

COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis.....	3

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1	Statement of Net Assets	5
Exhibit 2	Statement of Activities	6

Fund Financial Statements

Exhibit 3	Balance Sheet – Governmental Funds	7
Exhibit 4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	9
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Cash Basis) – General Fund	11
Exhibit 6	Statement of Net Assets – Proprietary Funds	12
Exhibit 7	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	13
Exhibit 8	Statement of Cash Flows – Proprietary Funds	14

Notes to Financial Statements.....	15
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Other Supplementary Information

Discretely Presented Component Unit – School Board

Exhibit A-1	Balance Sheet.....	51
Exhibit A-2	Statement of Revenues, Expenditures, and Changes in Fund Balances.....	52
Exhibit A-3	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis	53

Supporting Schedule

Schedule 1	Schedule of Expenditures of Federal Awards.....	55
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STATISTICAL SECTION

Table 1	Net Assets by Component	58
Table 2	Change in Net Assets by Component	59
Table 3	Fund Balances – Governmental Funds	60
Table 4	Changes in Fund Balances – Governmental Funds	61
Table 5	Assessed Value and Actual Value of Taxable Property	62
Table 6	Principal Property Tax Payers.....	63
Table 7	Property Tax Levies and Collections	64
Table 8	Ratios of Outstanding Debt by Type.....	65
Table 9	Pledged Revenue Coverage.....	66
Table 10	Demographic Statistics.....	67
Table 11	Principal Employers	68
Table 12	Full-Time Equivalent County Government Employees by Function/Program	69
Table 13	Operating Indicators by Function/Program	70
Table 14	Capital Asset and Infrastructure Statistics by Function/Program	71

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	75
Summary of Compliance Matters	77
Schedule of Findings and Questioned Costs.....	78

INTRODUCTORY SECTION



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

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

November 30, 2012

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the County of Montgomery for the fiscal year ended June 30, 2012, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unqualified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

THE REPORTING ENTITY

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

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

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

ORGANIZATION OF GOVERNMENT

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 393 square miles, and has a population of almost 95,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth-largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

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

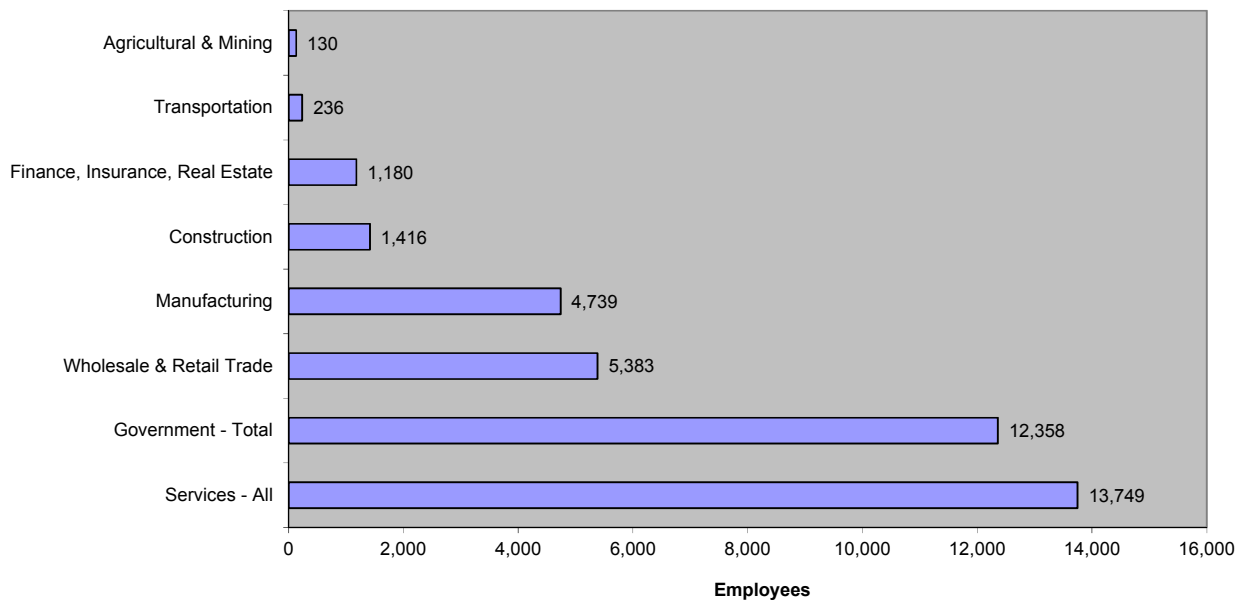
LOCAL ECONOMIC CONDITION AND OUTLOOK

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

Montgomery County's labor market remains consistent with the state as a whole. The average unemployment rate in Montgomery County between July 2011 and June 2012 was 6%, which remains historically below average in the New River Valley. The percentage ranged from a low of 5.2% in April 2012 to a high of 6.8% in July 2011. The unemployment rate for the County over the past 10 years (2002-2011) averaged 4.6%, reaching a high of 7.4% in 2011 and a low of 2.6% in 2004 and 2003. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities was higher than the statewide average of 6.2% for calendar year 2011, with Montgomery and Floyd Counties reporting the lowest rates of 6.4% and 6.8%, respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 7.5% unemployment during the same period. Employment within Montgomery County represented 53.5% of the total civilian labor force in the New River Valley.

As in prior years, the service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2011:

Montgomery County Employment By Employment Sector



Averages of Calendar Year 2011

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

Very slight increases in employment were broad based, covering several economic sectors. The total increase in the number of jobs was 224 across all sectors, resulting in a 0.57% increase from the number of jobs in the previous year. Only two areas experienced declines, which were also very slight. These areas included the services and manufacturing sectors, which were each down less than 1%.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center, and LewisGale Hospital at Montgomery, collectively employ over 1,300 employees. The County's largest industrial employer, BAE, Inc., employs approximately 1,200 workers through contracts with the federal government to manufacture defense products. The federal government awarded BAE the contract to operate the Radford Army Ammunition Plant in 2012, and BAE plans to invest \$240 million to upgrade the arsenal over the next three years. Other large companies in the County include DISH Network Corporation (direct broadcast satellite television products and services); Federal-Mogul Corporation (automotive bearings); MOOG Components Group (aerospace, transportation, military, and communications components), Rowe Furniture (residential furniture) and Wolverine Gasket and Manufacturing Company-A Division of Eagle Picher Automotive Group (automotive gaskets).

The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, is a business/research park that is the catalyst for Montgomery County's high-tech industry cluster. The park currently has 28 buildings, entailing more than one million square feet of office and lab space, and is home to over 140 high-tech companies and research centers which collectively employ more than 2,200 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" – globally – by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development oriented companies operating in the information technology, biotechnology, and advanced materials industries. In 2011, the VTCRC broke ground on its Phase II expansion which will double the size of the park over the next 20 years. Once Phase II is complete, the VTCRC campus will total 51 buildings and is expected to be home to 240 companies and almost 5,000 workers.

Montgomery County's second largest industry sector, government, provides 32 percent of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large number of state workers employed by Virginia Polytechnic Institute & State University (Virginia Tech), the Commonwealth's largest public university and the largest employer in the County with approximately 12,000 employees. Another 1,400 individuals are employed through the Montgomery County Public School System, making education the largest employment sector in the County.

Since fiscal year 2002, companies in Montgomery County have announced \$175.6 million in new capital investment (industrial/commercial, non-retail) and the addition of 2,357 related jobs. Most recently, in fiscal year 2012, Montgomery County had three existing companies announce expansion plans. Utah-based Backcountry.com also announced plans to establish a new 315,000 square-foot East Coast fulfillment center in Christiansburg. These four announcements are expected to create a total of 310 jobs and \$32.5 million of new capital investment.

Business Expansions, Montgomery County, Virginia, FY 2012

Company Name	Business Description	Date	New Jobs	Investment (millions \$)
TORC Technologies LLC	Tele-operated control and navigation solutions for unmanned vehicles	Jun-2012	23	0.7
Inorganic Ventures	HQ; Manufactures custom inorganic chemical blends	Jan-2012	21	1.3
Federal-Mogul Corporation	Automotive engine bearing manufacturing	Oct-2011	50	20.0
Backcountry.com	Online retailer of outdoor gear; East Coast fulfillment center	Oct-2011	216	20.5

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

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 2012 include:

The 2012-2016 Capital Improvement Program

The Capital Improvement Program (CIP) for 2012 through 2016 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 \$157,894,836 and is comprised of County Capital Improvements of \$27.1 million and School Capital Improvements of \$130.8 million. County Capital Improvements include construction of a new Courthouse and renovation of the existing Courthouse to a public safety building. Also included is \$3.7 million earmarked for fire and rescue capital equipment.

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

In November 2011, the Board of Supervisors issued an additional \$86 million through the Virginia Public School Authority for the replacement of Auburn High School, Blacksburg High School, and the renovation of Auburn Middle School. Additional funding for these projects included insurance proceeds from the old Blacksburg High School gymnasium roof collapse, surplus bond funds from the Price's Fork and Eastern Montgomery Elementary projects, and \$15 million in interest-free QSCB issued in December 2011. The total cost of all three school projects is estimated at \$124.5 million. The two high schools are under construction and scheduled to open in fall 2013. The renovations for Auburn Middle School will begin after Auburn High School has been relocated to the new facility.

In fiscal year 2009, the Board of Supervisors earmarked one cent of the real estate tax rate to provide the Fire and Rescue Commission with an ongoing source of funding to purchase fire and rescue capital equipment. For fiscal years 2010 and 2011, this amount was decreased to one half of one cent of the real estate tax rate due to economic conditions. In FY 2012, this amount was restored back to one full penny. Each year, the Fire and Rescue Commission, which is comprised of representatives from each fire and rescue agency, the Board of Supervisors and County staff, decides how to effectively distribute this funding based on existing and future capital needs of the County's fire and rescue agencies.

Completed Capital Projects During the Year

Fire and rescue equipment totaling \$457,340 was purchased during fiscal year 2012 based on recommendations of the Fire and Rescue Commission. Items purchased included a brush truck for Riner Fire Department, two first responder vehicles (one for Long Shop McCoy Fire Department and one for Long Shop McCoy Rescue Squad), and two ambulances (one for Shawsville Rescue Squad and one for Long Shop McCoy Rescue Squad).

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

For the Future

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

Public Safety and Judicial Administration

As the County continues to grow, new public facilities are critical in order to maintain an adequate level of public safety for the County's citizens. The 2013-2017 Capital Improvement Program (CIP) includes funding necessary for several new public safety and judicial facilities. The Courthouse Project, which involves the construction of a four story courthouse facility and adjacent parking deck, is designed to meet the needs of the courts for the next 25 years. A total of nine courtrooms are included in the new facility; the former Courthouse had three courtrooms. The ground breaking for the new Courthouse Project was held on September 18, 2009, and the new facility opened in October 2012.

The former Courthouse facility will be renovated for a new public safety building, replacing the current Sheriff's office and will house the New River Valley Emergency Communications Regional Authority. Construction, which will consolidate four Public Safety Answering Points ("PSAPs") into one central operation, is planned to begin in the spring of 2013.

Education

Current construction includes the replacement of two new high schools and the renovation of one middle school – two in the Riner area (Auburn High School replacement and Auburn Middle School renovation) and one in the western portion of Blacksburg (Blacksburg High School replacement). The new 600 student Auburn High School is a 175,000 square foot facility and will add 74,781 square feet over the existing building. After the completion of the new Auburn High School, the former Auburn High building will be renovated into the Auburn Middle School. This 121,755 square foot facility will include capacity for 480 students and add 90,929 square feet over the existing building. The new Blacksburg High School is a 280,000 square foot facility with capacity for 1,400 students and adds 39,254 additional square feet over the old school. The total cost of all three schools is estimated at \$124.5 million.

Departmental Focus – Montgomery County Sheriff's Office

The Montgomery County Sheriff's office is a full service law enforcement agency that safeguards life and property and maintains civil order. The Sheriff's Office provides for the enforcement of the laws of the Commonwealth of Virginia and the County of Montgomery. Through its appointed personnel, the Sheriff's office provides uniformed patrols, investigations of motor vehicle crashes, criminal investigations, civil process, corrections/courtroom security, and services to protect life, liberty, and property of the citizens of Montgomery County.

During the year, the Sheriff's Office received 34,696 calls for service; and deputies made a total of 2,793 arrests, which included 114 for DUI. The County received over \$110,000 in grant funding to perform a host of duties, including but not limited to DUI overtime patrol, alcohol enforcement training, regional crash team training, aggressive driving enforcement, and other law enforcement training and equipment purchases.

In addition, the Sheriff's Office participated in 59 community events, ranging from drug education and internet safety to handing out fingerprint kits for children. The DARE (Drug Abuse Resistance Education) program was taught in the four elementary schools located in the unincorporated areas of the County and graduated 243 students from the program. The School Resource Officers at Eastern Montgomery and Auburn High Schools conducted mock crashes to promote teen driving safety. The

mock crash held at Auburn High School focused on distracted driving, while the one at Eastern Montgomery High School focused on driving under the influence (DUI). Deputies also used the DUI simulator golf cart at both high schools to educate students about the dangers of driving under the influence.

Each year, Montgomery County participates in the HEAT (Help Eliminate Auto Theft) program, which is a cooperative effort of the Virginia Department of State Police, Virginia Department of Motor Vehicles and local law enforcement agencies. Through the HEAT program educational seminars are held, providing citizens with tips on how to prevent motor vehicle theft.

Since 2008, the Sheriff's Office has been providing trash clean-up along County roads through its inmate litter pick-up program. The program started as a result of budget cuts to the Virginia Department of Transportation, which led to trash not being picked up on county roads. A County deputy supervises four to five non-violent inmates throughout the County picking up roadside trash. During FY 2012, 87,610 tons of trash were collected.

The Montgomery County Sheriff's Office Citizen Police Academy provides community members with an inside look at local law enforcement. Through the Academy, the Sheriff's Office is open to the community and increased trust and understanding becomes possible through this openness and education. The Academy allows participants to experience conditions similar to the training that deputies receive, as well as exposing participants to the daily operational duties of Deputy Sheriffs. This year, Montgomery County graduated its 20th Academy.

The Academy is taught by Sheriff's Office members, each highlighting their individual area of expertise. During the 12-week Academy, citizens learn about various divisions and functions within the Sheriff's Office including crime scene investigation, evidence, patrol, shooting range, corrections, K9, TACT, civil process, court security, as well as the enforcement of criminal and traffic laws. Each Academy member will experience firsthand the situations Deputy Sheriffs are routinely exposed to and how each situation is handled.

The Montgomery County Sheriff's Office continues with its mission, through a partnership with the community, to promise to provide all citizens with the highest degree of protection for their lives and property and to develop community responsibility directed at reducing crime and enhancing safety through problem solving tactics, thereby creating an environment where crime cannot flourish.

