

COUNTY OF HENRY, VIRGINIA

FINANCIAL STATEMENTS

Year Ended June 30, 2006

COUNTY OF HENRY, VIRGINIA

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INTRODUCTORY SECTION

COUNTY OF HENRY, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2006

BOARD OF SUPERVISORS

H. G. Vaughn, Chairman
Deborah Parsons Buchanan, Vice Chairman

Jim Adams	Jim McMillian
Paula Burnette	Andy Parker

HENRY COUNTY PUBLIC SCHOOLS

Curtis R. Millner, Sr., Chairman
Terri C. Flanagan, Vice Chairman

James L. Franklin, Jr.	Mary S. Martin
Milton H. Kendall	Kathy H. Rogers
Rudy J. Law	

OTHER OFFICIALS

Clerk of the Circuit Court	Vickie Helmstutler
Commonwealth's Attorney	Bob Bushnell
County Attorney	George Lyle
Commissioner of the Revenue	Lucy Clark
Treasurer	Scott Grindstaff
Sheriff	Frank Cassell
Superintendent of Schools	Sharon Dodson
Social Services Director	Joyce Grogan
County Administrator	Benny Summerlin
Central Accounting	Jimmie Wright

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Members of the Board
County of Henry, Virginia

We were engaged to audit the accompanying basic financial statements of the County of Henry, Virginia as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the County's management.

We were unable to perform sufficient audit procedures to substantiate the activities related to the Sheriff's department, which constitute approximately \$7.0 million of the County's \$44.8 million in total expenditures.

Since we were not able to apply other auditing procedures to satisfy ourselves as to the propriety of the Sheriff department's expenditures, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the County of Henry's basic financial statements.

In accordance with *Government Auditing Standards* we have also issued our report dated December 14, 2006, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 9 through 16 and budgetary comparison information on pages 50 through 61 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the required supplementary information. **However, we did not audit the information and express no opinion on it.**

We were engaged to audit the basic financial statements and form an opinion on them. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2006, is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is not a required part of the basic financial statements. **Since we do not express an opinion on the County's basic financial statements, we are unable to express an opinion on the schedule of expenditures of federal awards.**

The Other Information Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This additional information has not been subjected to auditing procedures and accordingly, **we express no opinion or other form of assurance on it.**

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 14, 2006
(except for Note 16, as to
which the date is June 18, 2007)

MANAGEMENT'S DISCUSSION & ANALYSIS

To the Honorable Members of the Board of Supervisors To the Citizens of Henry County

The following discussion and analysis of the Henry County, Virginia's (the "County") financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2006. Please read this discussion and analysis in conjunction with the County's financial statements including the notes to financial statements. The unqualified opinion of our independent external auditor, Brown, Edwards & Company, L.L.P., is included in this report. The independent external auditor, Brown, Edwards & Company, L.L.P., expressed no opinion on the County's financial statements, which is included in this report.

Our auditors disclaimed an opinion on these financial statements since they were unable to perform all the auditing procedures they considered necessary to satisfy themselves as to the propriety of the Sheriff's Office's expenditures. As mentioned in Note 16 to these financial statements, the Sheriff and a dozen of his current and former employees were indicted on various criminal charges October 31, 2006. In addition, the FBI subpoenaed various records of the Sheriff's Office, including purchase orders and invoices for the period of January 1, 2002 through October 17, 2006. For this reason, the auditors judged it necessary to perform additional procedures related to the Sheriff's Office's transactions in order to evaluate whether it was possible to issue an unqualified opinion on these financial statements. It was management's opinion that the significant additional cost (for which the auditors would not provide a firm figure) to the taxpayers to have these additional procedures performed was not worth the possible benefit. The FBI, with its available resources, was in a much better position to determine if any wrongdoings had gone on and charge the appropriate persons.

Out of the Sheriff's Office's approximately \$7.0 million in total expenditures, approximately \$5.8 million of that were payroll related expenditures where, in management's opinion, the chance of misappropriation was remote. The remaining \$1.2 million in expenditures were reviewed by management and management saw no unusual or inappropriate transactions. As of June 18, 2007, the Sheriff and 10 of the 12 former employees had reached plea agreements. Nothing in the charges or these plea agreements has given management any definitive knowledge that any inappropriate activity occurred that would have a direct bearing on the County's financial statements. In the event that a theft should be discovered by the FBI, the County has a \$1 million insurance coverage per person.

Financial Highlights

Management believes the County's financial position has improved from the previous year. The financial highlights discussed below support this belief:

Government-Wide Financial Statements (Exhibits 1 and 2)

- The primary government assets of the County exceeded its liabilities at the close of business on June 30, 2006 by \$33,107,648 (total net assets) in comparison to \$27,497,347 as restated for 2005. Of this amount \$20,973,558 (unrestricted) may be used to meet the County's ongoing obligations to citizens and creditors. This was an increase of \$5,610,301 from net assets reported on June 30, 2005.
- Net assets of the County's Industrial Development Authority's business type activities totaled \$3,770,738. This is an increase of \$564,455 from net assets reported on June 30, 2005.
- The Public Schools' assets exceeded its liabilities by \$15,982,818 on June 30, 2006 versus \$15,982,818 on June 30, 2005. However, \$14,275,657 of this amount reflects the Public Schools' net investment in capital assets.

Fund Financial Statements

The Government Funds, on a current financial resource basis, reported revenue in excess of expenditures and other uses of funds by \$4,199,786 (Exhibit 4). The expenditures included making direct contributions totaling \$17,185,676 to the School Board. An additional \$1,392,693 was expended for principal and interest on school related debts, which is included in the debt service principal and interest totals shown under the General Fund column.

- At June 30, 2006, the County's total Governmental Funds reported an ending fund balance of \$19,687,314 which is an increase of \$4,199,786 in comparison with the prior fiscal year.
- At June 30, 2006, the total fund balance for the General Fund was \$19,507,862 compared to the previous year of \$15,177,045, as restated, an increase of \$4,330,817. The unreserved fund balance for the General Fund was \$15,344,693 compared to the year 2005 of \$7,205,202, as restated, an increase of \$7,592,150.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the County's basic financial statements. These basic financial statements are comprised of three (3) components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

This report also contains other information to supplement the basic financial statements.

Government-wide financial statements – The Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector companies. Government-wide financial reporting consists of two statements: (1) The Statement of Net Assets and (2) The Statement of Activities. These statements provide both long-term and short-term information about the County's overall financial status. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (Exhibit 1) presents information on all of the County's assets and liabilities. The difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets net of related debt, restricted and unrestricted. 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.

The Statement of Activities (Exhibit 2) presents information showing how the County's net assets changed during the 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 which result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and the Statement of Activities are both divided into three types of activities:

1. Governmental Activities — Most of the County's basic services are reported in this column to include: General Government, Judicial Administration, Public Safety, Public Works, Health and Welfare, Parks, Recreation and Cultural, Community Development, Education, and Interest on long-term debt. Primarily property taxes, other local taxes, state and federal grants finance most of these Governmental Activities.

2. **Component Units** — The County has three component units; the Henry County Public Schools, Industrial Development Authority and the Henry-Martinsville Social Services. While the School System and the Industrial Development Authority are legally separate entities, the County is financially accountable and provides operating and capital funding to these component units. The County is the fiscal agent for the Henry — Martinsville Social Services, which is supported by funds from the federal government, Commonwealth of Virginia, County General Fund and the City of Martinsville, Virginia. Financial information for the 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 local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds can be placed in either of three (3) categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – A *governmental fund* is used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. However, government-wide financial statements are prepared on the accrual basis of accounting while governmental fund financial statements are prepared on the modified accrual basis of accounting. Thus, governmental fund financial statements focus on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Such information is useful in evaluating the County's ability to satisfy near-term financing requirements. Since the focus of governmental funds is narrower than that of government-wide financial statements, a reconciliation between the two methods used is provided at the bottom of the governmental fund balance sheet (Exhibit 3) and the governmental fund statement of revenues, expenditures and changes in fund balances (Exhibit 4). By comparing the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements readers may better understand the long-term impact of the County's near-term financing decisions.

The County has five major funds. These funds are the General, Comprehensive Services Act, E-911 Central Dispatch, Law Library, Capital Projects and HCO/MTSV Industrial Site Project. Information on these funds is shown in Exhibits 3 and 4. Required supplementary information is shown on Exhibits 6, 7, 8, and 9.

Fiduciary funds – The County is the trustee, or in other words a fiduciary, for the funds of other organizations or individuals. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets and liabilities (Exhibit 5). These activities are excluded from the government-wide financial statements because such assets cannot be used to finance the County's operations. The County maintains three fiduciary funds, which are treated as agency funds.

Notes to the financial statements – Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements.

Supplementary information – In addition to the basic financial statement and accompanying notes, this report presents certain required other information supplements including budgetary comparison schedules, notes and certain compliance reports.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As stated earlier in this discussion, net assets may serve as a useful indicator of a County’s financial position over time.

**County of Henry, Virginia
Assets, Liabilities and Net Assets
Governmental Activities
For the Years Ended June 30,**

<u>Description</u>	<u>2006</u>	<u>2005*</u>
Current and other assets	\$ 29,900,661	\$ 27,851,162
Capital assets	28,864,325	26,664,906
Total assets	<u>\$ 58,764,986</u>	<u>\$ 54,516,068</u>
Current liabilities	\$ 2,757,281	\$ 4,316,273
Revenue anticipation notes	3,734,000	4,196,000
Long-term liabilities	19,166,057	18,506,448
Total liabilities	<u>25,657,338</u>	<u>27,018,721</u>
Invested in capital assets – net related debt	12,134,090	10,631,140
Unrestricted	20,973,558	16,866,207
Total net assets	<u>33,107,648</u>	<u>27,497,347</u>
Total liabilities and net assets	<u>\$ 58,764,986</u>	<u>\$ 54,516,068</u>

*As restated, See Note 14.

The County has committed the highest priority to
The County has committed the highest priority to Economic Development (Community Development), Education and Public Safety. During fiscal year 2006 the County incurred expenses, after program revenues, toward these endeavors as follows:

Education	\$ 17,457,561
Public Safety	\$ 4,293,688

Revenues from governmental activities totaled \$50,459,055. The breakdown of these revenues are as follows:

Charges for services	\$ 604,233	1.2%
Operating grants and contributions	10,121,127	20.1
Capital grants and contributions	1,936,557	3.8
General property taxes	20,461,080	40.5
Local sales and use taxes	3,966,971	7.9
Consumer utility taxes	4,466,273	8.9
Business license taxes	1,477,372	2.9
Other local taxes	4,497,917	8.9
Investment income	779,681	1.6
Unrestricted intergovernmental revenues	2,143,582	4.2
Miscellaneous	4,262	-
	<u>\$ 50,459,055</u>	<u>100.0%</u>

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for future expenditures.

Governmental Funds (Exhibit 3) reported a combined ending fund balance of \$19,687,314 and increase of \$4,199,786 when compared to the prior year. A breakdown of the fund balance is as follows:

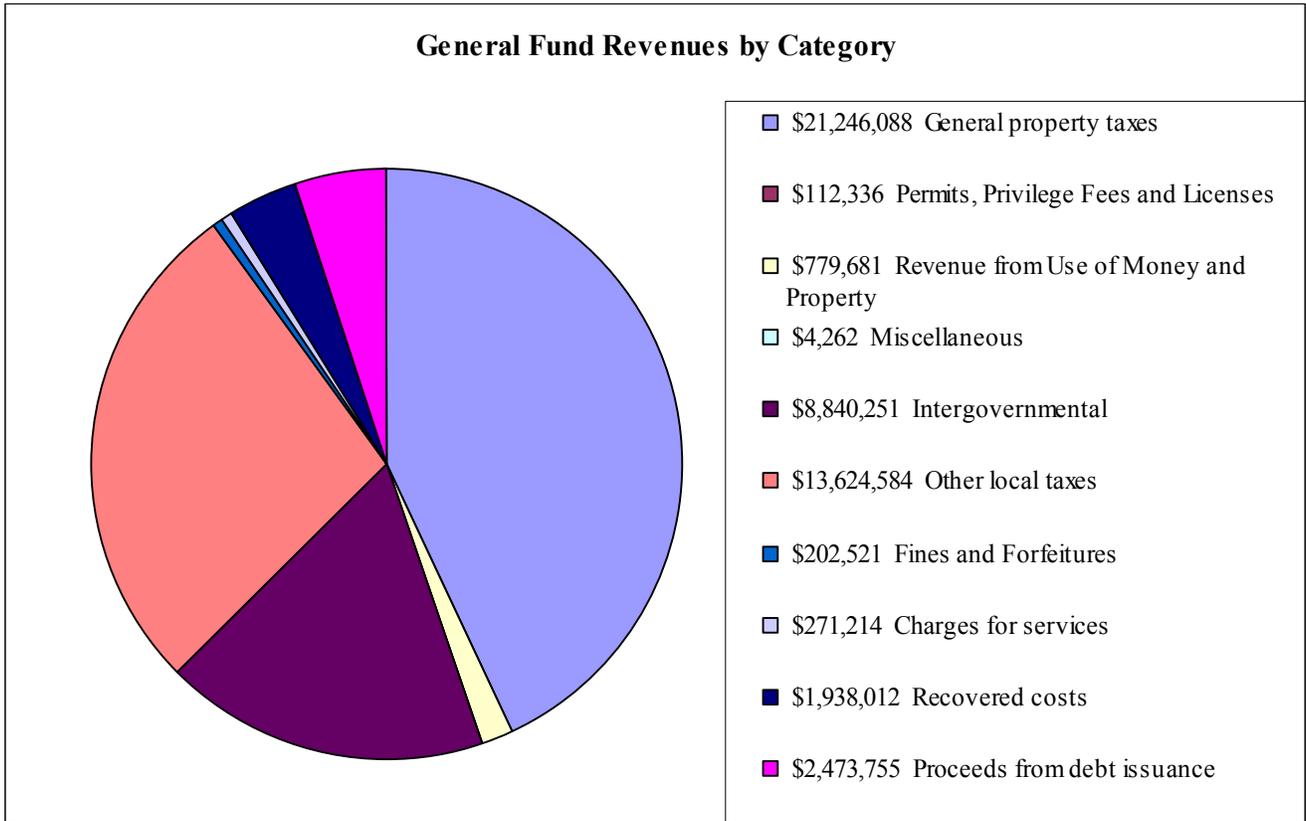
Governmental Fund Balance

Description	2006	2005*	Change
Reserved for:			
Subsequent expenditures	\$ 4,145,212	\$ 4,282,296	\$ (137,084)
Long-term advances	-	3,682,697	(3,682,697)
Inventory	17,957	6,850	11,107
Unreserved	<u>15,524,145</u>	<u>7,515,685</u>	<u>8,008,460</u>
Total Governmental Fund Balances	<u>\$ 19,687,314</u>	<u>\$ 15,487,528</u>	<u>\$ 4,199,786</u>

