

COUNTY OF MONTGOMERY, VIRGINIA

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

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COUNTY OF MONTGOMERY

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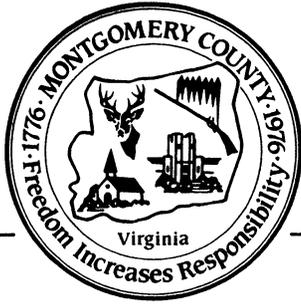
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INTRODUCTORY SECTION

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OFFICE OF COUNTY ADMINISTRATION
MONTGOMERY COUNTY
B. CLAYTON GOODMAN, III, COUNTY ADMINISTRATOR

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

December 20, 2005

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

The Comprehensive Annual Financial Report of the County of Montgomery for the year ended June 30, 2005, is hereby submitted as required by state law. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and compliance. The introductory section is intended to familiarize readers with the organizational structure of County government, the nature and scope of the services that are provided and the specifics of our legal operating environment. The financial section provides the Independent Auditors' Report, Management's Discussion and Analysis and the financial statements for overall operations of the County. The statistical section is designed to provide a historical perspective of the County's financial condition and to reflect the social and economic trends of the area. The compliance section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*; and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

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

THE REPORTING ENTITY

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

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

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

ORGANIZATION OF GOVERNMENT

Montgomery County, located in southwestern Virginia, encompasses approximately 395 square miles. Situated some 30 miles southwest of Roanoke off Interstate 81, the County has a population of more than 85,600, including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2000 Census indicates Montgomery County's population increased by 13 percent over the prior decade.

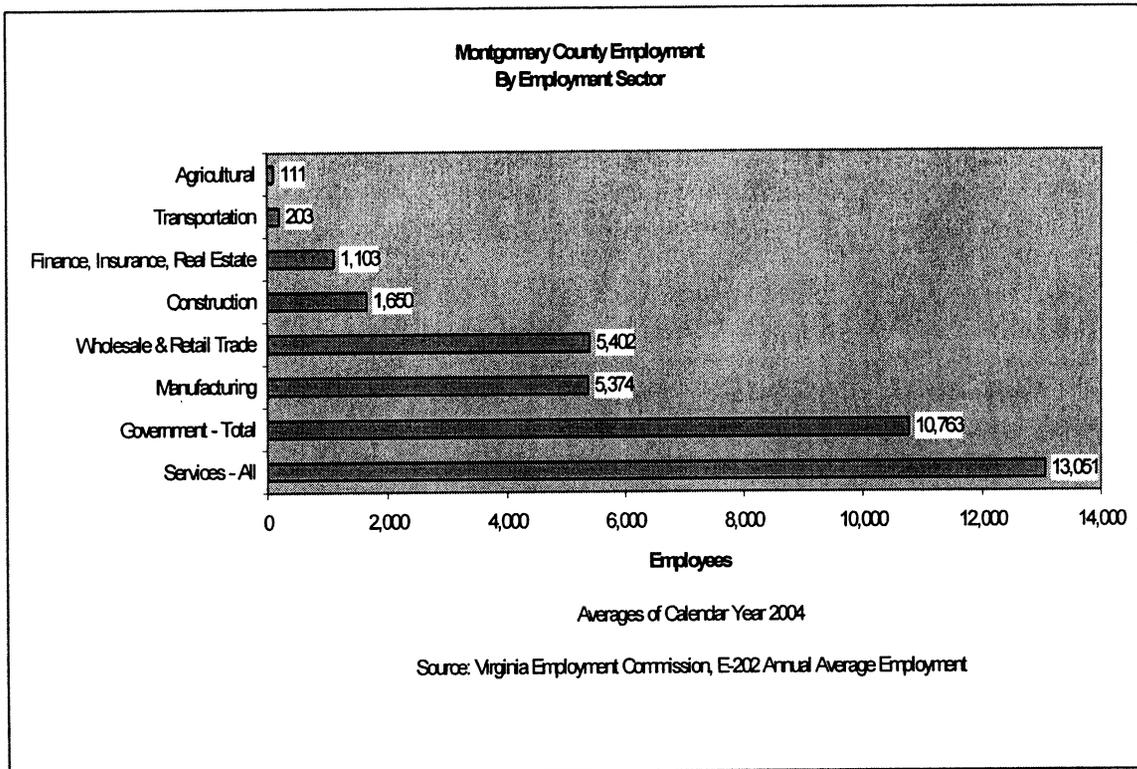
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he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

LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market continues to be better than the state as a whole. The County's tight labor market is highlighted by its low unemployment rate, which is historically below average in the New River Valley. The average unemployment rate in Montgomery County between July 2004 and June 2005 was 3.13%. The percentage ranged from a low of 2.7% in October 2004 to a high of 3.6% in June 2005. While there were slight fluctuations, the unemployment rate for Montgomery County stayed relatively consistent. The unemployment rate for the County over the past 10 years (1995-2004) averaged 2.61%, reaching a high of 3.6% in 1996 and a low of 1.7% in 2000. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among other New River Valley localities was generally higher than the statewide average of 3.7% for 2004, with Montgomery and Floyd Counties reporting the lowest rates of 3.2% and 3.8% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 5.13% unemployment during the same period. Employment within Montgomery County represented 51.47% of the total civilian labor force in the New River Valley.

As in prior years, service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2004.



Employment growth in 2004 was broad based, covering several economic sectors. The total increase in the number of jobs was 493 across all sectors, resulting in a 1.33% increase over the number of jobs in the previous year. Those areas that experienced growth include finance/insurance/real estate, services, construction, wholesale and retail trade, and government up 4.65%, 2.02%, 1.60%, 1.48% and 1.33% respectively. Transportation, agriculture, and manufacturing were all down in employment from the prior year 7.73%, 0.89%, and 0.79% respectively.

In FY 2005, Montgomery County's major economic projects resulted in \$43 million in new investment and 459 new employees. For the period of 1999 to 2004, Montgomery County's total new investment was \$140.18 million and the County added 2,571 jobs. Some highlights of the projects for 2005 included Corning's expansion by adding \$15.5 million in new equipment and hiring 77 new employees. Corning manufactures catalytic converters for the automotive industry. These new hires increase employment to 402. Due to increased demand for their satellite products, EchoStar announced the company would be adding 300 employees to their technical call center, which will increase total employment to 1,300. Seibold Security, a high end provider of security systems for banks and museums, expanded from leased space to constructing their own 6,000 square foot facility and investing \$1.1 million in the Christiansburg Industrial Park. MapTech, a national water quality analysis laboratory, relocated from the Virginia Tech Corporate Research Center to the Blacksburg Industrial Park. The company is investing approximately \$1 million and constructing a 15,000 square foot building. Finally, ProChem Analytical expanded in the Elliston Lafayette Industrial Park. The company will invest \$1.7 million in a 12,100 square foot environmental laboratory and hire ten additional employees over the next two years. The Economic Development staff, the Industrial Development Authority (IDA), the Economic Development Commission (EDC), and the MBC Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.

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

the County with 6,743 employees. Approximately 1,870 additional individuals are employed in the Montgomery County Public School System, making education the largest employment classification in the County.

Retail development continues to grow in Montgomery County. In August of 2005, it was announced that a new large development is being constructed in Christiansburg near the New River Valley mall. The mall project is estimated at \$34.7 million and includes constructing a freestanding 14-screen movie theater and a new restaurant. Plans for the 15-acre lot next to the mall include the construction of a retail strip that may contain as many as 10 businesses, including one sporting goods store to be announced in 2006. A 15,200 square foot retail center, constructed at the corner of US 460 and Pepper's Ferry Road, currently houses Starbucks, S&K Menswear, and Movie Gallery, with one 1,740 square foot space vacant. Finally, in Blacksburg, a new 100,000 square foot space of retail and office space, with an accompanying 400-space parking deck, is being constructed across from the campus of Virginia Tech.

The service and manufacturing sectors also provide a significant number of jobs in Montgomery County. Two hospitals, Carilion New River Valley Medical Center and Montgomery Regional Hospital, collectively employ over 1,300 employees. The County's largest industrial employer, Alliant Techsystems, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include EchoStar Communications Corporation (Direct Broadcast Satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group - formerly Poly-Scientific (slip rings and fiber optic components) and formerly Electro-Tec Corporation (electrical industrial apparatus), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (Auto Gaskets).

In terms of new construction, overall activity in the County during FY 2005 was down from the previous fiscal year. Overall, the number of total building permits for both residential and commercial/government was down 31.36% below the number in the previous fiscal year. Residential building was down 33.25% below the previous fiscal year, while commercial/government building was up 4.5%. The average assessed value of a new property completed in 2005 was approximately \$204,000 compared with \$149,700, which is the average assessed value for all Montgomery County homes, not including land value. With the decrease in building permits and recent increases in interest rates, the County is expecting less growth during FY 2006 than it has experienced over the past few years.

MAJOR INITIATIVES

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

For the Year.

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for FY 2005 include two areas: *County and School Capital Improvements and public safety initiatives.*

County and School Capital Improvements

The Capital Improvement Program (CIP) for fiscal years 2005 through 2009 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 \$23,855,324 and is comprised of County and School improvements of \$18.8 million and Public Safety improvements of \$5.1 million.

Montgomery County maintains its strong commitment to capital construction funding for County and School improvements. In FY 2005, the Board of Supervisors provided \$1.9 million to fund County and school capital projects. \$400,000 was provided to the School Board to initiate preliminary engineering for the proposed future improvements to the Price's Fork and Elliston/Lafayette Elementary Schools; \$417,594 was provided for the construction of a new 10,000 square foot library facility in Eastern Montgomery County, \$416,740 was provided for the capital costs of new computer based voting machines for the Registrar; and \$35,000 was provided for the design of a new fire station in the Town of Blacksburg. In addition, a total of \$595,000 was provided to volunteer fire departments and rescue squads located throughout the County for the capital costs of various fire and rescue trucks, ambulances, and other one-time capital equipment.

Other completed capital improvements include the construction of a new Longshop-McCoy Fire and Rescue station. This new station was constructed on County-owned land that serves about 4,000 citizens in the westernmost portion of the County. The new facility is approximately 14,500 square feet and replaces a 5,836 square foot, 32 year-old facility. The new station accommodates all the department's vehicles and equipment and provides additional space for a kitchen, sleeping quarters, and meeting and classrooms.

Public Safety

The County has continued to focus on the coordination of emergency services through the County's Office of Emergency Services. This office provides preplanning, preparation, mitigation, response and recovery for natural and man-made disasters and major emergencies. This includes the coordination of fire services, emergency medical response, specialty rescue, emergency communications, enhanced 911, and hazardous material response for the Town of Blacksburg, Town of Christiansburg, and Montgomery County. The department also serves as the focal point for the administration of the Homeland Security Grant funding for the County and other grant funding opportunities.

The County also provided \$305,000 to fund radio and tower upgrades for the Sheriff's Office. These upgrades provide enhancements for better communication between the Sheriff's Office and other police, fire, and rescue agencies located throughout the County and with adjacent jurisdictions.

For the Future.

Looking into FY 2006 and beyond, the Board of Supervisors and County staff will pursue several new initiatives in the areas of *public safety and libraries*.

Public Safety

As the County continues to grow and in order to maintain an adequate level of public safety for the County's citizens, new public facilities are becoming more critical. The FY 2006-FY 2010 Capital Improvement Program (CIP) includes the funding necessary for several new public safety and judicial facilities. The Courthouse Renovation Project will expand the existing courthouse to meet the needs of the courts for the next 25 years. This project will involve a complete renovation of the existing courthouse along with new construction to expand the facility from 57,500 square feet to 111,300 square feet. Six additional courtrooms are planned, along with the renovation and replacement of the mechanical, plumbing, and electrical systems. In order to allow for a smooth transition during this upgrade, additional un-renovated building space located in the Government Center complex will be renovated. This project consists of two phases. The first phase will renovate the additional space in the Government Center complex so it can house the County courts while the courthouse is being renovated. The second phase will be to reconfigure that space for use as the school administration building, once the courts have moved back into the completed courthouse.

In addition to the Courthouse and Government Center renovations, the County plans to participate in a new regional jail initiative. This project proposes a 603-bed capacity regional jail facility in Roanoke County to serve Roanoke County, the City of Salem, Montgomery County, and Franklin County. In

addition to the regional jail, the County's local jail will also be renovated, allowing approximately 60 pre-trial inmates to be housed in the County.

The Elliston Fire Station will be built in the Elliston-Lafayette Industrial Park owned by the County. The current facility is over 45 years old and is extremely cramped with the equipment and vehicles for the volunteer department. The construction of the facility was one of several recommendations provided by the EMSSTAR Group, LLC, in their 2002 comprehensive assessment of fire and rescue services in the County. The station will serve approximately 12,000 citizens in the eastern portion of the County including Ironto, North Fork and Alleghany Springs. Site preparation for the facility is expected to begin sometime in 2006.

Finally, the County is also working on a "burn building" grant proposal to the Department of Fire Programs to fund a County-wide training center for fire and rescue located on the Radford Army Ammunition Plant property. This site will allow for future expansion of training initiatives to include a rail spur and rail road tank car for fire training, as well as ample space for all aspects of rescue training.

Library Improvements

The new Meadowbrook Library project involves the renovation of a 10,000 square foot existing facility in the Shawsville area. The new design of the facility will provide a full service library with a circulation and collections area, computers for public use, and a community room. The construction was completed at the beginning of November 2005. The building will be wired and equipped for up-to-date information technology and will have the flexibility to accommodate a changing library environment. The facility is estimated to open in January of 2006.

Department Focus

In July 2005, a new budget management function was established in the Financial and Management Services Division, including a new position of budget manager. While the Financial and Management Services Division has always been responsible for the development of the County's operating and capital budgets, various aspects of the overall management and formulation of the County's operating budget and Capital Improvement Program (CIP) had been previously housed in several divisions including County Administration, Finance, and Planning. Starting July 1, 2005, the County's operating budget, Capital Improvement Program, and Capital Budget were consolidated into a single centralized function within the Financial and Management Services Division.

The new central budget function is responsible for the overall management of the preparation, development, and administration of the County's operating and capital budgets and the County's budget process. The goal of the new centralized design is to consolidate all budget related matters in an effort to improve financial planning, resource allocation, and overall service delivery. The consolidation is designed to improve intra- and inter-governmental relations and provide a central point of contact for all departments. The Budget Manager is responsible for comprehensive budget analysis, short- and long-range fiscal forecasting, the development of policies that affect the budget, and the development of the annual operating budget and capital improvement program.

The development of this aspect of this division is the first step in the County's progression toward measuring the success of public service delivery in Montgomery County. Moving to the future, the County plans to expand the budget management role by developing and incorporating performance indicators and measures throughout County divisions. This will allow the County to budget based on outcomes and allow for the development of broad based strategic planning. This plan will link day-to-day operations and long-term strategic planning to tangible objectives and community-based outcomes.

