	$ 81,025,289	$ 71,721,379	$ 59,584,860	$ 52,207,736	$ 46,786,543	$ 43,273,694

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

	Fiscal Year								
	2011	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Expenses									
Governmental activities									
General government	$ 7,725,594	$ 9,074,011	$ 7,381,364	$ 7,066,410	$ 6,557,984	$ 6,593,077	$ 6,294,606	$ 5,950,901	$ 5,188,610
Judicial administration	2,784,098	3,077,193	2,658,492	2,438,896	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	13,329,812	13,830,467	11,957,163	11,202,874	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	5,114,845	5,349,346	5,153,812	4,567,363	4,526,234	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreation and cultural	2,872,328	2,881,815	3,022,711	2,779,839	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	9,590,573	9,956,048	10,490,545	9,808,845	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,670,510	1,734,477	1,264,454	1,259,379	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	41,033,802	34,797,557	38,634,043	35,899,972	30,503,869	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	7,303,475	7,501,270	7,389,389	4,696,145	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	91,425,037	88,202,184	87,951,973	79,719,723	71,815,215	71,155,281	69,448,996	69,907,234	63,028,214
Business-type activities									
Water and Sewage	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total business-type activities expense	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total primary government expenses	$ 95,204,034	$ 92,176,703	$ 92,022,235	$ 83,450,301	$ 75,471,408	$ 74,481,619	$ 72,898,977	$ 73,439,811	$ 66,048,333
Program Revenues									
Governmental activities									
Charges for services									
Public Safety	$ 723,997	$ 827,458	$ 917,866	$ 978,375	$ 616,714	$ 518,177	$ 516,040	$ 355,750	$ 149,642
Public Works	305,159	296,302	123,341	105,007	125,741	127,070	151,767	-	58,671
Other Activities	1,875,981	1,899,073	1,565,954	1,757,781	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	13,263,890	15,556,440	15,084,570	15,402,999	14,486,609	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	-	-	-	-	24,121	81,630	150,000	465,343	-
Total governmental activities program revenues	16,169,027	18,579,273	17,691,731	18,244,162	16,559,844	15,623,515	15,339,719	15,235,508	12,135,377
Business-type activities									
Charges for services									
Water and Sewage	3,276,933	3,160,277	3,364,484	3,200,340	3,124,628	3,088,605	3,141,551	2,829,152	2,587,336
Capital grants and contributions	569,631	226,414	16,714	691,214	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	3,846,564	3,386,691	3,381,198	3,891,554	3,507,794	3,135,282	3,312,505	4,828,718	2,602,619
Total primary government program revenues	$ 20,015,591	$ 21,965,964	$ 21,072,929	$ 22,135,716	$ 20,067,638	$ 18,758,797	$ 18,652,224	$ 20,064,226	$ 14,737,996
Net (expense) revenue									
Governmental activities	$(75,256,010)	$(69,622,911)	$(70,260,242)	$(61,475,561)	$(55,255,371)	$(55,531,766)	$(54,109,277)	$(54,671,726)	$(50,892,837)
Business-type activities	67,567	(587,828)	(689,064)	160,976	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	$(75,188,443)	$(70,210,739)	$(70,949,306)	$(61,314,585)	$(55,403,770)	$(55,722,822)	$(54,246,753)	$(53,375,585)	$(51,310,337)
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Property taxes	$ 63,793,078	$ 60,083,722	$ 59,872,099	$ 54,666,779	$ 48,402,715	$ 44,577,976	$ 39,803,302	$ 39,675,565	$ 36,661,763
Sales taxes	7,218,180	6,889,322	7,086,741	7,382,254	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,509,326	1,529,808	1,526,049	1,938,646	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,877,600	1,856,684	1,877,884	1,786,988	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,010,686	5,117,860	5,181,174	5,216,412	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	749,264	1,554,529	2,733,779	2,047,264	2,974,039	1,932,190	1,658,701	861,541	591,555
Gain on sale of property	-	-	-	-	-	-	729,859	(47,313)	-
Other	-	-	-	-	-	-	-	2,376	89,294
Contribution from Schools	5,250,000	-	-	-	-	-	-	-	-
Transfers	-	-	(114,000)	-	(93,413)	(109,381)	-	-	-
Total governmental activities	85,408,134	77,031,925	78,163,726	73,038,343	67,427,329	62,475,949	57,599,206	54,149,721	52,053,237
Business-type activities:									
Investment earnings	2,097	2,353	5,230	10,658	19,547	11,411	6,358	922	3,153
Gain on sale of property	-	-	-	-	-	-	-	(15,763)	-
Transfers	-	-	114,000	-	93,413	109,381	-	-	-
Total business-type activities	2,097	2,353	119,230	10,658	112,960	120,792	6,358	(14,841)	3,153
Total primary government	$ 85,410,231	$ 77,034,278	$ 78,282,956	$ 73,049,001	$ 67,540,289	$ 62,596,741	$ 57,605,564	$ 54,134,880	$ 52,056,390
Changes in Net Assets									
Governmental activities	$ 10,152,124	$ 7,409,014	$ 7,903,484	$ 11,562,782	$ 12,171,958	$ 6,944,183	$ 3,489,929	$ (522,005)	$ 1,160,400
Business-type activities	69,664	(585,475)	(569,834)	171,634	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	$ 10,221,788	$ 6,823,539	$ 7,333,650	$ 11,734,416	$ 12,136,519	$ 6,873,919	$ 3,358,811	$ 759,295	$ 746,053