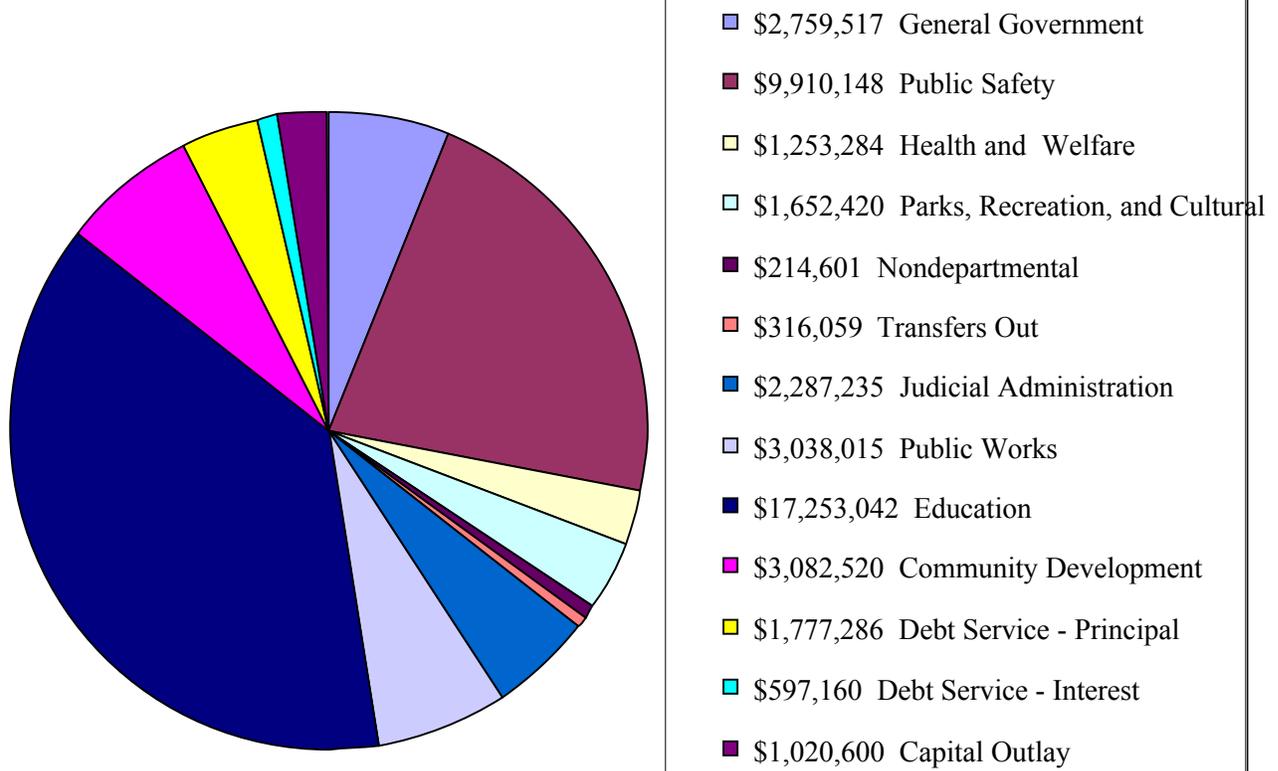
As restated, see Note 14.

The General Fund is the operating fund of the County. The General Fund reports a fund balance of \$19,507,862 at June 30, 2006, and \$15,177,045 as restated for 2005. This is an increase from the prior year of \$4,330,817. Approximately 75.9% or \$15,344,693 of the total General Fund balance is unreserved, an increase of \$8,139,491 from June 30, 2005, as restated. As a measure of the General Fund's liquidity it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures of \$44,845,828. Unreserved fund balance represents 33.0% of total General Fund expenditures, while total fund balance is 43.5% of that same amount.

The following pie chart depicts the General Fund revenue (Exhibit 4) by categories for the fiscal year.



General Fund Expenditures by Category



General Fund Budgetary Highlights

The County's annual budget is prepared on an operating basis and includes estimated revenues and annual appropriations for operations. Differences between the original budget and the final amended budget resulted in a \$8,405,535 increase in appropriations. The increased appropriations were made predominantly to incorporate grant awards and the carryover of encumbrances from fiscal year 2005 into department budgets. See Exhibit 6 for more detailed information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The County's investment in capital assets for its governmental activities as of June 30, 2006, is \$28,864,325 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment. During the year ended June 30, 2006 the major construction related to improvements at certain schools. See Note 7 to the financial statements for more detail listings of the assets and changes during the year.

General Fund Long-term debt – At the close of fiscal year 2006, Henry County had total outstanding obligations excluding bond premiums, landfill closure monitoring and compensated absences in long-term liabilities of \$16,598,967 an increase of \$565,201 from fiscal year 2005. See Note 9 to the financial statements for a more detail listing of the long-term debts. This entire amount is backed by the full faith and credit of the County.

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property as the amount of general obligation borrowing which a County may issue. On June 30, 2006, the County's ratio of Net General Obligation Debt to Assessed Value was .51%.

Additional information on the Henry County's long-term debt can be found in Note 9 of this report.

Economic Factors Influencing FY2006 Budgets and Tax Rates

The unemployment rate for the County on June 30, 2006 was 4.6%. This compares unfavorably to the state's average unemployment rate of 3.2% and the national average of 4.8% for the same time.

Henry County is located in the Southside furniture/textile belt. The evolution of these businesses has moved a large portion of the manufacturing process overseas. This has resulted in plant closings and downsizing of local industries. The remaining manufacturing companies located in the County appear to have weathered this trend and in fact some are expanding operations and increasing their workforce.

Henry County and City of Martinsville had a 2005 (latest available data) per capita income of \$25,312 as compared to the state average of \$37,503.

According to the consumer price index, Henry County enjoys a lower cost of living when compared to most other areas in the nation.

All these factors were considered in preparing the County's budget for the 2006 fiscal year. The budget was prepared and balanced without requiring an increase in tax revenues.

The General Fund original revenue budget for the fiscal year ending June 30, 2006 totals \$43,407,002, which is a \$2,511,810, or 6.1% increase from the original approved budget for fiscal year 2005 of \$40,895,192.

Requests for Information

This financial report is designed to provide a general overview of the County of Henry's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Henry, Director of Accounting, P. O. Box 7, Collinsville, Virginia 24078-0007.

BASIC FINANCIAL STATEMENTS

COUNTY OF HENRY, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government	Component Units		
	Governmental Activities	School Board	Industrial Development Authority	Henry- Martinsville Social Services
ASSETS				
Cash and cash equivalents	\$ 17,462,671	\$ 1,311,177	\$ 530,767	\$ 35,859
Receivables, net	2,820,246	216,355	-	-
Due from other governmental units	2,953,125	3,014,122	-	383,850
Due from primary government	-	1,354,251	-	-
Due from component units	3,814,250	-	-	-
Inventory	2,850,369	-	3,719,716	-
Notes receivable	-	-	3,488,444	-
Restricted cash	-	2,543,771	-	-
Capital assets:				
Nondepreciable	3,140,683	2,235,608	-	-
Depreciable, net	25,723,642	12,040,049	-	48,979
Total assets	58,764,986	22,715,333	7,738,927	468,688
LIABILITIES				
Accounts payable and accrued liabilities	924,692	794,192	3,743	19,262
Accrued payroll and related liabilities	24,018	5,438,932	-	-
Accrued interest	318,005	-	-	-
Due to primary government	-	-	3,441,446	372,804
Due to component unit	1,354,251	-	-	-
Due to other governmental units	-	-	-	27,643
Deferred revenue	136,315	35,829	-	-
Revenue anticipation note	3,734,000	-	-	-
Commitments and contingencies (Notes 13 and 16)	-	-	-	-
Long-term liabilities:				
Due within one year	1,754,585	46,356	336,000	17,100
Due in more than one year	17,411,472	417,206	187,000	318,250
Total liabilities	25,657,338	6,732,515	3,968,189	755,059
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	12,134,090	14,275,657	-	48,979
Restricted	-	2,543,771	-	-
Unrestricted (deficit)	20,973,558	(836,610)	3,770,738	(335,350)
Total net assets (deficit)	\$ 33,107,648	\$ 15,982,818	\$ 3,770,738	\$ (286,371)

COUNTY OF HENRY, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	School Board	Industrial Development Authority	Henry-Martinsville Social Services
Primary Government:								
Governmental activities:								
General government administration	\$ 2,791,364	\$ 58,758	\$ 476,450	\$ -	\$ (2,256,156)	\$ -	\$ -	\$ -
Judicial administration (Note 16)	2,595,433	249,973	883,803	-	(1,461,657)	-	-	-
Public safety (Note 16)	11,149,634	213,564	6,642,382	-	(4,293,688)	-	-	-
Public works	2,920,062	35,936	295,595	-	(2,588,531)	-	-	-
Health and welfare	1,791,182	-	366,483	-	(1,424,699)	-	-	-
Education	17,580,987	-	123,426	-	(17,457,561)	-	-	-
Parks, recreational, and cultural	1,702,188	46,002	-	-	(1,656,186)	-	-	-
Community development	3,436,973	-	1,332,988	1,936,557	(167,428)	-	-	-
Nondepartmental	218,598	-	-	-	(218,598)	-	-	-
Interest on long-term debt	662,333	-	-	-	(662,333)	-	-	-
Total primary government	\$ 44,848,754	\$ 604,233	\$ 10,121,127	\$ 1,936,557	\$ (32,186,837)	-	-	-
Component Units:								
School Board	\$ 69,542,520	\$ 1,838,516	\$ 22,180,703	\$ 2,473,755	-	(43,049,546)	-	-
Industrial Development Authority	1,537,404	100,000	500,000	121,900	-	(815,504)	-	-
Henry - Martinsville Social Services	5,749,453	-	-	-	-	-	(5,749,453)	-
Total component units	\$ 76,829,377	\$ 1,938,516	\$ 22,680,703	\$ 2,595,655	-	(43,049,546)	(815,504)	(5,749,453)
General Revenues:								
General property taxes					20,461,080			
Local sales and use taxes					3,966,971			
Consumer utility taxes					4,466,273			
Business license taxes					1,477,372			
Other local taxes					4,497,917			
Payments from County of Henry					-	14,711,921	1,373,405	482,337
Unrestricted intergovernmental revenue					2,143,582	28,824,140	-	5,264,349
Investment income					779,681	120,238	6,554	-
Miscellaneous					4,262	493,485	-	-
Total general revenues					37,797,138	44,149,784	1,379,959	5,746,686
Change in net assets					5,610,301	1,100,238	564,455	(2,767)
Net assets (deficit), beginning of year, as restated (Note 14)					27,497,347	14,882,580	3,206,283	(283,604)
Net assets (deficit), end of year					\$ 33,107,648	\$ 15,982,818	\$ 3,770,738	\$ (286,371)

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

COUNTY OF HENRY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	E911 Central					HCO/MTSV Industrial Site Project Fund	Total Governmental Funds
		Comprehensive Services Act Fund	Dispatch Fund	Law Library Fund	Capital Projects Fund			
ASSETS								
Cash and cash equivalents	\$ 17,462,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,462,671	
Receivables, net								
Taxes and licenses	1,336,655	-	-	-	-	-	1,336,655	
Accounts	1,325,839	-	148,459	6,130	3,163	-	1,483,591	
Due from other governmental units	1,453,789	87,472	414,951	-	567,351	429,562	2,953,125	
Due from component units	3,814,250	-	-	-	-	-	3,814,250	
Due from other funds	1,353,915	-	-	111,395	-	-	1,465,310	
Inventory	17,957	-	-	-	-	-	17,957	
Total assets	\$ 26,765,076	\$ 87,472	\$ 563,410	\$ 117,525	\$ 570,514	\$ 429,562	\$ 28,533,559	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities	\$ 691,458	\$ 52,669	\$ 5,875	\$ 1,646	\$ 171,154	\$ 1,890	\$ 924,692	
Accrued payroll and related liabilities	22,136	-	1,882	-	-	-	24,018	
Deferred revenue	1,343,974	-	-	-	-	-	1,343,974	
Due to other funds	111,395	18,297	555,653	-	364,967	414,998	1,465,310	
Due to component unit	1,354,251	-	-	-	-	-	1,354,251	
Revenue anticipation note	3,734,000	-	-	-	-	-	3,734,000	
Total liabilities	7,257,214	70,966	563,410	1,646	536,121	416,888	8,846,245	
Fund Balances:								
Reserved for:								
Inventory	17,957	-	-	-	-	-	17,957	
Encumbrances	4,145,212	-	-	-	-	-	4,145,212	
Unreserved	15,344,693	16,506	-	115,879	34,393	12,674	15,524,145	
Total fund balances	19,507,862	16,506	-	115,879	34,393	12,674	19,687,314	
Total liabilities and fund balances	\$ 26,765,076	\$ 87,472	\$ 563,410	\$ 117,525	\$ 570,514	\$ 429,562	\$ 28,533,559	

(Continued)

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

COUNTY OF HENRY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2006

Total Fund Balances - Governmental Funds		\$ 19,687,314
Amounts reported for governmental activities in the statement of net assets are different because:		
Inventory used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		2,832,412
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 44,278,124	
Less: accumulated depreciation	<u>(15,413,799)</u>	
		28,864,325
Bond premiums are reported as revenues in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets.		(131,268)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		1,207,659
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(9,547,968)	
Literary fund loans	(7,050,999)	
Accrued interest payable	(318,005)	
Landfill closure and post-closure liability	(1,083,000)	
Compensated absences	<u>(1,352,822)</u>	
		<u>(19,352,794)</u>
Total Net Assets - Governmental Activities		<u>\$ 33,107,648</u>

COUNTY OF HENRY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Comprehensive						HCO/MTSV	Total
	General Fund	Services Act Fund	E-911 Dispatch Fund	Central Fund	Law Library Fund	Capital Projects Fund	Industrial Site Project Fund	Governmental Funds
REVENUES								
General property taxes	\$ 21,246,088	-	\$ -	-	\$ -	-	\$ -	\$ 21,246,088
Other local taxes	13,624,584	-	783,949	-	-	-	-	14,408,533
Permits, privilege fees and regulatory licenses	112,336	-	-	-	-	-	-	112,336
Fines and forfeitures	202,521	-	-	-	-	-	-	202,521
Revenue from use of money and property	779,681	-	-	-	-	-	-	779,681
Charges for services	271,214	-	-	-	18,162	-	-	289,376
Recovered costs	1,938,012	30,435	388,421	-	10,152	19,103	93,404	2,479,527
Intergovernmental	8,840,251	320,899	317,057	-	-	1,490,989	752,543	11,721,739
Miscellaneous	4,262	-	-	-	-	-	-	4,262
Total revenues	47,018,949	351,334	1,489,427	-	28,314	1,510,092	845,947	51,244,063
EXPENDITURES								
Current operating:								
General government administration	2,759,517	-	-	-	-	-	-	2,759,517
Judicial administration (Note 16)	2,287,235	-	-	-	12,718	-	-	2,299,953
Public safety (Note 16)	9,910,148	-	1,641,768	-	-	-	-	11,551,916
Public works	3,038,015	-	-	-	-	-	-	3,038,015
Health and welfare	1,253,284	518,903	-	-	-	-	-	1,772,187
Education	17,253,042	-	-	-	-	-	-	17,253,042
Parks, recreation and cultural	1,652,420	-	-	-	-	-	-	1,652,420
Community development	3,082,520	-	-	-	-	511,740	960,196	4,554,456
Nondepartmental	214,601	-	-	-	-	-	-	214,601
Debt service:								
Principal retirement	1,777,286	-	-	-	-	-	-	1,777,286
Interest and other fiscal charges	597,160	-	-	-	-	-	-	597,160
Capital outlay	1,020,600	-	-	-	-	1,026,879	-	2,047,479
Total expenditures	44,845,828	518,903	1,641,768	-	12,718	1,538,619	960,196	49,518,032
Excess (deficiency) of revenues over expenditures	2,173,121	(167,569)	(152,341)	-	15,596	(28,527)	(114,249)	1,726,031
OTHER FINANCING SOURCES								
Proceeds from bonds	2,342,487	-	-	-	-	-	-	2,342,487
Bond premium	131,268	-	-	-	-	-	-	131,268
Transfers in	-	163,718	152,341	-	-	-	-	316,059
Transfers out	(316,059)	-	-	-	-	-	-	(316,059)
Total other financing sources	2,157,696	163,718	152,341	-	-	-	-	2,473,755
Net change in fund balances	4,330,817	(3,851)	-	-	15,596	(28,527)	(114,249)	4,199,786
FUND BALANCES AT JULY 1, 2005, as restated (Note 14)	15,177,045	20,357	-	-	100,283	62,920	126,923	15,487,528
FUND BALANCES AT JUNE 30, 2006	\$ 19,507,862	\$ 16,506	\$ -	\$ -	\$ 115,879	\$ 34,393	\$ 12,674	\$ 19,687,314

(Continued)

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

COUNTY OF HENRY, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

Net change in fund balances – total governmental funds \$ 4,199,786

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

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. This is the amount by which depreciation exceeded capital outlays:

Capital outlays	\$ 4,005,724	
Loss on disposals	(5,777)	
Depreciation expense	<u>(1,800,528)</u>	
		2,199,419

Expenditures in the fund statements that will be used in the future are capitalized in the statement of activities and expensed when used. This amount represents the excess of inventory purchased over the amount used during the year.