While still in its infancy, the County is beginning its progress toward redesigning the budget function in Montgomery County. As part of the FY 07 budget, the County will be redesigning the budget document.

The goal of this redesign is to improve the budget document as a policy document, as an operations guide, as a communications device, and ultimately as a better financial plan. Through these changes, the County plans to apply for and receive the GFOA's Distinguished Budget Award within the next few years. Through the new centralized budget function, the County plans to begin the process for using outcome-based budgeting and performance measurement for resource allocation.

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, 2005, reflect cash that will not be received or disbursed until fiscal year 2006.

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

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

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

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

CASH MANAGEMENT

The County Treasurer's banking contract provides a guaranteed interest rate on the County's cash balances, excluding idle bond proceeds. Idle bond proceeds were invested through the State Non-Arbitrage Pool (SNAP) to maximize interest earnings while avoiding arbitrage liability. The County earned interest revenue of approximately \$1.26 million on all deposits for the year ended June 30, 2005.

RISK MANAGEMENT

The County participates in statewide self-insurance pools for workers compensation, general liability, automotive liability, public officials liability, and law enforcement liability coverages. The County maintains property, crime, and fiduciary liability coverages, liability coverages for fire and rescue operations, and other coverages through private carriers. General liability coverage was maintained for \$5,000,000 per occurrence with a \$5,000,000 general aggregate limit.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting 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, 2004. 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 eighteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



B. Clayton Goodman, III
County Administrator



Angela M. Hill
Director of Financial and Management
Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Montgomery,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

**COUNTY OF MONTGOMERY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2005**

BOARD OF SUPERVISORS

Gary D. Creed, Chair
Steve L. Spradlin, Vice Chair

Mary W. Biggs
Doug W. Marrs
John A. Muffo

Annette S. Perkins
James D. Politis

COUNTY ADMINISTRATION

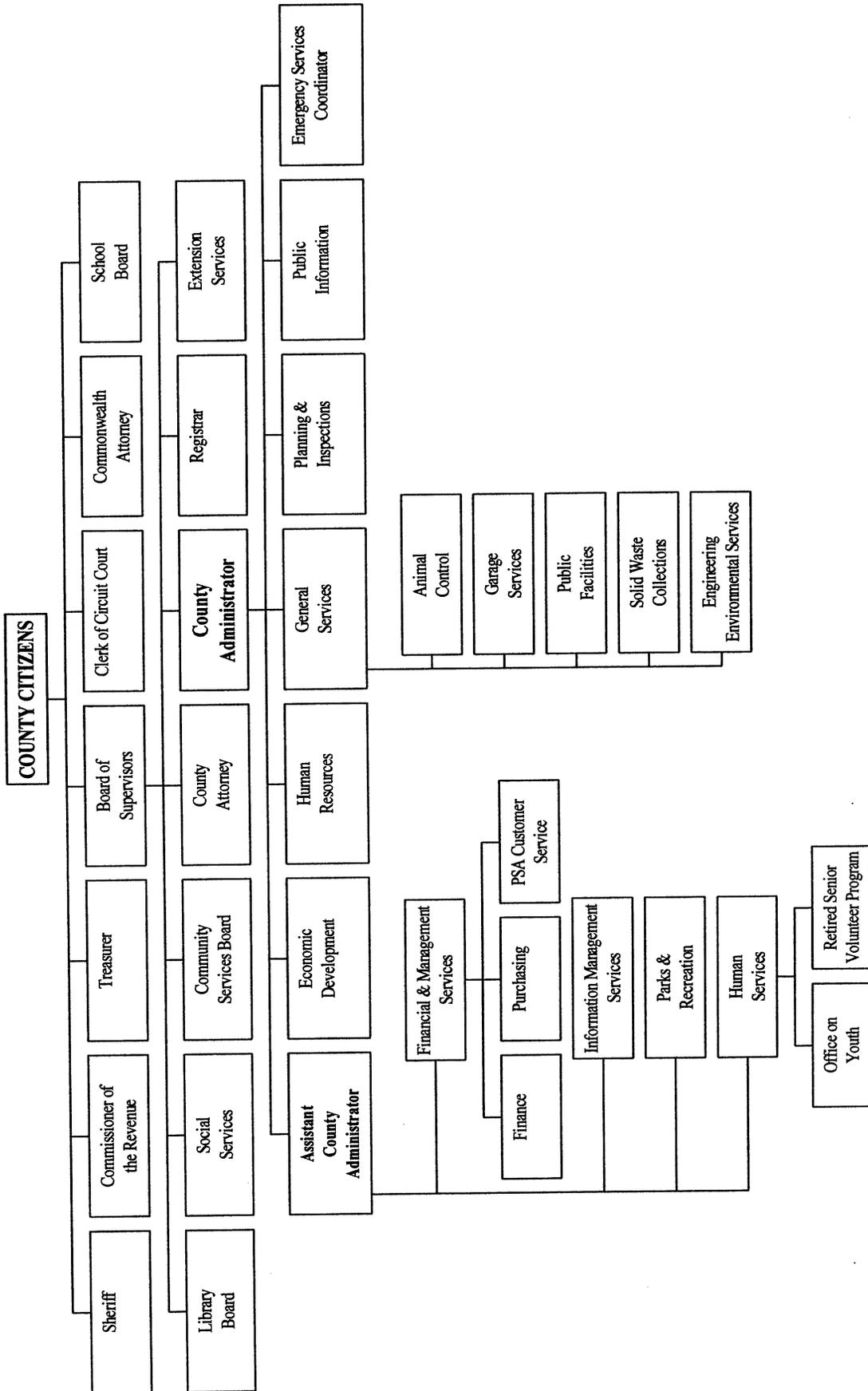
Ronald E. Bonnema	Director of General Services/County Engineer
Karen A. Edmonds	Director of Human Resources
L. Carol Edmonds	Assistant County Administrator
B. Clayton Goodman, III	County Administrator
Anne C. Greene	Montgomery Regional Library Co-Director
Doug Harris	Virginia Cooperative Extension Agent
Marsha H. Hertel	Montgomery Regional Library Co-Director
Angela M. Hill	Director of Fiscal and Management Services
M. Robert Isner	Director of Economic Development
B. Clayton Goodman, III	Interim Director of Public Service Authority
Martin M. McMahon	County Attorney
Tiffany Anderson	Superintendent of Schools
Stephania L. Munson	Director of Human Services
Linda L. Nisbet	Director of Social Services
Robert C. Parker	Director of Public Information
Tunstall C. Powers, Jr.	Director of Planning and Inspections
Julia D. Sayers	Montgomery Regional Library Co-Director
William O. Sgrinia	Director of Parks and Recreation
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	Registrar
Stephanie C. Whyte	Director of Information Management Services

CONSTITUTIONAL OFFICERS

Allan C. Burke
Sharon E. Gilbert
W. Richard Shelton
Josiah T. Showalter, Jr.
J. T. Whitt

Clerk of the Circuit Court
Commissioner of the Revenue
Treasurer
Commonwealth Attorney
Sheriff

Montgomery County, Virginia
June 30, 2005



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each discretely presented component unit, and each major fund of the County of Montgomery, Virginia, as of June 30, 2005, 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 8, 2005 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 8, 2005

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, 2005. 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 2005

- Total net assets for governmental activities were \$36.4 million at June 30, 2005. This figure is based on assets totaling \$158.3 million and liabilities of \$121.9 million.
- Total general fund revenues exceeded the final budgeted amount by \$323,000 or approximately 0.4 percent. Actual expenditures were \$5.0 million less than the final expenditure budget.
- The business-type activities total net assets at June 30, 2005 were approximately \$15.8 million.
- The County's bonded debt decreased \$14.2 million. The IDA purchased the Technology Manufacturing Building from the County. The County used the proceeds to pay off \$9.5 million associated with the building. The County issued \$18.4 million in refunding bonds which defeased \$17.8 million in lease revenue bonds. Repayment of bonded debt totaled just over \$5.3 million, for a net decrease of \$14.2 million.
- Component Unit-School Board net assets were \$7.6 million at June 30, 2005. Of this amount, \$8.7 million is invested in capital assets, net of related debt.
- Component Unit-IDA net deficit was \$1.3 million at June 30, 2005. This deficit resulted from the transfer of the Technology Manufacturing Building to the County as part of a capital lease/refinancing transaction during fiscal year 2003. Due to the transfer, a loss was recognized on the building.
- At the end of the current fiscal year, undesignated fund balance for the general fund was approximately \$13.4 million, or 9.0% of fiscal year 2005 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may

serve as a useful indicator of whether the financial position of the County is improving or deteriorating. Increases in net assets may indicate an improved financial position; however, even decreases in net assets may reflect a changing manner in which the County used previously accumulated funds.

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

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

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

Fund Financial Statements

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

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

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

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

Proprietary funds provide the same type of information as the *business-type activities* in the government-wide financial statements, only in more detail. The Montgomery County Public Service Authority's water and wastewater funds are used to account for the revenues and expenses of providing

those services to citizens and businesses, where the intent is that the costs are financed through user charges.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2005	2004	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 63.5	\$ 66.9	\$ 0.7	\$ 0.4	\$ 64.2	\$ 67.3	\$ 14.0	\$ 13.1
Capital assets	94.8	102.1	21.9	22.4	116.7	124.5	17.6	9.6
Total assets	<u>\$ 158.3</u>	<u>\$ 169.0</u>	<u>\$ 22.6</u>	<u>\$ 22.8</u>	<u>\$ 180.9</u>	<u>\$ 191.8</u>	<u>\$ 31.6</u>	<u>\$ 22.7</u>
Long-term liabilities	\$ 113.2	\$ 128.2	\$ 6.3	\$ 6.4	\$ 119.5	\$ 134.6	\$ 13.1	\$ 3.6
Other liabilities	8.7	7.9	0.5	0.5	9.2	8.4	12.2	11.3
Total liabilities	<u>\$ 121.9</u>	<u>\$ 136.1</u>	<u>\$ 6.8</u>	<u>\$ 6.9</u>	<u>\$ 128.7</u>	<u>\$ 143.0</u>	<u>\$ 25.3</u>	<u>\$ 14.9</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 14.0	\$ 9.8	\$ 15.8	\$ 16.1	\$ 29.8	\$ 25.9	\$ 8.5	\$ 9.6
Restricted	4.6	6.3	1.0	1.0	5.6	7.3	1.2	1.2
Unrestricted	17.8	16.8	(1.0)	(1.2)	16.8	15.6	(3.4)	(3.0)
Total net assets	<u>\$ 36.4</u>	<u>\$ 32.9</u>	<u>\$ 15.8</u>	<u>\$ 15.9</u>	<u>\$ 52.2</u>	<u>\$ 48.8</u>	<u>\$ 6.3</u>	<u>\$ 7.8</u>

Governmental Activities

Total net assets shown above for governmental activities are \$36.4 million or \$3.5 million more than in FY 04. The Industrial Development Authority issued bonds to purchase the Manufacturing Technology Building from the County for \$9.5 million. The County used the proceeds from the sale to pay off the County's debt associated with the building. The County's carrying value of the building (cost less depreciation) was \$8.8 million. This transaction resulted in a gain of \$729,859 for the County. Additionally, accrued interest payable decreased \$600,000 due in part to the repayment of the \$9.5 million in bonds.

Business-Type Activities

Total net assets shown above for business-type activities are \$15.8 million or \$100,000 less than in FY 04.

Component Units

Total net assets shown above for component units are \$6.3 million for FY 05, a decrease from FY 04 of \$1.5 million. This is primarily due to the depreciation of capital assets.

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	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues								
Program revenues:								
Charges for services	\$ 2.3	\$ 2.0	\$ 3.1	\$ 2.8	\$ 5.4	\$ 4.8	\$ 3.6	\$ 2.8
Operating grants and contributions	12.9	12.7	-	-	12.9	12.7	48.5	42.8
Capital grants and contributions	0.1	0.5	0.2	2.0	0.3	2.5	-	-
General revenues:								
Property taxes	39.8	39.7	-	-	39.8	39.7	-	-
Other taxes	10.0	9.1	-	-	10.0	9.1	-	-
Payments from Montgomery County	-	-	-	-	-	-	28.7	28.2
Grants and contributions not restricted to specific purposes	5.4	4.6	-	-	5.4	4.6	-	-
Other	2.4	0.9	-	-	2.4	0.9	-	(0.1)
Total revenues	72.9	69.5	3.3	4.8	76.2	74.3	80.8	73.7
Expenses								
General government	6.3	6.2	-	-	6.3	6.2	-	-
Judicial administration	1.8	1.8	-	-	1.8	1.8	-	-
Public safety	8.8	7.5	-	-	8.8	7.5	-	-
Public works	4.0	3.6	-	-	4.0	3.6	-	-
Health and welfare	8.3	8.5	-	-	8.3	8.5	-	-
Education	30.5	30.1	-	-	30.5	30.1	81.3	74.7
Parks, recreation and cultural	2.4	2.6	-	-	2.4	2.6	-	-
Community development	1.6	2.0	-	-	1.6	2.0	1.0	0.7
Water	-	-	1.7	1.9	1.7	1.9	-	-
Waste water	-	-	1.7	1.6	1.7	1.6	-	-
Interest on long-term debt	5.7	5.7	-	-	5.7	5.7	-	-
Total expenses	69.4	68.0	3.4	3.5	72.8	71.5	82.3	75.4
Change in net assets	\$ 3.5	\$ 1.5	\$ (0.1)	\$ 1.3	\$ 3.4	\$ 2.8	\$ (1.5)	\$ (1.7)

Revenues

For the fiscal year ended June 30, 2005, revenues from governmental funds totaled \$72.9 million, an increase of \$3.4 million. Unrestricted investment earnings and gain on disposal of capital assets, included above in the Other category, accounted for \$1.5 million of the increase. The County Treasurer entered into a banking services contract in the spring of 2004. This, combined with interest earned on bond proceeds received mid-way through fiscal year 2004, resulted in an increase in investment earnings of more than \$800,000. A gain on disposal of capital assets of \$700,000 resulted from the sale of the Technology Manufacturing Building. The gain was generated because the asset had been depreciated for accounting purposes, reducing the carrying value to \$700,000 less than the associated debt.

Other local taxes (including sales taxes, recordation taxes, and meals taxes) increased \$900,000. The increase in recordation taxes corresponds to the number of items recorded by the Clerk of the Circuit Court, primarily property sales. Also, 2005 was the first year the meals tax was in place for the entire year. Grants and contributions increased approximately \$800,000 as well, due primarily to increased state funding for social services programs.

Charges for services from business-type activities totaled \$3.1 million, an increase of \$300,000 resulting primarily from increased facility fees, which are based on the number of new connections to the water and sewer system.