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, 2012, reflect cash that will not be received or disbursed until fiscal year 2013.

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

evaluations occur within the above framework. We believe the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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

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

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. Generally accepted auditing standards and the standards set forth in the Government Accountability Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the Single Audit Section.

AWARDS OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Montgomery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements.

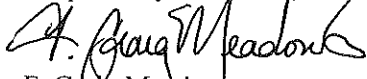
A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty-five consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting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

ACKNOWLEDGMENTS

The County has established and continues to maintain a strong and stable financial position through progressive management of financial operations and through sound accounting and financial reporting practices. Appreciation is expressed to the members of the Montgomery County Board of Supervisors

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

Respectfully submitted,



F. Craig Meadows
County Administrator



Angela M. Hill
Director of Financial and Management
Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montgomery County
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.



Linda C. Sandison

President

Jeffrey R. Emer

Executive Director

BOARD OF SUPERVISORS

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

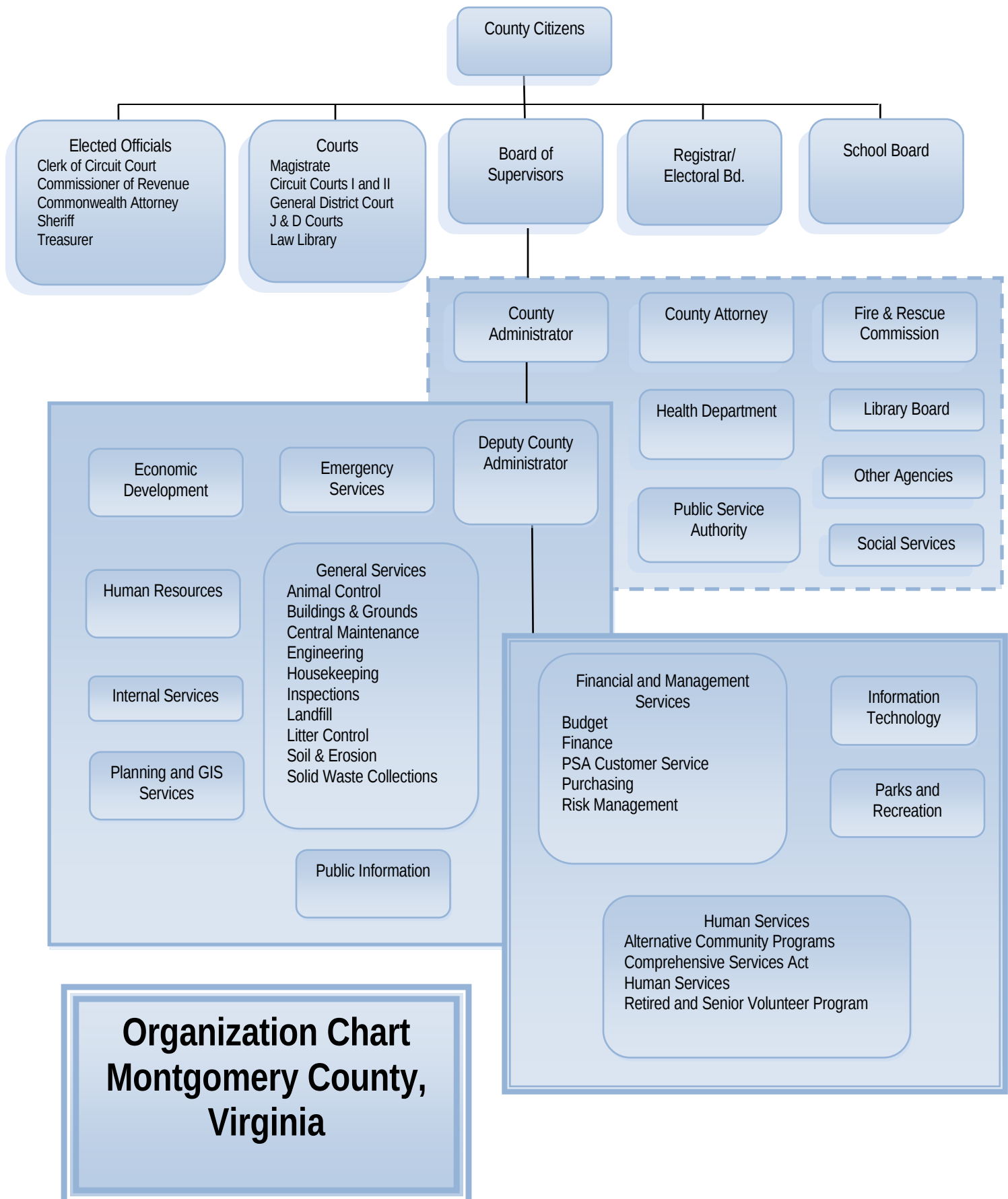
Mary W. Biggs	Matthew R. Gabriele
Gary D. Creed	Annette S. Perkins
Christopher A. Tuck	

COUNTY ADMINISTRATION

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

CONSTITUTIONAL OFFICERS

Mary K. Pettitt	Commonwealth Attorney
Helen P. Royal	Commissioner of the Revenue
W. Richard Shelton	Treasurer
J. T. Whitt	Sheriff
Erica W. Williams	Clerk of the Circuit Court



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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, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County") as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, fund financial statements of the discretely presented component unit, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The fund financial statements of the discretely presented component unit and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2012

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, 2012. 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 2012

- Total net assets for governmental activities were \$100 million at June 30, 2012. This figure is based on assets totaling \$390 million and liabilities of \$290 million.
- Total general fund revenues exceeded the final estimated amount by more than \$5.6 million. This is due to an unbudgeted increase in the real estate tax rate of \$0.12 per \$100 of assessed value, effective January 1, which provided additional funds of \$4.1 million. Delinquent property collections exceeded their estimates by \$500,000 while motor vehicle license fees exceeded the estimate by almost \$400,000. Just over \$460,000 was collected in sales tax revenue over the estimate. Intergovernmental revenues fell below the estimate by approximately \$1,000,000. Of this amount, almost \$500,000 was attributable to grants which do not follow the fiscal year, resulting in funds being budgeted but not earned at year end. Actual collections for the Comprehensive Services Act were \$400,000 less than budgeted due to similar timing issues. Recovered costs exceeded expected amounts by over \$900,000. Of this amount, more than \$600,000 was a result of the sale of the EchoStar property in the Falling Branch Industrial Park. Actual expenditures were \$4.8 million less than the final expenditure appropriation. A hiring freeze implemented during the previous year resulted in savings of approximately \$700,000. A portion of the variance is attributable to the timing of grant activity mentioned above. The County received and included in the final approved budget various grant awards during the year; however, not all were expended before year end. Also, orders had been placed, but goods not received at year end of approximately \$400,000. Finally, the Montgomery County School Board (the Schools) spent approximately \$1.1 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower.
- The business-type activities total net assets at June 30, 2012 were approximately \$15 million.
- Interest-free Qualified School Construction Bonds and Virginia Public School Authority Bonds totaling \$101 million were issued during the year. These bonds will be used toward the construction of the new Blacksburg High School, the new Auburn High School, and renovation of the former Auburn High School which will house Auburn Middle School. Repayment of bonded debt totaled \$11.4 million.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$30 million, or 18.8% of fiscal year 2012 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent, however, the rate has been approximately 14% for the past several years. The ratio exceeded the target by a larger amount this year due primarily to the additional \$4.1 million received as a result of the January 1, 2012 tax increase combined with the Schools' remaining appropriation of \$1 million. Encumbrances for the school operating fund at year end totaled approximately \$500,000.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of \$174 million, an increase of \$78 million in comparison with the prior year. The increase was primarily a result of issuing bond proceeds for capital projects which will continue into 2014. Of that amount, \$6 million was nonspendable, \$36 million was restricted, \$7 million was committed, \$95 million was assigned, and \$30 million was unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.3% of total general fund expenditures, while total fund balance represents 41.6% of that same amount.

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2012	2011	2012	2011	2012	2011	2012	2011
Current and other assets	\$196.1	\$112.5	\$1.5	\$1.3	\$197.6	\$113.8	\$18.9	\$21.0
Capital assets	194.2	159.1	20.1	20.2	214.3	179.3	16.4	17.3
Total assets	\$390.3	\$271.6	\$21.6	\$21.5	\$411.9	\$293.1	\$35.3	\$38.3
Long-term liabilities	\$268.0	\$165.9	\$6.1	\$6.3	\$274.1	\$172.2	\$18.8	\$17.9
Other liabilities	21.9	15.0	0.3	0.2	22.2	15.2	14.0	14.1
Total liabilities	\$289.9	\$180.9	\$6.4	\$6.5	\$296.3	\$187.4	\$32.8	\$32.0
Net assets:								
Invested in capital assets, net of related debt	\$71.1	\$55.6	\$14.2	\$14.2	\$85.3	\$69.8	\$6.5	\$7.2
Restricted	9.7	11.1	0.0	0.0	9.7	11.1	3.6	3.6
Unrestricted	19.6	24.0	1.0	0.8	20.6	24.8	(7.6)	(4.5)
Total net assets	\$100.4	\$90.7	\$15.2	\$15.0	\$115.6	\$105.7	\$2.5	\$6.3

Governmental Activities

Total net assets shown above for governmental activities are \$100.4 million or \$9.7 million more than in 2011. The County issued over \$101 million in bonds during the year to fund school construction. In addition to increasing long-term liabilities, this resulted in increases in current assets for the unspent bond proceeds, as well as increases in capital assets. Capital assets increased by approximately \$35 million resulting from \$40 million in capital additions, offset by \$5 million in current year depreciation. The \$40 million of additions consisted of the following (in millions):

Blacksburg High School	\$12.9
County Courthouse	8.0
Auburn High School	7.7
Price's Fork Elementary School	5.5
School energy projects	2.0
Other school projects	1.5
Auburn Middle School	0.9
Public Safety Building	0.7
Other county additions	0.8
Total	\$40.0

Current assets also increased due to the January 1 twelve cent real estate tax rate increase, which resulted in additional tax revenue collections of \$4.1 in May and June. These funds were unspent at year end, resulting in an increase in cash from the prior year.

Business-Type Activities

Total net assets shown above for business-type activities are \$15.2 million, relatively unchanged from the previous year balance of \$15 million.

Component Units

Total net assets shown above for component units are \$2.5 million for 2012, a decrease of \$3.8 million from 2011. The EDA sold approximately \$600,000 of land to EchoStar in the current year, and provided another \$1.6 million of land as an incentive to BackCountry.com as part of a performance agreement.

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	
	2012	2011	2012	2011	2012	2010	2012	2011
Revenues								
Program revenues:								
Charges for services	\$ 2.9	\$ 2.9	\$ 3.5	\$ 3.8	\$ 6.4	\$ 6.7	\$ 5.0	\$ 5.3
Operating grants and contributions	13.2	13.3	-	-	13.2	13.3	57.0	56.6
Capital grants and contributions	-	-	0.5	0.1	0.5	0.1	-	-
General revenues:								
Property taxes	69.7	63.8	-	-	69.7	63.8	-	-
Other taxes	11.1	10.6	-	-	11.1	10.6	-	-
Payments from Montgomery County	-	-	-	-	-	-	37.5	37.0
Grants and contributions not restricted to specific purposes	5.0	5.0	-	-	5.0	5.0	-	-
Contributions from other governments	-	5.3	-	-	-	5.3	-	-
Other	0.7	0.7	-	-	0.7	0.7	0.3	0.3
Total revenues	102.6	101.6	4.0	3.9	106.6	105.5	99.8	99.2
Expenses								
General government	6.8	7.7	-	-	6.8	7.7	-	-
Judicial administration	2.2	2.8	-	-	2.2	2.8	-	-
Public safety	15.1	13.3	-	-	15.1	13.3	-	-
Public works	4.7	5.1	-	-	4.7	5.1	-	-
Health and welfare	9.0	9.6	-	-	9.0	9.6	-	-
Education	40.9	41.0	-	-	40.9	41.0	100.0	104.5
Parks, recreational, and cultural	2.9	2.9	-	-	2.9	2.9	-	-
Community development	1.8	1.7	-	-	1.8	1.7	3.6	1.4
Water	-	-	2.1	2.1	2.1	2.1	-	-
Waste water	-	-	1.7	1.7	1.7	1.7	-	-
Interest on long-term debt	9.5	7.3	-	-	9.5	7.3	-	-
Total expenses	92.9	91.4	3.8	3.8	96.7	95.2	103.6	105.9
Change in net assets	9.7	10.2	0.2	0.1	9.9	10.3	(3.8)	(6.7)
Net assets-beginning	90.7	80.5	15.0	14.9	105.7	95.4	6.3	13.0
Net assets-endindg	\$ 100.4	\$ 90.7	\$ 15.2	\$ 15.0	\$ 115.6	\$ 105.7	\$ 2.5	\$ 6.3

Revenues

For the fiscal year ended June 30, 2012, revenues from governmental activities totaled \$102.6 million, an increase of \$1,000,000. The real estate tax rate was increased 12 cents per hundred dollars of assessed value for calendar year 2012, resulting in a revenue increase of \$4.1 million. Increases occurred in other tax areas such as sales tax, delinquent tax collections, and motor vehicle license fees bringing the total increase in tax collections to \$5.9 million. The previous year included a contribution from the School Operating Component Unit of \$5.25 million in insurance recoveries to the Governmental Activities. Those funds, which did not recur in 2012, provided a portion of the amount needed to replace Blacksburg High School, following the gymnasium roof collapse.

Charges for services from business-type activities totaled \$3.5 million, a slight decrease of \$300,000 from the previous year due to fewer gallons of water being sold.

Component unit revenues total \$99.8 million, including a \$37.5 million transfer from the general fund. GASB 34 requires that school debt service be included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$12.5 million, which would have brought the total transfer to \$50 million under the previous method of accounting.

Expenses / Expenditures

Expenses for governmental activities totaled \$92.9 million in 2012, an increase of \$1.5 million from the previous year. A hiring freeze was implemented in 2011 and continued into 2012. This lowered expenses throughout the County by approximately \$600,000 in 2011 and another \$700,000 in 2012. A large portion of this savings occurred in the general government category, which decreased \$900,000 from the prior year. Also contributing to this decrease was a grant for computer equipment of \$500,000 received in the previous year. Spending in the public safety area increased \$1.8 million primarily due to increased usage of the Western Virginia Regional Jail. Interest on long-term debt increased \$2.2 million as payments began on debt recently issued to fund construction of the Courthouse and construction and renovation of three school buildings previously discussed. Departments continued to monitor spending closely and manage budgets carefully resulting in additional savings from 2012.

Expenses for business-type activities remained steady at \$3.8 million.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$37.5 million to the operation of the Schools. Depreciation expense related to the schools totaled \$3 million. Additionally, approximately \$300,000 was spent on expenses associated with the continued temporary relocation of Blacksburg High and Middle Schools.