720,886

Revenues in the statement of activities that do not provide current financial resources are deferred in the fund statements. This negative amount represents that there were additional amounts deferred in the prior year which were recorded as revenue in the fund statements in the current year, but had already been recognized in the statement of activities during 2005.

(785,008)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Issuance of debt increases long-term liabilities in the statement of net assets.

Proceeds from issuance of debt, including premium	(2,473,755)	
Repayment of principal	1,777,286	
Change in accrued interest	<u>(65,173)</u>	
		(761,642)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

36,860

Change in net assets of governmental activities

\$ 5,610,301

COUNTY OF HENRY, VIRGINIA

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2006

	Agency Funds			
	<u>Special Welfare</u>	<u>Seizure</u>	<u>Jail Inmate</u>	<u>Total</u>
ASSETS				
Cash	<u>\$ 36,495</u>	<u>\$ 13,439</u>	<u>\$ 28,256</u>	<u>\$ 78,190</u>
LIABILITIES				
Amounts held for others	<u>\$ 36,495</u>	<u>\$ 13,439</u>	<u>\$ 28,256</u>	<u>\$ 78,190</u>

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies

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

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

Henry County School Board

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

Industrial Development Authority

The Industrial Development Authority (the “IDA”) was created to encourage and provide financing for industrial development in the County. The IDA is governed by directors, a voting majority of which are appointed by the Board of Supervisors and the County is financially accountable for the IDA. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate industrial development. The IDA does not issue separate financial statements; as such, they have been included in these statements.

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Henry-Martinsville Social Services Board

The Henry-Martinsville Social Services Board (HMSS) operates the Department of Social Services for both the County and the City of Martinsville (the "City"). This joint entity was established June 1, 1997. Of the nine board members, the County appoints six. The County is financially accountable for HMSS because it appoints a majority of the board members and because the County is legally obligated to finance the deficits of, and provide financial support to, the Board. The County and the City have an agreement in which the City will reimburse the County for administrative, operating, and maintenance costs that are unreimbursed by state and federal grants. HMSS does not issue separate financial statements; as such they have been included in these statements.

Related organizations

The primary function of Henry County Public Service Authority (PSA) is to provide water and sewer services to areas of the County. The PSA Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for the PSA comes from state and federal grants as well as from charges for services. The County provides some financial assistance, but the PSA is not financially dependent on the County. Each member of the Board of Supervisors appoints one board member of the PSA from the members of their district. While not a component unit of the County, the PSA is considered to be a related organization since the County has determinable ongoing financial interests in or responsibilities for the PSA.

The PSA leases its office space from the County for a fifteen year term commencing November 1, 1997 and ending on October 31, 2012. The lease is renewable annually for one year terms thereafter. In lieu of rent, the PSA renovated a portion of the building for the County's and PSA's use. These improvements are shown as leasehold improvements are being depreciated over the life of the lease.

In addition, the PSA leases the water treatment plant from the County. The plant, with a cost of \$1,642,595, accumulated depreciation of \$889,677, and annual depreciation of \$40,440 is recorded on the County's financial statements. The PSA is responsible for all maintenance and operations of the plant. No payments are required. The lease continues until all debts of the PSA relating to water facility improvements, have been satisfied.

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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 nonfiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Government activities* normally are supported by taxes and intergovernmental revenues. Likewise, the *primary* government is reported separately from certain legally separate *component* units for which the primary government is financially accountable. Also, funds that are fiduciary in nature have been excluded.

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

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

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

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

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The County reports the following major governmental funds:

General Fund – 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.

Comprehensive Services Act Fund – accounts for revenue derived from the Commonwealth of Virginia for the care of the localities' special needs children.

E-911 Central Dispatch Fund – accounts for the financial transactions associated with the operation of the County's 911 Emergency Services Center. The County and the City have an operating agreement in which the operating costs of the joint E911 Center will be shared between the City and the County. The City will reimburse that County for 29% of the costs to operate the Center after certain state reimbursements. Revenues are primarily derived from the consumers' E-911 telephone tax and reimbursements from the City of Martinsville, the State Compensation Board and Virginia Wireless Board.

Law Library Fund – accounts for revenue received from other funds for the use of the Library.

Capital Projects Fund – accounts for all financial resources used for the acquisition or construction of major capital facilities.

Henry County/Martinsville (HCO/MTSV) Industrial Site Project Fund – The County and City have entered into a joint industrial park project. Money from the County and City along with a combination of grants from the Economic Development Administration, Tobacco Commission and Industrial Development Authority (IDA) will provide funds to grade several lots and provide utilities to the sites. The IDA/County are responsible for marketing the property. The County is obligated to reimburse the City one-third of the revenues generated from park industries after recovering all of its cost, including any incentive payments. This fund was established to record the grants received and costs of the project.

Additionally, the County reports the following fiduciary fund type:

Agency Fund – accounts for monies held by the County as an agent or custodian for others. These funds consist of the special welfare funds, seizure funds, and jail inmate funds.

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, as well as short-term investments with a maturity date within three months of date acquired. Restricted cash includes unexpended bond proceeds for school construction projects.

Receivables, net

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

Allowance

The County calculates its allowance based on historical data. The allowance amounted to approximately \$2,444,000 at June 30, 2006, and is comprised solely of property taxes.

The IDA calculated an allowance of \$714,957 at June 30, 2006 based on the amount estimated to be collectible.

The other component units' accounts receivable are considered fully collectible, and therefore, an allowance for uncollectible accounts is not applicable to these receivables.

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.

The discretely presented component unit – IDA and the governmental HCO/MTSV Fund have land and buildings held for resale to potential industries in the County. These assets are recorded at cost and are included in inventories on the statement of net assets. Periodically, incidental rent is received for the use of these facilities.

Capital Assets

Capital assets which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets consisting of furniture, fixtures, machinery, and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. 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 greater than \$100,000 are capitalized as projects are constructed.

COUNTY OF HENRY, VIRGINIA

FINANCIAL STATEMENTS

Year Ended June 30, 2006

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (Continued)

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

Buildings and improvements	45 years
Machinery and equipment	3 – 60 years
Infrastructure	25 – 45 years

Compensated Absences

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

Deferred Revenues

Deferred revenue in the general fund consists primarily of property taxes not collected within 60 days of year end and property taxes collected prior to their due date. Deferred revenue in governmental activities and the discretely presented component-unit School Board consists of unexpended grant funds.

Long-term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums during the current period but no long-term liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Repayments and issuance costs are reported as debt service expenditures.

Encumbrances

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

Estimates

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

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2. Stewardship, Compliance, and Accountability

Net Assets/Fund Equity

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations. The restricted net assets for the discretely presented component unit – School Board represent bonds proceeds restricted for construction.

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

Note 3. Deposits and Investments

Deposits

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

Investments

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

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

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3. Deposits and Investments (Continued)

Investments (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 17,462,761	NA	100.00%
Component Unit – School Board			
Demand deposits	\$ 1,311,177	NA	34.01%
SNAP	2,543,771	AAA	65.99
Total	\$ 3,854,948		100.00%
Component unit - IDA			
Demand deposits	\$ 530,767	NA	100.00%
Component Unit – Henry- Martinsville Social Services			
Demand deposits	\$ 35,859	NA	100.00%

Credit Risk

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

Concentration of Credit Risk

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

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3. Deposits and Investments (Continued)

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 above items are reflected in the statements as follows:

	Component-Units			
	Primary Government	School Board	Industrial Development Authority	Henry- Martinsville Social Services
Deposits and investments:				
Cash on hand	\$ 75,316	\$ 239	\$ -	\$ -
Deposits	17,465,545	1,310,938	530,767	35,859
Investments	-	2,543,771	-	-
	<u>\$ 17,540,861</u>	<u>\$ 3,854,948</u>	<u>\$ 530,767</u>	<u>\$ 35,859</u>
Statements of net assets:				
Cash and cash equivalents	\$ 17,462,671	\$ 1,311,177	\$ 530,767	\$ 35,859
Restricted cash	-	2,543,771	-	-
Fiduciary fund cash	78,190	-	-	-
	<u>\$ 17,540,861</u>	<u>\$ 3,854,948</u>	<u>\$ 530,767</u>	<u>\$ 35,859</u>

COUNTY OF HENRY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4. Property Taxes

The County levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by the Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the County. Public utility property is assessed by the Commonwealth. Neither the County nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100% of fair market value and real estate is reassessed every four years as of January 1. The Commissioner of Revenue prorates billings for property incomplete as of January 1, but completed during the year. Any taxes paid after the due date and are subject to a 10% penalty and 8% interest charge.

Real estate taxes are billed annually and due by December 5. Liens are placed on the property on the date real estate taxes are delinquent, and interest at the rate of 10% per annum is added to the delinquent tax and penalty, and must be satisfied prior to the sale or transfer of the property. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rate during 2006 was \$0.54 per \$100 of assessed value.

Personal property tax assessments on tangible business property are based on 71% of cost and all motor vehicles are based on 100% of loan value of the property as of January 1 of each year. Personal property taxes do not create a lien on property; however, County vehicle decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes. Any taxes paid after the due date and are subject to a 10% penalty and 8% interest charge.

Property taxes receivable are included as deferred revenue in the fund financial statements since these taxes are not considered to be available to liquidate liabilities of the current period.

The tax rate during 2006 was \$1.48 for motor vehicles and tangible property and \$1.19 for machinery and tools, per \$100 of assessed value. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the County received 56.1% percent of most taxpayers' payments in FY 2006 from the State for its share of the local personal property tax payment (for personal use motor vehicles), with the remainder collected by the County.

Note 5. Interfund Receivables/Payables

	Interfund Receivable	Interfund Payable
County of Henry		
General Fund	\$ 1,353,915	\$ 111,395
Comprehensive Service Act Fund	-	18,297
E-911 Central Dispatch Fund	-	555,653
Law Library Fund	111,395	-
Capital Projects Fund	-	364,967
HCO/MTSV Industrial Site Project fund	-	414,998
	\$ 1,465,310	\$ 1,465,310

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5. Interfund Receivables/Payables (Continued)

The due from/to receivable balance resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are as follows:

Transfers Out:	Transfer in:		
	Comprehensive Services Act Fund	E911 Central Dispatch Fund	Total
General	\$ 163,718	\$ 152,341	\$ 316,059

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Schools Due From Primary Government

Operations at the Schools are funded by proceeds from the primary government. At the end of the year the net effect of all revenues and expenditures, less construction related items, is funded through a due from the primary government.

Note 6. Due From Other Governments

	Primary Government	Discretely Presented Component-Units	
		School Board	Henry- Martinsville Social Services
Commonwealth of Virginia:			
Local sales taxes	\$ 725,548	\$ -	\$ -
Comprehensive Services Act	87,472	-	-
Rental tax	17,219	-	-
Mobile home tax	19,506	-	-
ABC Profits	33,477	-	-
Recordation tax	17,670	-	-
Wine liter tax	35,091	-	-
School funds	-	1,931,900	-
Other	89,483	-	-
Compensation Board	422,863	-	-
Tobacco indemnification and revitalization	276,038	-	-
Public assistance	-	-	118,252

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6. Due From Other Governments (Continued)

	Primary Government	Discretely Presented Component-Units	
		School Board	Henry- Martinsville Social Services
Federal government			
Public assistance	\$ -	\$ -	\$ 265,598
DHCD Grants	567,351	-	
School Fund	-	1,002,817	-
EDA Economic Development	150,000	-	-
School lunch and breakfast	-	79,405	-
Other reimbursements	108,056	-	-
City of Martinsville			
E-911 taxes	399,827	-	-
Industrial Site	3,524	-	-
	<u>\$ 2,953,125</u>	<u>\$ 3,014,122</u>	<u>\$ 383,850</u>

Note 7. Capital Assets

The table below is a summary of the changes in capital assets for the fiscal year ended June 30, 2006.

Primary government

Capital asset activity for the year was as follows:

	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 753,826	\$ 884,761	\$ -	\$ 1,638,587
Construction-in-Progress	340,175	1,161,921	-	1,502,096
Capital assets, nondepreciable	<u>1,094,001</u>	<u>2,046,682</u>	<u>-</u>	<u>3,140,683</u>
Capital assets, depreciable:				
Buildings and improvements	19,176,439	336,260	-	19,512,699
Buildings and improvements – Schools	13,046,482	-	-	13,046,482
Furniture and equipment	7,307,722	1,622,782	352,244	8,578,260
Capital assets, depreciable	<u>39,530,643</u>	<u>1,959,042</u>	<u>352,244</u>	<u>41,137,441</u>

(Continued)

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Capital Assets (Continued)

Primary government (Continued)

	Beginning Balance*	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	\$ 7,468,019	\$ 488,694	\$ -	\$ 7,956,713
Buildings and improvements – Schools	1,311,780	327,945	-	1,639,725
Furniture and equipment	5,179,939	983,889	346,467	5,817,361
Total accumulated depreciation	13,959,738	1,800,528	346,467	15,413,799
Capital assets, depreciable, net	25,570,905	158,514	5,777	25,723,642
Governmental activities capital assets, net	\$ 26,664,906	\$ 2,205,196	\$ 5,777	\$ 28,864,325

*As restated, see Note 14.

Depreciation expense was charged to governmental functions as follows:

General government administration	\$ 111,266
Judicial administration	323,610
Public safety	736,645
Public works	176,998
Health and welfare	18,995
Education	327,945
Parks, recreation, and cultural	49,768
Community development	51,304
Non-departmental	3,997
	<u>\$ 1,800,528</u>

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Capital Assets (Continued)

Component Unit – Henry County Public Schools:

	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 495,274	\$ 110,500	\$ -	\$ 605,774
Construction-in-progress	254,856	1,629,834	254,856	1,629,834
Capital assets, nondepreciable	750,130	1,740,334	254,856	2,235,608
Capital assets, depreciable:				
Buildings and improvements	32,647,989	503,825	200,370	32,951,444
Furniture and equipment	7,651,587	381,012	114,170	7,918,429
Capital assets, depreciable	40,299,576	884,837	314,540	40,869,873
Less accumulated depreciation for:				
Buildings and improvements	22,583,186	673,593	200,370	23,056,409
Furniture and equipment	5,235,034	643,471	105,090	5,773,415
Total accumulated depreciation	27,818,220	1,317,064	305,460	28,829,824
Capital assets, depreciable, net	12,481,356	(432,227)	9,080	12,040,049
Capital assets, net	\$ 13,231,486	\$ 1,308,107	\$ 263,936	\$ 14,275,657

*Restated, see Note 14.