Component unit revenues total \$80.8 million, including a \$28.7 million transfer from the general fund. GASB 34 requires that school debt service is included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$7.3 million, which would have brought the total transfer to \$36.0 million under the previous method of accounting.

Expenses / Expenditures

For the fiscal year ended June 30, 2005, expenses for governmental activities totaled \$69.4 million, an increase of \$1.4 million from the previous year. This increase is due to a \$400,000 increase in public safety grants, which are administered by the Emergency Services Coordinator. Additionally, the state compensation board added six new positions to the Sheriff's office in 2005. The new positions, salary increases as a result of the Sheriff's Departments inclusion on the County's uniform compensation plan, increases in the cost of health insurance and Virginia Retirement System rates combined for an increase of approximately \$600,000.

Expenditures for business-type activities totaled \$3.4 million, a decrease of approximately \$100,000. Water Fund expenditures decreased approximately \$200,000 as fiscal year 2004 included a significant amount of planned facility repairs, while fiscal year 2005 did not. Waste Water Fund expenditures increased approximately \$100,000, due to a portion of the salaries for three administrative positions being allocated to the Waste Water Fund, rather than entirely to the Water Fund, to more accurately account for the expenses of each function.

Education is a very high priority in the Montgomery County community; consequently the Board of Supervisors contributed \$30.5 million to the operation of the Montgomery County schools. This amount represented about 44% of the County's general fund expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$37.8 million, or 54%. On the cash basis of accounting, total school expenditures, including expenditures funded through the state and federal government and debt service for school related projects, were equal to 69 percent of the General Fund expenditures (excluding payments to the schools), plus School Operating Fund expenditures for 2005. This percentage is a decrease from 2004, as 2005 cash basis general fund expenditures included \$9.5 million in principal retirement for the Technology Manufacturing Building.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2005, the governmental funds reflect a combined fund balance of \$55.5 million, a decrease of \$4.3 million from the fiscal year ended June 30, 2004. This decrease is due in part to \$2.9 million which was expended in 2005 from bond proceeds received in previous years. The general fund balance decreased approximately \$1.3 million. Of the \$1.3 million, the County's original budget for 2005 included the use of fund balance of \$651,323 with additional fund balance appropriated for use throughout the year. There was no tax rate increase in June of 2005, therefore, no unbudgeted funds were collected at that time. This, coupled with the use of fund balance, resulted in the decrease.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the General Fund for fiscal year 2005 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 50.5	\$ 50.5	\$ 50.9
Intergovernmental	15.9	18.8	17.8
Other	2.6	12.6	13.0
Expenditures and transfers	69.8	87.5	82.4
Change in fund balance	\$ (0.8)	\$ (5.6)	\$ (0.7)

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 \$2.9 million increase in this category. Also, the budget was adjusted to reflect the accounting for the sale and principal payment for the Technology Manufacturing Building. 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 budget.

There is a significant increase in the final budget for expenditures over the original budget primarily resulting from encumbrances and escrows from the 2004 budget and the appropriation of grants received throughout the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the County had invested \$116.7 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2005	2004	2005	2004	2005	2004	2005	2004
Non-depreciable assets								
Land	\$ 6.5	\$ 6.8	\$ 0.3	\$ 0.4	\$ 6.8	\$ 7.2	\$ 0.4	\$ 0.4
Construction in progress	2.4	0.3	0.3	-	2.7	0.3	-	-
Depreciable capital assets								
Infrastructure	-	-	29.3	29.3	29.3	29.3	-	-
Buildings and improvements	96.8	104.6	0.1	0.1	96.9	104.7	39.6	30.7
Machinery and equipment	11.4	10.8	0.6	0.6	12.0	11.4	10.9	10.6
Accumulated depreciation	(22.3)	(20.0)	(8.7)	(8.0)	(31.0)	(28.0)	(33.3)	(32.1)
Total	\$ 94.8	\$ 102.5	\$ 21.9	\$ 22.4	\$ 116.7	\$ 124.9	\$ 17.6	\$ 9.6

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

	<u>Balance June 30, 2004</u>	<u>Net Additions/ (Deletions)</u>	<u>Balance June 30, 2005</u>
Non-depreciable assets			
Land	\$ 7.6	\$ (0.4)	\$ 7.2
Construction in progress	0.3	2.4	2.7
Depreciable capital assets			
Infrastructure	29.3	-	29.3
Buildings and improvements	135.4	1.1	136.5
Machinery and equipment	22.0	0.9	22.9
Accumulated depreciation	(60.1)	(4.2)	(64.3)
Total	<u>\$ 134.5</u>	<u>\$ (0.2)</u>	<u>\$ 134.3</u>

Fiscal year 2005's major capital additions consisted primarily of construction in progress on the athletic fields, Meadowbrook Library and renovations to the unfinished portion of the Government Center.

The County's capital improvement program in fiscal year 2005 included funding of approximately \$27 million for County capital spending and approximately \$3.4 million for School capital items. The most significant items include renovations to the County Courthouse and Building C of the County Government Center, information technology, fire and rescue equipment, school athletic fields, and capital maintenance to various schools.

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

Long Term Debt

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2005, in millions of dollars:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 23.7	\$ 25.7	\$ -	\$ -	\$ 23.7	\$ 25.7
Lease revenue bonds	61.0	91.0	-	-	61.0	91.0
Literary loans	4.3	4.5	-	-	4.3	4.5
Refunding bonds	23.3	5.2	-	-	23.3	5.2
Notes payable	-	-	0.1	0.1	0.1	0.1
Revenue bonds	-	-	6.2	6.1	6.2	6.1
Total	<u>\$ 112.3</u>	<u>\$ 126.4</u>	<u>\$ 6.3</u>	<u>\$ 6.2</u>	<u>\$ 118.6</u>	<u>\$ 132.6</u>

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

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

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.

2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Net debt per capita should remain under \$2,000. Net debt is defined as any and all debt that is tax-supported.
4. Net debt as a percentage of estimated market value of taxable property should target 3.0% but not exceed 4.0%.
5. The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10% but not exceed 12%.
6. The ratio of net debt per capita as a percentage of income should target 7.5% but not exceed 10.0%.
7. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
8. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds. The County will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.
9. On all General Fund supported, debt-financed projects, the County will attempt to make a down payment of at least 5% of total project costs in the aggregate from current resources.

As of June 30, 2005, the County was in compliance with all debt policies.

ECONOMIC FACTORS

The unemployment rate for the County is currently 2.9 percent, which is unchanged from a year ago. This compares favorably to the state's average unemployment rate of 3.2 percent and the national average of 4.6 percent. Inflationary trends in the region also compare favorably to national indices.

The Board of Supervisors held the tax rate level for 2006. The use of \$917,651 from undesignated fund balance was planned in the 2006 budget.

REQUESTS FOR INFORMATION

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

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**BASIC FINANCIAL
STATEMENTS**

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Units		
	Governmental	Business-type	Total	School	Industrial	Total
	Activities	Activities		Board	Development Authority	
ASSETS						
Cash and cash equivalents (Note 4)	\$ 21,857,096	\$ 181,094	\$ 22,038,190	\$ 386,773	\$ 178,525	\$ 22,603,488
Receivables, net (Note 5)	1,685,772	484,412	2,170,184	-	-	2,170,184
Due from primary government	-	-	-	3,540,478	-	3,540,478
Due from other governmental units (Note 6)	2,238,164	-	2,238,164	2,215,448	-	4,453,612
Internal balances (Note 7)	261,326	(261,326)	-	-	-	-
Prepays	302,608	9,645	312,253	1,174,568	-	1,486,821
Inventories	-	2,106	2,106	85,174	5,605,547	5,692,827
Advances to component unit (Note 14)	5,952,557	-	5,952,557	-	-	5,952,557
Restricted assets:						
Cash and cash equivalents (Note 4)	56,819	203,403	260,222	170,267	148,294	578,783
Investments (Note 4)	29,396,649	-	29,396,649	-	284,475	29,681,124
Notes Receivable (Note 14)	1,178,993	-	1,178,993	-	207,558	1,386,551
Bond issuance costs, net	652,723	-	652,723	-	53,115	705,838
Capital assets:						
Non-depreciable (Note 8)	8,871,189	634,315	9,505,504	394,257	-	9,899,761
Depreciable, net (Note 8)	85,880,748	21,346,449	107,227,197	8,346,824	8,856,477	124,430,498
Total assets	<u>158,334,644</u>	<u>22,600,098</u>	<u>180,934,742</u>	<u>16,313,789</u>	<u>15,333,991</u>	<u>212,582,522</u>
LIABILITIES						
Accounts payable and accrued expenses	2,023,417	407,452	2,430,869	303,950	570	2,735,389
Accrued payroll and related liabilities	59,501	-	59,501	5,771,871	-	5,831,372
Accrued interest payable	2,055,867	5,204	2,061,071	-	-	2,061,071
Amounts held for others	7,519	-	7,519	170,267	-	177,786
Advances from primary government (Note 14)	-	-	-	-	5,952,557	5,952,557
Due to other governmental units (Note 6)	925,308	-	925,308	-	-	925,308
Due to component unit	3,540,478	-	3,540,478	-	-	3,540,478
Deferred revenue (Note 5)	87,565	18,107	105,672	-	-	105,672
Customer deposits payable	49,300	23,490	72,790	-	-	72,790
Long-term liabilities:						
Due within one year (Note 9)	7,165,155	212,871	7,378,026	1,696,000	-	9,074,026
Due in more than one year (Note 9)	106,024,821	6,120,951	112,145,772	739,686	10,664,994	123,550,452
Total liabilities	<u>121,938,931</u>	<u>6,788,075</u>	<u>128,727,006</u>	<u>8,681,774</u>	<u>16,618,121</u>	<u>154,026,901</u>
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	13,971,101	15,746,661	29,717,762	8,741,081	(196,754)	38,262,089
Restricted:						
Debt service	4,625,573	203,403	4,828,976	-	-	4,828,976
Carilion expansion	-	831,000	831,000	-	-	831,000
Unexpended grant proceeds	-	-	-	-	1,181,431	1,181,431
Unrestricted (deficit)	17,799,039	(969,041)	16,829,998	(1,109,066)	(2,268,807)	13,452,125
Total net assets	<u>\$ 36,395,713</u>	<u>\$ 15,812,023</u>	<u>\$ 52,207,736</u>	<u>\$ 7,632,015</u>	<u>\$ (1,284,130)</u>	<u>\$ 58,555,621</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets									
	Program Revenues				Primary Government			Component Units		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
Primary Government:										
Governmental activities:										
General government administration	\$ 6,294,606	\$ 587,402	\$ 431,380	\$ -	\$ (5,275,824)	\$ -	\$ (5,275,824)	\$ -	\$ -	\$ (5,275,824)
Judicial administration	1,805,807	619,739	737,517	-	(448,551)	-	(448,551)	-	-	(448,551)
Public safety	8,798,860	516,040	4,866,755	-	(3,416,065)	-	(3,416,065)	-	-	(3,416,065)
Public works	4,028,193	151,767	20,134	-	(3,856,292)	-	(3,856,292)	-	-	(3,856,292)
Health and welfare	8,337,208	58,414	6,309,770	-	(1,969,024)	-	(1,969,024)	-	-	(1,969,024)
Education	30,528,063	-	-	-	(30,528,063)	-	(30,528,063)	-	-	(30,528,063)
Parks, recreational, and cultural	2,432,516	198,923	506,455	150,000	(1,577,138)	-	(1,577,138)	-	-	(1,577,138)
Community development	1,582,047	177,401	8,022	-	(1,396,624)	-	(1,396,624)	-	-	(1,396,624)
Interest on long-term debt	5,641,696	-	-	-	(5,641,696)	-	(5,641,696)	-	-	(5,641,696)
Total governmental activities	69,448,996	2,309,686	12,880,033	150,000	(54,109,277)	-	(54,109,277)	-	-	(54,109,277)
Business-type activities:										
Water	1,757,828	1,779,005	-	24,110	-	45,287	45,287	-	-	45,287
Wastewater	1,692,153	1,362,546	-	146,844	-	(182,763)	(182,763)	-	-	(182,763)
Total business-type activities	3,449,981	3,141,551	-	170,954	-	(137,476)	(137,476)	-	-	(137,476)
Total primary government	72,898,977	5,451,237	12,880,033	320,954	(54,109,277)	(137,476)	(54,246,753)	-	-	(54,246,753)
Component Units:										
School Board	\$ 81,256,338	\$ 3,009,420	\$ 48,512,261	\$ -	\$ -	\$ -	\$ -	(29,734,657)	\$ -	(29,734,657)
Industrial Development Authority	1,009,884	622,087	-	-	-	-	-	-	(387,797)	(387,797)
Total component units	\$ 82,266,222	\$ 3,631,507	\$ 48,512,261	\$ -	\$ -	\$ -	\$ -	(29,734,657)	(387,797)	(30,122,454)
General Revenues:										
General property taxes	39,803,302	-	-	-	39,803,302	-	39,803,302	-	-	39,803,302
Sales and use tax	6,555,523	-	-	-	6,555,523	-	6,555,523	-	-	6,555,523
Utility tax	1,838,429	-	-	-	1,838,429	-	1,838,429	-	-	1,838,429
Motor vehicle license tax	579,415	-	-	-	579,415	-	579,415	-	-	579,415
Other local taxes	1,066,638	-	-	-	1,066,638	-	1,066,638	-	-	1,066,638
Intergovernmental revenue, unrestricted	5,367,339	-	-	-	5,367,339	-	5,367,339	-	-	5,367,339
Unrestricted investment earnings	1,054,783	-	-	-	1,054,783	1,584	1,056,367	1,584	14,332	1,070,699
Restricted investment earnings	610,276	-	-	-	610,276	-	610,276	-	-	610,276
Gain on disposal of capital assets	729,859	-	-	-	729,859	-	729,859	-	-	729,859
Payments from Montgomery County	57,599,206	6,338	-	-	57,599,206	6,338	57,605,564	28,703,717	14,332	86,325,197
Total general revenues	3,489,929	(131,118)	-	-	3,489,929	(131,118)	3,358,811	(1,029,356)	(373,465)	1,955,990
Change in net assets	32,905,784	15,943,141	-	-	32,905,784	15,943,141	48,848,925	8,661,371	(910,665)	56,599,631
Net assets-beginning, as restated (Note 16)	\$ 36,395,713	\$ -	\$ 15,812,023	\$ -	\$ 36,395,713	\$ -	\$ 52,207,736	\$ 7,632,015	\$ (1,284,130)	\$ 58,555,621
Net assets-ending										