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

Pre-GASB 54 Implementation

	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Fund									
Reserved	$ 8,653,644	$ 8,002,362	$ 7,486,334	$ 7,931,552	$ 8,425,959	$ 8,048,551	$ 8,424,045	$ 8,646,272	$ 8,667,252
Unreserved	26,258,463	24,304,985	25,040,302	21,298,326	16,864,467	16,352,624	17,466,018	15,610,016	15,859,971
Total general fund	$ 34,912,107	$ 32,307,347	$ 32,526,636	$ 29,229,878	$ 25,290,426	$ 24,401,175	$ 25,890,063	$ 24,256,288	$ 24,527,223
All Other Governmental Funds									
Reserved	$ 30,943,646	$ 16,964,867	$ 4,191,510	$ 1,435,016	$ 862,735	$ 1,844,841	$ 1,130,668	$ 17,184,645	$ -
Unreserved, reported in:									
Special revenue funds	-	-	-	-	-	-	-	-	95,988
Capital projects funds	44,433,277	77,979,506	19,820,195	26,313,865	24,248,049	29,209,836	32,810,664	640,547	9,730,048
Debt service funds	-	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 75,376,923	$ 94,944,373	$ 24,011,705	$ 27,748,881	$ 25,110,784	$ 31,054,677	$ 33,941,332	$ 17,825,192	$ 9,826,036

Post-GASB 54 Implementation

	2011
General Fund	
Nonspendable	$ 6,390,103
Restricted	163,400
Committed	1,637,026
Assigned	2,153,987
Unassigned	23,049,802
Total general fund	$ 33,394,318
All other Governmental Funds	
Nonspendable	$ -
Restricted	39,588,913
Committed	18,336,052
Assigned	4,649,012
Unassigned	-
Total general fund	$ 62,573,977