Component Unit – Henry-Martinsville Social Services

	Beginning Balance*	Increases	Decreases	Ending Balance
Machinery and equipment	\$ 226,395	\$ 30,899	\$ 9,047	\$ 248,247
Less accumulated depreciation	185,224	23,091	9,047	199,268
Capital assets, net	\$ 41,171	\$ 7,808	\$ -	\$ 48,979

*Restated, see Note 14.

Component Unit – Industrial Development Authority

The Industrial Development Authority had no depreciable property at June 30, 2006 because it is held for resale.

COUNTY OF HENRY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 7. Capital Assets (Continued)

Construction commitments

The County has no active construction projects at June 30, 2006. At year-end, the component-unit School Board had the following commitments with contractors:

Project	Spent to Date	Remaining Commitments
Mount Olivet Elementary School	\$ 1,365,247	\$ 1,000,928
Drewry Mason Middle School	\$ -	\$ 914,800
Axton Elementary School	\$ 46,505	\$ 217,369

Note 8. Notes Receivable – Industrial Development Authority – Component Unit

The Component Unit – Industrial Development Authority has notes receivable from two companies in the combined amount of \$4,203,401, less an allowance of \$714,957. One note for \$113,144 is paid monthly with an interest rate of 5.3%. The other note is an unsecured claim against a bankrupt organization. The bankruptcy decree provides that annual payments to the IDA will be paid based upon a formula using excess cash flows from the business. As security for this note, the IDA has received personal guarantees from the principals of the organization.

Note 9. Long-Term Debt

Primary government

The following table is a summary of the changes in long-term liabilities that are recorded in the Statement of Net Assets for the year ended June 30, 2006:

	Beginning Balance*	Additions	Reductions	Ending Balance	Due within 1 year
General obligations bonds – County	\$ 6,360,000	\$ -	\$ 540,000	\$ 5,820,000	\$ 560,000
General obligations bonds – public schools	1,883,533	2,342,487	498,052	3,727,968	284,733
Bond premium	-	131,268	-	131,268	6,563
Literary fund loans	7,692,288	-	641,289	7,050,999	641,289
Capital lease obligations	97,945	-	97,945	-	-
Landfill closure monitoring	1,083,000	-	-	1,083,000	127,000
Compensated absences	1,389,682	-	36,860	1,352,822	135,000
	<u>\$ 18,506,448</u>	<u>\$ 2,473,755</u>	<u>\$ 1,814,146</u>	<u>\$ 19,166,057</u>	<u>\$ 1,754,585</u>

*Restated, see Note 14.

Compensated absences expenses are allocated by department and by fund. The change in compensated absences for the Statement of Activities is charged to general government.

COUNTY OF HENRY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

Note 9. Long-Term Debt (Continued)

Bonds payable

The schedule below represents long-term debt payable at June 30, 2006:

Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2006
General obligation bonds – 2002	\$ 6,040,000	\$ 560,000	3.00-5.00%	2014	\$ 5,820,000
VA Public School Authority bonds – 1994	1,565,000	100,000	6.00-8.60%	2008	300,000
VA Public School Authority bonds – 1995	1,916,194	95,834	5.10-6.10%	2015	1,085,481
VA Public School Authority bonds – 2005	2,342,487	88,899	4.60-5.10%	2025	2,342,487
Magna Vista Literary loan – 1994	2,000,000	100,000	3.00%	2008	400,000
Sanville Elementary Literary loan – 1998	2,080,772	104,039	2.00%	2018	1,248,460
Laurel Park Literary loan – 1998	1,387,370	69,500	2.00%	2018	831,370
Rich Acres Literary loan – 1998	2,462,218	122,750	2.00%	2018	1,480,218
Stanleytown Literary loan – 1998	2,425,951	120,000	2.00%	2018	1,465,951
Fieldale-Collinsville Literary loan – 1998	2,500,000	125,000	2.00%	2018	1,625,000
					16,598,967
Add bond premium					131,268
					<u>\$ 16,730,235</u>

Debt service on the preceding long-term debt in future years is as follows:

Fiscal Year Ending June 30,	General Obligation Bonds – County		General Obligation Bonds – Public Schools		Literary Fund Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 560,000	\$ 220,100	\$ 284,733	\$ 208,040	\$ 641,289	\$ 145,023
2008	580,000	203,000	294,173	169,902	641,289	131,197
2009	595,000	183,888	298,691	151,859	641,289	117,371
2010	615,000	162,713	203,446	137,305	641,289	103,545
2011	640,000	139,950	208,449	126,802	541,289	89,720
2012-2016	2,830,000	276,825	1,123,464	470,289	2,706,445	286,211
2017-2021	-	-	612,646	249,855	1,238,109	41,204
2022-2026	-	-	702,366	85,134	-	-
	<u>\$ 5,820,000</u>	<u>\$ 1,186,476</u>	<u>\$ 3,727,968</u>	<u>\$ 1,599,186</u>	<u>\$ 7,050,999</u>	<u>\$ 914,271</u>

(Continued)

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9. Long-Term Debt (Continued)

General obligation debt limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a County may issue.

The legal debt margin of the County was \$225,954,533 at June 30, 2006, computed as follows:

Total assessed value of taxed real property	<u>\$ 2,425,535,000</u>
Debt limits per Constitution of Virginia – 10% assessed value	\$ 242,553,500
Amount of debt applicable to debt limit:	
Gross debt ⁽¹⁾	<u>16,598,967</u>
Legal debt margin – June 30, 2006	<u>\$ 225,954,533</u>

(1) Includes all long-term general obligation bonded debt and Literary Fund Loans. Excludes capital leases, landfill closure, postretirement healthcare benefits, and compensated absences.

Component units

Following is a summary of the changes in long-term liabilities that are recorded in the Henry County Public Schools for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within 1 year
Compensated absences	\$ 335,857	\$ 127,705	\$ -	\$ 463,562	\$ 46,356

Following is a summary of the changes in long-term liabilities that are recorded in the Henry – Martinsville Social Services for the year ended.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within 1 year
Compensated absences	\$ 324,775	\$ 84,137	\$ 73,562	\$ 335,350	\$ 17,100

Following is a summary of the changes in long-term liabilities that are recorded in the Industrial Development Authority for the year ended.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within 1 year
Economic development revenue anticipation note	\$ 859,000	\$ -	\$ 336,000	\$ 523,000	\$ 336,000

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9. Long-Term Debt (Continued)

Component units (Continued)

The Economic Development Revenue Anticipation note is comprised of the following:

\$3,360,000 note issued February 10, 1998 for the acquisition of real property, quarterly payment of \$84,000 plus interest at 4.65% through February 2008. Payments of principal and interest are provided, if necessary, by an Industrial Park Support Agreement with Henry County. \$ 523,000

Estimated principal maturities for future years ended June 30, follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 336,000	\$ 11,910
2008	<u>187,000</u>	<u>2,318</u>
	<u><u>\$ 523,000</u></u>	<u><u>\$ 14,228</u></u>

Note 10. Revenue Anticipation Note

On January 13, 2005, the County issued tax revenue anticipation notes Series 2005 in the amount of \$4,500,000 carrying an interest rate of 2.12%. The County made a principal payment on the note of \$304,000 during FY 2005. The remaining principal balance was paid on January 13, 2006. The proceeds of this note were used for cash management purposes.

On January 18, 2006, the County issued tax revenue anticipation notes Series 2006 in the amount of \$4,196,000 carrying an interest rate of 3.17%. The County made a principal payment on the note of \$462,000 during FY 2006. The remaining principal balance is due on January 17, 2007. The proceeds of this note were used for cash management purposes.

Note 11. Landfill Post-Closure Care Cost

The County maintains a landfill, which was closed in 1993. In accordance with state and federal laws and regulations the County placed a final cover on this site and was required to perform certain maintenance and monitoring functions at the site for a minimum of ten years after closure. A high concentration of methane has been detected at the landfill; therefore, the Department of Environmental Quality (“DEQ”) has required an additional monitoring period as well as the installation of certain equipment at the landfill for remediation of the high methane concentrations. The County expects the methane monitoring to continue for approximately twenty years. The County is currently in compliance with groundwater protection standards and as such expects the DEQ to allow the County to stop groundwater monitoring within the next two years.

The \$1,083,000 reported as landfill post-closure care liability at June 30, 2006 represents what it would cost to perform all post-closure care in 2006. The estimated liability is based on the DEQ accepting the active remedy proposed by the County. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs for post-closure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

COUNTY OF HENRY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 11. Landfill Post-Closure Care Cost (Continued)

As stated in Note 14, the total post-closure care liability at June 30, 2005 was restated to account for the entire liability not recorded previously.

Note 12. 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 nonprofessional employees of the Henry County Public Schools are covered by the VRS. Professional employees of the public schools participate in a VRS statewide teacher cost sharing pool, and nonprofessional employees participate as a separate group in the agent multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years for participating law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded for their website at <http://www.varetire.org/pdf/2005annuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2006 was 12.50% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2006 were 11.62% for professional employees and 9.00% for non-professional employees. The County and School Board's contribution rates include the employee's share of 5% paid by employer.

(Continued)

COUNTY OF HENRY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 12. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For fiscal year 2006, the County's annual pension costs of \$1,512,695 and the School Board's annual pension cost of \$3,729,084 for professional and \$440,337 for non-professional employees, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 3.50% to 5.73% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the County and School Board assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Three-Year Trend Information for the County of Henry			
June 30, 2006	\$ 1,512,695	100%	\$ -
June 30, 2005	\$ 1,446,985	100%	\$ -
June 30, 2004	\$ 990,357	100%	\$ -

**Three-Year Trend Information for the County of Henry School Board
Non-Professional Employees**

June 30, 2006	\$ 440,337	10%	\$ -
June 30, 2005	\$ 324,917	10%	\$ -
June 30, 2004	\$ 291,309	100%	\$ -

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
Henry County						
June 30, 2005	\$ 38,288,414	\$ 41,193,392	\$ 2,904,978	92.95%	\$ 11,608,484	25.02%
June 30, 2004	\$ 36,687,114	\$ 38,492,405	\$ 1,805,291	95.31%	\$ 10,501,437	17.19%
June 30, 2003	\$ 35,885,003	\$ 36,438,508	\$ 553,505	98.48%	\$ 10,453,118	5.30%
Henry County School Board						
June 30, 2005	\$ 11,854,935	\$ 13,349,309	\$ 1,494,374	88.81%	\$ 3,574,927	41.80%
June 30, 2004	\$ 11,722,877	\$ 11,570,719	\$ (152,158)	101.32%	\$ 3,573,285	-4.26%
June 30, 2003	\$ 11,619,391	\$ 11,076,711	\$ (542,680)	104.90%	\$ 3,568,951	-15.21%

(Continued)

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 13. Commitments and Contingencies

Litigation:

The County is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of County management and the County Attorney that any losses not covered by insurance, which may ultimately be incurred as a result of suits and claims, will not be material.

Federally assisted grant programs:

The County participates in a number of federally assisted grant programs. Although the County has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, County management believes such disallowances, if any, will not be significant.

Performance agreements:

The Industrial Development Authority (the "IDA") has signed performance agreements with various companies that have located within the County. As part of many of these agreements, the IDA has agreed to pay cash incentives to the companies. As of June 30, 2006, the IDA has outstanding commitments for future payments under these agreements as follows:

Year Ended June 30	Commitment
2007	\$ 423,712
2008	309,700
2009	309,700
2010	500,900
Total	\$ 1,544,012

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; injuries to employees; and natural disasters. The County participates with other localities in the Virginia Association of Counties Liability Pool and Virginia Association of Counties Group Self-insurance Risk Pool, both public entity risk pools currently operating as a common risk management and insurance program. 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.

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 13. Commitments and Contingencies (Continued)

Risk management: (Continued)

The County continues to carry commercial insurance for all other risks of loss, including employee health, dishonesty and surety bond insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past three fiscal years and there have not been any significant reductions in insurance coverage over the previous year.

Note 14. Restatement of Fund Balance and Net Assets

	Governmental Activities	General Fund	Comprehensive Services Act Fund	Discretely Presented Component Units	
				School Governmental Activities	Henry- Martinsville Social Services
Fund balance/net assets (deficit):					
June 30, 2005,					
as previously stated	\$ 27,964,527	\$ 15,077,045	\$ -	\$ 13,322,530	\$ (249,657)
Restatement to:					
Adjust for unspent grant revenue from the prior year	20,357	100,000	20,357	-	-
Capitalize items representing inventory that had previously been expensed	2,111,526	-	-	-	-
Increase net assets for amounts improperly included in previous year conversion entries	253,255	-	-	-	-
Reflect prior year understatement in allowance for doubtful accounts calculation	(2,315,007)	-	-	-	-
Decrease net assets for understatement in landfill liability calculations	(888,000)	-	-	-	-
Adjust capital assets for water and sewer lines constructed as part of industrial site project not capitalized	340,175	-	-	-	-
Adjust capital assets to detail records	10,514	-	-	1,560,050	(33,947)
Net change in fund balance/net assets (deficit)	(467,180)	100,000	20,357	1,560,050	(33,947)
Fund balance/net assets (deficit)					
June 30, 2005,					
as restated	\$ 27,497,347	\$ 15,177,045	\$ 20,357	\$ 14,882,580	\$ (283,604)

(Continued)

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 15. Subsequent Event

Patriot Center Shell Building

On August 16, 2006 the Discretely Presented Component Unit – IDA issued bonds of \$3.5 million in order to construct a shell building in the Patriot Centre. The County of Henry will lease the structure with a lease payment equal to the debt service the IDA will be paying. The Martinsville-Henry County Economic Development Corporation (EDC) will pay for upfront legal, design and soft costs of the project. The EDC will also pay the first year's debt service. In years two through five the City of Martinsville and the County of Henry will pay the debt service. If the building is not sold after five years the Harvest Foundation, Inc. will purchase the building from the IDA and make it available for economic development purposes.

School improvements

On July 26, 2006, the Board approved \$3.5 million and \$4.0 million of HVAC, electrical, and window work at Carver Elementary and Campbell Court Elementary, respectively. These improvements will be funded using the proceeds from VPSA bonds.

Harvest Foundation Grant

On October 9, 2006, the Harvest Foundation announced a gift of approximately \$20 million for a sports complex, which will include a soccer complex in Henry County. The County has committed to making a gift of 91 acres of land to the newly formed Southern Virginia Recreation Facilities Authority. Also, the County will serve as fiscal agent for the Authority.

Literary Fund Loans

On September 26, 2006, the County approved the application for a \$3.5 million Literary Fund Loan for Drewry Mason Middle School.

Drewry Mason improvements

On November 2, 2006, the School Board awarded a \$761,580 contract to a contractor for the replacement of roof and windows at Drewry Mason.

Note 16. Other Matters

Sheriff Indictments

On October 31, 2006, in the United States District Court Western District of Virginia located in Roanoke, Virginia the Henry County Sheriff along with 19 other individuals, including a dozen officers, were indicted on charges ranging from racketeering to possession of stolen and illegal firearms to drug distribution. As of May 24, 2007, the Sheriff along with 17 of the other defendants have entered plea agreements acknowledging their role in criminal activity.