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	County Capital Improvements	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 19,326,333	\$ 2,530,763	\$ 21,857,096
Receivables (net)	1,685,772	-	1,685,772
Due from other governmental units	2,238,164	-	2,238,164
Advances to other funds	261,326	-	261,326
Advances to component unit	5,952,557	-	5,952,557
Notes receivable	1,178,993	-	1,178,993
Restricted assets:			
Cash and cash equivalents	56,819	-	56,819
Investments	-	29,396,649	29,396,649
Total assets	<u>\$ 30,699,964</u>	<u>\$ 31,927,412</u>	<u>\$ 62,627,376</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,200,682	\$ 872,735	\$ 2,073,417
Accrued payroll and related liabilities	59,501	-	59,501
Due to other governmental units	925,308	-	925,308
Due to component unit	3,540,478	-	3,540,478
Deferred revenue (Note 5)	516,001	-	516,001
Amounts held for others	7,519	-	7,519
Customer deposits payable	49,300	-	49,300
Total liabilities	<u>6,298,789</u>	<u>872,735</u>	<u>7,171,524</u>
Fund Balances:			
Reserved (Note 15)	8,048,551	1,844,841	9,893,392
Unreserved, reported in:			
General fund, designated (Note 15)	2,916,881	-	2,916,881
County capital improvements, designated	-	29,209,836	29,209,836
General fund, undesignated	13,435,743	-	13,435,743
Total fund balances	<u>24,401,175</u>	<u>31,054,677</u>	<u>55,455,852</u>
Total liabilities and fund balances	<u>\$ 30,699,964</u>	<u>\$ 31,927,412</u>	<u>\$ 62,627,376</u>

(Continued)

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

EXHIBIT 3

COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005**

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

Ending fund balance - governmental funds		\$ 55,455,852
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds		94,751,937
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		302,608
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		428,436
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.		2,397,358
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	(112,574,843)	
Landfill closure/post-closure liability, less current portion reported in the funds	(450,000)	
Compensated absences	(1,859,768)	
Accrued interest payable	(2,055,867)	
		<u>(116,940,478)</u>
Net assets of governmental activities		<u>\$ 36,395,713</u>

EXHIBIT 4

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2005

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 40,698,453	\$ -	\$ 40,698,453
Other local taxes	10,040,004	-	10,040,004
Permits, privilege fees and regulatory licenses	581,026	-	581,026
Fines and forfeitures	181,336	-	181,336
Revenue from use of money and property	1,048,425	610,276	1,658,701
Charges for services	774,474	-	774,474
Recovered costs	1,345,672	19,173	1,364,845
Intergovernmental	17,655,372	-	17,655,372
Total revenues	<u>72,324,762</u>	<u>629,449</u>	<u>72,954,211</u>
EXPENDITURES			
Current operating:			
General government administration	6,046,564	-	6,046,564
Judicial administration	1,801,538	-	1,801,538
Public safety	8,931,893	-	8,931,893
Public works	3,252,988	-	3,252,988
Health and welfare	8,338,220	-	8,338,220
Education	28,731,743	-	28,731,743
Parks, recreation and cultural	2,513,263	-	2,513,263
Community development	1,590,531	-	1,590,531
Debt service:			
Principal retirement	16,442,154	-	16,442,154
Interest and other fiscal charges	4,276,687	-	4,276,687
Bond issuance costs	-	401,816	401,816
Capital projects	-	2,956,657	2,956,657
Total expenditures	<u>81,925,581</u>	<u>3,358,473</u>	<u>85,284,054</u>
Excess of expenditures over revenues	<u>(9,600,819)</u>	<u>(2,729,024)</u>	<u>(12,329,843)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of refunding bonds	-	18,430,000	18,430,000
Bond premium	-	349,866	349,866
Payments to escrow agents	-	(19,562,999)	(19,562,999)
Proceeds from sale of capital assets	8,940,593	-	8,940,593
Transfers in	46,777	672,279	719,056
Transfers out	(672,279)	(46,777)	(719,056)
Total other financing sources (uses)	<u>8,315,091</u>	<u>(157,631)</u>	<u>8,157,460</u>
Net change in fund balances	<u>(1,285,728)</u>	<u>(2,886,655)</u>	<u>(4,172,383)</u>
FUND BALANCES AT JULY 1, 2004, as restated (Note 16)	<u>25,686,903</u>	<u>33,941,332</u>	<u>59,628,235</u>
FUND BALANCES AT JUNE 30, 2005	<u>\$ 24,401,175</u>	<u>\$ 31,054,677</u>	<u>\$ 55,455,852</u>

(Continued)

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, 2005**

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	\$ (4,172,383)
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 (\$3,624,000) exceeds depreciation (\$3,167,790) in the current period.	456,210
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, insurance proceeds, and donations) is to decrease net assets.	(8,210,734)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(895,144)
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 the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	15,727,146
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.	<u>584,834</u>
Change in net assets of governmental activities	<u><u>\$ 3,489,929</u></u>

EXHIBIT 5

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL (CASH BASIS)
GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 40,548,966	\$ 40,555,467	\$ 40,963,640	\$ 408,173
Other local taxes	9,946,714	9,946,714	9,939,290	(7,424)
Permits, privilege fees and regulatory licenses	433,657	439,047	581,091	142,044
Fines and forfeitures	170,000	170,000	173,655	3,655
Revenue from use of money and property	570,847	570,847	1,052,566	481,719
Charges for services	542,112	748,484	759,858	11,374
Recovered costs	910,343	1,140,728	1,394,806	254,078
Intergovernmental	15,929,743	18,779,618	17,808,809	(970,809)
Total revenues	<u>69,052,382</u>	<u>72,350,905</u>	<u>72,673,715</u>	<u>322,810</u>
EXPENDITURES				
Current operating:				
General government administration	6,306,474	7,310,311	5,929,146	1,381,165
Judicial administration	1,604,811	1,837,394	1,763,822	73,572
Public safety	7,595,252	9,499,132	8,902,004	597,128
Public works	3,107,093	3,507,593	3,122,199	385,394
Health and welfare	6,927,906	9,492,590	8,395,000	1,097,590
Education	29,667,143	29,651,753	28,760,722	891,031
Parks, recreation, and cultural	2,269,911	2,913,408	2,494,093	419,315
Community development	1,423,601	1,807,347	1,640,215	167,132
Debt service:				
Principal retirement	6,944,935	16,444,935	16,442,154	2,781
Interest and other fiscal charges	3,919,362	4,307,337	4,278,601	28,736
Total expenditures	<u>69,766,488</u>	<u>86,771,800</u>	<u>81,727,956</u>	<u>5,043,844</u>
Excess of expenditures over revenues	<u>(714,106)</u>	<u>(14,420,895)</u>	<u>(9,054,241)</u>	<u>5,366,654</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	9,500,000	8,940,593	(559,407)
Transfers in	-	-	46,777	46,777
Transfers out	-	(672,279)	(672,279)	-
Total other financing sources (uses)	<u>-</u>	<u>8,827,721</u>	<u>8,315,091</u>	<u>(512,630)</u>
Net change in fund balances	<u>\$ (714,106)</u>	<u>\$ (5,593,174)</u>	<u>\$ (739,150)</u>	<u>\$ 4,854,024</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 181,094	\$ -	\$ 181,094
Internal balances	242,070	(242,070)	-
Receivables, net	260,813	223,599	484,412
Prepays	3,998	5,647	9,645
Inventories	1,345	761	2,106
Total current assets	<u>689,320</u>	<u>(12,063)</u>	<u>677,257</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	115,338	88,065	203,403
Capital assets:			
Non-depreciable	322,390	311,925	634,315
Depreciable, net	11,222,445	10,124,004	21,346,449
Total noncurrent assets	<u>11,660,173</u>	<u>10,523,994</u>	<u>22,184,167</u>
Total assets	<u>12,349,493</u>	<u>10,511,931</u>	<u>22,861,424</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	159,339	248,113	407,452
Accrued interest payable	3,024	2,180	5,204
Advances from other funds	211,520	49,806	261,326
Deferred revenue	-	18,107	18,107
Current portion of noncurrent liabilities	102,923	109,948	212,871
Total current liabilities	<u>476,806</u>	<u>428,154</u>	<u>904,960</u>
Noncurrent liabilities:			
Customer deposits payable	14,360	9,130	23,490
Due in more than one year	3,411,672	2,709,279	6,120,951
Total noncurrent liabilities	<u>3,426,032</u>	<u>2,718,409</u>	<u>6,144,441</u>
Total liabilities	<u>3,902,838</u>	<u>3,146,563</u>	<u>7,049,401</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,085,192	7,661,469	15,746,661
Restricted	946,338	88,065	1,034,403
Unrestricted	(584,875)	(384,166)	(969,041)
Total net assets	<u>\$ 8,446,655</u>	<u>\$ 7,365,368</u>	<u>\$ 15,812,023</u>

COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005**

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,261,842	\$ -	\$ 1,261,842
Wastewater revenues	-	1,032,957	1,032,957
Penalty and reconnection charges	32,978	27,200	60,178
Fees	183,781	87,828	271,609
Miscellaneous	10,855	16,411	27,266
Total operating revenues	<u>1,489,456</u>	<u>1,164,396</u>	<u>2,653,852</u>
OPERATING EXPENSES			
Salaries and wages	327,465	342,893	670,358
Employee benefits	126,082	126,733	252,815
Utilities and telephone	22,808	56,540	79,348
Water and wastewater services	501,655	422,419	924,074
Operating supplies, fees, permits	4,902	27,616	32,518
Professional services	133,447	19,498	152,945
Repairs and maintenance	93,868	112,288	206,156
Insurance	15,267	16,426	31,693
Vehicle supplies and miscellaneous	17,049	12,995	30,044
Bad debt	8,500	6,400	14,900
Office supplies and miscellaneous	26,573	13,518	40,091
Depreciation	340,264	405,082	745,346
Total operating expenses	<u>1,617,880</u>	<u>1,562,408</u>	<u>3,180,288</u>
Operating loss	<u>(128,424)</u>	<u>(398,012)</u>	<u>(526,436)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	6,123	235	6,358
Facility fees	289,549	198,150	487,699
Gain on disposal of capital assets	23,675	-	23,675
Interest expense	(163,623)	(129,745)	(293,368)
Total non-operating revenues	<u>155,724</u>	<u>68,640</u>	<u>224,364</u>
Income (loss) before transfers and contributions	27,300	(329,372)	(302,072)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	24,110	146,844	170,954
TRANSFERS	<u>(51,675)</u>	<u>51,675</u>	<u>-</u>
Change in net assets	(265)	(130,853)	(131,118)
NET ASSETS JULY 1, 2004, as restated (Note 16)	<u>8,446,920</u>	<u>7,496,221</u>	<u>15,943,141</u>
NET ASSETS JUNE 30, 2005	<u>\$ 8,446,655</u>	<u>\$ 7,365,368</u>	<u>\$ 15,812,023</u>

COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005**

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,464,042	\$ 1,147,386	\$ 2,611,428
Payments to suppliers	(887,279)	(759,948)	(1,647,227)
Payments to employees	(435,897)	(456,123)	(892,020)
Net cash provided by (used in) operating activities	<u>140,866</u>	<u>(68,685)</u>	<u>72,181</u>
NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(88,122)	88,122	-
Net cash provided by (used in) non-capital financing activities	<u>(88,122)</u>	<u>88,122</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Retirements of advances from the County	(41,101)	-	(41,101)
Acquisition and construction of capital assets	(50,575)	(163,551)	(214,126)
Payments from developers	24,110	164,951	189,061
Facility fee payments from customers	289,549	198,150	487,699
Proceeds from indebtedness	51,675	-	51,675
Principal payment on debt	(36,182)	(74,479)	(110,661)
Interest payments on debt	(195,553)	(129,775)	(325,328)
Net cash provided by (used in) capital and related financing activities	<u>41,923</u>	<u>(4,704)</u>	<u>37,219</u>
INVESTING ACTIVITIES			
Interest received	6,123	235	6,358
Net increase in cash and cash equivalents	<u>100,790</u>	<u>14,968</u>	<u>115,758</u>
CASH AND CASH EQUIVALENTS			
Beginning at July 1	195,642	73,097	268,739
Ending at June 30	<u>\$ 296,432</u>	<u>\$ 88,065</u>	<u>\$ 384,497</u>
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 181,094	\$ -	\$ 181,094
Cash and cash equivalents, restricted	115,338	88,065	203,403
	<u>\$ 296,432</u>	<u>\$ 88,065</u>	<u>\$ 384,497</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities			
Operating loss	\$ (128,424)	\$ (398,012)	\$ (526,436)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	340,264	405,082	745,346
Increase in accounts receivable	(17,634)	(11,080)	(28,714)
Increase in prepaids	(3,998)	(5,647)	(9,645)
(Increase) decrease in inventory	2,045	(58)	1,987
Decrease in accounts payable	(69,757)	(72,943)	(142,700)
Increase in accrued payroll and related liabilities	17,650	13,503	31,153
Increase in customer deposits	720	470	1,190
Net cash provided by (used in) operating activities	<u>\$ 140,866</u>	<u>\$ (68,685)</u>	<u>\$ 72,181</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset purchases included in accounts payable at year end	<u>\$ -</u>	<u>\$ 112,509</u>	<u>\$ 112,509</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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 the County residents and is treated as a blended component unit because the County's Board of Supervisors serves as the Public Service 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 Board is comprised of seven members. The County members are popularly elected to a four-year term. The School Board is fiscally dependent upon the County because the County Board of Supervisors approves the School Board budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of debt. The School Board does not issue separate financial statements; as such, they have been included in these statements.

Montgomery County Industrial Development Authority

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

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, 2005, the County contributed \$110,148 to New River Valley Community Services.

Virginia Tech – Montgomery Regional Airport Authority

The Virginia Tech/Montgomery Regional Airport Authority (the "Airport Authority") was created by concurrent resolutions of the governing bodies of Montgomery County, the Town of Blacksburg, the Town of Christiansburg, and Virginia Tech. The 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, 2005, 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, which was created by a joint resolution on December 14, 1994 by Montgomery County, the Town of Blacksburg, the Town of Christiansburg, and Virginia Tech. The 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 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 Authority for disposal of waste in the landfill, and processing and marketing of the recyclables. All Authority operations are financed by tipping fees and the individual jurisdictions are not liable for the debt of the Authority. The remaining life of the landfill is estimated at five years, and the Authority has negotiated with an adjacent Authority for shared use of a new permitted landfill with an anticipated operating life of 30 years. The County paid \$749,257 in tipping fees during fiscal year 2005.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization. The Metropolitan Planning Organization (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. During fiscal year 2005, the County paid \$7,823 toward operations of the MPO.

Western Virginia Regional Jail Authority

The County is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created June 24, 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the Western Virginia Regional Jail. Members of the WVRJA include the Counties of Floyd, Montgomery and Roanoke, and the City of Salem. 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. No payments were made to the WVRJA during fiscal year 2005.

