

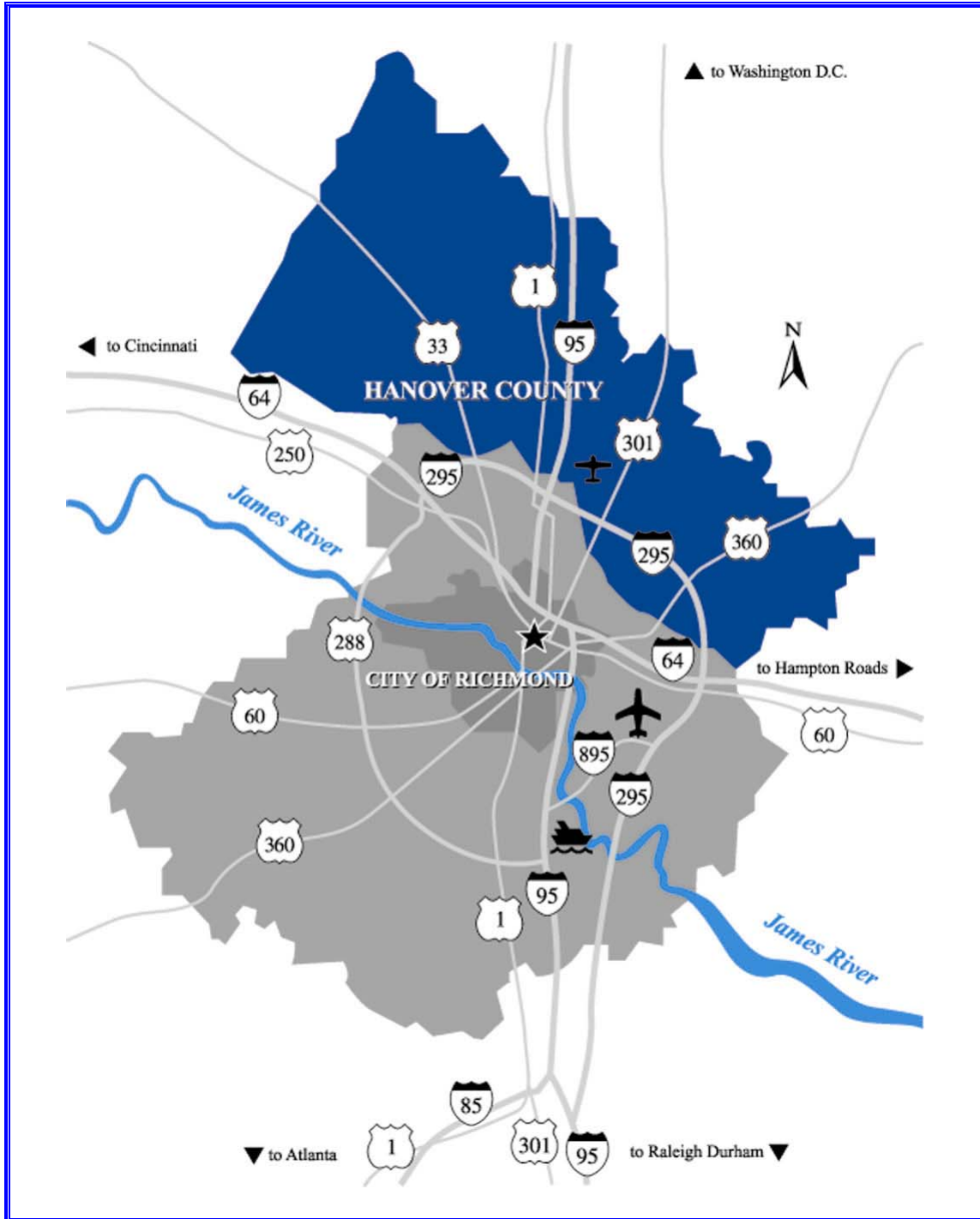
*County of
Hanover,
Virginia*

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the fiscal year ended
June 30, 2004

Hanover: People, Tradition, and Spirit

This document was prepared by the Department of Finance and Management Services, County of Hanover, Virginia, Post Office Box 470, 7497 County Complex Road, Hanover, Virginia 23069-0470. For additional information, contact Greg L. Akers, Acting Director of Finance at (804) 365-6015 or e-mail to glakers@co.hanover.va.us. For information about the County, including the WEB-based version of this and other financial documents, refer to the County's web page at www.co.hanover.va.us (financial documents under "Finance and Management Services Department" home page).

Hanover: People, Tradition, and Spirit



COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	1
GFOA Certificate of Achievement	9
Organizational Chart	10
Directory of Principal Officials.	11
 FINANCIAL SECTION	
Independent Auditor’s Report.....	15
Management’s Discussion and Analysis.....	17
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	28
Statement of Activities	29
Fund Financial Statements:	
Balance Sheet – Governmental Funds	30
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.	31
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	32
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	33
Statement of Net Assets – Proprietary Funds.....	40
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.	41
Statement of Cash Flows – Proprietary Funds.	42
Statement of Fiduciary Net Assets – Fiduciary Funds.	43
Notes to the Financial Statements.....	45
Required Supplementary Information:	
Schedule of Funding Progress –Virginia Retirement System.....	67
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - County Improvements Fund.....	70
Combining Balance sheet – Nonmajor Governmental Funds.	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	75
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Comprehensive Services Special Revenue Fund	76
Community Services Special Revenue Fund.	77
Combining Statement of Net Assets – Internal Service Funds.....	80
Combining Statement of Revenues, Expenses, and Changes in Net Fund Assets – Internal Service Funds.	81
Combining Statement of Cash Flows – Internal Service Funds.	82

Combining Balance sheet – Fiduciary Funds	84
Combining Statement of Changes in Assets and Liabilities – Fiduciary Funds	85
Discretely Presented Component Unit – School Board:	
Combining Balance Sheet.....	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.	89
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	90
School Fund – School Board:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	91
Textbook Fund – School Board:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	93
Cafeteria Fund – School Board:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	94
School Improvements Fund – School Board:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	95
Discretely Presented Component Unit-Industrial Development Authority	
Balance Sheet	98
Schedule of Revenues, Expenditures and Changes in Fund Balance.....	99
Schedules:	
Schedule of Expenditures of Federal Awards	102
Notes to Schedule of Expenditures of Federal Awards	105