COUNTY OF HENRY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 16. Other Matters (Continued)

FBI Subpoena

On October 17, 2006, the Federal Bureau of Investigation subpoenaed from the Henry County Virginia Purchasing Department any and all business and financial records pertaining to purchases for the Henry County Sheriff's Office, for the period beginning January 1, 2002 through October 17, 2006. These records included copies of all vendor lists with vendor names, addresses and telephone numbers, copies of all purchase orders, and copies of all invoices. The results of the FBI's investigation of those documents are unknown as of June 18, 2007.

Note 17. New Accounting Standard

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

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Property taxes				
Current property taxes	\$ 19,102,510	\$ 19,102,510	\$ 19,599,801	\$ 497,291
Prior year's property taxes	686,340	686,340	1,120,325	433,985
Penalties - all tax years	240,000	240,000	298,892	58,892
Interest - all tax years	120,000	120,000	227,070	107,070
Total property taxes	<u>20,148,850</u>	<u>20,148,850</u>	<u>21,246,088</u>	<u>1,097,238</u>
Other local taxes				
Local sales and use taxes	4,024,000	4,024,000	3,966,971	(57,029)
Consumer utility tax	4,334,000	4,334,000	4,466,273	132,273
Business license taxes	1,145,000	1,145,000	1,477,372	332,372
Franchise license taxes	265,300	265,300	243,450	(21,850)
Motor vehicle licenses	1,029,000	1,029,000	1,046,928	17,928
Bank franchise taxes	164,600	164,600	214,372	49,772
Transient occupancy taxes	100,000	100,000	108,019	8,019
Taxes on recordation and wills	234,000	234,000	325,528	91,528
Restaurant food taxes	1,698,000	1,698,000	1,775,671	77,671
Total other local taxes	<u>12,993,900</u>	<u>12,993,900</u>	<u>13,624,584</u>	<u>630,684</u>
Permits, privilege fees, and regulatory licenses				
Animal licenses	9,994	9,994	10,911	917
Building and related permits	129,400	129,400	91,277	(38,123)
Transfer fees	1,925	1,925	1,967	42
Other permits and fees	6,248	6,248	8,181	1,933
Total Permits, privilege fees, and regulatory licenses	<u>147,567</u>	<u>147,567</u>	<u>112,336</u>	<u>(35,231)</u>
Fines and forfeitures				
Court fines and forfeitures	139,461	139,461	202,521	63,060
Revenue from use of money and property				
Revenue from use of money	152,700	152,700	602,330	449,630
Revenue from the use of property	155,651	155,651	177,351	21,700
Total revenue from use of money and property	<u>308,351</u>	<u>308,351</u>	<u>779,681</u>	<u>471,330</u>

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES (Continued)				
Charges for services				
Court Costs	\$ 920	\$ 920	\$ 25,324	\$ 24,404
Sheriff fees	18,454	18,454	15,525	(2,929)
Excess fees of clerk	10,000	10,000	1,040	(8,960)
County attorney	48,000	48,000	42,871	(5,129)
Commonwealth's attorney	2,700	2,700	2,926	226
Law enforcement and traffic control	27,500	27,500	85,105	57,605
Sanitation and waste removal	37,900	37,900	35,904	(1,996)
Demolition fees	-	-	32	32
Animal warden	630	630	445	(185)
Sale of street signs	-	-	153	153
Parks and recreation	47,000	47,000	44,685	(2,315)
Sale of maps	2,100	2,100	1,281	(819)
Sale of publication	100	100	36	(64)
Utility collection commission	19,200	19,200	12,164	(7,036)
Bad check charge	2,500	2,500	3,723	1,223
Total charges for services	217,004	217,004	271,214	54,210
Miscellaneous				
Sale of recyclable materials	3,500	3,500	3,976	476
Other	-	-	286	286
Total miscellaneous	3,500	3,500	4,262	762
Recovered costs				
Jail costs - Commonwealth of Virginia	522,213	522,213	525,678	3,465
Jail costs - house other inmates	-	-	7,862	7,862
Reimburse transport prisoners	-	-	555	555
Salary - court secretary	25,700	25,700	27,149	1,449
Unused health department funds	-	-	15,149	15,149
City share of extension services	9,000	9,000	9,000	-
School share of school resource officer	133,939	133,939	123,426	(10,513)
Use of pool vehicles	-	-	2,060	2,060
Share inmate social services	-	-	7,600	7,600
Harvest Foundation grant	207,066	210,170	143,420	(66,750)
M/HC EDC	802,808	802,808	577,427	(225,381)
Transportation grant	47,120	58,090	47,852	(10,238)
Insurance recoveries	-	-	11,002	11,002
Donations and special gifts	-	25,250	25,250	-
Miscellaneous refunds	348,275	398,275	414,582	16,307
Total recovered costs	2,096,121	2,185,445	1,938,012	(247,433)

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES (Continued)				
Intergovernmental				
Revenue from the Commonwealth				
Non-categorical aid				
ABC profits	\$ 87,086	\$ 87,086	\$ 33,477	\$ (53,609)
Wine taxes	70,000	70,000	35,091	(34,909)
Motor vehicle carriers' tax	33,000	33,000	33,137	137
Auto rental tax	40,800	40,800	68,526	27,726
Mobile home titling taxes	141,500	141,500	50,902	(90,598)
Recordation tax	54,100	54,100	50,096	(4,004)
Personal property tax relief act funds	1,629,631	1,629,631	1,835,453	205,822
PARA mutual tax	133,000	133,000	36,900	(96,100)
Total non-categorical aid	2,189,117	2,189,117	2,143,582	(45,535)
Shared expenditures				
Commonwealth's Attorney	378,956	386,422	426,194	39,772
Sheriff	3,732,262	3,734,533	3,910,600	176,067
Commissioner of Revenue	180,876	180,876	180,697	(179)
Treasurer	179,283	179,283	181,949	2,666
Medical examiner	1,000	1,000	600	(400)
Registrar and electoral board	41,700	41,700	57,086	15,386
Clerk of Circuit Court	376,461	376,461	420,308	43,847
Total shared expenditures	4,890,538	4,900,275	5,177,434	277,159
Other categorical aid				
Emergency medical services	-	45,196	-	(45,196)
Law enforcement grants	-	-	2,100	2,100
Fire programs fund	-	129,376	129,376	-
Victim witness program	20,077	20,077	20,308	231
Transportation grant funds	30,229	31,558	31,558	-
Litter control program	14,858	14,858	21,864	7,006
EMS life funds	-	43,571	43,571	-
Other state grants	-	1,000	65,328	64,328
Forfeited property	-	120,800	17,482	(103,318)
Total other categorical aid	65,164	406,436	331,587	(74,849)
Total revenue from the Commonwealth	7,144,819	7,495,828	7,652,603	156,775

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES (Continued)				
Intergovernmental (Continued)				
Revenue from federal government				
Payments in lieu of taxes	\$ 1,695	\$ 1,695	\$ 1,807	\$ 112
Forfeited property	-	3,943	31,596	27,653
Emergency services	24,874	271,912	228,538	(43,374)
Law enforcement grants	-	410,791	293,351	(117,440)
Victim witness program	80,301	80,301	81,232	931
Transportation grants	53,973	87,689	54,058	(33,631)
Hazard mitigation	-	286,761	171,479	(115,282)
HUD special project grants	-	-	89,415	89,415
Miscellaneous refunds	46,586	46,586	17,250	(29,336)
Other federal grants	-	222,000	218,922	(3,078)
Total revenue from the federal government	207,429	1,411,678	1,187,648	(224,030)
Total intergovernmental revenue	7,352,248	8,907,506	8,840,251	(67,255)
Nondepartmental				
Reserve fund used	-	3,820,879	-	(3,820,879)
Total revenues	\$ 43,407,002	\$ 48,872,463	\$ 47,018,949	\$ (1,853,514)
EXPENDITURES				
General Government				
Legislative				
Board of Supervisors	\$ 127,934	\$ 137,769	\$ 194,011	\$ (56,242)
General and financial administration				
County Administrator	289,211	291,712	283,338	8,374
Independent auditor	36,000	36,000	30,185	5,815
Human resources/training	45,169	45,169	40,578	4,591
County Attorney	95,747	97,047	98,335	(1,288)
Commissioner of Revenue	495,275	501,378	474,016	27,362
Assessors	141,560	143,274	100,006	43,268
Treasurer	525,832	525,832	522,007	3,825
Accounting	308,843	311,554	297,391	14,163
Information services	314,974	381,521	331,772	49,749
Central purchasing	180,513	180,513	177,303	3,210
Total general and financial administration	2,433,124	2,514,000	2,354,931	159,069
Board of Elections - registrar	243,223	255,713	210,575	45,138
Total general government	2,804,281	2,907,482	2,759,517	147,965

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Judicial Administration				
Courts				
Circuit Court	\$ 84,842	\$ 87,039	\$ 70,210	\$ 16,829
General District Court	16,275	16,532	11,933	4,599
Special Magistrates	3,600	3,965	2,599	1,366
Juvenile and Domestic Relations	13,590	15,507	13,201	2,306
Clerk of the Circuit Court	602,812	602,812	581,932	20,880
Sheriff Civil and Court Security	854,855	854,855	951,331	(96,476)
Victim/Witness Assist	117,868	117,868	113,781	4,087
Total courts	1,693,842	1,698,578	1,744,987	(46,409)
Commonwealth's Attorney	495,225	502,691	542,248	(39,557)
Total judicial administration	2,189,067	2,201,269	2,287,235	(85,966)
Public Safety				
Law enforcement and traffic control				
Sheriff	4,414,433	4,432,978	4,363,887	69,091
Highway safety grants - DUI	-	30,104	15,274	14,830
DMV strike force mini grants	-	3,000	2,632	368
COPS technology grants	-	82,942	82,071	871
Forfeited assets sharing program	-	124,743	97,082	27,661
Special police	5,197	5,197	6,496	(1,299)
School resource officer program	133,939	133,939	123,426	10,513
Other law enforcement grants	-	368,306	274,672	93,634
Total law enforcement and traffic control	4,553,569	5,181,209	4,965,540	215,669
Fire and rescue services				
Fire and rescue services grants	1,124,969	1,397,175	1,161,067	236,108
Harvest rescue training/equipment grant	254,094	255,514	168,246	87,268
Emergency medical services	176,404	182,712	175,857	6,855
Total fire and rescue services	1,555,467	1,835,401	1,505,170	330,231
Correction and detention				
Sheriff	2,015,943	2,021,567	1,955,271	66,296
Electronic monitoring	16,635	16,635	16,599	36
Probation office	320,891	320,891	268,219	52,672
Total correction and detention	2,353,469	2,359,093	2,240,089	119,004

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Public Safety (Continued)				
Other protection				
Public safety grants	\$ -	\$ 578,994	\$ 439,471	\$ 139,523
Public safety	110,011	113,117	109,461	3,656
Inspections	271,298	314,807	281,372	33,435
Fire marshal	234,487	237,490	238,605	(1,115)
Animal control	124,823	124,823	122,389	2,434
Martinsville-Henry County SPCA	8,051	8,051	8,051	-
Total other protection	748,670	1,377,282	1,199,349	177,933
Total public safety	9,211,175	10,752,985	9,910,148	842,837
Public works				
Maintenance of highways, streets, bridges, sidewalks	11,200	64,526	12,419	52,107
Sanitation and waste removal				
Refuse collection	1,435,572	1,435,572	1,415,352	20,220
Refuse disposal – closure maintenance	41,500	121,010	130,558	(9,548)
Total sanitation and waste removal	1,477,072	1,556,582	1,545,910	10,672
Maintenance of general buildings and grounds				
General engineering/administration	223,647	225,047	206,045	19,002
Communication equipment	51,564	51,564	47,857	3,707
Sheriff's office building	44,175	46,069	39,496	6,573
Dog pound	9,625	9,625	5,318	4,307
Firing range	2,192	2,192	753	1,439
Administration building	312,261	385,347	354,710	30,637
DuPont property	221,935	253,018	239,996	13,022
Jail	175,800	233,679	220,248	13,431
Health department building	6,300	6,300	-	6,300
Old courthouse	5,250	5,250	3,847	1,403
Patriot Centre fire and rescue building	10,200	10,790	6,602	4,188
Patriot Centre property	31,700	36,200	40,413	(4,213)
CERT building	22,815	22,815	19,202	3,613
Burn building	5,670	5,670	7,765	(2,095)
Other county buildings	30,100	26,763	20,263	6,500
Storage building	6,095	6,095	5,023	1,072
Courthouse	233,956	273,129	262,148	10,981
Total maintenance of general buildings and grounds	1,393,285	1,599,553	1,479,686	119,867
Total public works	2,881,557	3,220,661	3,038,015	182,646

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
EXPENDITURES (Continued)				
Health and welfare				
Health-supplement of local health dept.	\$ 280,853	\$ 280,853	\$ 280,853	\$ -
Mental health and retardation	119,213	119,213	119,213	-
Henry-Martinsville Social Services	543,208	543,265	482,337	60,928
Welfare				
Transportation grants	131,322	177,338	133,468	43,870
Area agency on aging	11,671	11,671	9,763	1,908
Property tax relief for the elderly	110,000	110,000	96,007	13,993
Group home services	73,343	73,343	73,343	-
Other social services	58,300	58,300	58,300	-
Total welfare	384,636	430,652	370,881	59,771
Total health and welfare	1,327,910	1,373,983	1,253,284	120,699
Education				
Henry County Schools - operating	14,608,783	17,002,936	14,711,921	2,291,015
Henry County Schools - debt proceeds	-	3,011,578	2,473,755	537,823
Contributions to community colleges	67,366	67,366	67,366	-
Total education	14,676,149	20,081,880	17,253,042	2,828,838
Parks, recreation and cultural				
Parks, recreation and cultural	802,438	810,050	793,420	16,630
Cultural enrichment				
Museum of Natural History	30,000	30,000	30,000	-
Piedmont Art Association	9,000	9,000	9,000	-
Other cultural enrichment	19,000	19,000	19,000	-
Total cultural enrichment	58,000	58,000	58,000	-
Library	801,000	801,000	801,000	-
Total parks, recreation, and cultural	1,661,438	1,669,050	1,652,420	16,630
Community Development				
Planning and community development				
Planning and community development	240,716	242,338	229,521	12,817
Engineering - mapping	210,279	210,279	199,111	11,168
Planning special projects	-	45,000	33,040	11,960
M/HC EDC	802,808	802,808	577,427	225,381
Economic development agencies	510,000	510,000	510,000	-
Enterprise zone incentives	35,293	35,293	11,093	24,200
Other planning/development agencies	62,069	62,069	62,069	-
Special planning grants	-	-	18,782	(18,782)
Total planning and community development	1,861,165	1,907,787	1,641,043	266,744