Total general fund expenses for education were \$41 million. This amount represented about 44% of governmental activity expenses. When debt service (principal and interest) for school related projects is included, the County contributed \$53.5 million, or 57.6%. On the cash basis of accounting, total school expenditures, including expenditures funded through the state and federal government and debt service for school related projects, were equal to 70% of the general fund expenditures (excluding payments to the Schools), plus school operating fund expenditures for 2012.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2012, the governmental funds reflect a combined fund balance of \$174 million, an increase of \$78 million from June 30, 2011. As previously discussed, this increase results from bond proceeds for schools that had not yet been spent as the projects were still under construction.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2012 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 74.8	\$ 74.8	\$ 80.6
Intergovernmental	17.8	19.4	18.3
Other	2.4	3.0	4.0
Total	95.0	97.2	102.9
Expenditures and transfers	95.0	97.2	95.8
Change in fund balance	\$ -	\$ -	\$ 7.1

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants were received and budgeted during the fiscal year to account for the \$1.6 million increase in this category. Budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

The increase in the final budget for expenditures over the original budget primarily resulting from encumbrances and carryovers from the 2011 budget and the appropriation of grants received and one-time expenditures throughout the year.

Actual tax revenue exceeded the budgeted amount by \$5.8 million. Effective January 1, 2012, the real estate tax rate was increased twelve cents per \$100 of assessed value. This was not included in the budgeted amounts due to the timing of the increase, resulting in additional revenue of approximately \$4.1 million. The other tax categories in which collections exceeded estimates included: delinquent property collections (\$500,000), motor vehicle license fees (\$400,000), and sales tax revenue (\$460,000). Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Expenditures and transfers actual balances were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was \$1 million lower than the budgeted amount. This is due to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The County transferred the balance of these funds to the Schools in fiscal year 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the County had invested \$194.1 million net of accumulated depreciation in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2012	2011	2012	2011	2012	2011	2012	2011
Non-depreciable assets								
Land	\$ 13.9	\$ 13.9	\$ 0.3	\$ 0.3	\$ 14.2	\$ 14.2	\$ 0.4	\$ 0.4
Construction in progress	47.5	31.4	-	-	47.5	31.4	-	-
Depreciable capital assets								
Infrastructure	-	-	33.1	32.5	33.1	32.5	-	-
Buildings and improvements	150.5	128.2	0.1	0.1	150.6	128.3	42.6	42.1
Machinery and equipment	18.9	18.2	0.7	0.6	19.6	18.8	14.9	14.6
Accumulated depreciation	(36.6)	(32.6)	(14.1)	(13.3)	(50.7)	(45.9)	(41.5)	(39.8)
Total	\$ 194.2	\$ 159.1	\$ 20.1	\$ 20.2	\$ 214.3	\$ 179.3	\$ 16.4	\$ 17.3

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

	Balance June 30, 2011	Net Additions/ (Deletions)	Balance June 30, 2012
Non-depreciable assets			
Land	\$ 14.6	\$ -	\$ 14.6
Construction in progress	31.4	16.1	47.5
Depreciable capital assets			
Infrastructure	32.5	0.6	33.1
Buildings and improvements	170.4	22.8	193.2
Machinery and equipment	33.4	1.1	34.5
Accumulated depreciation	(85.7)	(6.5)	(92.2)
Total	\$ 196.6	\$ 34.1	\$ 230.7

Governmental Activities

In 2012, the County continued construction on the new Courthouse project (\$8 million), Blacksburg High School (\$12.9 million), and Auburn High School (\$7.7 million). The Price's Fork Elementary School, with a total cost of \$19.3 million was completed and transferred from construction in progress to buildings and improvements. Current year costs on this project totaled \$5.5 million.

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

Long-Term Debt

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2012, in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 132.6	\$ 34.0	\$ -	\$ -	\$ 132.6	\$ 34.0
Lease revenue bonds	77.6	82.2	-	-	77.6	82.2
Literary loans	2.5	2.8	-	-	2.5	2.8
Refunding bonds	40.0	43.9	-	-	40.0	43.9
Revenue bonds	-	-	5.9	6.1	5.9	6.1
Total	\$ 252.7	\$ 162.9	\$ 5.9	\$ 6.1	\$ 258.6	\$ 169.0

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

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

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of

the project. Target debt ratios will be annually calculated and included in the review of financial trends.

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

As of June 30, 2012, the County was in compliance with all debt policies.

ECONOMIC FACTORS

As of October 2012, the unemployment rate for the County is 5.4 percent, a decrease from the rate a year ago which was 6.8 percent. The current rate is slightly lower than the state's average unemployment rate of 5.7 percent.

The Board of Supervisors increased the tax rate to \$0.87 per \$100 of assessed value for calendar year 2012, a 12 cent increase over the prior year. This increase was necessary to cover the increased costs associated with the additional debt service for School construction.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 40,967,697	\$ 740,287	\$ 41,707,984	\$ 1,583,749	\$ 470,857	\$ 43,762,590
Receivables, net (Note 5)	2,705,147	579,528	3,284,675	-	5,414	3,290,089
Due from primary government	-	-	-	5,335,315	-	5,335,315
Due from other governmental units (Note 6)	2,694,391	-	2,694,391	2,545,898	9,028	5,249,317
Internal balances (Note 7)	13,542	(13,542)	-	-	-	-
Prepays	346,605	13,743	360,348	1,537,001	14,308	1,911,657
Inventories	-	37,230	37,230	100,915	3,365,785	3,503,930
Advances to component unit (Note 15)	5,626,109	-	5,626,109	-	-	5,626,109
Restricted assets:						
Cash and cash equivalents (Note 4)	336,987	49,255	386,242	33,141	-	419,383
Investments (Note 4)	140,387,530	-	140,387,530	-	-	140,387,530
Notes receivable	-	-	-	-	3,325,000	3,325,000
Accrued interest receivable	-	-	-	-	275,683	275,683
Notes receivable (Note 15)	516,627	-	516,627	-	-	516,627
Lease receivable	-	-	-	-	331,837	331,837
Debt issuance costs, net	2,556,469	61,164	2,617,633	-	28,176	2,645,809
Capital assets: (Note 8)						
Non-depreciable	61,459,166	340,389	61,799,555	394,257	-	62,193,812
Depreciable, net	132,676,263	19,791,338	152,467,601	6,787,142	9,191,948	168,446,691
Total assets	390,286,533	21,599,392	411,885,925	18,317,418	17,018,036	447,221,379
LIABILITIES						
Accounts payable and accrued expenses	9,646,411	129,444	9,775,855	432,767	13,252	10,221,874
Accrued payroll and related liabilities	928,379	37,527	965,906	7,242,767	-	8,208,673
Accrued interest payable	4,880,271	10,634	4,890,905	-	-	4,890,905
Amounts held for others	336,987	-	336,987	33,141	-	370,128
Advances from primary government (Note 15)	-	-	-	-	5,626,109	5,626,109
Due to other governmental units (Notes 6 and 15)	485,468	-	485,468	-	-	485,468
Due to component unit	5,335,315	-	5,335,315	-	516,627	5,851,942
Unearned revenue (Note 5)	236,038	-	236,038	-	59,317	295,355
Customer deposits	-	49,255	49,255	-	110,000	159,255
Long-term liabilities: (Note 9)						
Due within one year	14,709,118	303,208	15,012,326	2,591,000	520,220	18,123,546
Due in more than one year	253,310,266	5,808,520	259,118,786	6,255,286	9,485,303	274,859,375
Total liabilities	289,868,253	6,338,588	296,206,841	16,554,961	16,330,828	329,092,630
NET ASSETS						
Invested in capital assets, net of related debt	71,071,547	14,241,772	85,313,319	7,181,399	(665,935)	91,828,783
Restricted:						
Debt service	9,734,620	-	9,734,620	-	-	9,734,620
Note receivable	-	-	-	-	3,600,683	3,600,683
Unrestricted	19,612,113	1,019,032	20,631,145	(5,418,942)	(2,247,540)	12,964,663
Total net assets	\$ 100,418,280	\$ 15,260,804	\$ 115,679,084	\$ 1,762,457	\$ 687,208	\$ 118,128,749

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

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Program Revenues					Net (Expense) Revenue and Changes in Net Assets					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		Total
					Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority	
Primary Government:										
Governmental activities:										
General government administration	\$ 6,825,896	\$ 430,626	\$ 781,193	\$ -	\$ (5,614,077)	\$ -	\$ (5,614,077)	\$ -	\$ -	\$ (5,614,077)
Judicial administration	2,207,787	553,551	410,361	-	(1,243,875)	-	(1,243,875)	-	-	(1,243,875)
Public safety	15,097,206	805,119	3,933,744	-	(10,358,343)	-	(10,358,343)	-	-	(10,358,343)
Public works	4,674,525	172,662	371,039	-	(4,130,824)	-	(4,130,824)	-	-	(4,130,824)
Health and welfare	8,991,736	252,926	6,133,949	-	(2,604,861)	-	(2,604,861)	-	-	(2,604,861)
Education	40,874,425	-	1,003,905	-	(39,870,520)	-	(39,870,520)	-	-	(39,870,520)
Parks, recreational, and cultural	2,940,666	608,844	225,425	-	(2,106,397)	-	(2,106,397)	-	-	(2,106,397)
Community development	1,796,052	36,066	300,000	-	(1,459,986)	-	(1,459,986)	-	-	(1,459,986)
Interest on long-term debt	9,450,462	-	-	-	(9,450,462)	-	(9,450,462)	-	-	(9,450,462)
Total governmental activities	92,858,755	2,859,794	13,159,616	-	(76,839,345)	-	(76,839,345)	-	-	(76,839,345)
Business-type activities:										
Water	2,140,325	1,920,549	-	393,651	-	173,875	173,875	-	-	173,875
Wastewater	1,685,878	1,591,546	-	157,565	-	63,233	63,233	-	-	63,233
Total business-type activities	3,826,203	3,512,095	-	551,216	-	237,108	237,108	-	-	237,108
Total primary government	\$ 96,684,958	\$ 6,371,889	\$ 13,159,616	\$ 551,216	(76,839,345)	237,108	(76,602,237)	-	-	(76,602,237)
Component Units:										
School Board	\$ 100,132,363	\$ 3,179,209	\$ 57,026,181	\$ -	-	-	-	(39,926,973)	-	(39,926,973)
Economic Development Authority	3,584,658	1,833,692	-	-	-	-	-	-	(1,750,966)	(1,750,966)
Total component units	\$ 103,717,021	\$ 5,012,901	\$ 57,026,181	\$ -	-	-	-	(39,926,973)	(1,750,966)	(41,677,939)
General Revenues:										
General property taxes (Note 5)					69,685,628	-	69,685,628	-	-	69,685,628
Sales and use tax					7,742,363	-	7,742,363	-	-	7,742,363
Utility tax					1,807,321	-	1,807,321	-	-	1,807,321
Motor vehicle license tax					668,906	-	668,906	-	-	668,906
Other local taxes					885,787	-	885,787	-	-	885,787
Intergovernmental revenue, unrestricted					5,119,304	-	5,119,304	-	-	5,119,304
Investment earnings, unrestricted					398,749	2,292	401,041	12,016	202,750	615,807
Investment earnings, restricted for capital projects					199,698	-	199,698	-	-	199,698
Miscellaneous					-	7,307	7,307	-	-	7,307
Payments from Montgomery County					-	-	-	37,504,144	83,938	37,588,082
Total general revenues and transfers					86,507,756	9,599	86,517,355	37,516,160	286,688	124,320,203
Change in net assets					9,668,411	246,707	9,915,118	(2,410,813)	(1,464,278)	6,040,027
Net assets – beginning					90,749,869	15,014,097	105,763,966	4,173,270	2,151,486	112,088,722
Net assets – ending					\$ 100,418,280	\$ 15,260,804	\$ 115,679,084	\$ 1,762,457	\$ 687,208	\$ 118,128,749

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	County Capital Improvements	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 38,218,473	\$ 2,749,224	\$ 40,967,697
Receivables, net	2,705,147	-	2,705,147
Due from other governmental units	2,694,391	-	2,694,391
Advances to other funds	13,542	-	13,542
Advances to component unit	5,626,109	-	5,626,109
Notes receivable	516,627	-	516,627
Restricted assets:			
Cash and cash equivalents	336,987	-	336,987
Investments	-	140,387,530	140,387,530
Total assets	<u>\$ 50,111,276</u>	<u>\$ 143,136,754</u>	<u>\$ 193,248,030</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 765,960	\$ 8,880,451	\$ 9,646,411
Accrued payroll and related liabilities	928,379	-	928,379
Due to other governmental units	485,468	-	485,468
Due to component unit	5,335,315	-	5,335,315
Deferred revenue (Note 5)	2,104,741	-	2,104,741
Amounts held for others	336,987	-	336,987
Total liabilities	<u>9,956,850</u>	<u>8,880,451</u>	<u>18,837,301</u>
Fund Balances:			
Nonspendable	6,142,736	-	6,142,736
Restricted	218,640	35,557,439	35,776,079
Committed	1,231,209	6,241,394	7,472,603
Assigned	2,623,848	92,457,470	95,081,318
Unassigned	29,937,993	-	29,937,993
Total fund balances	<u>40,154,426</u>	<u>134,256,303</u>	<u>174,410,729</u>
Total liabilities and fund balances	<u>\$ 50,111,276</u>	<u>\$ 143,136,754</u>	<u>\$ 193,248,030</u>

(Continued)

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

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

Ending fund balance – governmental funds		\$	174,410,729
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			194,135,429
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			346,605
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			1,868,703
Debt issuance costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.			2,556,469
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			
Long-term debt, including premium, discounts, and deferred amounts	\$	(263,451,412)	
Landfill closure/post-closure liability		(1,048,523)	
Compensated absences		(2,389,652)	
Other postemployment benefits		(1,129,797)	
Accrued interest payable		(4,880,271)	
			<u>(272,899,655)</u>
Net assets of governmental activities	\$		<u>100,418,280</u>

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2012

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 69,570,424	\$ -	\$ 69,570,424
Other local taxes	11,104,376	-	11,104,376
Permits, privilege fees, and regulatory licenses	772,968	-	772,968
Fines and forfeitures	130,919	-	130,919
Revenue from use of money and property	398,749	199,698	598,447
Charges for services	698,281	-	698,281
Recovered costs	1,289,418	4,443	1,293,861
Intergovernmental	18,278,921	-	18,278,921
Total revenues	102,244,056	204,141	102,448,197
EXPENDITURES			
Current operating:			
General government administration	6,696,527	-	6,696,527
Judicial administration	2,183,562	-	2,183,562
Public safety	14,258,983	-	14,258,983
Public works	3,718,932	-	3,718,932
Health and welfare	8,921,480	-	8,921,480
Education	37,540,554	-	37,540,554
Parks, recreation, and cultural	2,926,645	-	2,926,645
Community development	1,564,984	-	1,564,984
Debt service:			
Principal retirement	11,386,500	-	11,386,500
Interest and fiscal charges	7,214,788	-	7,214,788
Bond issuance costs	-	752,339	752,339
Capital projects	-	40,217,021	40,217,021
Total expenditures	96,412,955	40,969,360	137,382,315
Excess (deficiency) of revenues over expenditures	5,831,101	(40,765,219)	(34,934,118)
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	101,115,000	101,115,000
Bond premium	-	12,261,552	12,261,552
Transfers in	1,870,683	941,676	2,812,359
Transfers out	(941,676)	(1,870,683)	(2,812,359)
Total other financing sources	929,007	112,447,545	113,376,552
Net change in fund balances	6,760,108	71,682,326	78,442,434
FUND BALANCES AT JULY 1	33,394,318	62,573,977	95,968,295
FUND BALANCES AT JUNE 30	\$ 40,154,426	\$ 134,256,303	\$ 174,410,729

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

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	\$ 78,442,434
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which depreciation (\$5,014,502) and the loss on disposals (\$13,588) are less than capital outlay (\$40,046,214) in the current period.