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues										
Taxes	$ 73,694,467	$ 70,761,455	$ 69,492,208	$ 65,511,183	$ 59,334,527	$ 54,989,515	$ 50,738,457	$ 48,842,024	$ 46,888,359	$ 43,046,576
Permits, privilege fees, and licenses	666,849	768,341	678,798	729,667	527,087	451,339	581,026	432,106	354,475	224,463
Fines and forfeitures	116,968	109,471	86,587	95,562	120,036	191,713	181,336	137,311	172,252	167,757
Revenue from use of money and property	749,264	1,554,529	2,733,781	2,047,264	3,006,656	1,932,190	1,658,701	1,073,542	591,555	937,531
Charges for services	733,701	767,029	770,575	862,222	863,610	1,099,916	774,474	791,975	588,551	494,449
Other	1,393,796	1,377,993	1,642,545	2,205,909	1,638,273	1,443,439	1,364,845	1,097,902	1,280,981	1,105,203
Intergovernmental	18,274,576	20,674,300	19,694,399	19,567,213	18,816,073	18,018,456	17,655,372	17,030,162	17,089,403	15,227,444
Total revenues	95,629,621	96,013,118	95,098,893	91,019,020	84,306,262	78,126,568	72,954,211	69,405,022	66,965,576	61,203,423
Expenditures										
General government	7,659,535	7,699,271	7,252,162	7,015,626	6,191,149	6,294,484	6,046,564	5,177,651	5,358,391	5,211,059
Judicial administration	2,760,189	3,035,865	2,660,668	2,438,012	2,248,802	1,821,661	1,801,538	1,627,346	1,626,738	1,644,861
Public safety	12,729,447	13,445,144	11,813,809	10,535,822	9,584,764	8,864,490	8,931,893	7,048,833	6,427,463	6,000,194
Public works	4,286,792	3,961,336	4,142,728	3,701,378	3,807,202	3,326,950	3,252,988	3,450,922	2,998,968	2,616,065
Parks, recreation, and cultural	2,807,902	2,821,921	3,163,574	2,764,351	2,802,108	2,856,007	2,513,263	2,195,196	2,197,940	2,303,966
Health and welfare	9,609,463	9,938,623	10,459,213	9,792,247	9,063,818	8,241,369	8,338,220	7,813,659	7,679,219	6,718,789
Education	37,065,839	32,813,321	36,822,962	34,291,547	28,899,311	29,917,075	28,731,743	27,894,248	28,723,773	26,385
Community development	1,365,242	1,436,161	1,268,374	1,255,640	1,509,152	1,200,930	1,590,531	1,804,638	1,205,104	1,327,321
Nondepartmental	-	-	-	-	-	-	-	-	-	129,482
Capital projects	30,369,502	27,406,729	9,393,891	9,038,054	2,535,393	10,295,741	3,358,473	4,135,721	13,629,018	7,471,946
Debt service										
Principal	11,218,254	9,993,084	8,205,430	5,951,191	6,058,445	5,943,154	16,442,154	4,951,763	4,325,425	747,900
Interest and other costs	7,878,024	7,902,498	6,864,369	4,675,570	4,935,156	5,040,472	4,276,687	5,340,581	5,324,916	1,249,013
Total expenditures	127,750,189	120,453,953	102,047,180	91,459,438	77,635,300	83,802,333	85,284,054	71,440,558	79,496,955	35,446,981
Excess of revenues over (under) expenditures	(32,120,568)	(24,440,835)	(6,948,287)	(440,418)	6,670,962	(5,675,765)	(12,329,843)	(2,035,536)	(12,531,379)	25,756,442
Other Financing Sources (Uses)										
Proceeds from borrowing	26,075,000	21,598,145	77,000,000	-	-	-	18,779,866	20,000,000	-	-
Bond premium	181,804	-	775,666	-	-	-	-	-	-	-
Premium on called bonds	(1,026,966)	-	-	-	-	-	-	-	-	-
Payments to bond escrow agents	(12,680,005)	(14,120,000)	-	-	-	-	(19,562,999)	-	-	-
Proceeds from sale of capital assets/real estate	-	-	-	-	-	-	8,940,593	-	-	-
Contributions from component unit	5,250,000	-	-	-	-	-	-	-	-	-
Transfers in	5,091,622	4,109,521	5,522,084	4,460,375	3,390,967	-	719,056	8,348	2,038,905	-
Transfers out	(5,091,622)	(4,109,521)	(5,636,084)	(4,460,375)	(3,484,380)	-	(719,056)	(8,348)	(2,038,905)	(30,791,171)
Total other financing sources (uses)	17,799,833	7,478,145	77,661,666	-	(93,413)	-	8,157,460	20,000,000	-	(30,791,171)
Net change in fund balances	$(14,320,735)	$(16,962,690)	$ 70,713,379	$ (440,418)	$ 6,577,549	$ (5,675,765)	$ (4,172,383)	$ 17,964,464	$(12,531,379)	$ (5,034,729)
Debt service as a percentage of noncapital expenditures	19.47%	19.02%	16.44%	12.95%	14.64%	14.94%	25.29%	15.29%	14.65%	7.14%

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)
2011	$ 7,159,568,600	$ 564,429,352	$ 113,349,970	$ 30,263,200	$ 207,151,562	$8,074,762,684	$ 0.90
2010	$ 6,932,701,500	$ 555,498,413	$ 114,428,458	$ 29,055,945	$ 196,055,790	$7,827,740,106	$ 0.91
2009	$ 6,835,051,400	$ 502,394,734	$ 115,931,340	$ 33,633,822	$ 193,786,466	$7,680,797,762	$ 0.90
2008	$ 6,669,686,500	$ 529,368,631	$ 118,621,114	$ 32,342,481	$ 181,116,686	$7,531,135,412	$ 0.91
2007	$ 6,493,543,300	$ 495,833,387	$ 124,587,600	$ 31,606,662	$ 181,050,272	$7,326,621,221	$ 0.84
2006	$ 4,841,218,900	$ 487,862,951	$ 122,587,600	$ 33,021,661	$ 140,490,906	$5,625,182,018	$ 0.97
2005	$ 4,685,687,100	$ 485,342,070	$ 129,546,372	$ 34,733,794	$ 123,691,318	$5,459,000,654	$ 1.00
2004	$ 4,556,115,600	$ 443,006,567	$ 120,450,318	$ 21,433,774	$ 133,583,496	$5,274,589,755	$ 0.98
2003	$ 4,448,367,800	$ 442,692,427	$ 123,656,471	$ 20,185,299	$ 162,853,761	$5,197,755,758	$ 0.99
2002	$ 3,312,672,860	$ 456,164,099	$ 106,272,277	$ 21,621,381	$ 160,770,587	$4,057,501,204	$ 1.05