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
EXPENDITURES (Continued)				
Community Development (Continued)				
Environmental management				
Soil and water conservation district	\$ 1,350	\$ 1,350	\$ 1,350	\$ -
Litter control grant	21,691	21,691	28,697	(7,006)
Total environmental management	23,041	23,041	30,047	(7,006)
Cooperative extension program	48,688	48,688	38,025	10,663
Henry County Industrial Development Authority	2,159,109	2,036,992	1,373,405	663,587
Total community development	4,092,003	4,016,508	3,082,520	933,988
Nondepartmental				
Contingencies	119,210	38,917	-	38,917
Employee benefits	88,394	92,394	18,427	73,967
Central stores	-	-	(6,704)	6,704
Pool vehicles	7,209	7,209	4,768	2,441
CDBG special education grant	-	200,000	198,110	1,890
Total nondepartmental	214,813	338,520	214,601	123,919
Debt service				
Principal retirement	2,227,286	2,227,286	1,777,286	450,000
Interest and other fiscal charges	628,781	628,781	495,788	132,993
Total debt service	2,856,067	2,856,067	2,273,074	582,993
Capital outlay	779,000	1,680,590	1,020,600	659,990
Total expenditures	42,693,460	51,098,995	44,744,456	6,354,539
Excess (deficiency) of revenues over expenditures	713,542	(2,226,532)	2,274,493	4,501,025
OTHER FINANCING SOURCES (USES)				
Proceeds from bonds	-	3,011,578	2,342,487	(669,091)
Bond premium	-	-	131,268	131,268
Transfers to Central Dispatch	(386,195)	(457,700)	(152,341)	305,359
Transfers to Comprehensive Services Act	(327,347)	(327,346)	(163,718)	163,628
Total other financing sources (uses)	(713,542)	2,226,532	2,157,696	(68,836)
Net change in fund balance	\$ -	\$ -	\$ 4,432,189	\$ 4,432,189

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – COMPREHENSIVE SERVICES ACT FUND
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Recovered costs	\$ 30,435	\$ 30,435	\$ 30,435	\$ -
Intergovernmental				
Commonwealth of Virginia	652,295	652,295	320,899	(331,396)
Federal	5,314	5,314	-	(5,314)
	<u>688,044</u>	<u>688,044</u>	<u>351,334</u>	<u>(336,710)</u>
EXPENDITURES				
Health and welfare	<u>1,015,391</u>	<u>1,015,391</u>	<u>518,903</u>	<u>496,488</u>
Total expenditures	<u>1,015,391</u>	<u>1,015,391</u>	<u>518,903</u>	<u>496,488</u>
Excess (deficiency) of revenues over expenditures	<u>(327,347)</u>	<u>(327,347)</u>	<u>(167,569)</u>	<u>159,778</u>
OTHER FINANCING SOURCES				
Transfers in	<u>327,347</u>	<u>327,347</u>	<u>163,718</u>	<u>(163,629)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,851)</u>	<u>\$ (3,851)</u>

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – E-911 CENTRAL DISPATCH FUND
Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Other local taxes	\$ 260,852	\$ 260,852	\$ 783,949	\$ 523,097
Recovered costs	429,959	459,165	388,421	(70,744)
Intergovernmental	275,345	298,345	317,057	18,712
Total revenues	<u>966,156</u>	<u>1,018,362</u>	<u>1,489,427</u>	<u>471,065</u>
EXPENDITURES				
Public safety	<u>1,742,851</u>	<u>1,866,562</u>	<u>1,641,768</u>	<u>224,794</u>
Total expenditures	<u>1,742,851</u>	<u>1,866,562</u>	<u>1,641,768</u>	<u>224,794</u>
Excess (deficiency) of revenues over expenditures	<u>(776,695)</u>	<u>(848,200)</u>	<u>(152,341)</u>	<u>695,859</u>
OTHER FINANCING SOURCES				
Proceeds from indebtedness	390,500	390,500	-	(390,500)
Transfers in	<u>386,195</u>	<u>457,700</u>	<u>152,341</u>	<u>(305,359)</u>
Total other financing sources	<u>776,695</u>	<u>848,200</u>	<u>152,341</u>	<u>(695,859)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – LAW LIBRARY FUND

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 15,100	\$ 15,100	\$ 18,162	\$ 3,062
Recovered costs	8,400	8,400	10,152	1,752
Total revenues	<u>23,500</u>	<u>23,500</u>	<u>28,314</u>	<u>4,814</u>
EXPENDITURES				
Judicial administration	<u>23,500</u>	<u>23,500</u>	<u>12,718</u>	<u>10,782</u>
Total expenditures	<u>23,500</u>	<u>23,500</u>	<u>12,718</u>	<u>10,782</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,596</u>	<u>\$ 15,596</u>

COUNTY OF HENRY, VIRGINIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2006**

Note 1. Budgets and Budgetary Accounting

Prior to April 18, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain citizen comments. Prior to June 30, the budget is legally adopted through passage of an Appropriations Resolution. The Appropriations Resolution places legal restrictions on expenditures at the department level. The appropriation for each department or category can be revised only by the Board of Supervisors. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board and Henry-Martinsville Social Services are authorized to transfer budgeted amounts within each of their respective budget categories. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**OTHER
SUPPLEMENTARY INFORMATION**

**DISCRETELY PRESENTED COMPONENT UNIT –
SCHOOL BOARD**

COUNTY OF HENRY, VIRGINIA

COMBINING BALANCE SHEET

June 30, 2006

	<u>School Fund</u>	<u>School Textbook Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Public Schools</u>
ASSETS				
Cash	\$ 16,287	\$ 647,328	\$ 647,562	\$ 1,311,177
Receivables, net	216,069	-	287	216,356
Due from primary government	1,354,251	-	-	1,354,251
Due from other governments	2,934,717	-	79,405	3,014,122
Restricted cash	2,543,771	-	-	2,543,771
Total assets	<u>\$ 7,065,095</u>	<u>\$ 647,328</u>	<u>\$ 727,254</u>	<u>\$ 8,439,677</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 766,394	\$ -	\$ 27,798	\$ 794,192
Accrued salaries and related liabilities	5,256,889	-	182,043	5,438,932
Deferred revenue	35,829	-	-	35,829
Total liabilities	<u>6,059,112</u>	<u>-</u>	<u>209,841</u>	<u>6,268,953</u>
Fund Balances:				
Reserved for construction	1,005,983	-	-	1,005,983
Unreserved	-	647,328	517,413	1,164,741
Total fund balances	<u>1,005,983</u>	<u>647,328</u>	<u>517,413</u>	<u>2,170,724</u>
Total liabilities and fund balances	<u>\$ 7,065,095</u>	<u>\$ 647,328</u>	<u>\$ 727,254</u>	<u>\$ 8,439,677</u>
Fund balances - per above				\$ 2,170,724
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.				14,275,657
Compensated absences are long-term liabilities and are not due and payable in the current period, and therefore, are not reported in the funds.				<u>(463,563)</u>
Net assets of governmental activities				<u>\$ 15,982,818</u>

COUNTY OF HENRY, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2006**

	<u>School Fund</u>	<u>School Textbook Fund</u>	<u>School Cafeteria Fund</u>	<u>Total School Board</u>
REVENUES				
Revenue from use of money and property	\$ 90,449	\$ 9,290	\$ 20,499	\$ 120,238
Charges for services	505,579	-	1,332,937	1,838,516
Recovered costs	135,766	-	-	135,766
Intergovernmental:				
Henry County	17,185,676	-	-	17,185,676
Commonwealth of Virginia	41,532,947	-	51,126	41,584,073
Federal	7,638,442	-	1,782,328	9,420,770
Miscellaneous	319,978	-	37,741	357,719
Total revenues	<u>67,408,837</u>	<u>9,290</u>	<u>3,224,631</u>	<u>70,642,758</u>
EXPENDITURES				
Current:				
Instruction	39,355,241	959,437	-	40,314,678
Administration, attendance, and health	3,144,988	-	-	3,144,988
Pupil transportation	4,223,939	-	-	4,223,939
Operation and maintenance	6,900,968	-	-	6,900,968
Cafeteria	-	-	3,439,357	3,439,357
Facilities	2,996,518	-	-	2,996,518
Special grants	7,882,655	-	-	7,882,655
Technology	1,552,882	-	-	1,552,882
Other	3,000	-	-	3,000
Total expenditures	<u>66,060,191</u>	<u>959,437</u>	<u>3,439,357</u>	<u>70,458,985</u>
Excess (deficiency) of revenues over expenditures	<u>1,348,646</u>	<u>(950,147)</u>	<u>(214,726)</u>	<u>183,773</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	342,663	-	342,663
Transfers out	(342,663)	-	-	(342,663)
Total other financing sources (uses)	<u>(342,663)</u>	<u>342,663</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>1,005,983</u>	<u>(607,484)</u>	<u>(214,726)</u>	<u>183,773</u>
Fund balances at July 1	<u>-</u>	<u>1,254,812</u>	<u>732,139</u>	<u>1,986,951</u>
Fund balances at June 30	<u>\$ 1,005,983</u>	<u>\$ 647,328</u>	<u>\$ 517,413</u>	<u>\$ 2,170,724</u>
Net change in fund balances - per above				\$ 183,773
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.				1,044,170
Change in compensated absences				<u>(127,705)</u>
Change in net assets of governmental activities				<u>\$ 1,100,238</u>

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SCHOOL FUND**

For the Year Ended June 30, 2006

	School Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Revenue from use of money and property	\$ 35,500	\$ 35,500	\$ 90,449	\$ 54,949
Charges for services	428,000	428,000	505,579	77,579
Recovered costs	315,000	315,000	135,766	(179,234)
Intergovernmental:				
Payments from Henry County:				
Operating payments	14,610,783	17,454,936	14,711,921	(2,743,015)
Proceeds from County debt issuance	-	3,011,578	2,473,755	(537,823)
Total Henry County revenues	<u>14,610,783</u>	<u>20,466,514</u>	<u>17,185,676</u>	<u>(3,280,838)</u>
Commonwealth of Virginia:				
Sales and use tax	8,102,066	8,248,115	7,960,761	(287,354)
Basic aid	20,254,974	20,948,324	20,863,379	(84,945)
State SOQ funds	5,908,326	5,748,935	5,701,406	(47,529)
Share of fringe benefits	2,432,186	2,481,759	2,314,513	(167,246)
Lottery proceeds	1,331,346	1,336,670	1,343,644	6,974
Other state SOQ funds	2,248,018	2,341,010	2,344,128	3,118
State categorical funds	160,141	160,141	97,550	(62,591)
Other state funds	904,419	904,649	907,566	2,917
Total Commonwealth revenues	<u>41,341,476</u>	<u>42,169,603</u>	<u>41,532,947</u>	<u>(636,656)</u>
Federal:				
Adult basic education	-	210,292	162,540	(47,752)
Title I	-	2,446,413	2,193,250	(253,163)
Title II	-	501,686	499,553	(2,133)
Title III	-	41,701	30,855	(10,846)
Title V	-	47,870	47,870	-
Harvest foundation	-	514,092	486,995	(27,097)
Reading first	-	211,664	211,664	-
Vocational education	-	190,061	190,050	(11)
Drug free schools	-	58,665	50,594	(8,071)
Sliver grants	-	22,363	20,308	(2,055)
Regional alternative program	-	108,184	108,184	-
Regional governor's school	-	776,403	767,144	(9,259)
Regional special education	-	1,039,454	557,196	(482,258)
Title VI-B - special education	-	2,429,370	1,978,016	(451,354)
Pre-school handicapped	-	176,392	101,682	(74,710)
Special grants	-	90,000	86,292	(3,708)
Other grants	8,000,000	1,204,465	146,249	(1,058,216)
Total federal revenues	<u>8,000,000</u>	<u>10,069,075</u>	<u>7,638,442</u>	<u>(2,430,633)</u>
Total intergovernmental	<u>49,341,476</u>	<u>52,238,678</u>	<u>49,171,389</u>	<u>(3,067,289)</u>
Miscellaneous	355,000	372,363	319,978	(52,385)
Total revenues	<u>65,085,759</u>	<u>73,856,055</u>	<u>67,408,837</u>	<u>(6,447,218)</u>

(Continued)

COUNTY OF HENRY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SCHOOL FUND
For the Year Ended June 30, 2006**

	School Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES				
Instruction	\$ 40,391,162	\$ 40,374,821	\$ 39,355,241	\$ 1,019,580
Administration, attendance, and health	3,501,764	3,339,052	3,144,988	194,064
Pupil transportation	3,974,648	4,443,065	4,223,939	219,126
Operation and maintenance	6,184,749	7,750,291	6,900,968	849,323
Facilities	1,100,000	5,927,922	2,996,518	2,931,404
Special grants	8,000,000	10,069,075	7,882,655	2,186,420
Technology	1,588,673	1,599,527	1,552,882	46,645
Contingency reserve	100	100	-	100
Other	2,000	2,000	3,000	(1,000)
Total expenditures	64,743,096	73,505,853	66,060,191	7,445,662
Excess of revenues over expenditures	342,663	350,202	1,348,646	998,444
OTHER FINANCING USES				
Transfer out	(342,663)	(350,202)	(342,663)	7,539
Net change in fund balance	\$ -	\$ -	\$ 1,005,983	\$ 1,005,983

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL –
 SCHOOL TEXTBOOK FUND AND SCHOOL CAFETERIA FUND
 For the Year Ended June 30, 2006

	School Textbook Fund				School Cafeteria Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from use of money and property	\$ -	\$ -	\$ 9,290	\$ 9,290	\$ 15,497	\$ 15,497	\$ 20,499	\$ 5,002
Charges for services	-	-	-	-	2,115,929	2,115,929	1,332,937	(782,992)
Intergovernmental:								
State	-	-	-	-	-	-	51,126	51,126
Federal	-	-	-	-	1,590,282	1,590,282	1,782,328	192,046
Miscellaneous	-	-	-	-	428,851	428,851	37,741	(391,110)
Reserve fund	915,337	915,337	-	(915,337)	-	-	-	-
Total revenues	915,337	915,337	9,290	(906,047)	4,150,559	4,150,559	3,224,631	(925,928)
EXPENDITURES								
Cafeteria	-	-	-	-	4,150,559	4,150,559	3,439,357	711,202
Textbook	1,258,000	1,258,000	959,437	298,563	-	-	-	-
Total expenditures	1,258,000	1,258,000	959,437	298,563	4,150,559	4,150,559	3,439,357	711,202
Excess of expenditures over revenues	(342,663)	(342,663)	(950,147)	(607,484)	-	-	(214,726)	(214,726)
OTHER FINANCING SOURCES								
Transfers in	342,663	342,663	342,663	-	-	-	-	-
Net change in fund balances	\$ -	\$ -	\$ (607,484)	\$ (607,484)	\$ -	\$ -	\$ (214,726)	\$ (214,726)

**DISCRETELY PRESENTED COMPONENT UNIT –
INDUSTRIAL DEVELOPMENT AUTHORITY**

COUNTY OF HENRY, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT –
INDUSTRIAL DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current assets

Cash	\$ 530,767
Notes receivables, net	20,301
Inventory	<u>3,719,716</u>
Total current assets	4,270,784

Noncurrent assets

Notes receivable, net	<u>3,468,143</u>
Total assets	<u>7,738,927</u>

LIABILITIES

Current liabilities

Accounts payable	3,743
Current portion of noncurrent liabilities	<u>336,000</u>
Total current liabilities	<u>339,743</u>

Long-term liabilities

Due in more than one year	187,000
Due to primary government	<u>3,441,446</u>
Total long-term liabilities	<u>3,628,446</u>

Total liabilities	<u>3,968,189</u>
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NET ASSETS

Unrestricted	<u><u>\$ 3,770,738</u></u>
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COUNTY OF HENRY, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2006**