STATISTICAL SECTION

General Governmental Revenues by Source	108
General Governmental Expenditures by Function.....	109
Property Tax Levies and Collections	110
Assessed and Estimated Market Value of Taxable Property	111
Property Tax Rates – Direct and Overlapping Governments	112
Principal Taxpayers	113
Ratio of Net General Bonded Debt to Assessed Value and Net General Bonded Debt Per Capita.....	114
Ratio of Debt Service to General Government Expenditures.....	115
Computation of Direct and Overlapping Debt and Legal Debt Margin	116
Revenue Bond Coverage	117
Demographic Statistics	118
Construction and Bank Deposits	119
Miscellaneous Statistics.....	120

COMPLIANCE SECTION

Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	123
Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in accordance with OMB Circular A-133	125
Schedule of Findings and Questioned Costs.....	127

INTRODUCTORY SECTION



BOARD OF SUPERVISORS

John E. Gordon, Jr., Chairman
South Anna District

J. T. "Jack" Ward, Vice-Chairman
Mechanicsville District

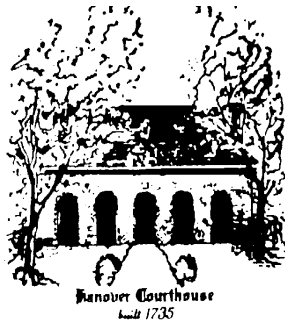
Timothy E. Ernst
Ashland District

Aubrey M. Stanley
Beaverdam District

Robert R. Setliff
Chickahominy District

Elton J. Wade, Sr.
Cold Harbor District

Charles D. McGhee
Henry District



Cecil R. "Rhu" Harris, Jr., CPA
County Administrator

Joseph P. Casey, CPA
Acting Assistant County Administrator
jcasey@co.hanover.va.us

Greg L. Akers, CPA
Acting Director of Finance
glakers@co.hanover.va.us

Department of Finance and Management Services

County of Hanover
P. O. Box 470
7496 County Complex Road
Hanover, Virginia 23069-0470
www.co.hanover.va.us

Phone: 804-365-6015
Fax: 804-365-6319

November 9, 2004

To The Honorable Members of the Board of Supervisors and the Citizens of the County of Hanover:

The Commonwealth of Virginia requires that local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to the requirement, we hereby issue the Comprehensive Annual Financial Report of the County of Hanover ("the County") for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Cherry, Bekaert and Holland, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but

also on the audited County’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Compliance Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County MD&A can be found immediately following the report of the independent auditors.

Profile of the County

The County was formed on November 26, 1720, by the Virginia General Assembly in “An Act for dividing New Kent County.” It is named for King George I of England, who, at the time he came to the throne, was Elector of Hanover in Germany. Two of the County’s native sons, Patrick Henry and Henry Clay, distinguished themselves as orators, patriots and statesmen in the early history of this Country. Prior to English colonization in the seventeenth century, the Pamunkey Indians populated this area. The northern boundary, the Pamunkey River, carries their name and they maintain a reservation on the lower part of the river in neighboring King William County. The Town of Ashland is located within Hanover County and was incorporated in 1858.

The County currently employs the traditional board form of County government with a county administrator. Policies governing the administration of the County are set by a seven-member Board of Supervisors elected from seven magisterial districts. This body also has responsibility for appointing the county administrator. The County has taxing powers subject to statewide restrictions and tax limits.

Located in central Virginia 15 miles north of the City of Richmond, the County’s 471 square miles lies in the Commonwealth’s Piedmont and Coastal regions. Hanover is bordered by the Counties of Caroline, King William, New Kent, Henrico, Goochland, Spotsylvania and Louisa and by the Pamunkey, North Anna and Chickahominy Rivers. The South Anna River is also located in the County. Home of the internationally renowned Hanover tomato, the County also offers both historic houses and the latest new home developments with a balance between residential, commercial, industrial and agricultural tax bases.



The County provides education through its own school system administered by the Hanover County School Board (the “School Board”) and promotes industry through the Industrial Development Authority (the “IDA”). These agencies have been classified as discretely presented component units in the financial reporting entity because the School Board administers their own appropriations within the categories defined by the Commonwealth of Virginia. The Board of Supervisors’ (the “Board”) financial accountability over the School Board is also limited to approving transfers between education funds, authorizing school debt issuances and appointing School Board members. The IDA has the power to issue tax-exempt industrial development revenue bonds to qualifying enterprises wishing to

utilize that form of financing. Those bonds representing limited obligations of the IDA are to be repaid solely from the revenue and receipts derived from the projects funded with the proceeds. The debt outstanding does not constitute a debt or pledge of the faith and credits of the County or the IDA.

The annual budget serves as the foundation of the County's financial planning and control. All agencies of the County are required to submit requests for appropriation to the County Administrator on or before December 1 each year. The County Administrator uses these requests as the starting point for developing a proposed budget. The County Administrator then presents the proposed budget to the Board for review no later than the fourth Wednesday in February. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the County fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., Sheriff's Office) with the Appropriations Resolution adopted by the Board of Supervisors placing legal restrictions on expenditures at the fund level. Board of Supervisors approval is needed for transfers of \$25,000 or more between department budget categories of personnel, operating, and capital, and any transfers increasing the County's total appropriated budget. The County Administrator can authorize transfers within department budget categories of personnel, operating, and capital, and for amounts up to \$25,000, between departmental budget categories. The School Board is authorized to transfer budgeted amounts within the school funds, with any transfer that increases total revenues requiring subsequent Board of Supervisors approval. Budget-to-actual comparisons are provided in this report for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 33 as part of the basic financial statements for the government funds. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the County fund subsection of this report, which starts on page 70.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy: Hanover County continues to enjoy a reputation as one of the best run Counties in the country, with rating agencies giving only ~40 counties nationwide a higher financial rating than Hanover. In the most recent general obligation bond sale, the County traded higher than the average AAA rated localities selling bonds on that same day. More importantly, however, the County has not obtained a prominent position just with regard to our financial condition as this has been done while at the same time managing an extremely efficient and effective delivery of services. Our position of moderate taxes, financial stability and quality service delivery has been and remains under fiscal pressure. However, there are positive signs to consider.