35,018,124

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

92,557

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction; however, has an effect on net assets.

Issuance of general obligation bonds

\$ (101,115,000)

Principal repayments:

General obligation bonds

2,551,529

Lease revenue bonds

4,670,271

Literary fund loans

250,000

Refunding bonds

3,914,700

(89,728,500)

Governmental funds report the effect of bond issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it is accrued, regardless of when it is due. The net effect of those differences are as follows:

Premium on issuance of lease revenue bonds

(12,261,552)

Bond issuance costs

752,339

Amortization of bond issuance costs and premium on called debt

(418,179)

Amortization of bond premium

502,360

Amortization of deferred amounts

(45,409)

Interest expense

(2,274,446)

(13,744,887)

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.

(411,317)

Change in net assets of governmental activities

\$ 9,668,411

COUNTY OF MONTGOMERY, VIRGINIA

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

GENERAL FUND

For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 64,244,257	\$ 64,283,243	\$ 69,568,078	\$ 5,284,835
Other local taxes	10,537,275	10,537,275	11,058,388	521,113
Permits, privilege fees, and regulatory licenses	731,388	733,755	760,523	26,768
Fines and forfeitures	125,000	125,000	120,907	(4,093)
Revenue from use of money and property	534,109	534,109	398,749	(135,360)
Charges for services	400,158	608,532	698,281	89,749
Recovered costs	650,057	1,038,507	1,957,924	919,417
Intergovernmental	17,803,285	19,373,535	18,315,509	(1,058,026)
Total revenues	95,025,529	97,233,956	102,878,359	5,644,403
EXPENDITURES				
Current operating:				
General government administration	7,371,765	8,100,372	6,732,526	1,367,846
Judicial administration	2,270,919	2,348,593	2,185,093	163,500
Public safety	13,562,327	14,779,529	14,230,899	548,630
Public works	4,369,414	4,678,569	3,981,676	696,893
Health and welfare	9,503,826	9,219,292	9,057,316	161,976
Education	36,450,601	38,093,047	37,038,350	1,054,697
Parks, recreational, and cultural	2,534,763	3,724,038	2,919,565	804,473
Community development	1,287,407	1,763,860	1,549,991	213,869
Debt service:				
Principal retirement	11,236,800	11,236,800	11,386,500	(149,700)
Interest and fiscal charges	6,863,890	7,157,849	7,214,788	(56,939)
Total expenditures	95,451,712	101,101,949	96,296,704	4,805,245
Excess (deficiency) of revenues over expenditures	(426,183)	(3,867,993)	6,581,655	10,449,648
OTHER FINANCING SOURCES (USES)				
Transfers in	1,630,683	1,630,683	1,455,683	(175,000)
Transfers out	(1,204,500)	(1,446,176)	(941,676)	504,500
Total other financing sources (uses)	426,183	184,507	514,007	329,500
Net change in fund balance	\$ -	\$ (3,683,486)	\$ 7,095,662	\$ 10,779,148

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 740,287	\$ -	\$ 740,287
Receivables, net	325,701	253,827	579,528
Due from other funds	281,563	(281,563)	-
Prepays	7,703	6,040	13,743
Inventories	35,936	1,294	37,230
Deferred bond costs	1,065	1,919	2,984
Total current assets	1,392,255	(18,483)	1,373,772
Noncurrent assets:			
Cash and cash equivalents, restricted	49,255	-	49,255
Deferred bond costs	20,757	37,423	58,180
Capital assets:			
Non-depreciable	322,389	18,000	340,389
Depreciable, net	10,679,572	9,111,766	19,791,338
Total noncurrent assets	11,071,973	9,167,189	20,239,162
Total assets	12,464,228	9,148,706	21,612,934
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	81,751	85,220	166,971
Accrued interest payable	6,647	3,987	10,634
Due to other funds	13,542	-	13,542
Current portion of noncurrent liabilities	199,959	103,249	303,208
Total current liabilities	301,899	192,456	494,355
Noncurrent liabilities:			
Customer deposits	30,045	19,210	49,255
Due in more than one year	3,544,333	2,264,187	5,808,520
Total noncurrent liabilities	3,574,378	2,283,397	5,857,775
Total liabilities	3,876,277	2,475,853	6,352,130
NET ASSETS			
Invested in capital assets, net of related debt	7,390,445	6,851,327	14,241,772
Unrestricted	1,197,506	(178,474)	1,019,032
Total net assets	\$ 8,587,951	\$ 6,672,853	\$ 15,260,804

COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water revenues	\$ 1,461,720	\$ -	\$ 1,461,720
Wastewater revenues	-	1,211,768	1,211,768
Penalties and reconnection charges	34,744	14,255	48,999
Fees	242,184	118,716	360,900
Miscellaneous	17,478	10,654	28,132
Total operating revenues	1,756,126	1,355,393	3,111,519
OPERATING EXPENSES			
Salaries and wages	369,083	327,568	696,651
Employee benefits	197,840	172,174	370,014
Utilities and telephone	38,169	62,479	100,648
Water and wastewater services	456,270	367,012	823,282
Operating supplies, fees, permits	99,810	46,248	146,058
Professional services	198,688	21,012	219,700
Repairs and maintenance	109,565	107,588	217,153
Insurance	16,826	14,416	31,242
Vehicle supplies and miscellaneous	40,154	23,544	63,698
Bad debts	1,042	1,010	2,052
Office supplies and miscellaneous	25,825	8,680	34,505
Amortization	1,065	1,919	2,984
Depreciation	431,348	436,092	867,440
Total operating expenses	1,985,685	1,589,742	3,575,427
Operating loss	(229,559)	(234,349)	(463,908)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	2,292	-	2,292
Gain on disposal of capital assets	7,307	-	7,307
Facility fees	165,465	237,163	402,628
Interest expense	(155,682)	(97,146)	(252,828)
Total nonoperating revenues (expenses)	19,382	140,017	159,399
Loss before contributions and transfers	(210,177)	(94,332)	(304,509)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	393,651	157,565	551,216
Change in net assets	183,474	63,233	246,707
NET ASSETS AT JULY 1	8,404,477	6,609,620	15,014,097
NET ASSETS AT JUNE 30	\$ 8,587,951	\$ 6,672,853	\$ 15,260,804

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 1,734,970	\$ 1,343,020	\$ 3,077,990
Payments to suppliers	(890,571)	(696,746)	(1,587,317)
Payments to employees	(543,533)	(476,272)	(1,019,805)
Payments to County for financial services	(85,844)	-	(85,844)
Net cash provided by operating activities	215,022	170,002	385,024
NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	142,868	(142,868)	-
Net cash provided by (used in) noncapital financing activities	142,868	(142,868)	-
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(57,798)	(80,983)	(138,781)
Facility fee payments from customers	165,465	237,163	402,628
Proceeds from the sale of capital assets	7,307	-	7,307
Principal payments on debt	(129,394)	(86,048)	(215,442)
Interest payments on debt	(155,498)	(97,266)	(252,764)
Net cash used in capital and related financing activities	(169,918)	(27,134)	(197,052)
INVESTING ACTIVITIES			
Interest received	2,292	-	2,292
Net increase in cash and cash equivalents	190,264	-	190,264
CASH AND CASH EQUIVALENTS			
Beginning at July 1	599,278	-	599,278
Ending at June 30	\$ 789,542	\$ -	\$ 789,542
RECONCILIATION TO EXHIBIT 6			
Cash and cash equivalents	\$ 740,287	\$ -	\$ 740,287
Cash and cash equivalents, restricted	49,255	-	49,255
	\$ 789,542	\$ -	\$ 789,542
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (229,559)	\$ (234,349)	\$ (463,908)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	431,348	436,092	867,440
Amortization	1,065	1,919	2,984
(Increase) decrease in:			
Accounts receivable	(27,639)	(15,793)	(43,432)
Prepays	(854)	59	(795)
Inventory	(7,575)	(744)	(8,319)
(Decrease) increase in:			
Accounts payable	11,489	(45,082)	(33,593)
Advances payable for operating items	5,832	-	5,832
Accrued payroll and related liabilities	7,904	7,880	15,784
Other postemployment benefits	15,486	15,590	31,076
Customer deposits	7,525	4,430	11,955
Net cash provided by operating activities	\$ 215,022	\$ 170,002	\$ 385,024
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital assets financed with lease proceeds	\$ 47,978	\$ -	\$ 47,978
Contributions from developers	\$ 393,651	\$ 157,565	\$ 551,216

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 "Board"). The accompanying financial statements for the primary government and its component units are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the GASB.

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

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

Montgomery County School Board

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

Montgomery County Economic Development Authority

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 ("NRVCS"). The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the current year, the County contributed \$465,485 to NRVCS.

Virginia Tech Montgomery Executive Airport Authority

The Virginia Tech Montgomery Executive Airport Authority (the "Airport Authority") was created by concurrent resolutions of the governing bodies of the County, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Airport Authority is governed by a five member board whereby the governing body of each member jurisdiction appoints one board member, and all jurisdictions jointly appoint a fifth member. The Airport Authority utilizes revenues generated by the airport and contributions by the members to fund all airport activities and has no bonded indebtedness. For the current year, the County paid \$50,000 toward operations of the Authority.

Montgomery Regional Solid Waste Authority

The County is a member of the Montgomery Regional Solid Waste Authority (the "Waste Authority"), which was created by a joint resolution by the County, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Waste Authority is governed by a five member board whereby the governing body of each member jurisdiction appoints one board member and all jurisdictions jointly appoint a fifth member. The Waste Authority, which began operation in August 1995, operates a sanitary landfill and recycling facility. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. All Waste Authority operations are financed by tipping fees and the individual jurisdictions are not liable for the debt of the Waste Authority. The remaining life of the landfill is estimated at one year, and the Waste Authority has negotiated with an adjacent authority for shared use of a new permitted landfill with an anticipated operating life of 30 years. For the current year, the County paid \$746,275 in tipping fees to the Waste Authority.

Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization (the "MPO"). The MPO is a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. The MPO provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. For the current year, the County paid \$19,828 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the current year, the County paid \$2,433,574 to the WVRJA.

New River Valley Emergency Communications Regional Authority

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority will provide quality and reliable 911 dispatch and emergency communication services to the community and agencies in these localities. The County has one member on the Board of this organization. During fiscal year 2012, the County did not contribute \$55,000 toward the operations of the Communications Authority.

B. Government-Wide and Fund Financial Statements

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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. Grant revenues are considered receivable when legal and contractual requirements have been met and available if collected within one year for the County, or 60 days of year-end for the School Board. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

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

The County reports the following major governmental funds:

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

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

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

Receivables

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories

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

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

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized in 2012.

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

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

Compensated Absences

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Deferred/Unearned Revenues

Deferred revenue in the general fund consists primarily of property taxes not collected within the defined availability period and property taxes collected in advance of their due date. Unearned revenue in governmental activities consists of property taxes collected prior to their due date.

Long-term Liabilities

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

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

Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ.

Net Assets/Fund Balances

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Net Assets/Fund Balances (Continued)

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

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

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

Restricted Amounts

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Minimum Fund Balance Policy

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2012 total \$364,183 in the general fund and \$94,466,552 in the capital projects fund.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

- Prior to March 30, the County Administrator submits to the Board 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, or functional, level as presented in Exhibit 5. Each organization represents a major County function, such as County Administration, Financial and Management Services, Information Management Services, etc. Only the Board 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 its major categories, which include administration, instruction, attendance, health, etc. School system revisions between these major categories requires approval by the Board of Supervisors.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

Budgetary Information (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General and Capital Improvements Fund. Program and project budgets are utilized for the Capital Improvements Fund where funds remaining at the end of the year are reappropriated 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 approved additional General Fund appropriations of \$5,650,237 during the current year primarily for transfers for public safety, health and welfare, education, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	Primary Government	Component Unit – School Board	
	General Fund	Operating	Cafeteria
Net change in fund balance (budgetary basis)	\$ 7,095,662	\$ -	\$ 44,751
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred revenue:			
June 30, 2012	9,788,062	7,881,213	-
June 30, 2011	(9,751,897)	(7,280,056)	-
Inventory:			
June 30, 2012	-	-	100,915
June 30, 2011	-	-	(119,679)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2012	(7,515,122)	(7,881,213)	(197,313)
June 30, 2011	7,143,403	7,280,056	205,751
Net change in fund balance (GAAP basis)	<u>\$ 6,760,108</u>	<u>\$ -</u>	<u>\$ 34,425</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 97,846,592
Principal and other debt service expenditures included in primary Government (Exhibit 4)	<u>12,460,601</u>
Total expenditures for school activities	<u>\$ 110,307,193</u>

Note 4. Deposits and Investments

Deposits

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 4. Deposits and Investments (Continued)

Investments

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor’s Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 42,094,226	NA	23%
SNAP	109,848,345	AAA	60%
Money market accounts	30,539,185	AAAm	17%
Total	<u>\$ 182,481,756</u>		<u>100%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 1,616,890</u>	NA	<u>100%</u>

Credit Risk

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 4. Deposits and Investments (Continued)

Concentration of Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

The previous items are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
Deposits and investments		
Cash and cash equivalents	\$ 41,707,984	\$ 1,583,749
Investments, restricted	140,387,530	-
Cash and cash equivalents, restricted	<u>386,242</u>	<u>33,141</u>
	<u>\$ 182,481,756</u>	<u>\$ 1,616,890</u>

Restricted Amounts

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 5. Receivables

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Receivables				
Taxes	\$ 3,257,837	\$ -	\$ -	\$ 3,257,837
Accounts	<u>-</u>	<u>349,701</u>	<u>273,827</u>	<u>623,528</u>
Gross receivables	3,257,837	349,701	273,827	3,881,365
Less:				
Allowance for uncollectibles	<u>(552,690)</u>	<u>(24,000)</u>	<u>(20,000)</u>	<u>(596,690)</u>
Net total receivables	<u>\$ 2,705,147</u>	<u>\$ 325,701</u>	<u>\$ 253,827</u>	<u>\$ 3,284,675</u>

Taxes receivable represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is 17.0% of the total taxes receivable and is based on historical collection rates.