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

The County reports the following major governmental funds:

General Fund – The General Fund 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 – The County Capital Improvements 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 – The Water Fund accounts for the activities of the County’s water department operations.

Wastewater Fund – The Wastewater Fund accounts for the activities of the County’s wastewater department operations.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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 the 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 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 nonoperating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

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

Receivables

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

Inventories

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

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

Capital Assets

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

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

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

Compensated Absences

County and School Board employees are granted a specified number of days of leave with pay each year. The amount reflects, as of June 30, all unused vacation and compensatory leave, and the amount payable upon termination, in accordance with respective policies, of sick leave pay out. The applicable share of employer related taxes payable on the eventual termination payments is also included. The cost of accumulated vacation and sick leave pay is accounted for as a liability in the government-wide financial statements and proprietary fund type statements. A liability for these amounts is reported in the governmental funds when the amounts have become due and payable.

Deferred Revenues

Deferred revenue in the general fund consists primarily of property taxes not collected within 45 days of year end and property taxes collected prior to their due date. Deferred revenue in the enterprise funds represents amounts received from developers for construction of assets which has not been completed. Deferred revenue in governmental activities consists of property taxes collected prior to their due date.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period but no 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.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2. Stewardship, Compliance, and Accountability

Net Assets/Fund Equity

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

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

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 categories, which include administration, instruction, attendance, and health, etc.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds (except the School Fund) and Capital Project Funds. 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 appropriations of \$9,307,418 during the fiscal year ended June 30 primarily for transfers for education, public safety, and health and welfare.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

Budgetary Information (Continued)

The following is a reconciliation of the results of operations for the year on the budgetary basis to the GAAP basis:

	Primary Government General Fund	Component Unit – School Board	
		School Operating	School Cafeteria
Net increase (decrease) in Fund Balance (budgetary basis)	\$ (739,150)	\$ -	\$ 74,909
Adjustments:			
Tax and other accruals and due from other entities/funds:			
June 30, 2005	10,800,811	5,702,473	53,453
June 30, 2004	(10,422,889)	(5,378,483)	-
Inventory:			
June 30, 2005	-	-	85,174
June 30, 2004	-	-	(75,777)
Accounts, salaries and other amounts payable to other entities/funds:			
June 30, 2005	(5,725,969)	(5,702,473)	(373,348)
June 30, 2004	4,801,469	5,378,483	223,015
Net decrease in Fund Balance (GAAP basis)	<u>\$ (1,285,728)</u>	<u>\$ -</u>	<u>\$ (12,574)</u>

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

Certain transactions between the County and School Board component unit are explained here in detail 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 to pay for capital expenditures. Any unspent money at year end is reported as deposits and investments of the School Board.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 3. Significant Transactions of the County and Discretely Presented Component Unit – School Board (Continued)

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 \$87,550,019. That amount is obtained as follows:

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 80,239,556
Principal and other debt service expenses included in primary government	<u>7,310,463</u>
Total expenditures for school activities	<u>\$ 87,550,019</u>

Note 4. Deposits and Investments

Deposits

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

Investments

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Deposits and Investments (Continued)

Investments (Continued)

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

Primary Government

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Demand deposits	\$ 22,298,412	NA	43.13%
SNAP	24,642,239	AAA	47.67%
Money market accounts	4,754,410	AAAm	9.20%
Total	<u>\$ 51,695,061</u>		<u>100.00%</u>

Component Unit – School Board

Demand deposits	<u>\$ 557,040</u>	NA	<u>100.00%</u>
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Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

At year end, the County is only invested in SNAP 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.

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Deposits and Investments (Continued)

Custodial Credit Risk (Continued)

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	\$ 22,038,190	\$ 386,773
Investments, restricted	29,396,649	-
Cash and cash equivalents, restricted	260,222	170,267
	\$ 51,695,061	\$ 557,040

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.

Note 5. Receivables

Receivables at June 30 are as follows:

	General	Water	Wastewater	Total
Receivables				
Taxes	\$ 3,544,983	\$ -	\$ -	\$ 3,544,983
Accounts	-	286,813	247,099	533,912
Gross receivables	3,544,983	286,813	247,099	4,078,895
Less:				
Allowance for uncollectibles	(1,859,211)	(26,000)	(23,500)	(1,908,711)
Net total receivables	\$ 1,685,772	\$ 260,813	\$ 223,599	\$ 2,170,184

The taxes receivable account 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 52% of the total taxes receivable at June 30 and is based on historical collection rates.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Receivables (Continued)

Deferred Revenue

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

Property taxes receivable – unavailable	\$ 428,436
Property taxes receivable – unearned	<u>87,565</u>
Total deferred revenue	<u>\$ 516,001</u>

Property Taxes

The County levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by the Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the County of Montgomery, Virginia. Public utility property is assessed by the Commonwealth. All property is assessed at 100 percent 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, 2005 includes amounts not yet received from the January 1, 2005 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 incorporated in the taxes receivable balance. The real estate tax rate for calendar years 2005 and 2004 is \$.67 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; however, County vehicle decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Due to/from Other Governmental Units

Due from other governmental units consists of the following:

<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
VDOT Incentive Grant	329,767
Personal Property Tax Refund	<u>215,541</u>
	<u>\$ 925,308</u>

Due from other governmental units consists of the following:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,094,220	\$ -
State sales tax	40,586	1,564,477
Categorical aid – shared expenses	427,927	-
Categorical aid – schools	-	47,053
Non-categorical aid	156,136	186,628
Excess clerk fees	29,345	-
Virginia public assistance funds	120,457	-
Community services act	123,221	-
<u>Federal Government:</u>		
Virginia public assistance funds	246,272	-
Categorical aid – School grants	<u>-</u>	<u>417,290</u>
	<u>\$ 2,238,164</u>	<u>\$ 2,215,448</u>

Note 7. Interfund Balances and Transfers

Interfund balances at June 30 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 211,520
General	Wastewater	<u>49,806</u>
		<u>\$ 261,326</u>

The above balances are the result of loans made for operations and are expected to be repaid.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Interfund Balances and Transfers (Continued)

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
County Capital Improvements	General	\$ 672,279
General	County Capital Improvements	<u>46,777</u>
		<u>\$ 719,056</u>

Transfers between funds were primarily to support capital projects.

Note 8. Capital Assets

Capital asset activity for the year ended June 30 was as follows:

Primary Government

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 6,851,295	\$ -	\$ (343,410)	\$ 6,507,885
Construction in progress	<u>276,671</u>	<u>2,086,633</u>	<u>-</u>	<u>2,363,304</u>
Total capital assets, not depreciated	<u>7,127,966</u>	<u>2,086,633</u>	<u>(343,410)</u>	<u>8,871,189</u>
Capital assets, depreciated				
Buildings and improvements	104,555,955	396,406	(8,112,870)	96,839,491
Machinery and equipment	<u>10,804,236</u>	<u>1,140,961</u>	<u>(575,850)</u>	<u>11,369,347</u>
Total capital assets depreciated	<u>115,360,191</u>	<u>1,537,367</u>	<u>(8,688,720)</u>	<u>108,208,838</u>
Less accumulated depreciation for:				
Buildings and improvements	14,018,415	2,452,805	(469,655)	16,001,565
Machinery and equipment	<u>5,963,281</u>	<u>714,985</u>	<u>(351,741)</u>	<u>6,326,525</u>
Total accumulated depreciation	<u>19,981,696</u>	<u>3,167,790</u>	<u>(821,396)</u>	<u>22,328,090</u>
Total capital assets, depreciated, net	<u>95,378,495</u>	<u>(1,630,423)</u>	<u>(7,867,324)</u>	<u>85,880,748</u>
Governmental activities capital assets, net	<u>\$102,506,461</u>	<u>\$ 456,210</u>	<u>\$ (8,210,734)</u>	<u>\$ 94,751,937</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Capital Assets (Continued)

Primary Government (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 368,389	\$ -	\$ 28,000	\$ 340,389
Construction in progress	-	293,926	-	293,926
Total capital assets, not depreciated	368,389	293,926	28,000	634,315
Capital assets, depreciated				
Wastewater collection and treatment systems	15,452,617	18,624	-	15,471,241
Water pumping and distribution systems	13,876,206	14,085	-	13,890,291
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	645,489	-	-	645,489
Total capital assets, depreciated	30,078,630	32,709	-	30,111,339
Less accumulated depreciation for:				
Wastewater collection and treatment systems	4,795,020	387,390	-	5,182,410
Water pumping and distribution systems	2,645,452	312,869	-	2,958,321
Buildings and improvements	67,171	2,918	-	70,089
Machinery and equipment	511,901	42,169	-	554,070
Less accumulated depreciation	8,019,544	745,346	-	8,764,890
Total capital assets, depreciated, net	22,059,086	(712,637)	-	21,346,449
Business-type activities capital assets, net	\$ 22,427,475	\$ (418,711)	\$ 28,000	\$ 21,980,764

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 55,056
Judicial administration	4,269
Public safety	508,618
Public works	813,485
Health and welfare	37,100
Education	1,713,329
Parks, recreation, and cultural	29,287
Community development	6,646
	<u>\$ 3,167,790</u>
Business-type activities:	
Water	\$ 340,264
Wastewater	405,082
	<u>\$ 745,346</u>

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

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Balance</u>
Meadowbrook Library	\$ 752,268	\$ 333,536
Government Center Building C	242,391	3,967,009
Athletic Fields	1,019,363	1,409,200
Huckleberry Sewer Project	238,796	128,095
	<u>\$ 2,252,818</u>	<u>\$ 5,837,840</u>

Discretely Presented Component Unit – School Board

Capital asset activity for the year ended June 30 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 394,257	\$ -	\$ -	\$ 394,257
Capital assets, depreciated:				
Buildings and improvements	30,678,653	-	-	30,678,653
Machinery and equipment	10,642,235	699,973	(493,835)	10,848,373
Total capital assets, depreciated	<u>41,320,888</u>	<u>699,973</u>	<u>(493,835)</u>	<u>41,527,026</u>
Less accumulated depreciation for:				
Buildings and improvements	(25,911,803)	(634,031)	-	(26,545,834)
Machinery and equipment	(6,206,795)	(705,461)	277,888	(6,634,368)
Total accumulated depreciation	<u>(32,118,598)</u>	<u>(1,339,492)</u>	<u>277,888</u>	<u>(33,180,202)</u>
Total capital assets, depreciated, net	<u>9,202,290</u>	<u>(639,519)</u>	<u>(215,947)</u>	<u>8,346,824</u>
Capital assets, net	<u>\$ 9,596,547</u>	<u>\$ (639,519)</u>	<u>\$ (215,947)</u>	<u>\$ 8,741,081</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 9. Long-term Debt

Current Year Defeasance of Debt

2005A and 2005B Issues

On May 5, 2005, the County issued \$10,800,000 and \$7,630,000 in 2005A and 2005B refunding bonds, respectively. Proceeds of the 2005A bonds, with an average interest rate of 4.6%, were used to advance refund the Series 2000B lease revenue bonds maturing January 15, 2013 to January 15, 2022, with an average interest rate of 5.8%. The net proceeds of approximately \$11,132,779 (after payment of \$116,326 in issuance costs and \$75,600 underwriter's compensation plus \$332,779 in bond premiums) and an additional \$704,069 of 2000B issue debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments on the 2000B bonds. As a result, a portion of the 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

Proceeds of the 2005B bonds, with an average interest rate of 4.3%, were used to advance refund the Series 2000C lease revenue bonds maturing January 15, 2013 to January 15, 2022, with an average interest rate of 5.8%. The net proceeds of approximately \$7,647,087 (after payment of \$112,454 in issuance costs and \$53,410 underwriter's compensation plus \$17,087 in bond premiums) and an additional \$486,854 of 2000C issue debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments on the 2000C bonds. As a result, a portion of the 2000C bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refundings on the 2000B and 2000C issues resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$1,762,999. This difference, reported in the accompanying financial statements as a subtraction from bonds payable, is being amortized over the life of the new bonds as a component of interest expenses through the year 2022. The County completed the advance refunding to reduce its total debt service payments over the next sixteen years by \$3,108,396 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$910,062.

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 9. Long-term Debt (Continued)

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 25,705,273	\$ -	\$ 2,039,347	\$ 23,665,926	\$ 1,806,389
Lease revenue bonds	90,975,000	-	29,949,899	61,025,101	3,111,889
Literary fund loans	4,544,972	-	270,832	4,274,140	254,000
Refunding bonds	5,237,907	18,430,000	404,454	23,263,453	770,877
Landfill closure/ post-closure	548,252	-	48,252	500,000	50,000
Compensated absences	1,742,363	1,289,405	1,172,000	1,859,768	1,172,000
	<u>1,742,363</u>	<u>1,289,405</u>	<u>1,172,000</u>	<u>1,859,768</u>	<u>1,172,000</u>
Governmental activities long-term liabilities	<u>\$128,753,767</u>	<u>\$ 19,719,405</u>	<u>\$ 33,884,784</u>	<u>\$114,588,388</u>	<u>\$ 7,165,155</u>

Compensated absences for governmental activities are expected to be liquidated by the General Fund.