REVENUES	
Payment from primary government	\$ 1,373,405
Sale of property	100,000
Intergovernmental	500,000
	<hr/>
Total operating revenues	1,973,405
	<hr/>
EXPENSES	
Economic development	1,515,414
	<hr/>
Operating income	457,991
	<hr/>
NON-OPERATING REVENUE (EXPENSE)	
Interest income	6,554
Interest expense	(21,990)
	<hr/>
Net non-operating expense	(15,436)
	<hr/>
Income before Capital Contributions	442,555
	<hr/>
CAPITAL CONTRIBUTIONS	
	121,900
	<hr/>
Change in net assets	564,455
	<hr/>
Net assets at July 1	3,206,283
	<hr/>
Net assets at June 30	\$ 3,770,738
	<hr/> <hr/>

COUNTY OF HENRY, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2006**

OPERATING ACTIVITIES

Receipts from primary government	\$ 1,373,405
Receipts from sales	100,000
Contributions	500,000
Cash paid to suppliers	(206,147)
Performance incentive payments	<u>(1,305,524)</u>
Net cash provided by operating activities	<u>461,734</u>

NONCAPITAL FINANCING ACTIVITIES

Payments received on notes receivables	213,507
Payments to primary government on long-term payable	<u>(197,996)</u>
Net cash provided by noncapital financing activities	<u>15,511</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payment on debt	(336,000)
Interest payments on debt	<u>(21,990)</u>
Net cash used in capital and related financing activities	<u>(357,990)</u>

INVESTING ACTIVITIES

Interest income	<u>6,554</u>
Net change in cash and cash equivalents	125,809

CASH AND CASH EQUIVALENTS

Beginning at July 1	<u>404,958</u>
Ending at June 30	<u><u>\$ 530,767</u></u>

RECONCILIATION OF OPERATING INCOME TO NET**CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 457,991
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in accounts payable	<u>3,743</u>
Net cash provided by operating activities	<u><u>\$ 461,734</u></u>

NONCASH OPERATING ACTIVITIES

Donation of land held for resale	<u><u>\$ 121,900</u></u>
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**DISCRETELY PRESENTED COMPONENT UNIT –
HENRY-MARTINSVILLE SOCIAL SERVICES BOARD**

COUNTY OF HENRY, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
HENRY-MARTINSVILLE SOCIAL SERVICES BOARD
BALANCE SHEET
June 30, 2006**

ASSETS

Cash	\$ 35,859
Due from other governmental units	383,850
Total assets	\$ 419,709

LIABILITIES

Accounts payable	\$ 19,262
Due to primary government	372,804
Due to the City of Martinsville	27,643
Total liabilities	419,709

FUND BALANCE

Total liabilities and fund balance	\$ 419,709
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Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance	\$ -
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	48,979
Compensated absences are long-term liabilities and are not due and payable in the current period, and therefore, are not reported in the funds.	(335,350)
Net assets of governmental activities	\$ (286,371)

COUNTY OF HENRY, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
HENRY-MARTINSVILLE SOCIAL SERVICES BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended June 30, 2006**

REVENUES

Payments from County of Henry	\$ 482,337
Payments from City of Martinsville	270,383
Intergovernmental	4,993,966
	<hr/>
Total revenues	5,746,686

EXPENDITURES

Health and welfare	5,746,686
	<hr/>
Net change in fund balance	-

Fund balance at July 1

-**Fund balance at June 30**

\$ -**Net change in fund balances - per above**

\$ -

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.

7,808

Change in compensated absences

(10,575)**Change in net assets of governmental activities**

\$ (2,767)

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor /Program Title	Federal CFDA Number	Federal Expenditures
<u>Department of Agriculture:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services</u>		
State Administrative Grants for Food Stamps Program	10.561	\$ 571,903
<u>Department of Education:</u>		
<u>Child Nutrition Cluster:</u>		
School Breakfast Program	10.553	416,774
National School Lunch Program	10.555	1,350,379
<u>Department of Agriculture and Consumer Services:</u>		
National School Lunch Program (Commodities)	10.555	271,367
<u>Department of Housing and Urban Development:</u>		
<u>Direct Payments:</u>		
CDBG - Brownfields Economic Development Initiative	14.246	340,634
<u>Pass-through Payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grant - States Program	14.228	1,402,936
<u>Department of FEMA/Homeland Security:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Management</u>		
Hazard Mitigation	97.039	171,479
State Homeland Security Grant Program	97.004	203,664
State Homeland Security Buffer Zone Protection	97.078	4,158
Emergency Management Preparedness	97.042	24,874
<u>Department Of Justice:</u>		
<u>Direct Payments:</u>		
Community Policing Grants	16.710	82,071
Bulletproof Vest Partnership Program	16.607	1,198
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Victim Witness Grant	16.575	81,232
Drug Control and System Improvement Grant	16.579	153,329
Law Enforcement Block Grant	16.592	34,704
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	17,891
<u>Department of Commerce:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Commerce</u>		
Economic Development Grant	11.300	364,501
<u>Department of General Services Administration:</u>		
<u>Pass-through Payments:</u>		
<u>State Board of Elections</u>		
Election Reform Payments	39.011	17,250
<u>Department of Aging:</u>		
Special programs for the aging, Title III-B grants	93.044	\$ 49,304
Special programs for the aging, Title III-D grants	93.043	4,754

(Continued)

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor /Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services: (Continued)</u>		
<u>Pass-through Payments: (Continued)</u>		
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	30,068
Temporary Assistance for Needy Families	93.558	479,795
Refugee and Entrant Assistance	93.566	390
Emergency Fuel Assistance	93.568	71,706
Child Care Assistance	93.575	245,727
Child Care and Development Fund	93.596	241,114
Chafee Education and Training Vouchers	93.599	2,016
Adoption Incentive	93.603	4,220
Foster Care – Title IV-E	93.658	569,520
Adoption Assistance	93.659	80,183
Social Service Block Grant	93.667	498,963
Chafee Foster Care Independence Program	93.674	3,326
State Children's Insurance Program	93.767	9,045
Medical Assistance Program	93.778	378,557
Statewide fraud program	93.000	18,976
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Adult Education Grants to States	84.002	162,540
Title I: Grants to Local Educational Agencies	84.010	2,193,250
Special Education – Grants to States	84.027	1,978,016
Special Education – Preschool Grants	84.173	101,682
Vocational Education - Basic Grants to States	84.048	190,050
Title II - Part A	84.367	452,565
Drug Free Schools and Communities	84.186	50,594
Innovative Education	84.298	47,870
Technology Literacy Challenge	84.318	46,989
Advanced Placement	84.365	30,855
Reading First Program	84.357	211,665
Total Expenditures of Federal Awards		<u>\$ 13,664,084</u>

Notes to Schedule of Expenditures of Federal AwardsNote 1. Basis of Accounting

This schedule includes the federal grant expenditures of the County of Henry, Virginia and its component unit, and is presented on the modified accrual basis of accounting.

Note 2. Nonmonetary Assistance

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed as determined by the U.S. Department of Agriculture. At June 30 the School Board had food commodities totaling \$82,772.21 in inventory.

OTHER INFORMATION SECTION

COUNTY OF HENRY, VIRGINIA

GENERAL GOVERNMENT REVENUES BY SOURCE ⁽¹⁾
Last Ten Fiscal Years

Fiscal Years Ended June 30	General		Other		Permits, Privilege Fees and Regulatory Licenses		Fines and Forfeitures		Revenue from the use of Money and Property		Charges for Services		Miscellaneous		Recovered Costs		Inter- governmental (2)		Totals
	Property Taxes	Local Taxes	Local Taxes	Other Taxes	Regulatory Licenses	Fees and Privilege Fees	Property	Money	Services	Miscellaneous	Recovered Costs	Inter- governmental (2)	Totals						
2006	\$ 21,246,088	\$ 14,408,533	\$ 112,336	\$ 202,521	\$ 899,919	\$ 2,127,892	\$ 361,981	\$ 2,615,293	\$ 65,747,399	\$ 107,721,962									
2005	\$ 19,540,174	\$ 13,780,132	\$ 112,369	\$ 161,990	\$ 454,669	\$ 2,027,306	\$ 726,790	\$ 1,862,503	\$ 66,312,679	\$ 104,978,612									
2004	\$ 19,208,175	\$ 13,357,655	\$ 119,802	\$ 155,089	\$ 297,645	\$ 2,051,700	\$ 966,811	\$ 1,531,942	\$ 58,602,306	\$ 96,291,125									
2003	\$ 20,180,396	\$ 13,123,865	\$ 103,648	\$ 166,977	\$ 326,701	\$ 1,909,088	\$ 754,844	\$ 1,364,305	\$ 57,793,692	\$ 95,723,516									
2002	\$ 19,800,777	\$ 13,473,128	\$ 152,142	\$ 147,622	\$ 373,032	\$ 1,697,004	\$ 627,045	\$ 1,606,255	\$ 55,777,001	\$ 93,654,006									
2001	\$ 17,944,315	\$ 13,301,181	\$ 176,659	\$ 82,052	\$ 904,631	\$ 1,694,676	\$ 601,516	\$ 1,149,867	\$ 54,581,733	\$ 90,436,630									
2000	\$ 17,597,548	\$ 12,988,309	\$ 182,326	\$ 62,470	\$ 1,201,632	\$ 1,639,948	\$ 582,603	\$ 979,384	\$ 55,129,281	\$ 90,363,501									
1999	\$ 19,318,706	\$ 11,588,424	\$ 138,305	\$ 88,505	\$ 1,288,012	\$ 1,619,171	\$ 490,944	\$ 1,102,034	\$ 48,660,661	\$ 84,294,762									
1998	\$ 19,030,302	\$ 10,522,349	\$ 157,137	\$ 94,600	\$ 1,245,665	\$ 1,553,351	\$ 287,604	\$ 873,870	\$ 43,835,112	\$ 77,599,990									
1997	\$ 17,979,177	\$ 10,204,481	\$ 137,035	\$ 78,417	\$ 1,302,904	\$ 1,534,765	\$ 238,712	\$ 572,246	\$ 39,433,063	\$ 71,480,800									

Note: (1) Includes General and Special Revenue Funds of the Primary Government and Component Units – School Board and Social Services.

(2) Payments from Henry County to the Component-units - School Board and Social Services are excluded from intergovernmental revenues.

COUNTY OF HENRY, VIRGINIA

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

Fiscal Years Ended June 30	General Government		Public Safety	Public Works	Health and Welfare	Education	Recreation and Culture	Community Development	Non- Departmental	Debt		Totals
	Administration	Judicial Administration								Service	Service	
2006	\$ 2,759,517	\$ 2,299,953	\$ 11,551,916	\$ 3,038,015	\$ 7,036,536	\$ 70,526,351	\$ 1,652,420	\$ 3,082,520	\$ 214,601	\$ 2,374,446	\$ 2,374,446	\$ 104,536,275
2005	\$ 2,638,922	\$ 2,023,616	\$ 10,820,270	\$ 3,439,122	\$ 7,286,654	\$ 65,642,278	\$ 1,646,679	\$ 6,136,677	\$ 3,151	\$ 2,401,250	\$ 2,401,250	\$ 102,038,619
2004	\$ 2,585,657	\$ 1,983,940	\$ 9,731,901	\$ 3,181,529	\$ 6,951,063	\$ 62,750,519	\$ 1,528,821	\$ 4,211,590	-	\$ 2,483,037	\$ 2,483,037	\$ 95,408,057
2003	\$ 2,345,445	\$ 1,907,224	\$ 8,625,089	\$ 2,113,430	\$ 6,708,774	\$ 63,066,071	\$ 1,463,726	\$ 4,747,090	-	\$ 8,683,020	\$ 8,683,020	\$ 99,659,869
2002	\$ 2,555,376	\$ 2,013,484	\$ 8,616,617	\$ 2,011,761	\$ 6,242,202	\$ 60,583,769	\$ 1,457,012	\$ 2,674,671	-	\$ 3,313,623	\$ 3,313,623	\$ 89,468,515
2001	\$ 2,836,966	\$ 2,047,311	\$ 8,275,766	\$ 2,173,243	\$ 6,021,165	\$ 62,234,734	\$ 1,557,112	\$ 3,972,247	-	\$ 3,817,539	\$ 3,817,539	\$ 92,936,083
2000	\$ 2,818,843	\$ 1,762,423	\$ 8,230,921	\$ 2,125,696	\$ 6,197,017	\$ 61,968,057	\$ 1,456,746	\$ 6,259,854	-	\$ 3,766,602	\$ 3,766,602	\$ 94,586,159
1999	\$ 2,595,493	\$ 1,349,565	\$ 7,579,675	\$ 1,783,126	\$ 6,030,722	\$ 56,700,176	\$ 1,335,499	\$ 1,948,899	-	\$ 3,755,332	\$ 3,755,332	\$ 83,078,487
1998	\$ 2,342,597	\$ 1,312,471	\$ 7,360,093	\$ 1,938,933	\$ 6,047,453	\$ 52,126,233	\$ 1,296,176	\$ 1,694,786	-	\$ 2,632,777	\$ 2,632,777	\$ 76,751,519
1997	\$ 2,180,461	\$ 1,203,573	\$ 6,357,608	\$ 2,227,486	\$ 4,138,295	\$ 48,551,846	\$ 1,160,915	\$ 1,202,265	-	\$ 2,619,559	\$ 2,619,559	\$ 69,642,008

Note: (1) Includes General and Special Revenue Funds of the Primary Government and Component Unit – School Board and Social Services.

TABLE 3

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

Fiscal Years Ended June 30	Total Tax Levy ⁽¹⁾	Current Tax Collections ⁽¹⁾	Percent of Levy Collected	Delinquent Tax Collections ⁽¹⁾⁽²⁾	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2006	\$ 22,399,726	\$ 21,318,128	95.17%	\$ 1,237,452	\$ 22,555,580	100.70%	\$ 3,748,689	16.74%
2005	\$ 20,972,830	\$ 19,948,957	95.12%	\$ 824,849	\$ 20,773,806	99.05%	\$ 4,796,499	22.87%
2004	\$ 21,430,662	\$ 19,751,363	92.16%	\$ 892,537	\$ 20,643,900	96.33%	\$ 4,381,656	20.45%
2003	\$ 21,905,203	\$ 20,738,250	94.67%	\$ 1,145,252	\$ 21,883,502	99.90%	\$ 3,863,612	17.64%
2002	\$ 21,432,218	\$ 19,889,455	92.80%	\$ 1,237,833	\$ 21,127,288	98.58%	\$ 3,923,627	18.31%
2001	\$ 19,586,047	\$ 17,722,835	90.49%	\$ 966,939	\$ 18,689,774	95.42%	\$ 3,696,240	18.87%
2000	\$ 19,085,142	\$ 17,727,148	92.88%	\$ 287,239	\$ 18,014,387	94.39%	\$ 3,317,249	17.38%
1999	\$ 19,283,229	\$ 18,600,710	96.46%	\$ 443,867	\$ 19,044,577	98.76%	\$ 1,941,105	10.07%
1998	\$ 18,810,289	\$ 18,186,746	96.69%	\$ 532,783	\$ 18,719,529	99.52%	\$ 1,802,563	9.58%
1997	\$ 18,105,995	\$ 17,461,015	96.44%	\$ 304,933	\$ 17,765,948	98.12%	\$ 1,754,330	9.69%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions

Note: Tax levies and collections include the Commonwealth's Personal Property Tax Relief Act funds beginning in fiscal year 2000.