Some fiscal pressure results from the general economic problems seen throughout the country. But the historic quality of our County's financial operations combined with the good fortune of the geographic location has given the County the capacity to deal fairly well with those problems. During periods of national and state recessions, much attention is given to indicators of unemployment, income levels, new housing starts and taxable sales. Income and sales taxes tend to be more elastic; that is they change in proportion to changes in economic activity whereas property taxes are considered more inelastic. The recession of the State can be summarized by income and sales tax growth far below growth levels experienced over the prior five years. Fortunately, the diverse, strong and stable business climate of the County has enabled the County to weather such national and state recession conditions fairly well. The economy shows signs of strengthening, with sales tax collections strengthening during the last quarter of the fiscal year 2004 to exceed prior year by \$2 million. While many local governments continue to experience declining fund balances, the County's increased its General Fund undesignated balance by \$1,586,000 over the past year. The overall positive economic environment has enabled the County to continue to have the lowest unemployment rate in the Richmond region at 2.7% calendar year 2003. Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 3.0% last year. Taxes collections remained strong in 2003-04, the County has collected over 98% of taxes every year since 1997.
- Total outstanding delinquent taxes represent only 1.6% of the total tax levy. This ratio has been below 2.0% since 2000 and 3.0% since 1997.
- The County has continued to realize high median new home sales prices over many years with new home median values at \$253,000 in 2003, a 8.6% increase over the prior year (average new home was \$265,000, a 9.4%

increase over the prior year). The average value of a house in the County is now \$181,000, a 7.0% increase over the prior year.

- The County has also maintained its strong bond rating of AA1/AA/AA+ (with a positive outlook) with only eight counties in Virginia and ~40 counties nationwide having higher bond ratings than Hanover.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 7.5% (policy is <10%) as this ratio continues to decrease from its high of 10% in 1994.
- The undesignated fund balance as of June 2004, was \$15.2 million, which represented 10.7% of General Fund revenues in fiscal year 2004; which is an enhancement over both the prior fiscal year's balance of \$13.6 million and its 10.6% ratio.
- Population growth rate was 2.0%, with a total population of 95,774 estimated for July 2004.

To internally assess our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows Hanover with the 11th lowest level of fiscal stress, which is an improvement from 13th in the previous year. Hanover also has the 8th highest median adjusted gross income, which is an improvement from 9th in the prior year. These ratings are higher than all but three of the State's AAA rated localities. Hanover has maintained and strengthened its own ratings of Aa1, AA+ and AA. A component of the fiscal stress index is a locality's tax rate compared to State-wide averages, with low tax rate jurisdictions assigned a lower stress as they would appear to have the greater capacity to raise their taxes. With the County's commitment to remain a low tax locality, it does place stress upon our budgetary process as the services sought by many residents in the County are similar to services offered by higher taxing localities. The preceding economic highlights are not only very strong indicators of fiscal health, but also indicative of the traditionally strong indicators that the County has maintained or improved over many years.

Unfortunately, during recent years, State funding to localities has not kept pace with the cost of State mandated services State revenues were intended to fund. Nowhere is this more obvious than in those direct local services where the State has been a primary funding source. This includes schools, law enforcement, social services, mental health/mental retardation services and courts. Previously, long-range financial plans assumptions included State funding commitments continuing in conjunction with local revenue growth; however, such assumptions have now been lowered. The constraint of these funding sources combined with the expectation of maintaining services at the previous level, remains a great challenge. Additional attention has also been given to new sources of revenues in mitigating the impact of service level reductions. The 2004-05 budget and the ensuing five-year capital and operating plans illustrate the manner in which this new budget reality has been recognized in the County. On a positive note, in May 2004, after the adoption of the County's 2004-05 budget, the State took actions providing Hanover approximately \$3.7 million more than previously anticipated.

Economic Development Update: As Hanover continues to mature and grow, the Board of Supervisors maintains focus on long-range strategic planning. The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports growth of existing and future businesses. This plan outlines the County's four major Economic Development goals: expansion of the tax base, economic stability, job retention and job creation. The plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to County development regulations.

A major objective of the Economic Development Strategic Plan was the establishment of five Economic Development Zones (EDZ). The purpose of these zones is to give priority consideration for development of infrastructure and fast track permitting to support new and expanding industrial and office projects in the County. Selection of the EDZs was based on several factors: Comprehensive Plan designation, site location, cost to serve the site with infrastructure, the amount of product currently available for sale, and the level of private sector activity occurring in the area. The County's commercial tax base continues to grow through a combination of existing business expansions and new business attraction.

In the past four years, Hanover County has added over 600 acres of zoned property in three business parks - Lewistown Commerce Center, Northlake Business Park and Bell Creek Business Park. Now, the proverbial ships are starting to come in, generating revenue for the County and creating high-quality employment opportunities for residents. In August, Owens & Minor, a Fortune 500 company, announced it will re-locate its home office from Henrico County to the Atlee Station office park. About 475 people will be employed at the Hanover office. Over

750,000 square feet of office and commercial space has been added to Lewistown Commerce Center, Northlake Business Park, Bell Creek Business Park and the Crescent Business Center in Lakeridge Business Park during the last four years. As North Lakeridge Parkway is extended to U.S. Rt. 1, additional development will follow. Construction of the North Lakeridge Parkway is underway and should be completed next year.

Last year commercial and industrial development represented 20% of the total value of building permits issued in Hanover. Through August of this year, that percentage is up to 34%. Several major retail developments are also in the works, including a Target in Hanover Square South in Mechanicsville and a Home Depot near the newly reconstructed Atlee-Elmont interchange in “NorthCross Center”. The “NorthCross Center” is the first major new retail project within the 167 acres planned for commercial development, which takes advantage of opportunities created by Virginia Center Commons, the revitalization of U.S. Rt. 1 and the improved road network around the new interchange. The Atlee-Elmont interchange also includes about 357 acres in industrial zoning.

The County continues to position itself well for economic development in the region. The County has the lowest property tax rate; no business, professional and occupational tax (BPOL); high residential wealth and education (i.e., customers and employees); available commercial and industrial sites; water and wastewater capacity. In addition, the County utilizes comprehensive planning that targets business development for appropriate areas while maintaining a high quality of residential, forestal and agricultural uses in other parts of the County.