Business Type Activities:					
Revenue bonds	\$ 6,226,079	\$ -	\$ 93,173	\$ 6,132,906	\$ 94,885
Notes payable	118,685	-	17,488	101,197	18,267
Compensated absences	68,566	99,719	68,566	99,719	99,719
	<u>68,566</u>	<u>99,719</u>	<u>68,566</u>	<u>99,719</u>	<u>99,719</u>
Business-type activities long-term liabilities	<u>\$ 6,413,330</u>	<u>\$ 99,719</u>	<u>\$ 179,227</u>	<u>\$ 6,333,822</u>	<u>\$ 212,871</u>

Component Unit – School Board

Compensated absences	<u>\$ 2,405,625</u>	<u>\$ 1,726,061</u>	<u>\$ 1,696,000</u>	<u>\$ 2,435,686</u>	<u>\$ 1,696,000</u>
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COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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
2006	\$ 1,806,389	\$ 1,164,631	\$ 3,111,889	\$ 2,847,784	\$ 770,877	\$ 895,574	\$ 254,000	\$ 128,224
2007	1,804,328	1,074,998	3,237,380	2,716,726	762,737	1,006,950	254,000	120,604
2008	1,807,971	985,387	3,379,157	2,577,793	510,063	980,339	254,000	112,984
2009	1,806,266	891,308	3,537,278	2,424,335	507,887	958,269	254,000	105,364
2010	1,796,046	795,287	3,696,796	2,262,176	516,244	935,297	254,000	97,744
2011-2015	7,491,663	2,693,500	16,965,008	8,763,592	8,372,860	3,966,751	1,254,140	375,124
2016-2020	5,676,437	1,254,026	17,534,909	4,714,995	9,692,785	1,921,461	1,250,000	187,500
2021-2025	1,476,826	147,342	9,562,684	846,222	2,130,000	106,500	500,000	22,500
	<u>\$ 23,665,926</u>	<u>\$ 9,006,479</u>	<u>\$ 61,025,101</u>	<u>\$ 27,153,623</u>	<u>\$ 23,263,453</u>	<u>\$ 10,771,141</u>	<u>\$ 4,274,140</u>	<u>\$ 1,150,044</u>

Year Ended June 30	Business-Type Activities			
	Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest
2006	\$ 94,885	\$ 296,702	\$ 18,267	\$ 3,947
2007	113,393	278,191	19,059	3,155
2008	119,131	272,453	19,885	2,329
2009	125,164	266,420	20,747	1,468
2010	131,487	260,077	23,239	568
2011-2015	645,339	1,205,362	-	-
2016-2020	734,463	1,049,877	-	-
2021-2025	926,189	858,151	-	-
2026-2030	1,168,115	616,225	-	-
2031-2035	1,249,029	325,583	-	-
2036-2040	688,139	97,092	-	-
2041-2045	137,572	4,849	-	-
	<u>\$ 6,132,906</u>	<u>\$ 5,530,982</u>	<u>\$ 101,197</u>	<u>\$ 11,467</u>

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 9. Long-term Debt (Continued)

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
School Construction Bonds	6.100 - 8.100%	12/15/90	2010	\$ 3,250,000	\$ 1,000,000	\$ -
School Construction Bonds	4.850 - 6.600	01/15/92	2012	1,893,607	779,483	-
School Construction Bonds	5.100 - 5.500	04/29/93	2012	3,000,000	1,030,000	-
School Construction Bonds	4.475 - 5.000	11/18/93	2014	3,000,000	700,000	-
School Construction Bonds	4.600 - 5.800	05/02/96	2017	3,870,000	2,340,000	-
School Construction Bonds	4.350 - 5.350	11/20/97	2018	4,211,116	2,871,935	-
School Construction Bonds	4.100 - 5.350	04/30/98	2019	5,300,000	3,710,000	-
Virginia Public School Authority Bonds	3.100 - 5.100	11/01/01	2022	13,025,026	11,234,508	-
					<u>\$ 23,665,926</u>	<u>\$ -</u>

Revenue Bonds:

Lease Revenue Bond	3.3 - 5.0%	06/01/99	2019	\$ 9,695,000	\$ 7,530,000	\$ -
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	11,550,000	3,205,000	-
Lease Revenue Bond	4.0 - 5.0	06/1999	2021	11,680,000	10,110,000	-
Lease Revenue Bond	4.5 - 6.0	10/01/00	2022	16,805,000	4,670,000	-
Lease Revenue Bond	3.0 - 5.0	11/01/01	2023	16,995,000	15,860,000	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,912,705	-
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	4,912,705	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	9,824,691	-
Rural Development Water Revenue Bond	5.0	01/22/91	2031	295,000	-	249,348
Rural Development Water Revenue Bond	5.0	02/18/94	2034	1,271,700	-	1,136,191
Rural Development Water Revenue Bond	4.5	09/19/96	2036	363,000	-	334,840
Rural Development Sewer Revenue Bond	4.5	08/28/95	2035	603,215	-	543,579
Rural Development Sewer Revenue Bond	4.5	03/20/97	2037	1,071,300	-	993,389
Rural Development Sewer Revenue Bond	4.5	02/23/99	2040	1,000,000	-	951,446
Virginia Resource Authority Revenue Bond	0.0	05/15/92	2012	295,000	-	184,851
Rural Development Water Revenue Bond	4.5	01/28/03	2043	1,763,700	-	1,739,262
					<u>\$ 61,025,101</u>	<u>\$ 6,132,906</u>

Refunding Bonds:

Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 3,050,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	1,783,453	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	10,800,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	7,630,000	-
Less deferred costs					(1,744,634)	-
Plus bond premium					346,222	-
					<u>\$ 21,865,041</u>	<u>\$ -</u>

Other Long-Term Debt:

State Literary Fund Loan	3.0%	04/15/91	2011	\$ 80,410	\$ 24,140	\$ -
State Literary Fund Loan	3.0	01/2001	2021	5,000,000	4,250,000	-
Note Payable	9.5	08/09/01	N/A	163,000	-	101,197
					<u>\$ 4,274,140</u>	<u>\$ 101,197</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 10. Landfill Closure and Post-Closure Care Costs

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations require the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas have been detected at the landfills, therefore, the Department of Environmental Quality has required an additional ten-year monitoring period. The \$500,000 reported as landfill post-closure care liability at June 30, 2005 represents what it would cost to perform all post-closure care in 2005. Actual costs for post-closure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plan

Plan Description

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

Note 11. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2005 was 12.50% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2005 were 11.62% for professional employees and 9.00% 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, 2005, 2004, and 2003, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$4,189,551, \$3,088,953, and \$3,073,537 represented 10.45%, 8.77%, and 3.77% of annual covered payroll, respectively, and 100% of the required contributions for 2005, 2004 and 2003. The School Board's contribution rate for non-professional employees for the fiscal year ended 2005 was 7.5% of the annual covered payroll.

Annual Pension Cost

For fiscal year 2005, the County's annual pension costs of \$1,510,919 and the School Board's annual pension cost of \$4,534,760 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, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. 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 30 years or less.

Three-Year Trend Information for the County of Montgomery

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 1,510,919	100%	\$ -
June 30, 2004	\$ 1,064,598	100%	\$ -
June 30, 2003	\$ 1,051,464	100%	\$ -

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 345,209	100%	\$ -
June 30, 2004	\$ 232,365	100%	\$ -
June 30, 2003	\$ 223,339	100%	\$ -

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Analysis of Funding Progress for Defined Benefit Pension Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Montgomery						
June 30, 2004	\$ 34,297,672	\$ 38,767,280	\$ 4,469,608	88.47%	\$ 11,929,802	37.47%
June 30, 2003	\$ 33,984,850	\$ 35,025,688	\$ 1,040,838	97.03%	\$ 10,638,422	9.78%
June 30, 2002	\$ 33,213,680	\$ 33,150,567	\$ (63,113)	100.19%	\$ 11,556,050	(0.55)%
County of Montgomery School Board						
June 30, 2004	\$ 11,324,263	\$ 11,843,761	\$ 519,498	95.61%	\$ 3,947,983	13.16%
June 30, 2003	\$ 11,294,469	\$ 10,814,929	\$ (479,540)	104.43%	\$ 3,299,127	(14.54)%
June 30, 2002	\$ 11,312,881	\$ 10,559,486	\$ (753,395)	107.13%	\$ 3,518,142	(21.41)%

Note 12. Risk Management

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

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

Note 13. Commitments and Contingencies

Litigation

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

Special Purpose Grants

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

Incentive Liability

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

Note 14. Transactions with Component Unit – Industrial Development Authority

Advances to Component Unit:

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

Construction of the Falling Branch Industrial Park	\$ 3,185,712
Improvements to the Elliston Lafayette Industrial Park	1,093
Construction/improvements to the Blacksburg Industrial Park	428,775
Repayment of debt	<u>2,336,977</u>
	<u>\$ 5,952,557</u>

Note receivable from Component Unit:

On June 17, 1997 the IDA signed an interest-free promissory note with the County in the amount of \$1,274,620. The IDA agreed to remit to the County all funds received pursuant to property sales or payments received on property leases from the Falling Branch Industrial Park, less reasonable costs in repayment of the note upon demand by the County. The balance due at June 30, 2005 was \$1,178,993.

Other:

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

COUNTY OF MONTGOMERY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

Note 15. Net Assets/Fund Balance

Blended Component Unit – Public Service Authority:

Carilion Expansion

The Authority entered an agreement with Carilion Hospital in 1995 for expansion of water and wastewater services to a new Carilion facility. Carilion paid all costs related to the expansion; however, costs in excess of \$1.7 million, which amounted to approximately \$1 million, are to be reimbursed to Carilion by the Authority to the extent of facility and connection fees collected related to the expansion through 2004, and 50% of such fees from 2004 through 2007. Through June 30, the Authority has reimbursed Carilion \$65,563, and has an additional amount payable to Carilion of \$103,187. Because repayment is contingent on collection of future fees, a liability is not recognized; however, net assets are restricted in the amount of \$831,000.

Deficit Unrestricted Net Assets:

At June 30, the Water and Wastewater Fund and Discretely Presented Component Unit – School Board had a deficit in unrestricted net assets of \$(584,875), \$(384,166), and \$(1,109,066), respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers from the General Fund.

Discretely Presented Component Unit – Industrial Development Authority:

A deficit in net assets of \$1,284,130 exists resulting from the loss on the transfer of the Technology Manufacturing building to Montgomery County. It is expected that future lease revenue, proceeds from sale of property, and debt repayments will provide positive net assets.

Reservations and Designations of Fund Balance:

The amounts that are reported on the fund financial balance sheet identified as reserved fund balance and designated fund balance are comprised of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Component Unit – School Board</u>
Reserved for:			
Encumbrances	\$ 569,129	\$ 1,844,841	\$ 534,664
Advances and notes receivable	7,131,550	-	-
Law Library	132,557	-	-
Grants	215,315	-	105,586
Inventories	-	-	85,174
Total reserved fund balance	<u>\$ 8,048,551</u>	<u>\$ 1,844,841</u>	<u>\$ 725,424</u>
Designated for:			
Subsequent years' expenditures	\$ 917,651	\$ -	\$ -
Other board designated amounts			
Debt service	500,000	-	-
Capital	376,230	-	-
Landfill	250,000	-	-
Facilities and maintenance	723,000	-	-
Road maintenance	150,000	-	-
Total designated fund balance	<u>\$ 2,916,881</u>	<u>\$ -</u>	<u>\$ -</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 16. Restatement of Fund Balance and Net Assets

The following is a summary of the restatement of fund balance/net assets effective June 30, 2004:

	<u>Primary Government</u>			
	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
Fund balance/net assets, June 30, 2004, as previously stated	\$ 25,890,063	\$ 30,843,402	\$ 8,395,983	\$ 7,547,158
Restatement to:				
Adjust accounts payable	(203,160)	(203,160)	-	-
Correct prior depreciation expense	-	2,190,109	-	-
Record fixed assets	-	526,464	-	-
Adjust receivables to detail records	-	(451,031)	-	-
Adjust accounts payable	-	-	50,937	(50,937)
Net change in fund balance/net assets	<u>(203,160)</u>	<u>2,062,382</u>	<u>50,937</u>	<u>(50,937)</u>
Fund balance/net assets, June 30, 2004, as restated	<u>\$ 25,686,903</u>	<u>\$ 32,905,784</u>	<u>\$ 8,446,920</u>	<u>\$ 7,496,221</u>

Note 17. New Accounting Standards

GASB 42:

The Government Accounting Standards Board (GASB) issued its Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* in November 2003. The new Standard will require governments to report an impairment loss when the service utility of a capital asset declines significantly and unexpectedly.

Common indicators that an asset may have been impaired are as follows:

- Evidence of physical damage.
- A change in legal requirements or environmental factors that govern the asset's use; for example, enactment of new water quality standards that cannot be met by an existing water treatment plant.
- Technological change or evidence of obsolescence.
- A change in the way an asset is used or in the length of time it is expected to be used.

GASB 42 is effective for financial statements for periods beginning after December 15, 2004, with earlier adoption encouraged. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 17. New Accounting Standards (Continued)

GASB 45:

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement are effective for the County for the year ending June 30, 2009.

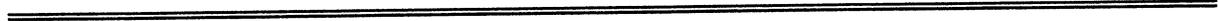
Note 18. Subsequent Events

In September and October 2005, the Board of Supervisors approved the purchase of two parcels of real estate in the County for a purchase price of approximately \$1.3 million and approximately \$230,000, respectively.

In October 2005, the Board of Supervisors approved a service agreement for the Western Virginia Regional Jail Authority. This agreement will provide for the housing of prisoners to its participants at a per diem daily rate once the facilities are constructed. The County will continue to operate its existing facilities as part of this agreement.

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**OTHER SUPPLEMENTARY
INFORMATION**



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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2005

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 38,158	\$ 348,615	\$ 386,773
Due from primary government	3,540,478	-	3,540,478
Due from other governmental units	2,161,995	53,453	2,215,448
Inventories	-	85,174	85,174
Cash and cash equivalents, restricted	<u>170,267</u>	<u>-</u>	<u>170,267</u>
Total assets	<u>\$ 5,910,898</u>	<u>\$ 487,242</u>	<u>\$ 6,398,140</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 125,253	\$ 178,697	\$ 303,950
Accrued payroll and related liabilities	5,577,220	194,651	5,771,871
Amounts held for others	<u>170,267</u>	<u>-</u>	<u>170,267</u>
Total liabilities	<u>5,872,740</u>	<u>373,348</u>	<u>6,246,088</u>
Fund Balances:			
Reserved for:			
Encumbrances	534,664	-	534,664
Grants	105,586	-	105,586
Inventories	-	85,174	85,174
Unreserved	<u>(602,092)</u>	<u>28,720</u>	<u>(573,372)</u>
Total fund balances	<u>38,158</u>	<u>113,894</u>	<u>152,052</u>
Total liabilities and fund balances	<u>\$ 5,910,898</u>	<u>\$ 487,242</u>	

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

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds	8,741,081
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds	1,174,568
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(2,435,686)</u>
Net assets of governmental activities	<u>\$ 7,632,015</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
For the Year Ended June 30, 2005

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	\$ 1,500	\$ 84	\$ 1,584
Charges for services	29,862	2,217,123	2,246,985
Miscellaneous	2,300	-	2,300
Recovered costs	568,682	-	568,682
Intergovernmental	76,068,711	1,338,720	77,407,431
Total revenues	76,671,055	3,555,927	80,226,982
EXPENDITURES			
Current:			
Instruction	60,706,380	-	60,706,380
Administration, attendance and health	2,787,205	-	2,787,205
Pupil transportation	3,189,960	-	3,189,960
Operations and maintenance	9,949,685	-	9,949,685
Non-instructional	37,825	-	37,825
School nutrition	-	3,568,501	3,568,501
Total expenditures	76,671,055	3,568,501	80,239,556
Excess of expenditures over revenues	-	(12,574)	(12,574)
Net change in fund balances	-	(12,574)	(12,574)
FUND BALANCE AT JULY 1, 2004	38,158	126,468	164,626
FUND BALANCE AT JUNE 30, 2005	\$ 38,158	\$ 113,894	\$ 152,052

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

Net change in fund balances – total governmental funds	\$ (12,574)
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 (\$699,973) exceeds depreciation (\$1,339,492) and the loss on the disposition of assets of (\$215,947) in the current period.	(855,466)
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.	(161,316)
Change in net assets of governmental activities	<u>\$ (1,029,356)</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
 BUDGET AND ACTUAL – CASH BASIS
 DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
 For the Year Ended June 30, 2005