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

Deferred and Unearned Revenue

Property taxes receivable – unavailable	\$ 1,868,703
Property taxes receivable – unearned	<u>236,038</u>
Total deferred revenue	<u>\$ 2,104,741</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 on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue. Public utility property is assessed by the Commonwealth. All property is assessed at 100% of fair market value and reassessed every four years as of January 1. The Commissioner of Revenue, by authority of County ordinance, prorates billings for property incomplete as of January 1, but completed during the year.

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5), less an allowance for uncollectibles. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2012 is \$0.87 per \$100 of assessed value.

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	<u>105,468</u>
	<u><u>\$ 485,468</u></u>

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,309,875	\$ -
State sales tax	-	1,699,612
Categorical aid – shared expenses	449,252	-
Categorical aid – schools	-	66,178
Non-categorical aid	171,528	-
Excess clerk fees	6,621	-
Virginia public assistance funds	159,094	-
Community services act	376,296	-
Fire program funds	11,608	-
<u>Federal Government:</u>		
Virginia public assistance funds	210,117	-
Categorical aid – school grants	<u>-</u>	<u>780,108</u>
	<u><u>\$ 2,694,391</u></u>	<u><u>\$ 2,545,898</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 7. Interfund Balances and Transfers

Interfund balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 13,542
Water	Wastewater	<u>281,563</u>
		<u>\$ 295,105</u>

The primary purpose of the interfund balance between the General fund and Water fund is for financial services provided by the County to the Water fund for the month of June, and it was repaid subsequent to year end. The primary purpose of the interfund balance between the Water fund and Wastewater fund is for negative pooled unrestricted cash amounts.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 941,676
General	County Capital Improvements	\$ 1,870,683

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 13,886,499	\$ -	\$ 600	\$ 13,885,899
Construction in progress	31,420,554	35,515,464	19,362,751	47,573,267
Total capital assets, not depreciated	45,307,053	35,515,464	19,363,351	61,459,166
Capital assets, depreciated:				
Buildings and improvements	128,209,895	22,830,803	567,958	150,472,740
Machinery and equipment	18,247,594	1,062,697	394,509	18,915,782
Total capital assets, depreciated	146,457,489	23,893,500	962,467	169,388,522
Less accumulated depreciation:				
Buildings and improvements	21,335,716	3,841,719	549,947	24,627,488
Machinery and equipment	11,288,873	1,172,783	376,885	12,084,771
Total accumulated depreciation	32,624,589	5,014,502	926,832	36,712,259
Total capital assets, depreciated, net	113,832,900	18,878,998	35,635	132,676,263
Capital assets, net	<u>\$159,139,953</u>	<u>\$ 54,394,462</u>	<u>\$ 19,398,986</u>	<u>\$194,135,429</u>

COUNTY OF MONTGOMERY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 340,389	\$ -	\$ -	\$ 340,389
Total capital assets, not depreciated	340,389	-	-	340,389
Capital assets, depreciated:				
Wastewater systems	16,914,235	157,565	-	17,071,800
Water systems	15,555,868	401,564	-	15,957,432
Buildings and improvements	104,318	-	-	104,318
Machinery and equipment	626,235	178,846	31,029	774,052
Total capital assets, depreciated	33,200,656	737,975	31,029	33,907,602
Less accumulated depreciation:				
Wastewater systems	7,430,756	424,601	-	7,855,357
Water systems	5,204,143	397,942	-	5,602,085
Buildings and improvements	87,597	2,918	-	90,515
Machinery and equipment	557,357	41,979	31,029	568,307
Less accumulated depreciation	13,279,853	867,440	31,029	14,116,264
Total capital assets, depreciated, net	19,920,803	(129,465)	-	19,791,338
Capital assets, net	<u>\$ 20,261,192</u>	<u>\$ (129,465)</u>	<u>\$ -</u>	<u>\$ 20,131,727</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 139,682
Judicial administration	3,059
Public safety	910,690
Public works	844,752
Health and welfare	15,256
Education	3,059,023
Parks, recreation, and cultural	35,713
Community development	6,327
	<u>\$ 5,014,502</u>
Business-type activities:	
Water	\$ 431,348
Wastewater	436,092
	<u>\$ 867,440</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

Project	Spent to Date	Remaining Balance
Middle School Renovation – Auburn	\$ 1,102,954	\$ 17,715,281
High School – Auburn	7,044,380	28,609,935
High School – Blacksburg	12,316,321	43,956,129
Courthouse Project	20,029,862	222,400
	<u>\$ 40,493,517</u>	<u>\$ 90,503,745</u>

Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 394,257	\$ -	\$ -	\$ 394,257
Total capital assets, not Depreciated	<u>394,257</u>	<u>-</u>	<u>-</u>	<u>394,257</u>
Capital assets, depreciated:				
Buildings and improvements	31,525,160	-	-	31,525,160
Machinery and equipment	14,523,721	423,782	163,295	14,784,208
Total capital assets, depreciated	<u>46,048,881</u>	<u>423,782</u>	<u>163,295</u>	<u>46,309,368</u>
Less accumulated depreciation:				
Buildings and improvements	29,896,724	505,401	-	30,402,125
Machinery and equipment	8,259,907	1,023,489	163,295	9,120,101
Total accumulated depreciation	<u>38,156,631</u>	<u>1,528,890</u>	<u>163,295</u>	<u>39,522,226</u>
Total capital assets, depreciated, net	<u>7,892,250</u>	<u>(1,105,108)</u>	<u>-</u>	<u>6,787,142</u>
Capital assets, net	<u>\$ 8,286,507</u>	<u>\$ (1,105,108)</u>	<u>\$ -</u>	<u>\$ 7,181,399</u>

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 9. Long-Term Debt

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	\$ 34,013,747	\$ 101,115,000	\$ 2,551,529	\$ 132,577,218	\$ 3,995,249
Lease revenue bonds	82,244,830	-	4,670,271	77,574,559	4,709,351
Literary fund loans	2,750,000	-	250,000	2,500,000	250,000
Refunding bonds	43,925,477	-	3,914,700	40,010,777	3,989,879
Landfill post-closure	1,050,163	-	1,640	1,048,523	91,883
OPEB (Note 12)	803,364	392,939	66,506	1,129,797	-
Compensated absences	2,275,840	1,786,568	1,672,756	2,389,652	1,672,756
Add bond premiums	1,767,537	12,261,552	502,360	13,526,729	-
Less bond discounts	(696,271)	-	(45,409)	(650,862)	-
Less deferred costs	(2,299,727)	-	(212,718)	(2,087,009)	-
Governmental activities long-term liabilities	<u>\$ 165,834,960</u>	<u>\$ 115,556,059</u>	<u>\$ 13,371,635</u>	<u>\$ 268,019,384</u>	<u>\$ 14,709,118</u>
Business-Type Activities:					
Revenue bonds	\$ 6,057,419	\$ -	\$ 195,691	\$ 5,861,728	\$ 185,968
Lease payable	-	47,978	19,751	28,227	28,227
OPEB (Note 12)	63,535	31,076	-	94,611	-
Compensated absences	113,815	127,162	113,815	127,162	89,013
Business-type activities long-term liabilities	<u>\$ 6,234,769</u>	<u>\$ 206,216</u>	<u>\$ 329,257</u>	<u>\$ 6,111,728</u>	<u>\$ 303,208</u>
Component Unit – School Board					
OPEB (Note 12)	\$ 3,875,915	\$ 1,575,598	\$ 307,000	\$ 5,144,513	\$ -
Compensated absences	3,729,104	2,563,669	2,591,000	3,701,773	2,591,000
Component unit – school board long-term liabilities	<u>\$ 7,605,019</u>	<u>\$ 4,139,267</u>	<u>\$ 2,898,000</u>	<u>\$ 8,846,286</u>	<u>\$ 2,591,000</u>

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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
2013	\$ 3,995,249	\$ 6,633,815	\$ 4,709,351	\$ 3,553,405	\$ 3,989,879	\$ 1,598,133	\$ 250,000	\$ 75,000
2014	4,389,849	6,032,866	4,750,081	3,372,236	4,105,751	1,464,855	250,000	67,500
2015	4,715,329	5,873,589	4,792,533	3,179,985	4,222,362	1,317,212	250,000	60,000
2016	5,161,626	5,697,383	4,836,777	2,985,941	4,164,763	1,154,973	250,000	52,500
2017	5,363,813	5,575,370	4,882,889	2,752,577	4,323,022	990,729	250,000	45,000
2018-2022	35,679,882	25,264,351	25,177,275	10,401,973	17,985,000	2,235,448	1,250,000	112,500
2023-2027	42,211,470	18,157,735	20,935,653	4,774,292	1,220,000	38,125	-	-
2028-2032	31,060,000	6,107,750	7,490,000	561,750	-	-	-	-
	<u>\$132,577,218</u>	<u>\$ 79,342,859</u>	<u>\$ 77,574,559</u>	<u>\$ 31,582,159</u>	<u>\$ 40,010,777</u>	<u>\$ 8,799,475</u>	<u>\$ 2,500,000</u>	<u>\$ 412,500</u>

Year Ended June 30	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2013	\$ 185,968	\$ 244,065
2014	193,931	234,677
2015	202,235	226,373
2016	210,894	217,714
2017	219,924	208,684
2018-2022	1,249,198	893,842
2023-2027	1,540,543	602,497
2028-2032	1,855,635	245,405
2033-2037	203,400	2,499
	<u>\$ 5,861,728</u>	<u>\$ 2,875,756</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 9. Long-Term Debt (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
General Obligation Bonds:						
School Construction Bonds	5.1 - 5.5%	04/29/93	2012	\$ 3,000,000	\$ 95,000	\$ -
School Construction Bonds	4.5 - 5.0	11/18/93	2014	3,000,000	30,000	-
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	975,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	1,410,218	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	1,855,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	6,932,590	-
Qualified School Construction Bonds	0.0	11/13/09	2027	8,249,998	7,279,410	-
Qualified School Construction Bonds	0.0	07/08/11	2027	13,370,000	12,885,000	-
Qualified School Construction Bonds	0.0	12/15/11	2031	15,000,000	15,000,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	86,115,000	-
					<u>\$ 132,577,218</u>	<u>\$ -</u>
Revenue Bonds:						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 3,479,415	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	3,479,415	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	6,950,729	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	63,665,000	-
Water and Sewer Refunding Bond	4.2	06/20/08	2033	6,500,479	-	5,861,728
					<u>\$ 77,574,559</u>	<u>\$ 5,861,728</u>
Refunding Bonds:						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 700,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	915,777	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	9,530,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	6,630,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	10,470,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	11,765,000	-
					40,010,777	-
Less deferred costs					(2,087,009)	-
Plus bond premium					13,526,729	-
Less bond discount					(650,862)	-
					<u>\$ 50,799,635</u>	<u>\$ -</u>
Other Long-Term Debt:						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	\$ 2,500,000	\$ -
Lease Payable	3.0%	08/01/11	2013	47,978	-	28,227
					<u>\$ 2,500,000</u>	<u>\$ 28,227</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 10. Landfill Post-Closure Care

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations required the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas were detected at the landfills in prior years; therefore, the Department of Environmental Quality required an additional ten-year monitoring period. The \$1,048,523 reported post-closure care liability represents what it would cost to perform all post-closure care in 2012. Actual costs may change due to inflation, deflation, changes in technology, or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plan

Plan Description

The County contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). In addition, professional and non-professional employees of the School Board are covered by the VRS. All full-time, salaried permanent (professional) employees of public school divisions and participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

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

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. All or part of the 5% member contribution may be assumed by the employer. 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 2012 was 15.51% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2012 were 11.33% for professional employees and 13.78% for non-professional employees. The County and School Board's contribution rates include the employee's share of 5% paid by employer.

For the three years ended June 30, 2012, 2011, and 2010, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$5,072,818, \$4,038,498, and \$5,219,339 and represented 11.3%, 8.93%, and 13.81% of annual covered payroll, respectively, and 100% of the required contributions for 2012, 2011, and 2010. The School Board's contribution rate for non-professional employees for the fiscal year ended 2012 was 13.78% of the annual covered payroll.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For fiscal year 2012, the County's annual pension costs of \$2,226,980 and the School Board's annual pension cost of \$722,492 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, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return, (b) projected salary increases of 3% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the County and School Board assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's and School Board's actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Three-Year Trend Information for the County of Montgomery

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 2,226,980	100%	\$ -
June 30, 2011	\$ 2,198,841	100%	\$ -
June 30, 2010	\$ 2,303,590	100%	\$ -

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 722,429	100%	\$ -
June 30, 2011	\$ 712,576	100%	\$ -
June 30, 2010	\$ 645,356	100%	\$ -

Analysis of Funding Progress for Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Montgomery						
June 30, 2011	\$ 51,597,398	\$ 68,825,714	\$ 17,228,316	74.97%	\$ 14,718,604	117.05%
June 30, 2010	50,224,046	64,774,003	14,549,957	77.54%	15,362,771	94.71%
June 30, 2009	49,227,067	58,942,366	9,715,299	83.52%	15,689,708	61.92%
County of Montgomery School Board						
June 30, 2011	\$ 15,375,082	\$ 20,732,240	\$ 5,357,158	74.16%	\$ 5,137,987	104.27%
June 30, 2010	15,141,699	20,065,258	4,923,559	75.46%	5,231,566	94.11%
June 30, 2009	15,263,072	18,309,606	3,046,534	83.36%	5,289,613	57.59%

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 12. Other Post-Employment Benefits

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

Plan Description and Benefits Provided

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

Membership

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

Funding Policy

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

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

The components of the County's annual OPEB cost (expense) for the fiscal year ended June 30, 2012 of \$424,015 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$66,506 for retirees, resulted in a net OPEB obligation of \$1,224,408 for the year ended June 30, 2012.

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 414,362	\$ 32,770	\$ 447,132
Interest on net OPEB obligation	32,134	2,542	34,676
Adjustment to annual required contribution	<u>(53,557)</u>	<u>(4,236)</u>	<u>(57,793)</u>
Annual OPEB cost	392,939	31,076	424,015
Less contributions made	<u>(66,506)</u>	<u>-</u>	<u>(66,506)</u>
Increase in net OPEB obligation	326,433	31,076	357,509
Net OPEB obligation – beginning of year	<u>803,364</u>	<u>63,535</u>	<u>866,899</u>
Net OPEB obligation – end of year	<u><u>\$ 1,129,797</u></u>	<u><u>\$ 94,611</u></u>	<u><u>\$ 1,224,408</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 12. Other Post-Employment Benefits (Continued)

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

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2012 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$307,000 for retirees, resulted in a net OPEB obligation of \$5,144,513 for the current year.