Long-term financial planning: The County has long been recognized as formulating detailed public plans for its long-term financial planning. Planning enables the County to appropriately analyze issues and initiatives, provide public comment during public hearings and formulate desired service level plans and phase-in funding in attaining desired goals in the long-term. Primarily, these long-term financial plans involve the Five-Year Capital Improvements Program and Five Year Financial Plan:

- **Capital Improvements Program (CIP):** The Capital Improvements Program (CIP) is the County’s plan for investing in facilities, equipment, and vehicles over the next five years and includes those items with a unit cost greater than \$50,000. The fiscal year 2005 capital budget for County and School projects is \$28.5 million, which is \$19.4 million higher than the current fiscal year. Increase is primarily attributable to \$18.8 million increase in schools CIP due to funding for 2006 elementary school and addition to Stonewall Jackson Middle School. The General Fund cash transfer for County and School projects is \$3.5 million, which is 11.2% higher than the current year; which is primarily attributable to \$476,000 increase in Information Technology infrastructure. The continued non-debt funding strategy for the CIP should help to further strengthen the County’s debt ratios as well as improve “pay-as-you-go” funding with the total funding sources of the County and School Five-Year CIP now representing 31.5% in “pay-as-you-go” funding (non-debt sources); this is well above the County’s budget policy target of >10%. The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan. This plan was designed to reserve County savings and proffers to be utilized for capital improvement projects that may have been previously debt financed.

The 2005 bond referendum is currently proposed to have three questions totaling \$65.3 million as follows: Schools \$37.1 million, Public Safety \$26.0 million, Parks and Libraries \$2.2 million. Bond referendum projects will be further reviewed and assessed in preparation of the 2005-06 budget, for which Board of Supervisors approval for such referendum questions will be requested.

- **Five-Year Financial Plan:** The County’s Five-Year Financial Plan represents the County’s attempt to quantify the impacts of future needs matched with a projection of available resources. Each year this plan is adopted by the Board of Supervisors, thereby indicating to the public the County’s expected tax rates, operating costs, capital improvements, debt service requirements, school allocations and service level plans. The plan is illustrated with detailed assumptions in a separate section of the budget document. Generally, the plan seeks to maintain or enhance all current budgetary objectives and Board adopted goal statements. The County’s conservative revenue forecasting has enabled it to meet future targets.

The success of the Five-Year Financial Plan for the General Fund has served as the basis from which the Five-Year Financial Plans should be formulated for other major operating funds (School, Utility and CSB), which will balance current local five-year targets and non-local revenue assumptions with expenditure plans.

Cash management policies and practices: The County Treasurer is responsible for investing County funds. Investments and deposits during the year consisted of a variety of securities, durations and increments as allowable by the Code of Virginia and further restricted by the County's investment policy. These allowable investments include savings accounts, certificates of deposit, U. S. County agency securities, corporate notes, banker's acceptances, commercial paper, money market accounts, mutual funds, state bonds, local bonds, mortgage-backed securities and repurchase agreements. The County Treasurer and Board of Supervisors have a jointly adopted investment policy that seeks to safeguard principal, meet liquidity objectives and seek fair value rates of return.

Risk management: The County, through formal request for proposals, solicits insurance companies/agencies/pools to provide property, auto, liability, inland marine, boiler and crime insurance. The County is experiencing an excellent loss ratio. In addition, the County provides various surety bond coverage as required under regulations and at industry-recommended desired levels.

The County is a participating member in the Virginia Municipal Group Self Insurance Association ("VMGSIA") and the School Board is a participating member in the School Systems of Virginia Self Insurance Program, with both of these entities providing workers' compensation coverage in compliance with the Virginia Workers' Compensation Code. These entities are non-profit insurance pools created to provide local governmental entities with a stable insurance market for workers' compensation coverage, to reduce the cost of insurance for municipalities, and to improve risk management and loss prevention programs. As a member of the insurance pool, the County receives annual dividends, which represent a return of premiums, based upon overall performance of the pool and the relative premium size of the pool members.

The risks of loss to which the County and School Board are exposed include, but are not limited to, property loss - both fixed and mobile, general liability, personal injury, fleet loss, pollution, theft, embezzlement, sexual harassment, age and sex discrimination, zoning, false arrest, illegal searches, slander, and building codes. The ways in which these risks of loss are managed and mitigated include, but are not limited to, insurance, insurance consultant, and safety policies. Various companies have loss prevention departments to help the County administer a loss prevention program. The County had no reduction in insurance coverage from the previous fiscal year in any categories of risk that would increase liability and there were no settlements greater than insurance coverage. The County has a Risk Manager who, with the County's insurance coordinator and insurance consultant, oversees the areas of risk identified and manages this risk in order for the County to further strengthen its risk management program.

Pension and other post-employment benefits: The County is a participant in the Virginia Retirement System ("VRS") a defined benefits plan pension system, for which the County contributes a percentage of a qualifying County employee's salary towards the VRS. The VRS is responsible for administering the setting of the contribution rate and making retirement payments in accordance with the established plan. In addition, the County provide access to section 457 and/or section 403b, as applicable, retirement investment programs that are funded through employee deductions.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. The County has received this prestigious award each fiscal year since 1985. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2004-2005. The County has received this prestigious award each fiscal year since 1990. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be

proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The County utilizes its website www.co.hanover.va.us for a variety of purposes, which include presentation of the audit report and budget document. The budget document serves as the best source for the variety of accomplishments of County functions, new initiatives and changes in service levels. In addition, the website also provides many other topics of interest, recognizes outstanding employees and various awards and commendations received. While many of those accomplishments could also be made in this report, it is the County's current intention to focus this report on the results of operations and analysis of the financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Department of Finance and Management Services. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Board of Supervisors for their unfailing support for maintaining the highest standards of professionalism in the management of the County finances.