	School Operating				School Cafeteria			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ 5,000	\$ 5,000	\$ 1,500	\$ (3,500)	\$ -	\$ -	\$ 84	\$ 84
Charges for services	40,000	40,000	29,862	(10,138)	1,930,311	1,930,311	2,217,123	286,812
Miscellaneous	35,000	35,000	2,300	(32,700)	-	-	-	-
Recovered costs	130,000	357,473	568,682	211,209	-	-	-	-
Intergovernmental	82,209,184	76,837,171	75,744,720	(1,092,451)	1,101,069	1,101,069	1,285,267	184,198
Total Revenues	82,419,184	77,274,644	76,347,064	(927,580)	3,031,380	3,031,380	3,502,474	471,094
EXPENDITURES								
Current:								
Instruction	59,097,207	60,996,589	60,234,277	762,312	-	-	-	-
Administration, attendance and health	2,646,683	2,793,293	2,790,031	3,262	-	-	-	-
Pupil transportation	3,269,349	3,479,349	3,212,467	266,882	-	-	-	-
Operations and maintenance	10,038,217	9,956,917	10,072,464	(115,547)	-	-	-	-
Non-instructional	48,496	48,496	37,825	10,671	-	-	-	-
School nutrition	-	-	-	-	3,031,380	3,428,155	3,427,565	590
Debt service	7,319,232	-	-	-	-	-	-	-
Total expenditures	82,419,184	77,274,644	76,347,064	927,580	3,031,380	3,428,155	3,427,565	590
Excess of expenditures over revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (396,775)	\$ 74,909	\$ 471,684

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2005

SCHEDULE 1

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
<u>Direct Payments:</u>		
Forest Reserve Funds	10.665	3,355
<u>Pass-through Payments:</u>		
<u>Department of Social Services</u>		
State Administrative Grants for Food Stamps Program	10.561	368,469
<u>Department of Education:</u>		
<u>School Nutrition Cluster:</u>		
National School Lunch Program	10.555	983,083
School Breakfast Program	10.553	251,653
<u>Department of Homeland Security:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services:</u>		
Domestic Emergency Preparedness	97.004	244,762
Hazard Mitigation	97.039	3,535
Emergency Management Preparedness	97.042	2,000
<u>Department of Housing and Urban Development:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grants/State's Programs	14.228	8,022
<u>Department of Health and Human Services:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Aging:</u>		
Support Services – Title III, Part B – Grants for State and Community Programs on Aging	93.044	59,161
<u>Department of Social Services:</u>		
Family Preservation and Support Services	93.556	131,797
Temporary Assistance for Needy Families	93.558	524,783
Refugee and Entrant Assistance	93.566	528
Low Income Home Energy Assistance	93.568	37,481
<u>Child Care Cluster:</u>		
Child Care and Development Block Grant	93.575	518,218
Child Care and Matching Funds for Childcare	93.596	279,550
Foster Care – Title IV-E	93.658	613,694
Adoption Assistance	93.659	103,796
Social Service Block Grant	93.667	376,140
Independent Living	93.674	36,822
Medical Assistance Program	93.778	300,085
<u>Department Of Justice:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Victim Witness Grant	16.575	101,704
Violence Against Women Formula Grants	16.588	33,102
Family Functional Therapy	16.540	172,311
Law Enforcement Block Grant	16.592	1,014

(Continued)

SCHEDULE 1

COUNTY OF MONTGOMERY, VIRGINIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2005

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
State and Community Highway Safety (Section 154)	20.000	13,743
State and Community Highway Safety (Section 402)	20.600	23,671
Innovative Funds – Seat Belts (Section 127)	20.604	15,292
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education – State Administered Basic Grant Program	84.002	112,889
Special Education Cluster:		
Special Education – Grants to States	84.027	1,528,755
Preschool Handicapped	84.173	61,643
Title I: Grants to Local Educational Agencies	84.010	1,494,459
Vocational Education: Basic Grants to States	84.048	166,260
Drug Free Schools and Communities – State Grants	84.186	62,557
Title II: Teacher Quality Grant	84.336	91,390
Innovative Education Program Statistics	84.298	59,186
Literacy Challenge Grant	84.318	76,345
Title I: Comprehensive School Reform	84.332	261,012
State Assessments and Related Activities	84.369	33,627
No Child Left Behind Act	84.367	435,088
		<hr/>
Total Expenditures of Federal Awards		<u>\$ 9,590,982</u>

Note 1. Basis of Accounting
 This schedule was prepared on the cash basis of accounting.

Note 2. Nonmonetary Assistance
 Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities or food stamps disbursed. At June 30, 2005, the School Board had food commodities totaling \$85,174 in inventory.



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STATISTICAL SECTION

TABLE 1

COUNTY OF MONTGOMERY, VIRGINIA
 GENERAL GOVERNMENT REVENUES BY SOURCE (1)
 Last Ten Fiscal Years

Fiscal Years Ended June 30	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from the use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- governmental (2)	Totals
2005	\$ 40,698,453	\$ 10,040,004	\$ 581,026	\$ 181,336	\$ 1,660,285	\$ 3,021,459	\$ 2,300	\$ 1,933,527	\$ 66,740,248	\$ 124,858,638
2004	\$ 39,648,045	\$ 9,193,979	\$ 432,106	\$ 137,311	\$ 1,075,665	\$ 2,702,662	\$ 2,600	\$ 1,487,747	\$ 60,055,621	\$ 114,735,736
2003	\$ 38,247,038	\$ 8,641,321	\$ 354,475	\$ 172,252	\$ 298,429	\$ 2,408,956	\$ 97,068	\$ 1,609,319	\$ 57,542,635	\$ 109,371,493
2002	\$ 34,568,368	\$ 8,478,605	\$ 224,463	\$ 167,757	\$ 653,305	\$ 2,298,029	\$ 113,388	\$ 1,617,006	\$ 54,915,737	\$ 103,036,658
2001	\$ 32,394,485	\$ 8,171,883	\$ 200,284	\$ 85,283	\$ 868,964	\$ 2,171,438	\$ 106,701	\$ 2,604,202	\$ 53,526,594	\$ 100,129,834
2000	\$ 30,233,226	\$ 7,596,349	\$ 189,197	\$ 99,353	\$ 1,153,997	\$ 2,193,684	\$ 122,989	\$ 1,235,237	\$ 49,165,173	\$ 91,989,205
1999	\$ 30,356,910	\$ 7,384,052	\$ 185,143	\$ 65,580	\$ 993,617	\$ 2,064,571	\$ 324,967	\$ 1,084,684	\$ 44,587,944	\$ 87,047,468
1998	\$ 27,952,972	\$ 7,037,854	\$ 183,559	\$ 67,614	\$ 838,711	\$ 1,998,068	\$ 239,286	\$ 894,619	\$ 41,656,882	\$ 80,869,565
1997	\$ 26,297,137	\$ 6,457,160	\$ 162,939	\$ 69,814	\$ 540,206	\$ 1,995,989	\$ 1,293,345	\$ 849,646	\$ 40,719,485	\$ 78,385,721
1996	\$ 24,368,588	\$ 6,069,950	\$ 150,797	\$ 39,195	\$ 471,233	\$ 1,559,322	\$ 223,950	\$ 798,782	\$ 37,088,568	\$ 70,770,385

Note: (1) Includes General and Capital Project funds of the Primary Government and its Discretely Presented Unit - School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit - School Board

TABLE 2

COUNTY OF MONTGOMERY, VIRGINIA

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)
Last Ten Fiscal Years

Fiscal Years Ended June 30	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Culture and Parks, Recreation, and	Community Development	Non- departmental	Capital Projects	Debt Service	Totals
2005	\$ 6,046,564	\$ 1,801,538	\$ 8,931,893	\$ 3,252,988	\$ 8,338,220	\$ 80,267,582	\$ 2,513,263	\$ 1,590,531	\$ -	\$ 3,337,819	\$ 21,120,657	\$ 137,201,055
2004	\$ 5,177,651	\$ 1,627,346	\$ 7,048,833	\$ 3,450,922	\$ 7,813,659	\$ 73,975,731	\$ 2,195,196	\$ 1,804,638	\$ -	\$ 3,859,721	\$ 10,568,344	\$ 117,522,041
2003	\$ 5,358,391	\$ 1,626,738	\$ 6,427,463	\$ 2,998,968	\$ 7,679,219	\$ 72,425,730	\$ 2,197,940	\$ 1,205,104	\$ -	\$ 13,629,018	\$ 9,650,341	\$ 123,198,912
2002	\$ 5,211,059	\$ 1,644,861	\$ 6,000,194	\$ 2,616,065	\$ 6,718,789	\$ 69,337,301	\$ 2,303,966	\$ 1,327,321	\$ 129,482	N/A	\$ 7,146,837	\$ 102,435,875
2001	\$ 4,086,626	\$ 1,392,493	\$ 5,586,072	\$ 2,511,498	\$ 6,160,972	\$ 66,625,647	\$ 2,431,255	\$ 2,595,427	\$ 37,216	N/A	\$ 5,733,523	\$ 97,160,729
2000	\$ 3,566,242	\$ 1,336,618	\$ 5,462,939	\$ 2,549,067	\$ 6,091,972	\$ 63,810,706	\$ 1,990,488	\$ 1,216,013	\$ -	N/A	\$ 4,943,853	\$ 90,967,898
1999	\$ 3,707,361	\$ 1,260,605	\$ 5,110,728	\$ 2,031,390	\$ 5,386,041	\$ 57,677,075	\$ 1,944,835	\$ 1,402,709	\$ 65,911	N/A	\$ 3,908,008	\$ 82,494,663
1998	\$ 2,886,732	\$ 1,180,021	\$ 5,320,392	\$ 1,897,492	\$ 4,795,813	\$ 54,823,192	\$ 1,803,895	\$ 741,211	\$ -	N/A	\$ 3,312,833	\$ 76,761,581
1997	\$ 2,679,108	\$ 1,056,449	\$ 4,189,772	\$ 2,296,568	\$ 4,493,501	\$ 53,039,556	\$ 1,749,803	\$ 751,809	\$ -	N/A	\$ 2,912,200	\$ 73,168,766
1996	\$ 2,487,557	\$ 1,025,781	\$ 4,351,542	\$ 2,357,124	\$ 4,513,520	\$ 48,804,056	\$ 1,618,272	\$ 663,408	\$ -	N/A	\$ 2,816,889	\$ 68,638,149

Note: (1) Includes General and Capital Projects funds of the Primary Government and its Discretely Presented Component Unit - School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit - School Board.

TABLE 3

COUNTY OF MONTGOMERY, VIRGINIA
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Calendar Year	Real Estate	Personal Property and Mobile Homes	Machinery & Tools	Merchant's Capital	Public Service (1)	Total
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$ 5,459,000,654
2004	\$ 4,556,115,600	\$ 443,006,567	\$ 120,450,318	\$ 21,433,774	\$ 133,583,496	\$ 5,274,589,755
2003	\$ 4,448,367,800	\$ 442,692,427	\$ 123,656,471	\$ 20,185,299	\$ 162,853,761	\$ 5,197,755,758
2002	\$ 3,312,672,860	\$ 456,164,099	\$ 106,272,277	\$ 21,621,381	\$ 160,770,587	\$ 4,057,501,204
2001	\$ 3,229,462,900	\$ 449,847,984	\$ 106,852,005	\$ 21,034,191	\$ 146,158,930	\$ 3,953,356,010
2000	\$ 3,117,677,700	\$ 418,001,821	\$ 114,031,603	\$ 24,843,670	\$ 145,504,090	\$ 3,820,058,884
1999	\$ 3,002,758,100	\$ 358,504,261	\$ 97,233,025	\$ 17,974,756	\$ 161,001,491	\$ 3,637,471,633
1998	\$ 2,319,517,000	\$ 349,951,144	\$ 81,212,304	\$ 19,618,798	\$ 114,146,732	\$ 2,884,445,978
1997	\$ 2,253,225,400	\$ 326,442,882	\$ 71,809,119	\$ 23,783,046	\$ 111,547,133	\$ 2,786,807,580
1996	\$ 2,203,674,700	\$ 306,852,247	\$ 60,397,360	\$ 21,807,393	\$ 112,626,932	\$ 2,705,358,632

Note: (1) Assessed values are established by the State Corporation Commission

TABLE 4

COUNTY OF MONTGOMERY, VIRGINIA

PROPERTY TAX RATES
Last Ten Fiscal Years

Real Estate Tax per \$100 Assessed Value

Calendar Year	County of Montgomery	Town of Christiansburg	Town of Blacksburg	Total Rate for Christiansburg Residents	Total Rate for Blacksburg Residents
2005	\$ 0.670	\$ 0.140	\$ 0.220	\$ 0.810	\$ 0.890
2004	\$ 0.670	\$ 0.140	\$ 0.200	\$ 0.810	\$ 0.870
2003	\$ 0.640	\$ 0.140	\$ 0.200	\$ 0.780	\$ 0.840
2002	\$ 0.815	\$ 0.140	\$ 0.200	\$ 0.955	\$ 1.015
2001	\$ 0.745	\$ 0.140	\$ 0.200	\$ 0.885	\$ 0.945
2000	\$ 0.680	\$ 0.140	\$ 0.200	\$ 0.820	\$ 0.880
1999	\$ 0.630	\$ 0.140	\$ 0.200	\$ 0.770	\$ 0.830
1998	\$ 0.760	\$ 0.140	\$ 0.200	\$ 0.900	\$ 0.960
1997	\$ 0.720	\$ 0.140	\$ 0.200	\$ 0.860	\$ 0.920
1996	\$ 0.700	\$ 0.140	\$ 0.200	\$ 0.840	\$ 0.900

Calendar Year	Real Estate	Personal Property	Machinery & Tools	Merchant's Capital
2005	\$ 0.670	\$ 2.45	\$ 1.82	\$ 3.05
2004	\$ 0.670	\$ 2.45	\$ 1.82	\$ 4.50
2003	\$ 0.640	\$ 2.45	\$ 1.82	\$ 6.05
2002	\$ 0.815	\$ 2.45	\$ 1.82	\$ 6.05
2001	\$ 0.745	\$ 2.45	\$ 1.82	\$ 6.05
2000	\$ 0.680	\$ 2.45	\$ 1.82	\$ 6.05
1999	\$ 0.630	\$ 2.45	\$ 1.82	\$ 6.05
1998	\$ 0.760	\$ 2.45	\$ 1.82	\$ 6.05
1997	\$ 0.720	\$ 2.45	\$ 1.82	\$ 6.05
1996	\$ 0.700	\$ 2.45	\$ 1.82	\$ 6.05

Note: (1) Christiansburg residents pay an additional \$.45. The Town of Blacksburg does not levy personal property taxes.