TABLE 4

COUNTY OF HENRY, VIRGINIA
ASSESSED VALUATION OF ALL TAXABLE PROPERTY
Last Ten Fiscal Years

Calendar Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Service	Total
2006	\$ 2,425,535,000	\$ 329,734,102	\$ 35,541,852	\$ 315,503,025	\$ 128,647,847	\$ 3,234,961,826
2005	\$ 2,235,438,454	\$ 313,964,759	\$ 36,110,824	\$ 307,718,340	\$ 116,518,674	\$ 3,009,751,051
2004	\$ 2,202,989,259	\$ 337,420,821	\$ 36,322,407	\$ 331,930,756	\$ 117,441,586	\$ 3,026,104,829
2003	\$ 2,181,426,481	\$ 343,747,437	\$ 38,040,185	\$ 373,580,756	\$ 115,504,630	\$ 3,052,299,489
2002	\$ 2,123,944,478	\$ 333,275,933	\$ 39,771,839	\$ 362,469,906	\$ 123,767,281	\$ 2,983,229,437
2001	\$ 1,790,177,058	\$ 312,607,825	\$ 44,047,995	\$ 345,813,692	\$ 108,306,918	\$ 2,600,953,488
2000	\$ 1,754,560,400	\$ 327,873,177	\$ 39,429,214	\$ 320,554,185	\$ 101,785,074	\$ 2,544,202,050
1999	\$ 1,727,327,704	\$ 292,713,626	\$ 38,765,682	\$ 386,273,399	\$ 101,120,554	\$ 2,546,200,965
1998	\$ 1,689,787,351	\$ 275,198,982	\$ 36,941,716	\$ 382,368,031	\$ 104,141,130	\$ 2,488,437,210
1997	\$ 1,631,368,948	\$ 258,836,941	\$ 30,979,998	\$ 359,529,066	\$ 99,513,443	\$ 2,380,228,396

TABLE 5

COUNTY OF HENRY, VIRGINIA

PROPERTY TAX RATES ⁽¹⁾

Last Ten Fiscal Years

Fiscal Years Ended June 30	Real Estate	Personal Property (Motor Vehicle)	Mobile Homes	Equipment/Machinery and Tools
2006	\$ 0.54	\$ 1.48	\$ 0.54	\$ 1.19
2005	\$ 0.54	\$ 1.48	\$ 0.54	\$ 1.19
2004	\$ 0.54	\$ 1.48	\$ 0.54	\$ 1.19
2003	\$ 0.54	\$ 1.48	\$ 0.54	\$ 1.19
2002	\$ 0.54	\$ 1.48	\$ 0.54	\$ 1.19
2001	\$ 0.60	\$ 1.19	\$ 0.60	\$ 1.19
2000	\$ 0.60	\$ 1.19	\$ 0.60	\$ 1.19
1999	\$ 0.60	\$ 1.19	\$ 0.60	\$ 1.19
1998	\$ 0.60	\$ 1.19	\$ 0.60	\$ 1.19
1997	\$ 0.61	\$ 1.19	\$ 0.61	\$ 1.19

(1) Per \$100 of assessed value

TABLE 6

COUNTY OF HENRY, VIRGINIA

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population ⁽¹⁾	Assessed Value ⁽²⁾	Gross Bonded Debt ⁽³⁾	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt Per Capita
2006	57,930	\$ 3,234,961,826	\$ 16,598,967	\$ 16,598,967	0.51%	\$ 287
2005	57,930	\$ 3,009,751,051	\$ 15,935,821	\$ 15,935,821	0.53%	\$ 275
2004	57,930	\$ 3,026,104,829	\$ 17,592,080	\$ 17,592,080	0.58%	\$ 304
2003	57,930	\$ 3,052,299,489	\$ 19,235,439	\$ 19,235,439	0.63%	\$ 332
2002	56,942	\$ 2,983,229,437	\$ 20,391,482	\$ 20,391,482	0.68%	\$ 358
2001	56,942	\$ 2,600,953,488	\$ 22,055,748	\$ 22,055,748	0.85%	\$ 387
2000	56,942	\$ 2,544,202,050	\$ 23,713,325	\$ 23,713,325	0.93%	\$ 416
1999	56,942	\$ 2,546,200,965	\$ 25,369,297	\$ 25,369,297	1.00%	\$ 446
1998	56,942	\$ 2,488,437,210	\$ 26,858,414	\$ 26,858,414	1.08%	\$ 472
1997	56,942	\$ 2,380,228,396	\$ 27,342,760	\$ 27,342,760	1.15%	\$ 480

Note: (1) Weldon Cooper Center, University of Virginia, Latest Census Records.

(2) From Table 4.

(3) Includes all long term general obligation bonded debt, bond anticipation notes, and Literary Fund Loans. Excludes revenue bonds, capital leases, and compensated absences.

TABLE 7

COUNTY OF HENRY, VIRGINIA

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT ⁽¹⁾ TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Last Ten Fiscal Years**

Fiscal Years Ended June 30	Principal	Interest	Total Debt Service	Total General Governmental Expenditures ⁽²⁾	Ratio of Debt Service to General Governmental Expenditures
2006	\$ 1,777,286	\$ 597,160	\$ 2,374,446	\$ 104,536,275	2.27%
2005	\$ 1,750,890	\$ 650,360	\$ 2,401,250	\$ 102,038,619	2.35%
2004	\$ 1,732,070	\$ 750,967	\$ 2,483,037	\$ 95,408,057	2.60%
2003	\$ 7,280,058	\$ 1,402,962	\$ 8,683,020	\$ 99,659,869	8.71%
2002	\$ 1,664,266	\$ 859,842	\$ 2,524,108	\$ 89,468,515	2.82%
2001	\$ 1,657,577	\$ 932,047	\$ 2,589,624	\$ 92,936,083	2.79%
2000	\$ 1,655,972	\$ 1,003,072	\$ 2,659,044	\$ 94,586,159	2.81%
1999	\$ 1,524,447	\$ 1,120,520	\$ 2,644,967	\$ 83,078,487	3.18%
1998	\$ 1,106,709	\$ 1,191,009	\$ 2,297,718	\$ 76,751,519	2.99%
1997	\$ 1,304,552	\$ 976,040	\$ 2,280,592	\$ 69,642,008	3.27%

(1) Excludes debt service payments on notes payable.

(2) Beginning in 2006, the amounts paid to component-unit schools are no longer shown as transfers.

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**

Honorable Members of the Board of Supervisors
County of Henry, Virginia

We were engaged to audit the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the County of Henry, Virginia, as of and for the year ended June 30, 2006 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. **In our report dated December 14, 2006, we did not express an opinion on the financial statements because we were unable to perform sufficient audit procedures to substantiate the activities related to the Sheriff's department, which constitute approximately \$7.0 million of the County's \$44.8 million in total expenditures.**

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County of Henry, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. **However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.** Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County of Henry, Virginia's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. **These reportable conditions are described in the accompanying schedule of findings and questioned costs as Items 06-1, 06-2, 06-3, and 06-4.**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. **We believe that all of the reportable conditions referred to above are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 14, 2006.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Henry, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grant agreements including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed three instances of noncompliance 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 06-6, 06-7, and 06-8.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 14, 2006
(except for Note 16, as to
which the date is June 18, 2007)

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

Honorable Members of Board of Supervisors
County of Henry, Virginia

Compliance

We have audited the compliance of the County of Henry, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County of Henry, Virginia'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 of Henry, Virginia's management. Our responsibility is to express an opinion on the County of Henry, Virginia'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 of Henry, Virginia'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 of Henry, Virginia's compliance with those requirements.

In our opinion, the County of Henry, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements, which is required to be reported in accordance with *OMB Circular A-133*, and which is described in the accompanying schedule of findings and questioned costs as Item 06-5.

Internal Control Over Compliance

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 14, 2006
(except for Note 16, as to
which the date is June 18, 2007)

COUNTY OF HENRY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2006

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

Enhanced E-911 Service Taxes

Inmate Canteen Funds

Comprehensive Services Act

State Agency Requirements

Social Services

Education

Comprehensive Services Act Funds

Economic Development Opportunity Fund

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 HENRY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

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

<u>Name of Program:</u>	<u>CFDA #</u>
National School Breakfast Program	10.553
National School Lunch Program	10.555
National School Lunch Program – Commodities	10.555
Title I: Grants to Local Educational Agencies	84.010
Title IV E: Foster Care	93.658
Medical Assistance Program	93.778
Title II: Part A	84.367

8. The **threshold for** distinguishing Type A and B programs was **\$ 412,596**.
9. The County of Henry, Virginia was determined to be a **low-risk auditee**.

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT

06-1: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the segregation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. At the component unit – School Board the signed accounts payable checks are returned to the individual responsible for their preparation.

Recommendation:

The component unit – School Board should modify their current procedures and have someone other than the individual that generates the check mail them once they are generated.

Management's Response:

The concern here is that the person requesting printing of the checks could alter the payee after receiving the signed checks. Since there are only blank check forms, any alteration of the checks would be apparent on the canceled check received from the bank and be noticed by the Treasurer's staff when reconciling the bank statement. Furthermore, since a valid invoice was used to start the process, the vendor would not receive payment and notify a School Board employee, who does not mail out the checks. The Munis system will not allow the same invoice number to be entered twice.

We agree that no one person should be able to process a transaction from beginning to end. This does not occur since merchandise or services are initiated and approved by others before reaching the Business Office. There are multiple levels of approval before a bill is paid.

06-2: Ownership of Financial Reporting (Material Weakness)

Condition:

With the implementation of GASB Statement 34 several years ago, governments are required to present their financial statements on the full-accrual basis of accounting, in addition to the method which was previously used. Management was unable to provide support for material balances in the accrual numbers during the current audit. Upon further audit analysis, certain of these amounts were determined to be materially misstated, see Note 14 to the financial statements.

Recommendation:

Management must realize that the complete basic financial statements, which include accrual numbers are their responsibility. They should develop procedures to ensure all significant accrual balances are correct and have documentation available to support the balances, and take responsibility for the balances.

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

06-2: Ownership of Financial Reporting (Material Weakness) (Continued)

Management's Response:

The Auditors did prepare the County-Wide accrual statements using data prepared and given to them by management. Brown, Edwards and Company, LLP followed the same procedure and only provided the detail schedules to us upon request. The financial statements themselves provide some reconciling details and cross references.

Management recognizes that the statements are its responsibility and such is stated in the Management Representation Letter. The statements are reviewed by several management people before approval is given to issue the final report. The purpose of the reviews is to determine that the statements reflect our records and that all data flows accurately from one schedule to another and the reconciling information are reasonable.

As it has always done, including this year, management relies on the Auditor's expertise and guidance related to the financial statement presentation. Matters that we had an issue with were discussed and mutually resolved. The only exception this year was that we did not feel that a total disclaimer on the financial statements was warranted. The balance sheet figures are accurately stated and while the activity expenditures may be classified wrong, the net results are the same. We felt that a qualified opinion was more appropriate. However, we recognize that the statements are ours and the opinion is that of the Auditors.

06-3: Capital Asset Records (Material Weakness)

Condition:

We detected a material understatement of component unit – School Board capital assets, indicating controls over reconciliation of the detail records to the general ledger are not adequate. We also noted smaller differences when reviewing the detail capital asset records for the County and component unit – Henry-Martinsville Social Services.

Recommendation:

Procedures should be implemented to account for all capital assets and reconcile those capital asset detail records to the general ledger.

Management's Response:

The County purchased a fixed asset program from our previous auditors to track the capital assets. The files were given to the auditors to incorporate in the statements, after their verification. Management was not aware until the 2006 audit that the software had internal flaws that resulting in improper totals if deletions were not designated properly. For the year ended 2006, the schedules have been reviewed and the asset totals adjusted to what we believe is the correct figures. In the future, the schedules will be maintained in a different manner that is accurate and easily reconciled to the financial statements.

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

06-4: Unrecorded Landfill Liability (Material Weakness)

Condition:

The County significantly understated their landfill liability as a result of inadequate review of the information provided by other County departments and the external engineers.

Recommendation:

The County should implement steps to ensure a proper review of the information provided by other County departments for proper recording and disclosure in the financial statements.

Management's Response:

In the past management completed and mailed the schedules required by DEQ for calculating the landfill post closure liabilities after receiving the annual audit report. It wasn't until the 2005 report that DEQ required us to have an auditor sign-off on the schedules. The auditors signed off on the schedules several months after the audit report was issued. We incorrectly assumed that the liability shown in the financial statements was adequate and met reporting standards. The 2006 liability would not have been as large had not a methane gas problem been discovered during the year. Attempting to resolve the methane gas problem has substantially increased our post closure cost of the closed landfill.

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

06-5: Child Nutrition Cluster – CFDA 10.553 and 10.555

Condition:

We noted one child out of thirty receiving free benefits under the program that should have been receiving reduced benefits.

Recommendation:

Procedures should be implemented to ensure that a more accurate review of eligibility determination.

Management's Response:

The error noted was the result of clerical error. Additional procedures will be taken in the future to minimize such error occurring.

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

06-6: Commonwealth of Virginia: CSA Reimbursement Requests

Condition:

We noted during testing that the January 2006 reimbursement request was not filed timely as it was submitted in May 2006.

Recommendation:

Procedures should be implemented to ensure timely filing of all reimbursement requests.

Management's Response:

Our Munis Financial System was upgraded in January 2006. One of the problems with the release caused errors in the posting of the daily cash batches. The problem was not corrected until February 2006 and the posting of January's daily cash batches was not completed until March 3, 2006. The posting of February's daily cash batches was not completed until March 10, 2006. This contributed to the delay in requesting reimbursement for January 2006, since the daily cash posting for that month must be completed first.

06-7: Commonwealth of Virginia: Public Procurement Act

Condition:

We noted a contract entered into during the year by the component unit – School Board which did not include the nondiscrimination clause.

Recommendation:

Procedures should be implemented to ensure that all contracts contain the proper nondiscrimination clause and are appropriately advertised.

Management's Response:

The School Cafeteria did not include the non-discrimination clause within the bid for milk for the fiscal year 2006. The director of the school nutrition programs has begun to incorporate all procurement activity dealing with Bids/RFPs through the Henry County Purchasing Department. Prior to that time the cafeteria operations did not utilize the County's Purchasing Department. The Purchasing Department has the proper nondiscrimination clause in the appropriate documents.

COUNTY OF HENRY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

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

06-8: Commonwealth of Virginia: Landfill Financial Assurance

Condition:

The County currently has no mechanisms in place to demonstrate financial assurance to meet the costs of post-closure care and corrective action on the County's landfill. As a result of receiving a disclaimer of opinion on the financial statements per Code Section 9VAC20-70-21, the County is not eligible to assure its obligations under the local government financial test as was previously used.

Recommendation:

Steps should be taken by management to ensure mechanisms are in place to demonstrate financial assurance for the landfill.

Management Response:

There was no way that management would have known that we would receive a disclaimer on our 2006 financial statements. Management became aware that we would receive a disclaimer on our financial statements on March 29, 2007 because of the criminal charges involving the Sheriff's Department. This came as a result of the County and the Auditors not being able to agree on a firm price for additional audit procedures related to the Sheriff's Department.

The Sheriff's Department's expenditures constitute approximately \$7.0 million of the County's General Fund total expenditures of \$44.8 million and the County-wide total expenditures of \$76.8 million. Approximately \$5.8 million of the Sheriff's Department expenditures was payroll related and only the invoice for the remaining \$1.8 million was submitted in response to the Federal Bureau of Investigation subpoena, dated October 17, 2007.

Management will work with the State in any manner necessary to resolve the issue. The successor auditing firm will, as part of their 2007 audit, validate the beginning balance sheet figures, which is the June 30, 2006 ending balance. The validation of the June 30, 2006 ending balance sheet balances is necessary in order for them to render an opinion on financial statements for 2007.