Respectfully submitted,

Cecil R. Harris, County Administrator

Greg L. Akers, Acting Director of Finance



Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Hanover,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



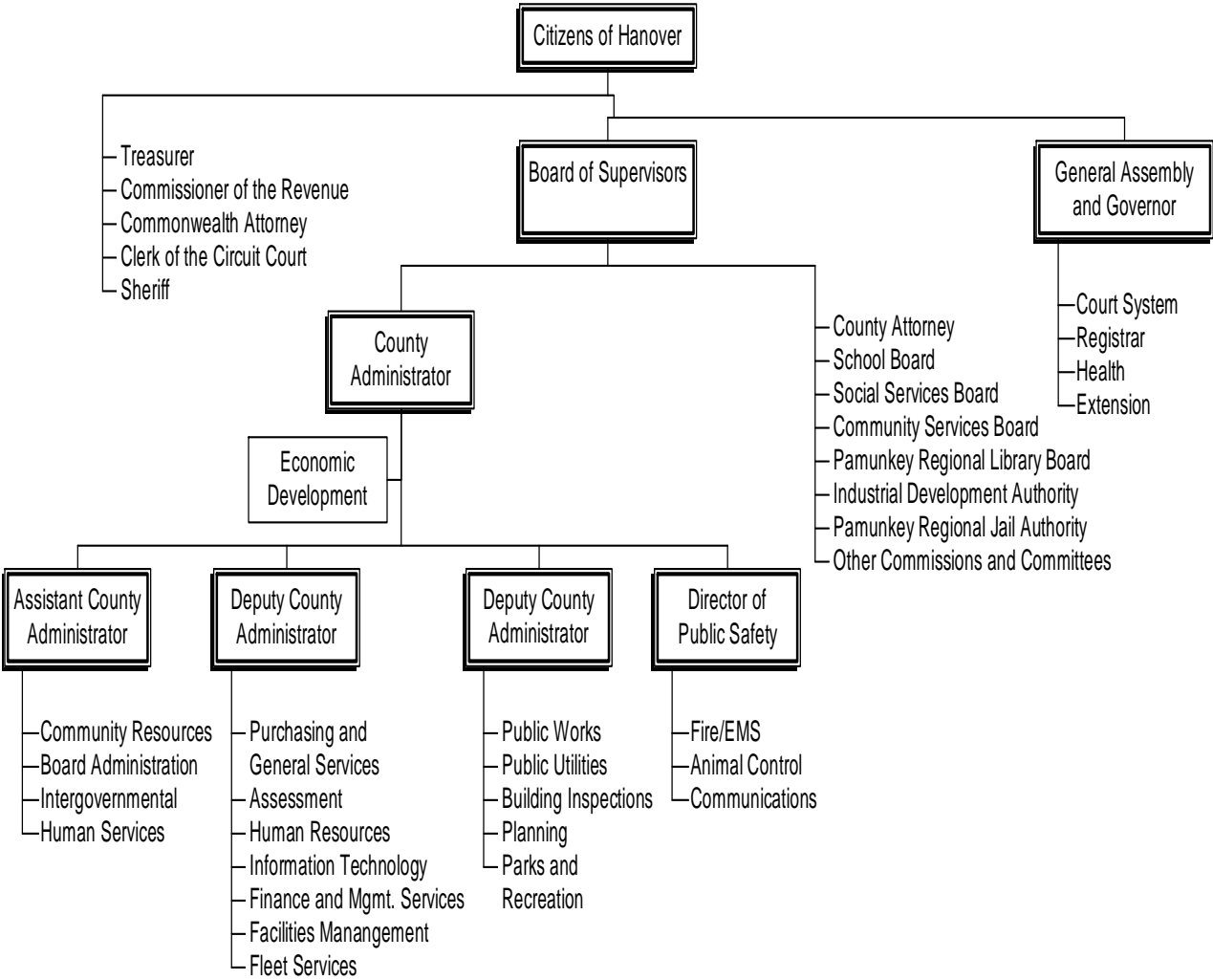
Edward Haney

President

Jeffrey R. Enos

Executive Director

County of Hanover, Virginia Organizational Chart



DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2004

Board of Supervisors

John E. Gordon, Jr., Chairman
J.T. "Jack" Ward , Vice Chairman
Timothy E. Ernst
Aubrey M. Stanley, Jr.
Robert R. Setliff
Elton J. Wade, Sr.
Charles D. McGhee

South Anna District
Mechanicsville District
Ashland District
Beaverdam District
Chickahominy District
Cold Harbor District
Henry District

Constitutional Officers

T. Scott Harris
M. Scott Miller, M.G.T.
Kirby H. Porter
Col. V. Stuart Cook
Frank D. Hargrove, Jr.

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

County Administrative Officials

Cecil R. Harris, Jr.
Sterling E. Rives, III
Joseph P. Casey
John H. Hodges
Marilyn J. Blake
Greg L. Akers

County Administrator
County Attorney
Acting Assistant County Administrator
Deputy County Administrator
Assistant County Administrator
Acting Director of Finance

School Board

Glenn Millican, Jr., Chairman
Sue Forbes Watson , Vice Chairman
John F. Axselle, III
Randy Brooks Cox
Robert L. Wood
Earl J. Hunter, Jr.
Dr. Vonita W. Foster

Mechanicsville District
Ashland District
Beaverdam District
Chickahominy District
Cold Harbor District
Henry District
South Anna District

School Administrative Officials

Dr. Stewart D. Roberson
David C. Papenfuse
Dr. Jamelle Wilson
Charla Cordle
Dr. Wade A. Valentino
Robin K. Corson

Superintendent of Schools
Asst. Superintendent of Finance and Technology
Asst. Superintendent of Instructional Leadership
Asst. Superintendent of Human Resources
Asst. Superintendent of Support Services
Director of Financial Operations



FINANCIAL SECTION





Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Hanover's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia as of June 30, 2004, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Schedule of Funding Progress for a Defined Benefit Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004 on our consideration of the County of Hanover, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
November 9, 2004

County of Hanover, Virginia Management's Discussion and Analysis

As management of the County of Hanover (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-7 of this report.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$231.9 million (*net assets*). Of this amount, \$34.9 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$8.9 million, of which the governmental activities increased by \$2.8 million and business-type activities increased by \$6.1 million.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$28.6 million, an increase of \$901,000 in comparison with the prior year. Approximately 93.7% of this total amount, \$26.8 million, is *available for spending* at the County's discretion (*unreserved fund balance*).
- Undesignated fund balance for the General Fund was \$15.2 million, or 10.7% of total General Fund revenues, representing an increase of \$1.6 million or 11.6%. This exceeds the fund balance policy minimum of 10% of total general fund revenues.
- The County's total debt increased by \$84,000 (0.1%) during the current fiscal year. The net increase was a result of \$10.7 million issued for utility projects less principal payments.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of how the financial position of the County may be changing. Increases in net assets may indicate an improved financial position, however, even decreases in net assets may reflect a changing manner in which the County may have used previously accumulated funds.