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

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

	Fiscal Year 2011			Fiscal Year 2002		
Taxpayer	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
PR Financing (NRV Mall)	$ 78,799,300	1	0.98%	-	-	0.00%
Foxridge	71,227,100	2	0.88%	$ 47,193,000	1	1.43%
Appalachian Power	71,122,946	3	0.88%		-	0.00%
Roger Woody	58,530,600	4	0.73%	-	-	0.00%
Shelor Properties	58,486,000	5	0.73%	13,726,000	6	0.41%
Verizon	40,012,178	6	0.50%	-	-	0.00%
Norfolk and Western	37,133,500	7	0.46%	-	-	0.00%
Blacksburg Green	36,913,800	8	0.46%	-	-	0.00%
Maple Ridge	32,577,600	9	0.40%	-	-	0.00%
SHP	31,268,500	10	0.39%			0.00%
Crown American Financing	-	-	0.00%	25,148,600	2	0.76%
The Village at Blbg LLC	-	-	0.00%	17,157,100	3	0.52%
HCA Montgomery County	-	-	0.00%	15,609,100	4	0.47%
CSB LLC	-	-	0.00%	14,065,100	5	0.42%
Wal-Mart	-	-	0.00%	13,259,300	7	0.40%
Christiansburg Marketplace	-	-	0.00%	11,909,700	8	0.36%
Alantic Financial (Rowe)	-	-	0.00%	11,702,600	9	0.35%
Windsor Hill 1 LP	-	-	0.00%	10,328,500	10	0.31%
	$ 516,071,524		6.41%	$ 180,099,000		5.43%

Source: Assessor's Office

TABLE 7

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2011	$ 70,260,817	$ 66,804,327	95.08%	$ -	$ 66,804,327	95.08%
2010	67,027,509	63,697,514	95.03%	816,127	64,513,641	96.25%
2009	65,440,819	62,288,701	95.18%	1,264,980	63,553,681	97.12%
2008	63,108,366	58,295,872	92.37%	2,741,186	61,037,058	96.72%
2007	56,102,315	52,198,510	93.04%	1,044,563	53,243,073	94.90%
2006	50,945,541	48,355,245	94.92%	1,081,644	49,436,889	97.04%
2005	45,073,389	42,428,890	94.13%	1,878,403	44,307,293	98.30%
2004	43,871,083	41,752,442	95.17%	1,399,940	43,152,382	98.36%
2003	42,351,459	35,183,970	83.08%	1,813,567	36,997,537	87.36%
2002	40,381,556	33,151,368	82.10%	2,650,755	35,802,123	88.66%

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

	General Bonded Debt				Other Governmental Activities Debt		
Fiscal Year	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds
2011	$ 34,013,747	$ 34,013,747	0.42%	360.35	$ 82,244,830	$ 2,750,000	$ 43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453
2004	26,075,223	26,075,223	0.49%	304.57	90,975,000	4,544,972	4,078,005
2003	27,749,414	27,749,414	0.53%	327.23	63,685,000	4,839,154	5,641,347
2002	16,767,837	16,767,837	0.41%	198.91	65,270,000	19,266,065	6,044,141

	Business-type Activities				
Fiscal Year	Revenue Bonds	Notes Payable	Total Primary Government	Percentage of Personal Income	Per Capita
2011	$ 6,057,419	$ -	$ 168,991,473	6.76%	1,790
2010	6,262,392	10,802	167,030,507	6.76%	1,828
2009	6,456,726	32,284	169,559,409	7.86%	1,873
2008	6,610,729	53,125	100,939,683	4.75%	1,136
2007	6,515,070	70,184	106,812,275	4.58%	1,208
2006	6,024,984	85,993	112,396,443	5.71%	1,279
2005	6,132,906	101,197	118,462,723	6.02%	1,411
2004	6,226,079	118,685	132,017,964	7.56%	1,542
2003	5,860,325	163,035	107,938,275	6.41%	1,273
2002	4,628,932	266,539	112,243,514	7.80%	1,331