(2) Sources for the above information include the Annual Financial Reports for the Towns of Christiansburg and Blacksburg

TABLE 5

COUNTY OF MONTGOMERY, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
 Last Ten Fiscal Years

Fiscal Years Ended June 30	Current Tax Levy (1, 2)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2005	\$ 44,555,818	\$ 42,844,219	96.16%	\$ 2,397,271	\$ 45,241,490	101.54%	\$ 3,172,179	7.12%
2004	\$ 43,871,083	\$ 41,752,442	95.17%	\$ 1,893,266	\$ 43,645,708	99.49%	\$ 4,468,135	10.18%
2003	\$ 42,351,459	\$ 35,183,970	83.08%	\$ 2,650,755	\$ 37,834,725	89.34%	\$ 4,568,100	10.79%
2002	\$ 40,381,556	\$ 33,151,368	82.10%	\$ 1,417,000	\$ 34,568,368	85.60%	\$ 5,033,594	12.47%
2001	\$ 33,225,652	\$ 31,561,292	94.99%	\$ 833,193	\$ 32,394,485	97.50%	\$ 3,708,079	11.16%
2000	\$ 32,086,559	\$ 30,988,504	96.58%	\$ 1,235,990	\$ 32,224,494	100.43%	\$ 2,048,786	6.39%
1999	\$ 29,709,210	\$ 28,870,145	97.18%	\$ 1,347,873	\$ 30,218,018	101.71%	\$ 1,684,504	5.67%
1998	\$ 27,801,422	\$ 26,680,752	95.97%	\$ 1,093,783	\$ 27,774,535	99.90%	\$ 2,454,603	8.83%
1997	\$ 25,788,532	\$ 24,961,417	96.79%	\$ 1,213,875	\$ 26,175,292	101.50%	\$ 2,327,284	9.02%
1996	\$ 24,505,045	\$ 23,465,498	95.76%	\$ 860,255	\$ 24,325,753	99.27%	\$ 2,106,258	8.60%

Note: (1) Exclusive of penalties and interest.

(2) 1999-00 was the first year for personal property tax relief by the Commonwealth of Virginia

TABLE 6

COUNTY OF MONTGOMERY, VIRGINIA
RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

Fiscal Years Ended June 30	Population	Assessed Value (In thousands) (1)	Gross and Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2005	83,959	\$ 5,459,001	\$ 51,203,519	0.94%	\$ 610
2004	85,614	\$ 5,274,590	\$ 35,488,152	0.67%	\$ 415
2003	84,800	\$ 5,197,756	\$ 38,229,915	0.74%	\$ 451
2002	84,300	\$ 4,057,501	\$ 40,970,340	1.01%	\$ 486
2001	83,629	\$ 3,953,356	\$ 29,978,309	0.76%	\$ 358
2000	77,286	\$ 3,820,059	\$ 24,491,609	0.64%	\$ 317
1999	77,286	\$ 3,637,472	\$ 26,569,087	0.73%	\$ 344
1998	76,700	\$ 2,884,446	\$ 28,386,816	0.98%	\$ 370
1997	76,300	\$ 2,786,808	\$ 20,671,240	0.74%	\$ 271
1996	76,600	\$ 2,705,359	\$ 22,180,509	0.82%	\$ 290

Note: (1) Assessed values shown are for the calendar year ending in the fiscal year shown.

(2) Includes all long term general obligation bonded debt.

TABLE 7

COUNTY OF MONTGOMERY, VIRGINIA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
Last Ten Fiscal Years

<u>Name of Governmental Unit</u>	<u>Real Estate Assessed Value (1)</u>	<u>Percent of Assessed Value to Countywide Total</u>	<u>Pro-Rated Share of Countywide Net Bonded Debt</u>	<u>Towns Net Bonded Debt</u>	<u>Total Direct and Overlapping Debt</u>
Town of Christiansburg	\$ 1,300,159,900	27.7%	\$ 14,207,684	\$ 24,307,523	\$ 38,515,207
Town of Blacksburg	1,624,106,680	34.7%	17,747,659	20,596,115	38,343,774
Unincorporated Area	1,761,420,520	37.6%	19,248,176	-	19,248,176
	<u>\$ 4,685,687,100</u>	<u>100.0%</u>	<u>\$ 51,203,519</u>	<u>\$ 44,903,638</u>	<u>\$ 96,107,157</u>

(1) This figure represents the original land book value without supplementals or exonerations

Sources: Commissioner of Revenue, Montgomery County
2005 Annual Financial Report for the Town of Christiansburg
2005 Annual Financial Report for the Town of Blacksburg

TABLE 8

COUNTY OF MONTGOMERY, VIRGINIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES (1)
Last Ten Fiscal Years

Fiscal Years Ended June 30	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2005	\$ 16,442,154	\$ 4,276,687	\$ 20,718,841	\$ 137,201,055	15.10%
2004	\$ 4,951,763	\$ 5,340,581	\$ 10,292,344	\$ 113,386,320	9.08%
2003	\$ 4,325,425	\$ 5,324,916	\$ 9,650,341	\$ 109,569,894	8.81%
2002	\$ 2,402,995	\$ 3,356,932	\$ 5,759,927	\$ 102,435,875	5.62%
2001	\$ 2,222,577	\$ 3,510,946	\$ 5,733,523	\$ 97,160,729	5.90%
2000	\$ 2,077,480	\$ 1,411,757	\$ 3,489,237	\$ 90,967,898	3.84%
1999	\$ 2,099,872	\$ 1,797,698	\$ 3,897,570	\$ 82,494,663	4.72%
1998	\$ 1,795,541	\$ 1,214,656	\$ 3,010,197	\$ 76,761,581	3.92%
1997	\$ 1,509,269	\$ 1,171,678	\$ 2,680,947	\$ 73,168,766	3.66%
1996	\$ 1,493,193	\$ 1,106,344	\$ 2,599,537	\$ 68,638,149	3.79%

(1) Includes General and Capital Project funds of the Primary Government and Special Revenue funds of the Discretely Presented Component Unit – School Board

(2) Excludes contribution from Primary Government to the Discretely Presented Component Unit – School Board

TABLE 9

COUNTY OF MONTGOMERY, VIRGINIA
REVENUE BOND COVERAGE (3)
SERVICE AUTHORITY BONDS
Last Ten Fiscal Years

Fiscal Years Ended June 30	Gross Revenue (1)	Direct Operating Expense (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)		Total Debt Service	Debt Service Coverage
				Principal	Interest		
2005	\$ 2,683,885	\$ 2,434,942	\$ 248,943	\$ 110,661	\$ 293,368	\$ 404,029	0.62
2004	\$ 2,785,678	\$ 2,518,845	\$ 266,833	\$ 95,740	\$ 286,651	\$ 382,391	0.70
2003	\$ 2,347,509	\$ 2,093,744	\$ 253,765	\$ 76,660	\$ 217,772	\$ 294,432	0.86
2002	\$ 2,322,748	\$ 1,992,121	\$ 330,627	\$ 84,875	\$ 209,557	\$ 294,432	1.12
2001	\$ 2,592,104	\$ 1,955,357	\$ 636,747	\$ 131,218	\$ 248,092	\$ 379,310	1.68
2000	\$ 1,999,644	\$ 1,768,267	\$ 231,377	\$ 73,829	\$ 185,271	\$ 259,100	0.89
1999	\$ 1,919,007	\$ 1,385,949	\$ 533,058	\$ 64,628	\$ 186,028	\$ 250,656	2.13
1998	\$ 1,478,902	\$ 1,436,126	\$ 42,776	\$ 38,648	\$ 163,790	\$ 202,438	0.21
1997	\$ 1,380,121	\$ 1,169,790	\$ 210,331	\$ 51,336	\$ 96,525	\$ 147,861	1.42
1996	\$ 1,138,665	\$ 1,106,817	\$ 31,848	\$ 20,028	\$ 95,634	\$ 115,662	0.28

- (1) Total revenue excluding facility fees and non-operating grants.
(2) Total expenses excluding depreciation and bond interest
(3) Includes revenue bond debt only

TABLE 10

COUNTY OF MONTGOMERY, VIRGINIA

DEMOGRAPHIC STATISTICS
Last Ten Calendar Years

<u>Calendar Year</u>	<u>Population (1)</u>	<u>Per Capita Income (2)</u>	<u>Median Age (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2005	83,959	\$ 21,848	26.5	9,335	360.0%
2004	85,614	\$ 20,392	25.9	9,311	2.6%
2003	84,800	\$ 19,849	25.9	9,170	2.6%
2002	84,300	\$ 17,077	25.9	9,062	2.6%
2001	78,797	*	25.6	9,052	2.9%
2000	77,286	*	25.6	9,169	2.2%
1999	76,700	*	26.0	9,144	2.3%
1998	76,300	*	25.6	9,227	2.2%
1997	76,600	\$ 16,717	27.4	9,586	2.8%
1996	76,200	\$ 16,114	27.1	9,416	3.5%

(1) Weldon Cooper Center for Public Service at the University of Virginia; Virginia Employment Commission
Economic Information Services Division; U.S. Census

(2) Center for Public Service

(3) U.S. Census

(4) Montgomery County Public Schools

(5) Virginia Employment Commission

* Not available

TABLE 11

COUNTY OF MONTGOMERY, VIRGINIA
REAL PROPERTY VALUES
Last Ten Fiscal Years

Calendar Year	Commercial	Residential	Nontaxable	Agricultural
2005	\$ 850,796,500	\$ 3,491,003,800	\$ 1,705,875,800	\$ 235,904,900
2004	\$ 836,325,500	\$ 3,371,712,900	\$ 1,697,713,700	\$ 239,210,700
2003	\$ 823,629,700	\$ 3,275,619,100	\$ 1,671,487,100	\$ 241,776,200
2002	\$ 573,476,200	\$ 2,480,903,900	\$ 1,285,098,200	\$ 258,292,800
2001	\$ 565,866,100	\$ 2,403,945,800	\$ 1,247,094,100	\$ 259,651,000
2000	\$ 507,055,400	\$ 2,350,856,211	\$ 1,241,812,500	\$ 259,766,100
1999	\$ 466,835,400	\$ 2,271,137,100	\$ 1,257,121,800	\$ 264,785,600
1998	\$ 381,278,200	\$ 1,755,526,300	\$ 997,740,900	\$ 182,712,500
1997	\$ 373,271,600	\$ 1,696,847,100	\$ 987,404,800	\$ 183,106,700
1996	\$ 336,211,000	\$ 1,665,224,400	\$ 981,303,500	\$ 202,239,300

Source: County Assessor's Office. This presentation is based on the original book value as subsequent additions and exonerations in the assessment file are not separated into the categories of Commercial, Residential, Non-taxable, and Agricultural. Agricultural assessment data reflects land use assessment values.

TABLE 12

COUNTY OF MONTGOMERY, VIRGINIA

PRINCIPAL TAXPAYERS

Last Ten Fiscal Years

<u>Company</u>	<u>Industry</u>	<u>2005 Real Estate Assessed Valuation</u>	<u>Percent of Total Real Estate Assessed Valuation</u>
Foxridge Associates/HHHunt	Apartments	\$ 59,719,500	1.30%
Crown American Financing	Shopping Center	\$ 34,952,800	0.76%
Shelor Chevrolet/HASH Investment	Auto Dealer	\$ 28,253,700	0.62%
SHP-The Village at Blacksburg LLC	Apartments	\$ 27,682,700	0.60%
Roger Woody	Developer	\$ 25,059,500	0.55%
HCA Montgomery County	Health Care	\$ 17,322,100	0.38%
CSB LLC	Apartments	\$ 16,738,200	0.37%
Christiansburg Marketplace	Shopping Center	\$ 15,771,100	0.34%
Windsor Hills I LP	Apartments	\$ 15,381,400	0.34%
Wal-Mart	Discount Store	\$ 13,852,100	0.30%
	Total	\$ 254,733,100	5.56%

Includes public service corporation assessments

COUNTY OF MONTGOMERY, VIRGINIA
MISCELLANEOUS STATISTICS

TABLE 13

Date Formed: 1776

Form of government: Traditional Form with a County Administrator

Area in square miles	388.2
Area within incorporated towns	32.4

Number of County Employees:

Permanent full-time	346
Permanent part-time	38

Fire and Rescue Protection:

Number of stations	8
Number of volunteers	360
Number of calls answered	8,156

Law Enforcement:

Number of positions	130
Number of sworn positions	111
Number of arrests in FY 04	3,833
Number of complaints investigated	2,777
Number of traffic summons	5,951
Number of DUI arrests	162
Number of Part I Criminal offenses	415
Number of accidents investigated	458
Number of civil papers served	35,902
Number of criminal warrants served	2,670
Number of robbery/burglary alarms answered	400
Deputies assaulted/injured	17
Mental commitments	268

Education:

Number of elementary schools	12
Number of middle schools	4
Number of high schools	4

Total number of schools

20

Alternative education centers

2

Average Daily Membership (ADM)

9,335

Number of school employees

Administrative and supervisory	57
Principals and assistant principals (included above)	34
Instructional (teacher personnel)	819
School support staff (aides, clerks)	278
Operation and maintenance	156
School food service	121
Pupil transportation	119

Total number of employees

1,550

Public Service Authority

Water Utility

Number of consumers	2,534
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Average daily consumption	870,444
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COMPLIANCE SECTION



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

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

We have audited the basic financial statements of the County of Montgomery, Virginia, as of and for the year ended June 30, 2005 and have issued our report thereon dated November 8, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. **Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. This reportable condition is described in the accompanying schedule of findings and questioned costs as Items 05-1.**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. **However, we believe the reportable condition referred to as Item 05-1 is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 8, 2005.**

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, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed four instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as Items 05-3, 05-4, 05-5, and 05-6.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 8, 2005



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

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

Compliance

We have audited the compliance of the County of Montgomery, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. 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 its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County of Montgomery, Virginia complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with these requirements, which is required to be reported in accordance with *OMB Circular A-133*, and which is described in the accompanying Schedule of Findings and Questioned Costs as Item 05-2.

Internal Control over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 8, 2005

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2005

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

Personal Property Tax Relief Act

Enhanced E-911 Service Taxes

Inmate Canteen Funds

Comprehensive Services Act

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, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One reportable condition** 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*.
3. **Four instances of noncompliance** material to the financial statements were disclosed.
4. **No reportable conditions** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding relating to major programs**.
7. The programs tested as major are:

<u>Name of Program:</u>	<u>CFDA #</u>
Title I: Grants to Local Educational Agencies	84.010
Social Service Block Grant	93.667
Child Nutrition Cluster	10.553, 10.555
Special Education Cluster	84.027, 84.173
Medicaid	93.778

8. The **threshold for** distinguishing Type A and B programs was \$ **300,000**.
9. The County was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

05-1: Segregation of Duties (Reportable Condition) (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.

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