Annual required contribution	\$ 1,678,956
Interest on net OPEB obligation	155,037
Adjustment to annual required contribution	<u>(258,395)</u>
Annual OPEB cost	1,575,598
Less contributions made	<u>(307,000)</u>
Increase in net OPEB obligation	1,268,598
Net OPEB obligation-beginning of year	<u>3,875,915</u>
Net OPEB obligation-end of year	<u><u>\$ 5,144,513</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
County:			
June 30, 2012	\$ 424,015	15.68%	\$ 1,224,408
June 30, 2011	361,680	13.37%	866,899
June 30, 2010	342,067	23.09%	553,567
School Board:			
June 30, 2012	\$ 1,575,598	19.48%	\$ 5,144,513
June 30, 2011	1,652,535	22.61%	3,875,915
June 30, 2010	1,622,000	21.02%	2,597,000

Funded Status and Funding Progress

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

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 12. Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4.0% discount rate, a 2.5% inflation rate, and an initial annual healthcare cost trend of 11.0% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5.0%. The unfunded accrued liability is being amortized over 30 years. The remaining closed amortization period at June 30, 2011 is 27 years.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 13. Risk Management

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

Note 14. Commitments and Contingencies

Litigation

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

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

Special Purpose Grants

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

Incentive Liability

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

The EDA enters into performance agreement incentives with various companies. At year end, incentives not yet earned by recipient companies were \$1,599,500.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 15. Transactions with Component Units

Economic Development Authority

Advances to Component Unit:

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

Advances consist of the following:

Construction of the Falling Branch Corporate Park	\$ 3,525,943
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	<u>2,099,073</u>
	<u><u>\$ 5,626,109</u></u>

Note receivable from Component Unit:

On June 17, 1997, the EDA signed an interest-free promissory note with the County in the amount of \$1,274,620. The EDA agreed to remit to the County all funds received pursuant to property sales or payments received on property leases from the Falling Branch Industrial Park, less reasonable costs in repayment of the note upon demand by the County. The balance due at June 30 was \$516,627.

Other:

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

Note 16. Net Assets/Fund Balance

Deficit Unrestricted Net Assets:

At June 30, the Wastewater Fund and the Component Unit – Economic Development Authority had deficits in unrestricted net assets of (\$178,474), and (\$2,247,540), respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 16. Net Assets/Fund Balance (Continued)

Fund Balance:

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

	General Fund	Capital Improvements Fund
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	\$ 6,142,736	\$ -
Restricted:		
General government administration	-	656,290
Judicial administration	-	3,948,917
Public safety	218,640	8,825,645
Public works	-	54,725
Education	-	12,245,499
Parks, recreation, and culture	-	37,609
Community development	-	53,545
Debt service reserves	-	9,735,209
Committed:		
General government administration	85,911	26,361
Judicial administration	208,967	3,028,528
Public safety	-	979,257
Public works	204,460	-
Education	-	2,195,523
Parks, recreation, and culture	45,931	-
Community development	185,940	11,725
Economic stabilization	500,000	-
Assigned:		
General government administration	352,971	-
Judicial administration	28,000	
Public safety	103,500	-
Public works	60,000	
Education	1,815,878	92,457,470
Parks, recreation, and culture	263,499	-
Unassigned:	29,937,993	-
Total reserved fund balance	<u>\$ 40,154,426</u>	<u>\$ 134,256,303</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 17. Concentrations

Two Public Service Authority customers provide approximately seven and nine percent of the Authorities operating revenue.

Note 18. New Accounting Standards

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

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

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

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain items as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 18. New Accounting Standards (Continued)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of **GASB Statements No. 25 and No. 50** as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of **GASB Statements No. 27 and No. 50** as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

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

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 19. Subsequent Events

Economic Development Authority

On August 21, 2012, the EDA entered into a post-closing performance and real estate sales agreements for the sale of Lots 5A and 5B in the Falling Branch Corporate Park to Aeroprobe Corporation and Trio Properties, LLC. In accordance with the agreements, the Authority transferred the property to Trio Properties, LLC at no cost. The value of the 11.8 acres of land transferred was \$401,495. Terms of the agreement include that Trio Properties construct a 20,000 square foot office and manufacturing facility on Lots 5A and 5B and Trio Properties and Aeroprobe Corporation initially invest \$2,200,000 in new facilities by December 31, 2013. An overall investment of \$3,000,000 will occur by December 31, 2017. Aeroprobe will also create 40 new full-time jobs within three years of receipt the Certificate of Occupancy from the Town of Christiansburg. The total incentive grant liability is not to exceed \$150,000 over a five year period.

In October 2012, the EDA entered a loan agreement with a local bank to borrow up to \$400,000 to refinance an existing bank loan and to pay for improvements at the Falling Branch Corporate Park. This transaction will take place in 2013.

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OTHER SUPPLEMENTARY INFORMATION

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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2012

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,583,749	\$ 1,583,749
Due from primary government	5,335,315	-	5,335,315
Due from other governmental units	2,545,898	-	2,545,898
Inventories	-	100,915	100,915
Cash and cash equivalents, restricted	33,141	-	33,141
	<u>7,914,354</u>	<u>1,684,664</u>	<u>9,599,018</u>
Total assets	<u>\$ 7,914,354</u>	<u>\$ 1,684,664</u>	<u>\$ 9,599,018</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 430,421	\$ 2,346	\$ 432,767
Accrued payroll and related liabilities	7,047,800	194,967	7,242,767
Amounts held for others	33,141	-	33,141
Deferred revenue	402,992	-	402,992
	<u>7,914,354</u>	<u>197,313</u>	<u>8,111,667</u>
Total liabilities	<u>7,914,354</u>	<u>197,313</u>	<u>8,111,667</u>
Fund Balances:			
Nonspendable	-	100,915	100,915
Assigned	521,685	1,386,436	1,908,121
Unassigned	(521,685)	-	(521,685)
	<u>-</u>	<u>1,487,351</u>	<u>1,487,351</u>
Total fund balances	<u>-</u>	<u>1,487,351</u>	<u>1,487,351</u>
Total liabilities and fund balances	<u>\$ 7,914,354</u>	<u>\$ 1,684,664</u>	<u>\$ 9,599,018</u>
Adjustments for the Statement of Net Assets (Exhibit 1)			
Total fund balances			\$ 1,487,351
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			7,181,399
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds.			1,537,001
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			402,992
Long-term liabilities, including compensated absences and other post-employment benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			(8,846,286)
Net assets of governmental activities			<u>\$ 1,762,457</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, 2012

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	\$ 44,744	\$ 12,016	\$ 56,760
Charges for services	95,896	2,061,408	2,157,304
Recovered costs	719,920	41,328	761,248
Intergovernmental	92,865,288	2,040,417	94,905,705
Total revenues	<u>93,725,848</u>	<u>4,155,169</u>	<u>97,881,017</u>
EXPENDITURES			
Instruction	72,582,684	-	72,582,684
Administration, attendance, and health	3,558,410	-	3,558,410
Pupil transportation	4,453,639	-	4,453,639
Operations and maintenance	13,023,920	-	13,023,920
Non-instructional	107,195	-	107,195
School nutrition	-	4,120,744	4,120,744
Total expenditures	<u>93,725,848</u>	<u>4,120,744</u>	<u>97,846,592</u>
Excess of revenues over expenditures	<u>-</u>	<u>34,425</u>	<u>34,425</u>
Net change in fund balances	<u>-</u>	<u>34,425</u>	<u>34,425</u>
FUND BALANCE AT JULY 1	<u>-</u>	<u>1,452,926</u>	<u>1,452,926</u>
FUND BALANCE AT JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 1,487,351</u></u>	<u><u>\$ 1,487,351</u></u>
Reconciliation to the Statement of Activities (Exhibit 2)			
Net change in fund balances – total governmental funds			\$ 34,425
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which depreciation (\$1,528,890) exceeded capital outlay (\$423,782).			(1,105,108)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in these revenues.			(159,467)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			(1,180,663)
Change in net assets of governmental activities			<u><u>\$ (2,410,813)</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – CASH BASIS
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
For the Year Ended June 30, 2012**

	School Operating				School Cafeteria			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)		Budgeted Amounts		Variance with Final Budget Positive (Negative)	
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ 1,500	\$ 1,500	\$ 44,744	\$ 43,244	\$ -	\$ -	\$ 12,016	\$ 12,016
Charges for services	17,000	17,000	95,896	78,896	2,241,614	2,241,614	2,061,408	(180,206)
Recovered costs	401,500	709,208	709,406	198	-	-	41,328	41,328
Intergovernmental	90,860,803	93,713,715	92,679,637	(1,034,078)	1,639,196	1,839,196	2,040,417	201,221
Total revenues	91,280,803	94,441,423	93,529,683	(911,740)	3,880,810	4,080,810	4,155,169	74,359
EXPENDITURES								
Instruction	70,462,532	72,556,360	72,386,519	169,841	-	-	-	-
Administration, attendance, and health	3,636,629	3,653,730	3,558,410	95,320	-	-	-	-
Pupil transportation	4,381,829	4,381,829	4,453,639	(71,810)	-	-	-	-
Operations and maintenance	12,789,089	13,838,780	13,023,920	814,860	-	-	-	-
Non-instructional	10,724	10,724	107,195	(96,471)	-	-	-	-
School nutrition	-	-	-	-	3,880,810	4,080,810	4,110,418	(29,608)
Total expenditures	91,280,803	94,441,423	93,529,683	911,740	3,880,810	4,080,810	4,110,418	(29,608)
Excess of revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,751	\$ 44,751

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

<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</u> <u>Totals</u>
<u>Department of Agriculture:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Social Services:</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 596,755	
<u>Department of Agriculture and Consumer Services:</u>			
Child Nutrition Cluster - National School Lunch Program	10.555	222,970	
<u>Department of Education:</u>			
Child Nutrition Cluster - School Breakfast Program	10.553	434,251	
Child Nutrition Cluster - National School Lunch Program	10.555	1,528,267	
Child Nutrition Discretionary Grants Limited Availability	10.579	13,905	
Schools and Roads - Grants to States	10.665	31,455	
Total Department of Agriculture			<u>2,827,603</u>
<u>Department Of Homeland Security:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Emergency Management:</u>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	20,972	
Total Department of Homeland Security			<u>20,972</u>
<u>Department Of Justice:</u>			
<u>Direct Payments:</u>			
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	13,027	
<u>Pass-through Payments:</u>			
<u>Department of Criminal Justice Services:</u>			
Crime Victim Assistance	16.575	102,659	
Total Department of Justice			<u>115,686</u>
<u>Department of Transportation:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Motor Vehicles:</u>			
State and Community Highway Safety	20.600	16,185	
State and Community Highway Safety	20.607	32,833	
Total Department of Transportation			<u>49,018</u>

COUNTY OF MONTGOMERY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

<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</u> <u>Totals</u>
<u>Department of Education:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Education:</u>			
Adult Education Basic Grants to States	84.002	\$ 83,413	
Title I: State Agency Program for Neglected and Delinquent Children	84.013	40,055	
Career and Technical Education - Basic Grants to States	84.048	151,752	
Safe and Drug Free Schools and Communities-State Grants	84.186	12,161	
English Language Acquisition Grants	84.365	39,310	
Improving Teacher Quality State Grants	84.367	456,008	
Statewide Data Systems	84.384	492,960	
Education Jobs Fund, Recovery Act	84.410	1,198,024	
Learn & Serve America: School and Community Based Programs	94.004	17,055	
Title I, Part A Cluster			
Title I: Grants to Local Educational Agencies	84.010	1,838,994	
Title I Grants to Local Educational Agencies, Recovery Act	84.389	62,823	
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	2,179,607	
Special Education - Preschool Grants	84.173	47,020	
Special Education Grants to States, Recovery Act	84.391	471,200	
Education Technology State Grants Cluster			
Education Technology Formula Grant	84.318	18,599	
Educational Technology Grant, Recovery Act	84.386	6,261	
Total Department of Education			<u>7,115,242</u>
<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 Supportive Services Senior Centers	93.044	42,475	
<u>Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	31,394	
Temporary Assistance to Needy Families	93.558	558,133	
Refugee and Entrant Assistance - State Administered Programs	93.566	861	
Low Income Home Energy Assistance	93.568	43,017	
Chafee Education and Training Vouchers Program	93.599	6,773	
Child Welfare Services - State Grants	93.645	1,782	
Foster Care - Title IV-E	93.658	492,072	
Adoption Assistance	93.659	215,540	
Social Service Block Grant	93.667	369,509	
Chafee Foster Care Independence Program	93.674	7,791	
Children's Health Insurance Program	93.767	16,496	
Medical Assistance Program	93.778	360,270	
CCDF Cluster			
Child Care and Development Block Grant	93.575	117,064	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	141,011	
Total Department of Health and Human Services			<u>2,404,188</u>
Total Expenditures of Federal Awards			<u>\$ 12,532,709</u>

Note 1. Basis of Accounting
This schedule was prepared on the budgetary (cash) basis.

Note 2. Nonmonetary Assistance
Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities or food stamps disbursed. At June 30, 2012, the School Board had food commodities totaling \$64,592 in inventory.