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

TABLE 9

County of Montgomery, Virginia
Pledged Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2011	$ 3,857,490	$ 2,685,634	$ 1,171,856	$ 204,973	$ 258,159	2.53
2010	3,402,690	2,895,875	506,815	194,334	264,346	1.10
2009	3,387,714	2,985,765	401,949	154,003	277,225	0.93
2008	3,090,332	2,610,357	479,975	155,567	273,069	1.12
2007	2,941,527	2,612,350	329,177	129,223	285,304	0.79
2006	2,693,843	2,284,438	409,405	123,126	290,593	0.99
2005	2,683,885	2,434,942	248,943	110,661	293,368	0.62
2004	2,785,678	2,518,845	266,833	95,740	286,651	0.70
2003	2,347,509	2,093,744	253,765	76,660	217,772	0.86
2002	2,322,748	1,992,121	330,627	84,875	209,557	1.12

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	Population	Total Personal Income	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2011	94,392	$ 2,499,233,000	$ 27,308	9,345	7.40%
2010	91,394	2,470,786,962	25,545	9,494	7.30%
2009	90,517	2,157,925,280	23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,637	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
2004	85,614	1,745,840,688	20,392	9,311	2.60%
2003	84,800	1,683,195,200	19,849	9,170	2.60%
2002	84,300	1,439,591,100	17,077	9,062	2.60%

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

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

TABLE 11

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

	Fiscal Year 2011		Fiscal Year 2002	
Employer	Number of Employees	Rank	Number of Employees	Rank
Virginia Tech	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	3
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	2
Alliant TechSystems, Inc	1,000 and over	4	1,000 and over	4
Moog, Inc (Formerly Litton Poly-Scientific)	1,000 and over	5	-	-
Dish Network (Formerly Echosphere Corporation)	500 to 999	6	-	-
Carilion New River Valley Medical Center	500 to 999	7	500 to 999	6
Lexington Rowe Furniture, Inc	500 to 999	8	-	-
New River Valley Community Services	500 to 999	9		
Montgomery Regional Hospital	500 to 999	10	-	-
Town of Blacksburg	-	-	250 to 499	10
Federal-Mogul Corporation	-	-	500 to 999	8
Hubble Lighting, Inc.	-	-	500 to 999	9
Echosphere Corporation	-	-	1,000 to 4,999	5
Litton Systems, Inc.	-	-	500 to 999	7

Source: Economic Development Department

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

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General government										
County Administration	13.50	13.50	13.50	13.50	14.00	14.00	13.00	14.00	14.00	13.00
Information management services	8.50	9.50	10.50	8.50	8.50	8.50	8.50	8.00	8.00	8.00
Finance	8.50	8.50	8.50	8.50	8.50	8.50	8.50	9.50	9.50	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	14.00	19.00	19.00	19.00	18.00	18.00	18.00	18.00	18.00	18.00
Treasurer	13.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Other	6.50	7.50	7.50	7.50	7.00	7.00	7.00	6.00	6.00	6.00
Public Safety										
Sheriff	121.50	124.50	135.50	129.00	126.00	122.00	122.00	112.00	112.50	107.00
Animal control	4.25	4.25	4.00	4.00	4.20	4.20	4.20	4.20	4.20	4.20
Inspections	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.00	4.00	3.00
Judicial	23.00	23.00	23.00	22.00	18.00	18.50	18.50	18.00	18.50	18.50
Refuse collection	22.40	23.00	23.00	24.20	24.20	23.50	23.50	23.50	23.50	25.56
Other public works										
Engineering	2.00	2.00	2.00	2.00	2.00	2.00	2.00	3.00	2.00	2.00
Building and grounds	8.00	9.00	9.00	9.00	9.00	8.00	8.00	8.00	9.00	9.00
Housekeeping	8.00	9.00	9.00	9.00	9.00	9.10	8.60	8.60	9.60	9.60
Other	3.00	3.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00
Parks, recreation, and cultural	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00
Library	20.50	23.88	23.88	24.38	24.13	31.25	31.25	30.75	30.75	30.63
Water/Sewer	18.00	18.00	19.00	19.00	19.00	19.00	21.00	21.00	19.00	20.00
Health and Welfare	69.50	70.50	74.50	72.00	72.00	67.50	67.50	66.50	66.50	66.50
Community development	10.00	11.00	11.00	11.00	11.00	11.00	10.00	10.00	10.00	10.00
Total	388.15	410.13	427.88	417.58	409.53	407.05	406.05	394.05	393.05	384.49