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

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government administration; judicial administration; public safety; public works; health and welfare; parks, recreation and cultural; community development; education; and interest on long-term debt. The business-type activities are for public utilities.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate school board and a legally separate industrial development authority for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 28-29 of this report.

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

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

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

The County maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the County Improvements Fund, both of which are considered to be major funds. Data from the other two County funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The County adopts an annual appropriated budget, a budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 30-39 of this report.

The County maintains two different types of **Proprietary Funds**. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its public utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for the maintenance of vehicles and for its self-insurance. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 40-42 of this report.

Fiduciary funds are used to account for resources received and held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. However, the County is responsible for ensuring fund assets are used for their intended purpose. Fiduciary funds include new collection activities this year for the Community Development Authority (CDA). A separate statement of fiduciary net assets can

be found on page 43 of this report, while a statement of changes in assets and liabilities for fiduciary funds is provided on page 85.

Notes to the financial statements: The 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 on pages 45-66 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found starting on page 70 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a County's financial position. In the case of the County, assets exceeded liabilities by \$231.9 million at the close of the most recent fiscal year. By far the largest portion of the County's net assets (\$179.7 million, 78.0% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the County's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

An additional portion of the County's net assets (\$17.2 million, 7.4% of total) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$34.9 million, 15.1% of total) may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities. Historically, governments have focused on governmental funds, primarily the general fund, to measure their financial health. 2004 represents the County's third year producing government-wide financial statements, and this fiscal year the Board of Supervisors amended their fund balance policy to consider net assets. The Board established a goal of maintaining positive unrestricted net asset balances. As further comparable indicators become available from other localities and as industry standard indicators are formulated for government-wide reporting (e.g., Government Finance Officer's Association, bond rating agencies, etc.), the County will continue to refine its own policies and practices to ensure that net assets are representative of a strong financial position.

As noted previously, the County's net assets increased by \$8.9 million during the current fiscal year. The \$2.8 million increase in governmental activities due to combination of budgetary methods that have yielded surpluses, cash investment in capital assets, and strong principal debt retirement practices. The \$6.1 million increase in business type activities includes \$3.0 million for donated capital assets accepted into the utility system. The remaining utility fund net assets increase was from non-operating capacity fees, which help offset cost of existing capital.

The following tables summarize the County's Statement of Net Assets and Statement of Activities:

Summary of Net Assets:

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 72,026,459	75,716,144	27,925,861	25,654,130	99,952,320	101,370,274
Capital assets	<u>185,848,562</u>	<u>184,721,558</u>	<u>155,345,853</u>	<u>142,609,208</u>	<u>341,194,415</u>	<u>327,330,766</u>
Total assets	<u>257,875,021</u>	<u>260,437,702</u>	<u>183,271,714</u>	<u>168,263,338</u>	<u>441,146,735</u>	<u>428,701,040</u>
Long-term liabilities outstanding	119,989,526	130,581,665	36,878,057	28,813,597	156,867,593	133,636,911
Other liabilities	<u>48,520,503</u>	<u>42,227,787</u>	<u>3,893,426</u>	<u>3,055,246</u>	<u>52,413,929</u>	<u>72,041,384</u>
Total liabilities	<u>168,510,029</u>	<u>173,809,452</u>	<u>40,771,483</u>	<u>31,868,843</u>	<u>209,281,522</u>	<u>205,678,295</u>
Net assets:						
Invested in capital assets, net of related debt	62,499,667	60,564,926	123,953,003	113,292,178	186,452,670	173,857,104
Restricted	6,124,298	4,496,905	4,318,022	4,519,720	10,442,320	9,016,625
Unrestricted	<u>20,741,027</u>	<u>21,566,419</u>	<u>14,229,206</u>	<u>18,582,597</u>	<u>34,970,233</u>	<u>40,149,016</u>
Total net assets	<u>\$ 89,364,992</u>	<u>86,628,250</u>	<u>142,500,231</u>	<u>136,394,495</u>	<u>231,865,223</u>	<u>223,022,745</u>

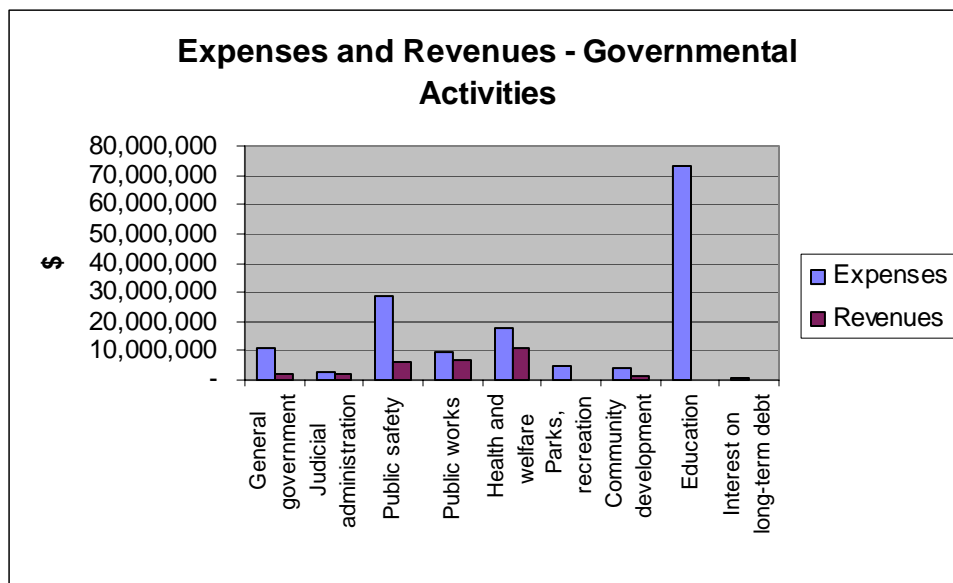
Summary of Activities:

Revenues:						
Program revenues:						
Charges for services	\$ 9,810,240	8,092,031	14,920,100	14,509,559	24,730,340	22,601,590
Operating grants and contributions	15,127,498	11,880,071	471,777	589,689	15,599,275	12,469,760
Capital grants and contributions	4,819,588	2,649,711	7,824,732	9,793,850	12,644,320	12,443,561
General revenues:						
Property taxes	86,761,263	79,361,213	-	-	86,761,263	79,361,213
Other taxes	23,059,560	20,119,615	-	-	23,059,560	20,119,615
Noncategorical State Aid	14,289,391	13,524,847	-	-	14,289,391	13,524,547
Grants and contributions not restricted to specific programs	835,610	1,248,522	-	-	835,610	1,248,522
Other	<u>158,796</u>	<u>337,080</u>	<u>31,330</u>	<u>449,062</u>	<u>190,126</u>	<u>786,142</u>
Total revenues	<u>\$154,861,946</u>	<u>137,213,090</u>	<u>23,247,939</u>	<u>25,342,160</u>	<u>178,109,885</u>	<u>162,555,250</u>
Expenses:						
General governmental admin.	\$ 10,712,124	10,137,986	-	-	10,712,124	10,137,986
Judicial administration	3,057,632	2,952,076	-	-	3,057,632	2,952,076
Public safety	29,003,658	27,672,227	-	-	29,003,658	27,672,227
Public works	9,254,986	7,776,824	-	-	9,254,986	7,776,824
Health and welfare	17,441,669	15,041,790	-	-	17,441,669	15,041,790
Parks, recreation and cultural	4,649,850	4,451,009	-	-	4,649,850	4,451,009
Community development	4,289,916	4,442,153	-	-	4,289,916	4,442,153
Interest on long-term debt	590,519	694,615	-	-	590,519	694,615
Education	73,124,850	66,451,732	-	-	73,124,850	66,451,732
Public utilities	-	-	17,142,203	16,415,587	17,188,223	16,415,587
Total expenses	<u>152,125,204</u>	<u>139,620,412</u>	<u>17,142,203</u>	<u>16,415,587</u>	<u>169,267,407</u>	<u>156,035,999</u>
Change in net assets	2,736,742	(2,407,322)	6,105,736	8,926,573	8,842,478	6,519,251
Net assets – beginning of year	<u>86,628,250</u>	<u>89,035,572</u>	<u>136,394,495</u>	<u>127,467,922</u>	<u>223,022,745</u>	<u>216,503,494</u>
Net assets – end of year	<u>\$ 89,364,992</u>	<u>86,628,250</u>	<u>142,500,231</u>	<u>136,394,495</u>	<u>231,865,223</u>	<u>223,022,745</u>

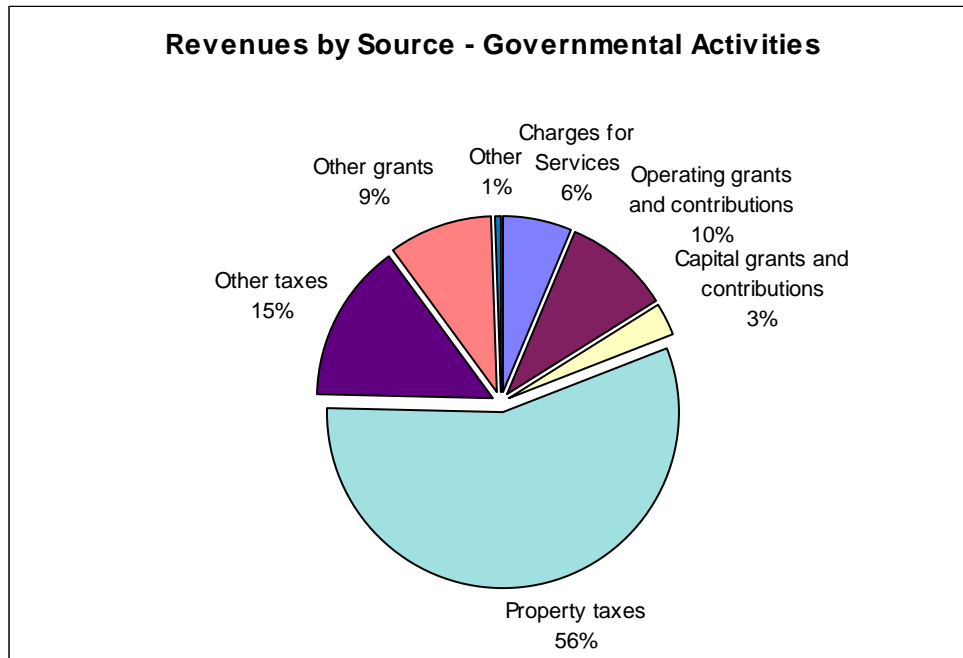
Governmental activities increased the County's net assets by \$2.7 million. Generally, net asset changes are for the difference between revenues and expenses. Revenues of \$154.9 million represent an increase of \$17.7 million or 11.4%. While expenditures of \$152.1 million increased \$12.5 million or 8% compared to the prior year. Summary of key elements are as follows:

- General property taxes, including the payments received from the State as reimbursement under the State's personal property tax relief program, were \$100.9 million representing an increase of \$8.5 million or 9.2%. \$7.0 million of this increase was a result of continued growth in the tax base from primarily new residential and commercial construction, reassessment of existing real property, and growth in the personal property tax base. \$1.5 million resulted from a 4-cent real estate tax rate increase (last rate increase was in 2000) starting on first half 2004 bills.
- Other local taxes were \$23.0 million, which represents an increase of \$2.9 million or 14.4%. Increase primarily attributable to an additional \$2.0 million of sales tax generated by a recovery in business activity.
- Operating grants and contributions were \$15.3 million, an increase of \$3.4 million or 28.6%. \$1.7 million of increase was from Federal and State assistance for Hurricane Isabel, primarily to reimburse the cost of debris removal efforts after the September 2003 storm. Another \$1.7 million increase resulted from grants among various departments, most notably \$467,000 for public safety to acquire modern air-packs (breathing apparatus) for firefighters.
- Local expenditures for education of \$73.1 million increased by \$6.7 million, or 10% over the prior year. Education has been designated a priority by the Board, and includes operating costs starting fiscal year 2004 for opening of a new high school.
- Public works expenditures of \$9.3 million increased by \$1.5 million, primarily due to Hurricane Isabel debris removal efforts previously described above.