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STATISTICAL SECTION

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

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

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

TABLE 1

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities										
Invested in capital assets, net of related debt	\$ 71,071,547	\$ 55,233,037	\$ 47,134,545	\$ 36,330,270	\$ 28,639,210	\$ 22,500,252	\$ 13,946,058	\$ 13,971,101	\$ 9,826,302	\$ 3,945,490
Restricted	9,734,620	11,146,947	11,146,947	11,262,042	5,112,996	4,969,141	4,775,145	4,625,573	6,316,741	25,830,917
Unrestricted	19,612,113	24,369,885	22,316,253	25,596,419	31,173,341	28,620,972	25,197,204	17,799,039	14,700,359	(1,550,735)
Total governmental activities net assets	<u>\$ 100,418,280</u>	<u>\$ 90,749,869</u>	<u>\$ 80,597,745</u>	<u>\$ 73,188,731</u>	<u>\$ 64,925,547</u>	<u>\$ 56,090,365</u>	<u>\$ 43,918,407</u>	<u>\$ 36,395,713</u>	<u>\$ 30,843,402</u>	<u>\$ 28,225,672</u>
Business-type activities										
Invested in capital assets, net of related debt	14,241,772	14,203,773	14,245,583	14,575,475	\$ 15,138,853	\$ 14,983,849	\$ 15,153,224	\$ 15,746,661	\$ 16,082,711	\$ 14,800,614
Restricted	-	-	-	-	43,160	1,076,240	1,066,910	1,034,403	1,021,135	1,433,982
Unrestricted	1,019,032	810,324	698,850	954,433	917,729	(429,075)	(553,681)	(969,041)	(1,160,705)	(1,186,574)
Total business-type activities net assets	<u>\$ 15,260,804</u>	<u>\$ 15,014,097</u>	<u>\$ 14,944,433</u>	<u>\$ 15,529,908</u>	<u>\$ 16,099,742</u>	<u>\$ 15,631,014</u>	<u>\$ 15,666,453</u>	<u>\$ 15,812,023</u>	<u>\$ 15,943,141</u>	<u>\$ 15,048,022</u>
Primary government										
Invested in capital assets, net of related debt	\$ 85,313,319	\$ 69,436,810	\$ 61,380,128	\$ 50,905,745	\$ 43,778,063	\$ 37,484,101	\$ 29,099,282	\$ 29,717,762	\$ 25,909,013	\$ 18,746,104
Restricted	9,734,620	11,146,947	11,146,947	11,262,042	5,156,156	6,045,381	5,842,055	5,659,976	7,337,876	27,264,899
Unrestricted	20,631,145	25,180,209	23,015,103	26,550,852	32,091,070	28,191,897	24,643,523	16,829,998	13,539,654	(2,737,309)
Total primary government net assets	<u>\$ 115,679,084</u>	<u>\$ 105,763,966</u>	<u>\$ 95,542,178</u>	<u>\$ 88,718,639</u>	<u>\$ 81,025,289</u>	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>	<u>\$ 46,786,543</u>	<u>\$ 43,273,694</u>

TABLE 2

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses										
Governmental activities										
General government	\$ 6,825,896	\$ 7,725,594	\$ 9,074,011	\$ 7,381,364	\$ 7,066,410	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606	\$ 5,950,901	\$ 5,188,610
Judicial administration	2,207,787	2,784,098	3,077,193	2,658,492	2,438,896	2,249,997	1,825,387	1,805,807	1,780,677	1,671,002
Public safety	15,097,206	13,329,812	13,830,467	11,957,163	11,202,874	9,626,003	9,066,413	8,798,860	7,490,225	7,125,597
Public works	4,674,525	5,114,845	5,349,346	5,153,812	4,567,363	4,526,234	4,184,143	4,028,193	3,569,502	3,725,613
Parks, recreational, and cultural	2,940,666	2,872,328	2,881,815	3,022,711	2,779,839	2,838,989	3,063,924	2,432,516	2,620,981	2,144,706
Health and welfare	8,991,736	9,590,573	9,956,048	10,490,545	9,808,845	9,068,033	8,262,381	8,337,208	8,502,561	7,688,285
Community development	1,796,052	1,670,510	1,734,477	1,264,454	1,259,379	1,483,596	1,344,053	1,582,047	2,001,277	1,232,340
Education	40,874,425	41,033,802	34,797,557	38,634,043	35,899,972	30,503,869	31,682,477	30,528,063	32,290,984	29,093,324
Interest on long-term debt	9,450,462	7,303,475	7,501,270	7,389,389	4,696,145	4,960,510	5,133,426	5,641,696	5,700,126	5,158,737
Total governmental activities	92,858,755	91,425,037	88,202,184	87,951,973	79,719,723	71,815,215	71,155,281	69,448,996	69,907,234	63,028,214
Business-type activities										
Water and Sewerage	3,826,203	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total business-type activities expense	3,826,203	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981	3,532,577	3,020,119
Total primary government expenses	\$ 96,684,958	\$ 95,204,034	\$ 92,176,703	\$ 92,022,235	\$ 83,450,301	\$ 75,471,408	\$ 74,481,619	\$ 72,898,977	\$ 73,439,811	\$ 66,048,333
Program Revenues										
Governmental activities										
Charges for services										
Public Safety	805,119	723,997	827,458	917,866	\$ 978,375	\$ 616,714	\$ 518,177	\$ 516,040	\$ 355,750	\$ 149,642
Public Works	172,662	305,159	296,302	123,341	105,007	125,741	127,070	151,767	-	58,671
Other Activities	1,882,013	1,875,981	1,899,073	1,565,954	1,757,781	1,306,659	1,430,050	1,641,879	1,696,990	906,965
Operating grants and contributions	13,159,616	13,263,890	15,556,440	15,084,570	15,402,999	14,486,609	13,466,588	12,880,033	12,717,425	11,020,099
Capital grants and contributions	-	-	-	-	-	24,121	81,630	150,000	465,343	-
Total governmental activities program revenues	16,019,410	16,169,027	18,579,273	17,691,731	18,244,162	16,559,844	15,623,515	15,339,719	15,235,508	12,135,377
Business-type activities										
Charges for services										
Water and Sewerage	3,512,095	3,276,933	3,160,277	3,364,484	3,200,340	3,124,628	3,088,605	3,141,551	2,829,152	2,587,336
Capital grants and contributions	551,216	569,631	226,414	16,714	691,214	383,166	46,677	170,954	1,999,566	15,283
Total business-type activities program revenues	4,063,311	3,846,564	3,386,691	3,381,198	3,891,554	3,507,794	3,135,282	3,312,505	4,828,718	2,602,619
Total primary government program revenues	\$ 20,082,721	\$ 20,015,591	\$ 21,965,964	\$ 21,072,929	\$ 22,135,716	\$ 20,067,638	\$ 18,758,797	\$ 18,652,224	\$ 20,064,226	\$ 14,737,996
Net (expense) revenue										
Governmental activities	\$ (76,839,345)	\$ (75,256,010)	\$ (69,622,911)	\$ (70,260,242)	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)	\$ (54,671,726)	\$ (50,892,837)
Business-type activities	237,108	67,567	(587,828)	(689,064)	160,976	(148,399)	(191,056)	(137,476)	1,296,141	(417,500)
Total primary government net expense	\$ (76,602,237)	\$ (75,188,443)	\$ (70,210,739)	\$ (70,949,306)	\$ (61,314,585)	\$ (55,403,770)	\$ (55,722,822)	\$ (54,246,753)	\$ (53,375,585)	\$ (51,310,337)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	69,685,628	63,793,078	60,083,722	59,872,099	\$ 54,666,779	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302	\$ 39,675,565	\$ 36,661,763
Sales taxes	7,742,363	7,218,180	6,889,322	7,086,741	7,382,254	7,183,512	6,774,857	6,555,523	6,143,020	-
Other taxes	1,554,693	1,509,326	1,529,808	1,526,049	1,938,646	1,869,826	1,844,216	1,646,053	1,215,009	8,641,321
Utility taxes	1,807,321	1,877,600	1,856,684	1,877,884	1,786,988	1,685,416	1,874,743	1,838,429	1,835,950	-
Intergovernmental revenue not restricted	5,119,304	5,010,686	5,117,860	5,181,174	5,216,412	5,405,234	5,581,348	5,367,339	4,463,573	6,069,304
Investment earnings	598,447	749,264	1,554,529	2,733,779	2,047,264	2,974,039	1,932,190	1,658,701	861,541	591,555
Gain on sale of property	-	-	-	-	-	-	-	729,859	(47,313)	-
Other	-	-	-	-	-	-	-	-	2,376	89,294
Transfers	-	5,250,000	-	(114,000)	-	(93,413)	(109,381)	-	-	-
Total governmental activities	86,507,756	85,408,134	77,031,925	78,163,726	73,038,343	67,427,329	62,475,949	57,599,206	54,149,721	52,053,237
Business-type activities:										
Investment earnings	2,292	2,097	2,353	5,230	10,658	19,547	11,411	6,358	922	3,153
Gain on sale of property	7,307	-	-	-	-	-	-	-	(15,763)	-
Transfers	-	-	-	114,000	-	93,413	109,381	-	-	-
Total business-type activities	9,599	2,097	2,353	119,230	10,658	112,960	120,792	6,358	(14,841)	3,153
Total primary government	\$ 86,517,355	\$ 85,410,231	\$ 77,034,278	\$ 78,282,956	\$ 73,049,001	\$ 67,540,289	\$ 62,596,741	\$ 57,605,564	\$ 54,134,880	\$ 52,056,390
Changes in Net Assets										
Governmental activities	\$ 9,668,411	\$ 10,152,124	\$ 7,409,014	\$ 7,903,484	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929	\$ (522,005)	\$ 1,160,400
Business-type activities	246,707	69,664	(585,475)	(569,834)	171,624	(35,439)	(70,264)	(131,118)	1,281,300	(414,347)
Total primary government	\$ 9,915,118	\$ 10,221,788	\$ 6,823,539	\$ 7,333,650	\$ 11,734,416	\$ 12,136,519	\$ 6,873,919	\$ 3,358,811	\$ 759,295	\$ 746,053

TABLE 3

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

Pre-GASB 54 Implementation

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

Post-GASB 54 Implementation

	2012	2011
General Fund		
Nonspendable	\$ 6,142,736	\$ 6,390,102
Restricted	218,640	163,400
Committed	1,231,209	1,637,026
Assigned	2,623,848	2,153,987
Unassigned	29,937,993	23,049,803
Total general fund	<u>\$ 40,154,426</u>	<u>\$ 33,394,318</u>
All other Governmental Funds		
Nonspendable	\$ -	\$ -
Restricted	35,557,439	39,588,913
Committed	6,241,394	18,336,052
Assigned	92,457,470	4,649,012
Unassigned	-	-
Total general fund	<u>\$ 134,256,303</u>	<u>\$ 62,573,977</u>

TABLE 4

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues										
Taxes	\$ 80,674,800	\$ 73,694,467	\$ 70,761,455	\$ 69,492,208	\$ 65,511,183	\$ 59,334,527	\$ 54,989,515	\$ 50,738,457	\$ 48,842,024	\$ 46,888,359
Permits, privilege fees, and licenses	772,968	666,849	768,341	678,798	729,667	527,087	451,339	581,026	432,106	354,475
Fines and forfeitures	130,919	116,968	109,471	86,587	95,562	120,036	191,713	181,336	137,311	172,252
Revenue from use of money and property	598,447	749,264	1,554,529	2,733,781	2,047,264	3,006,656	1,932,190	1,658,701	1,073,542	591,555
Charges for services	698,281	733,701	767,029	770,575	862,222	863,610	1,099,916	774,474	791,975	588,551
Other	1,293,861	1,393,796	1,377,993	1,642,545	2,205,909	1,638,273	1,443,439	1,364,845	1,097,902	1,280,981
Intergovernmental	18,278,921	18,274,576	20,674,300	19,694,399	19,567,213	18,816,073	18,018,456	17,655,372	17,030,162	17,089,403
Total revenues	102,448,197	95,629,621	96,013,118	95,098,893	91,019,020	84,306,262	78,126,568	72,954,211	69,405,022	66,965,576
Expenditures										
General government	6,696,527	7,659,535	7,699,271	7,252,162	7,015,626	6,191,149	6,294,484	6,046,564	5,177,651	5,358,391
Judicial administration	2,183,562	2,760,189	3,035,865	2,660,668	2,438,012	2,248,802	1,821,661	1,801,538	1,627,346	1,626,738
Public safety	14,258,983	12,729,447	13,445,144	11,813,809	10,535,822	9,584,764	8,864,490	8,931,893	7,048,833	6,427,463
Public works	3,718,932	4,286,792	3,961,336	4,142,728	3,701,378	3,807,202	3,326,950	3,252,988	3,450,922	2,998,968
Parks, recreational, and cultural	2,926,645	2,807,902	2,821,921	3,163,574	2,764,351	2,802,108	2,856,007	2,513,263	2,195,196	2,197,940
Health and welfare	8,921,480	9,609,463	9,938,623	10,459,213	9,792,247	9,063,818	8,241,369	8,338,220	7,813,659	7,679,219
Education	37,540,554	37,065,839	32,813,321	36,822,962	34,291,547	28,899,311	29,917,075	28,731,743	27,894,248	28,723,773
Community development	1,564,984	1,365,242	1,436,161	1,268,374	1,255,640	1,509,152	1,200,930	1,590,531	1,804,638	1,205,104
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Capital projects	40,969,360	30,369,502	27,406,729	9,393,891	9,038,054	2,535,393	10,295,741	3,358,473	4,135,721	13,629,018
Debt service										
Principal	11,386,500	11,218,254	9,993,084	8,205,430	5,951,191	6,058,445	5,943,154	16,442,154	4,951,763	4,325,425
Interest and other costs	7,214,788	7,878,024	7,902,498	6,864,369	4,675,570	4,935,156	5,040,472	4,276,687	5,340,581	5,324,916
Total expenditures	137,382,315	127,750,189	120,453,953	102,047,180	91,459,438	77,635,300	83,802,333	85,284,054	71,440,558	79,496,955
Excess of revenues over (under) expenditures	(34,934,118)	(32,120,568)	(24,440,835)	(6,948,287)	(440,418)	6,670,962	(5,675,765)	(12,329,843)	(2,035,536)	(12,531,379)
Other Financing Sources (Uses)										
Proceeds from borrowing	101,115,000	26,075,000	21,598,145	77,000,000	-	-	-	18,779,866	20,000,000	-
Bond premium	12,261,552	181,804	-	775,666	-	-	-	-	-	-
Premium on called bonds	-	(1,026,966)	-	-	-	-	-	-	-	-
Payments to bond escrow agents	-	(12,680,005)	(14,120,000)	-	-	-	-	(19,562,999)	-	-
Proceeds from sale of capital assets/real estate	-	-	-	-	-	-	-	8,940,593	-	-
Contributions from component unit	-	5,250,000	-	-	-	-	-	-	-	-
Transfers in	2,812,359	5,091,622	4,109,521	5,522,084	4,460,375	3,390,967	-	719,056	8,348	2,038,905
Transfers out	(2,812,359)	(5,091,622)	(4,109,521)	(5,636,084)	(4,460,375)	(3,484,380)	-	(719,056)	(8,348)	(2,038,905)
Total other financing sources (uses)	113,376,552	17,799,833	7,478,145	77,661,666	-	(93,413)	-	8,157,460	20,000,000	-
Net change in fund balances	\$ 78,442,434	\$ (14,320,735)	\$ (16,962,690)	\$ 70,713,379	\$ (440,418)	\$ 6,577,549	\$ (5,675,765)	\$ (4,172,383)	\$ 17,964,464	\$ (12,531,379)
Debt service as a percentage of noncapital expenditures	19.11%	19.47%	19.02%	16.44%	12.95%	14.64%	14.94%	25.29%	15.29%	14.65%