Source: County Approved Budget

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

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Government										
Fleet vehicles	239	233	220	217	224	218	208	200	203	196
Judicial Administration										
Sheriff										
Inmates Housed	41,691	40,716	68,835	77,416	63,619	77,948	60,052	51,417	49,130	51,149
Inmate Transports	3,317	2,857	3,160	3,064	3,511	3,319	3,290	2,409	2,459	2,464
Courts Worked	934	983	983	1,012	912	915	846	843	789	809
Public safety										
Sheriff										
Physical arrests	1,995	2,141	1,868	3,739	3,767	3,311	3,233	3,242	2,686	2,811
Traffic violations	2,335	2,774	2,763	3,451	4,268	5,029	6,171	4,824	4,208	5,942
Public works										
Refuse collection										
Refuse collected (pounds per day)	74,351	71,212	69,484	76,671	77,089	77,293	78,094	76,551	69,272	N/A
Recyclables collected (pounds per day)	5,892	4,838	5,252	5,791	6,231	6,402	6,312	6,132	6,576	N/A
Parks, recreation, and cultural										
Parks and recreation										
Total programs	241	263	247	235	199	154	160	141	113	N/A
Total registrants	2,875	3,104	3,125	3,375	3,328	2,909	3,982	2,748	2,362	N/A
Library										
Volumes in collection	244,999	242,243	243,427	227,327	226,093	212,004	201,235	198,310	194,091	196,425
Total volumes borrowed	785,879	871,296	892,655	783,708	781,608	717,708	645,560	610,238	591,060	559,846
Water										
Number of customer accounts	2,616	2,640	2,642	2,615	2,554	2,534	2,532	2,500	2,300	2,300
Miles of distribution lines	92	92	92	92	88	88	87	86	85	77
Average daily consumption	758,384	739,956	829,736	840,183	802,445	879,298	870,444	803,000	730,000	825,000
Sewer										
Number of customer accounts	1,388	1,372	1,356	1,337	1,247	1,225	1,211	1,173	1,139	1,050
Waste/Water treated (million gallons per year)	175	222	191	165	196	175	191	202	N/A	N/A
Average daily consumption	479,328	486,030	522,650	505,610	536,191	N/A	N/A	N/A	N/A	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

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Public safety										
Law enforcement vehicles	96	92	94	82	83	83	80	79	79	79
Fire and Rescue stations	10	10	10	10	8	8	8	8	6	6
Parks, recreation and cultural										
Parks/athletic fields	8	8	7	5	2	2	2	2	2	2
Water and sewage										
Water mains (miles)	92	92	92	92	88	66	66	66	66	58
Sanitary sewers (miles)	62	62	62	62	60	44	44	44	44	44

Source: County departments

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COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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, 2011 which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2011. 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as discussed below, we identified a certain deficiency in internal control over financial report that we consider to be a material weakness.**

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

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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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Item 11-1.**

We noted certain matters that we reported to management of the County in a separate letter dated November 30, 2011.

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

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

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

Roanoke, Virginia
November 30, 2011

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

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

Compliance

We have audited the 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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A *deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

Roanoke, Virginia
November 30, 2011

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

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, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Item 07-1 was deemed to be a material weakness.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings related to major programs**.
7. The programs tested as major are:

Name of Program:	**CFDA #**
Title I: Grants to Local Educational Agencies Cluster	84.010, 84.013
ARRA – Title I: Grants to Local Educational Agencies	84.389
Special Education Cluster, including ARRA	84.027, 84.173, 84.391, 84.392
State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394
Education Jobs Fund, Recovery Act	84.410

8. The **threshold for** distinguishing Type A and B programs was **$428,182.**
9. The County was **not** determined to be a **low-risk auditee**.

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

B. FINDINGS – FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

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

None noted.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

11-1: Disclosure Statements

Condition:

Seven out of sixty-one members of County appointed boards did not file their statements of economic interest by the required deadline.

Recommendation:

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

Management's Response:

Management agrees and will monitor these filings in the future to ensure compliance.