

# Reporting Entity and Basis of Budget Accounting

Virginia cities and counties are distinct units of government and do not overlap. The County, therefore, is responsible for providing local government services to County residents. The County provides a full range of services including general government administration; judicial administration; public safety; public works; health and welfare; parks, recreation and culture; community development; education; and public utilities. The County owns and operates its own water and sewer systems, which are administered by the Department of Public Utilities. The County provides mental health, mental retardation, and substance abuse services through the Hanover County Community Services Board (CSB). The CSB is not a discretely presented component unit because the Board of Supervisors' financial accountability over this agency is equivalent to other County agencies with regards to appropriations, personnel transfers, and other financial controls. The County also provides education through its own school system administered by the Hanover County School Board (School Board) and promotes industry through the Industrial Development Authority (IDA). These agencies have been classified as discretely presented component units in the financial reporting entity because the School Board administers the School Board's appropriation within categories defined by the Commonwealth of Virginia, and the IDA has the power to issue tax exempt industrial development revenue bonds to qualifying enterprises wishing to utilize that form of financing. The Board of Supervisors' financial accountability over the School Board is also limited to approving transfers between categories, authorizing school debt issuances, and appointing School Board members.

All activities for which the County exercises oversight responsibility have been incorporated into the budget document to form the reporting entity. Oversight responsibility is determined by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Activities meeting the above oversight criteria include, but are not limited to, the general operations and support services of the County, the IDA activities, school operation, water and sewer operations, and the community services activities. Operations of the Pamunkey Regional Library, Pamunkey Regional Jail, the Capital Region Airport Commission, Greater Richmond Convention Center Authority, Middle Peninsula Juvenile Detention Center, the Central Virginia Waste Management Authority, the Greater Richmond Partnership and the Richmond Convention and Visitor's Bureau are not included in the financial reporting entity and are classified as jointly governed organizations. The County may have contribution requirements to these entities, and make direct payments, but there is no ongoing financial interest or responsibility.

## Accounting System and Budgetary Control

The County's accounting records for general government operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the goods or services are received and the liabilities incurred. Certain revenues such as property taxes, sales taxes, and intergovernmental revenues, being measurable and available, are accrued in the general governmental operations. Accounting records for the County's proprietary funds are being maintained on the accrual basis.

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. Management believes the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Administrative budgetary control is maintained within the activity at the line item level of expenditure by the encumbrance of estimated purchase orders prior to the release of purchase orders to vendors. Purchase orders or contracts which result in an over commitment of the department's budgetary authority are not released until additional appropriations have been made available. Year-end open encumbrances are reported as reservations of fund balances and reappropriated in the succeeding fiscal year.

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## Basis of Presentation – Fund Accounting

The accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise assets, liabilities, fund equities, revenues, and expenditures, or expenses, as appropriate. The various funds are summarized by fund type in the general purpose financial statements. The following fund types and account groups are used by the County:

- A. Governmental Type Funds – Governmental type funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County’s expendable financial resources and the related liabilities (except those accounted for in proprietary and fiduciary funds) are reported through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The County’s governmental fund types are:

General Fund - The general fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or other contractual agreement to another fund are accounted for in this fund. From this fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

Special Revenue Funds – Special revenue funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds consist of the Comprehensive Services, Industrial Development, and Community Services funds of the primary government and the School, Cafeteria, and Textbook Funds of the School Board component unit.

Capital Improvement Funds – Capital improvement funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. Capital improvement funds consist of the Capital Improvements and School Improvement Funds.

All governmental funds use modified accrual accounting for budgeting.

- B. Proprietary Fund Type – Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The measurement focus is upon the determination of net income. The County’s proprietary fund type includes the Enterprise Funds, which are used to account for the acquisition, operation, and maintenance of governmental facilities and services which are primarily supported by user charges. The operations of the Department of Public Utilities are accounted for and reported in the Enterprise Funds. Also included in this fund type are the Self Insurance Internal Service Fund, which provides for the fiscal management of County and School health insurance premiums, and the Fleet Services Fund, which provides vehicle and radio repair and maintenance to departments on a cost-reimbursement arrangement.