TABLE 5

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

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Service	Total Assessed Value	Total Direct Tax Rate(1)
2012	\$ 7,187,287,200	\$ 597,697,604	\$ 121,643,809	\$ 31,231,378	\$ 229,863,391	\$ 8,167,723,382	\$ 1.07
2011	\$ 7,159,568,600	\$ 564,429,352	\$ 113,349,970	\$ 30,263,200	\$ 207,151,562	\$ 8,074,762,684	\$ 0.93
2010	\$ 6,932,701,500	\$ 555,498,413	\$ 114,428,458	\$ 29,055,945	\$ 196,055,790	\$ 7,827,740,106	\$ 0.91
2009	\$ 6,835,051,400	\$ 502,394,734	\$ 115,931,340	\$ 33,633,822	\$ 193,786,466	\$ 7,680,797,762	\$ 0.90
2008	\$ 6,669,686,500	\$ 529,368,631	\$ 118,621,114	\$ 32,342,481	\$ 181,116,686	\$ 7,531,135,412	\$ 0.91
2007	\$ 6,493,543,300	\$ 495,833,387	\$ 124,587,600	\$ 31,606,662	\$ 181,050,272	\$ 7,326,621,221	\$ 0.84
2006	\$ 4,841,218,900	\$ 487,862,951	\$ 122,587,600	\$ 33,021,661	\$ 140,490,906	\$ 5,625,182,018	\$ 0.97
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$ 5,459,000,654	\$ 1.00
2004	\$ 4,556,115,600	\$ 443,006,567	\$ 120,450,318	\$ 21,433,774	\$ 133,583,496	\$ 5,274,589,755	\$ 0.98
2003	\$ 4,448,367,800	\$ 442,692,427	\$ 123,656,471	\$ 20,185,299	\$ 162,853,761	\$ 5,197,755,758	\$ 0.99

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

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

Source: Assessor's Office

TABLE 6

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

Taxpayer	Fiscal Year 2012			Fiscal Year 2003		
	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Appalachian Power	\$ 95,843,584	1	1.17%	\$ -	-	0.00%
PR Financing (NRV Mall)	80,117,400	2	0.98%	-	-	0.00%
Foxridge	71,227,100	3	0.87%	47,193,000	1	0.91%
Jeannie Stosser	71,116,000	4	0.87%	44,550,300	2	0.86%
Roger Woody	59,963,800	5	0.73%	29,210,900	4	0.56%
Shelor Properties	59,306,200	6	0.73%	18,367,800	6	0.35%
Verizon	45,211,528	7	0.55%	-	-	0.00%
Norfolk and Western	42,806,710	8	0.52%	-	-	0.00%
Blacksburg Green	36,913,800	9	0.45%	-	-	0.00%
Maple Ridge	32,582,400	10	0.40%	5,323,200		0.10%
SHP - The Village at Bburg LLC	31,268,500	-	0.38%	27,682,700	5	0.53%
Crown American Financing	-	-	0.00%	35,151,400	3	0.68%
HCA Montgomery County	-	-	0.00%	17,153,900	7	0.33%
CSB LLC	-	-	0.00%	16,738,200	8	0.32%
Wal-Mart	-	-	0.00%	13,874,200	-	0.27%
Christiansburg Marketplace	-	-	0.00%	15,771,100	9	0.30%
Atlantic Financial (Rowe)	-	-	0.00%	13,118,100	-	0.25%
Windsor Hill 1 LP	-	-	0.00%	15,381,400	10	0.30%
	<u>\$ 626,357,022</u>		<u>7.67%</u>	<u>\$ 299,516,200</u>		<u>5.76%</u>

Source: Assessor's Office

TABLE 7

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year		Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$	73,613,538	\$ 72,812,497	98.91%	\$ -	\$ 72,812,497	98.91%
2011		70,260,817	66,804,327	95.08%	1,328,338	68,132,665	96.97%
2010		67,027,509	63,697,514	95.03%	989,321	64,686,835	96.51%
2009		65,440,819	62,288,701	95.18%	1,300,184	63,588,885	97.17%
2008		63,108,366	58,295,872	92.37%	2,746,494	61,042,366	96.73%
2007		56,102,315	52,198,510	93.04%	1,046,493	53,245,003	94.91%
2006		50,945,541	48,355,245	94.92%	1,084,286	49,439,531	97.04%
2005		45,073,389	42,428,890	94.13%	1,879,173	44,308,063	98.30%
2004		43,871,083	41,752,442	95.17%	1,400,344	43,152,786	98.36%
2003		42,351,459	35,183,970	83.08%	1,814,165	36,998,135	87.36%

TABLE 8

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

Fiscal Year	General Bonded Debt				Other Governmental Activities Debt		
	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds
2012	\$ 132,577,218	\$ 132,577,218	1.62%	1,395.61	\$ 77,574,559	\$ 2,500,000	\$ 40,010,777
2011	34,013,747	34,013,747	0.42%	360.35	82,244,830	2,750,000	43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453
2004	26,075,223	26,075,223	0.49%	304.57	90,975,000	4,544,972	4,078,005
2003	27,749,414	27,749,414	0.53%	327.23	63,685,000	4,839,154	5,641,347

Fiscal Year	Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable			
2012	\$ 5,861,728	\$ -	\$ 258,524,282	9.77%	2,721
2011	6,057,419	-	168,991,473	6.76%	1,790
2010	6,262,392	10,802	167,030,507	6.76%	1,828
2009	6,456,726	32,284	169,559,409	7.86%	1,873
2008	6,610,729	53,125	100,939,683	4.75%	1,136
2007	6,515,070	70,184	106,812,275	4.58%	1,208
2006	6,024,984	85,993	112,396,443	5.71%	1,279
2005	6,132,906	101,197	118,462,723	6.02%	1,411
2004	6,226,079	118,685	132,017,964	7.56%	1,542
2003	5,860,325	163,035	107,938,275	6.41%	1,273

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

TABLE 9

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

Fiscal Year	Gross Revenue		Less: Operating Expenses		Net Available Revenue	Debt Service		Coverage
						Principal	Interest	
2012	\$	4,072,910	\$	3,826,203	246,707	\$ 215,442	\$ 252,764	0.53
2011		3,857,490		2,685,634	1,171,856	204,973	258,159	2.53
2010		3,402,690		2,895,875	506,815	194,334	264,346	1.10
2009		3,387,714		2,985,765	401,949	154,003	277,225	0.93
2008		3,090,332		2,610,357	479,975	155,567	273,069	1.12
2007		2,941,527		2,612,350	329,177	129,223	285,304	0.79
2006		2,693,843		2,284,438	409,405	123,126	290,593	0.99
2005		2,683,885		2,434,942	248,943	110,661	293,368	0.62
2004		2,785,678		2,518,845	266,833	95,740	286,651	0.70
2003		2,347,509		2,093,744	253,765	76,660	217,772	0.86

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

TABLE 10

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

Fiscal Year Ended	Population	Total Personal Income	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2012	94,996	2,645,068,624	27,844	9,406	6.40%
2011	94,392	2,499,233,000	27,308	9,345	7.40%
2010	91,394	2,470,786,962	25,545	9,494	7.00%
2009	90,517	2,157,925,280	23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,637	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	3.60%
2004	85,614	1,745,840,688	20,392	9,311	2.60%
2003	84,800	1,683,195,200	19,849	9,170	2.60%

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

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

TABLE 11

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

Employer	Fiscal Year 2012		Fiscal Year 2003	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Polytechnic Institute and State University	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	2
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	3
Alliant Techsystems Operations LLC	1,000 to 4,999	4	1,000 and over	5
Moog Inc	500 to 999	5	-	
Carilion New River Valley Medical Center	500 to 999	6	-	7
Dish Network	500 to 999	7	500 to 999	4
HCA Virginia Health System	500 to 999	8	-	9
New River Valley Community Services	500 to 999	9		
Lexington Rowe Furniture Inc	500 to 999	10	-	6
Litton Systems, Inc.	-	-	500 to 999	8
Town of Blacksburg	-	-	500 to 999	10

Source: Economic Development Department

TABLE 12

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

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General government										
County Administration	13.50	13.50	13.50	13.50	13.50	14.00	14.00	13.00	14.00	14.00
Information management services	9.50	8.50	9.50	10.50	8.50	8.50	8.50	8.50	8.00	8.00
Finance	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	9.50	9.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	14.00	14.00	19.00	19.00	19.00	18.00	18.00	18.00	18.00	18.00
Treasurer	12.00	12.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Other	6.50	6.50	7.50	7.50	7.50	7.00	7.00	7.00	6.00	6.00
Public Safety										
Sheriff	130.50	121.50	124.50	135.50	129.00	126.00	122.00	122.00	112.00	112.50
Animal control	4.25	4.25	4.25	4.00	4.00	4.20	4.20	4.20	4.20	4.20
Inspections	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.00	4.00
Judicial	23.00	23.00	23.00	23.00	22.00	18.00	18.50	18.50	18.00	18.50
Refuse collection	19.40	22.40	23.00	23.00	24.20	24.20	23.50	23.50	23.50	23.50
Other public works										
Engineering	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	3.00	2.00
Building and grounds	6.00	8.00	9.00	9.00	9.00	9.00	8.00	8.00	8.00	9.00
Housekeeping	9.00	8.00	9.00	9.00	9.00	9.00	9.10	8.60	8.60	9.60
Other	3.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00
Parks, recreation and cultural	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00
Library	20.50	20.50	23.88	23.88	24.38	24.13	31.25	31.25	30.75	30.75
Water/Sewer	19.00	18.00	18.00	19.00	19.00	19.00	19.00	21.00	21.00	19.00
Health and Welfare	68.50	69.50	70.50	74.50	72.00	72.00	67.50	67.50	66.50	66.50
Community development	10.00	10.00	11.00	11.00	11.00	11.00	11.00	10.00	10.00	10.00
Total	<u>393.15</u>	<u>387.15</u>	<u>410.13</u>	<u>427.88</u>	<u>417.58</u>	<u>409.53</u>	<u>407.05</u>	<u>406.05</u>	<u>394.05</u>	<u>393.05</u>

Source: County Approved Budget

TABLE 13

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

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Government										
Fleet vehicles	238	239	233	220	217	224	218	208	200	203
Judicial Administration										
Sheriff										
Inmates Housed	42,511	41,691	40,716	68,835	77,416	63,619	77,948	60,052	51,417	49,130
Inmate Transports	3,318	3,317	2,857	3,160	3,064	3,511	3,319	3,290	2,409	2,459
Courts Worked	927	934	983	983	1,012	912	915	846	843	789
Public safety										
Sheriff										
Physical arrests	1,608	1,995	2,141	1,868	3,739	3,767	3,311	3,233	3,242	2,686
Traffic violations	2,435	2,335	2,774	2,763	3,451	4,268	5,029	6,171	4,824	4,208
Public works										
Refuse collection										
Refuse collected (pounds per day)	71,334	74,351	71,212	69,484	76,671	77,089	77,293	78,094	76,551	69,272
Recyclables collected (pounds per day)	6,861	5,892	4,838	5,252	5,791	6,231	6,402	6,312	6,132	6,576
Parks, recreation and cultural										
Parks and recreation										
Total programs	244	241	263	247	235	199	154	160	141	113
Total registrants	2,991	2,875	3,104	3,125	3,375	3,328	2,909	3,982	2,748	2,362
Library										
Volumes in collection	248,649	244,999	242,243	243,427	227,327	226,093	212,004	201,235	198,310	194,091
Total volumes borrowed	768,931	785,879	871,296	892,655	783,708	781,608	717,708	645,560	610,238	591,060
Water										
Number of customer accounts	2,640	2,616	2,640	2,642	2,615	2,554	2,534	2,532	2,500	2,300
Miles of distribution lines	94	92	92	92	92	88	88	87	86	85
Average daily consumption	697,490	758,384	739,956	829,736	840,183	802,445	879,298	870,444	803,000	730,000
Sewer										
Number of customer accounts	1,408	1,388	1,372	1,356	1,337	1,247	1,225	1,211	1,173	1,139
Waste/Water treated (million gallons per year)	167	175	222	191	165	196	175	191	202	N/A
Average daily consumption	458,671	479,328	486,030	522,650	505,610	536,191	N/A	N/A	N/A	N/A

Source: County departments

N/A - Not available

TABLE 14

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

<u>Function/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Public safety										
Law enforcement vehicles	93	96	92	94	82	83	83	80	79	79
Fire and Rescue stations	85	10	10	10	10	8	8	8	8	6
Parks, recreation and cultural										
Parks/athletic fields	8	8	8	7	5	2	2	2	2	2
Water and sewage										
Water mains (miles)	93	92	92	92	92	88	66	66	66	66
Sanitary sewers (miles)	63	62	62	62	62	60	44	44	44	44

Source: County departments

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COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), as of and for the year ended June 30, 2012 which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2012. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as discussed below, we identified a certain deficiency in internal control over financial report that we consider to be a material weakness.**

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 12-1, 12-2, and 12-3.**

We noted certain other matters that we reported to management of the County in a separate letter dated November 30, 2012.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2012

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

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

Compliance

We have audited the compliance of the County of Montgomery, Virginia (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County of Montgomery, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

Internal Control over Compliance (Continued)

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2012

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2012

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the County's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Inmate Canteen Funds

Comprehensive Services Act

Sheriff Internal Controls

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

COUNTY OF MONTGOMERY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

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

<u>Name of Program:</u>	<u>CFDA #</u>
State Administrative Matching Grants	
for the Supplemental Nutrition Assistance Program	10.561
Special Education Cluster, including ARRA	84.027, 84.173, 84.391
Improving Teacher Quality State Grants	84.367
Statewide Data Systems	84.384
Education Jobs Fund, Recovery Act	84.410
Temporary Assistance to Needy Families	93.558
Social Services Block Grant	93.677
Medical Assistance Program	93.778

8. The **threshold for** distinguishing Type A and B programs was **\$375,981**.
9. The County was **not** determined to be a **low-risk auditee**.

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

B. FINDINGS – FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

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

None noted.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-1: Information Systems Controls

Condition:

One out of two terminated employee's privileges were not removed within the required three days from various software programs utilized by Social Services.

Recommendation:

The Department of Social Services IT department and Department of Social Services management should ensure that all employee rights be removed timely upon termination of employment.

Management's Response:

Management agrees and will more closely monitor in the future to ensure compliance.

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

12-2: Disclosure Statements

Condition:

Five out of thirty-seven members of County appointed boards did not file their statements of economic interest by the required deadline.

Recommendation:

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

Management's Response:

Management agrees and will continue to monitor these filings and follow up in an effort to receive filings in a timely manner.

12-3: Public Accounts

Condition:

The Sheriff's account, which represented one out of ten bank accounts tested, was not properly marked as public as required by the Security of Public Deposits Act.

Recommendation:

Steps should be taken to ensure that all accounts that fall under the Virginia Security for Public Deposits Act are marked as public with the respective financial institution.

Management's Response:

Management agrees and contacted the bank subsequent to year end. The account is now correctly marked as public.