The following graphs illustrate expenses and program revenues for each of the functional areas of governmental activities as well illustrating revenues by source for governmental activities:



Note – Education expense in chart above for primary government's contribution to School Board Component Unit, there are no corresponding revenues.



Business-type activities increased the County’s net assets by \$6.1 million. Similar to how changes arise in the governmental activities, business-type activities also experience budgetary differences; however, as the public utility function comprises the County’s business-type activities there is more of a direct correlation to the revenues generated relative to the expenses incurred because of service demands. Operating revenues were less than expenses, with a net loss of \$1.1 million primarily due to slowing growth in areas served by public water and sewer services (Suburban Service Area). Even with the operating loss, the net assets increased by \$6.1 million primarily due to the \$8.2 million in capital grants and contributions consisting of capacity fees and donated assets. Summary of relevant net financial impacts are as follows:

- The adopted rate methodology aligns the costs for provision of water and sewer services to user fees (charges for services) and the cost for provision of capacity to new customers (capacity fees). There were trend changes in these revenue categories over the prior year due to slowing growth in the Suburban Service Area. This recent growth trend will be considered in a utility rate study that is being conducted in fiscal year 2005.
 - Charges for services were \$14.6 million, \$300,000 and 2.3% higher than the prior year, although lower than budgetary estimates.
 - Capacity fees were \$4.8 million, \$1.7 million and 35.3% less than the prior year, again due to slowing growth in the Suburban Service Area.
- Donated capital assets were \$3.0 million and were the result of developer’s constructing water and sewer lines as part of residential and commercial development.
- Expenses were \$16.1 million, which were \$600,000 or 4.2% higher than the prior year primarily due to increase in rate and volume of the purchase of sewer service.

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 the County’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a County’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$28.6 million, an increase of \$901,000 in comparison with the prior year. Of this total amount, \$26.8 million or 93.7% constitutes *unreserved fund balance*, which is available for spending at the County's discretion. The unreserved fund balance includes \$11.3 million already designated as described in footnote V. B. on page 62. Fund balance of \$1.8 million is *reserved* to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period for which funding source has been received (\$1.0 million), 2) required debt reserves (\$770,000), and 3) inventory (\$12,913).

The General Fund is the chief operating fund of the County. The fund balance of the County's General Fund increased \$777,000 during the current fiscal year. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$19.4 million, while total fund balance reached \$19.8 million. As a measure of the General Fund's liquidity, it may be useful to compare fund balances to total fund revenues. Unreserved fund balance represents 13.5% of total General Fund revenues, while total fund balance represents 13.8% of that same amount. Of unreserved fund balance, the \$15.2 million undesignated portion represents 10.7% of total General Fund revenues, and exceeds the 10% minimum per Board of Supervisor's policy.

Proprietary funds: The County's proprietary funds provide the same type of information found in the business type activities of the government-wide financial statements, but in more detail. Public utilities unrestricted net assets decreased by \$2.6 million between years to \$14.2 million. This decrease was primarily due to the purchase of capital assets, which resulted in an increase of capital assets net of debt in the amount of \$2.1 million. The total growth in net assets was \$6.1 million. Other factors concerning the finances of this fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

There was an increase of \$6.7 million between the original budget and the final amended budget, with \$1.6 million resulting from reappropriation of encumbered and unencumbered remaining balances for projects that were continued from the prior year into the current fiscal year. Reappropriations included:

- \$610,000 under public safety, primarily for breathing apparatus and equipment.
- \$366,000 under general government administration, primarily for automated equipment and software.

The remaining \$5.1 million in budget adjustments were made for various revenue sources, and unplanned events including:

- \$2.6 million for Hurricane Isabel recovery, primarily under public works category for debris removal.
- \$1.4 million public safety grants, primarily for equipment.
- \$279,000 asset forfeiture fund use for law enforcement mobile command unit.
- \$300,000 employer contribution to self insurance for employee health coverage.
- \$161,000 expansion of elderly and handicapped tax relief funded by additional property tax revenue.

Capital Asset and Debt Administration

Capital assets: The County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$341.2 million (net of accumulated depreciation). This was an increase of \$13.9 million or 4.2 %. This investment in capital assets includes land, buildings and system, improvements, infrastructure (primarily storm water drainage basins), machinery and equipment. State law grants the County a "tenancy-in-common" with the School Board Component Unit when the County incurs an obligation for school property payable over more than one fiscal year. Major capital asset events during the current fiscal year included the following:

- Public safety improvement projects totaling \$1.6 million which included aerial ladder fire truck and mobile law enforcement command center.
- Business activity capital assets increased \$12.7 million, and primarily consisted of continued construction of a new wastewater treatment facility.

Additional information on the County's capital assets can be found in note IV. C. on pages 54-56 of this report. Capital assets net of accumulated depreciation are illustrated in the following table:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>2004</u> <u>Total</u>	<u>2003</u> <u>Total</u>
Land	\$ 12,697,427	3,959,854	16,657,281	16,280,503
Buildings and systems	105,535,503	23,359,702	128,895,205	134,281,177
Improvements other than buildings	10,149,725	81,293,354	91,443,079	90,550,980
Machinery and equipment	9,969,964	664,922	10,634,886	11,119,360
Infrastructure	12,435,421		12,435,421	10,763,196
Construction in progress	35,060,522	46,068,021	81,128,543	64,335,550
Total	<u>\$ 185,848,562</u>	<u>155,345,853</u>	<u>341,194,415</u>	<u>327,330,766</u>

Long-term debt: At the end of the current fiscal year, the County had total bonded debt outstanding of \$159.3 million. Of this amount, \$117.1 million comprises debt backed by the full faith and credit of the County. The remainder of the County's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds, obligations under capital leases). The County's total debt increased during the fiscal year by \$84,000 (0.1%). The net increase was a result of \$10.7 million issued for utility projects less principal payments.

The County maintains a "AA+" (with a positive outlook) rating from FitchRatings, a "Aa1" rating from Moody's Investors Services, Inc. and a "AA" from Standard & Poor's for general obligation debt. In the Commonwealth of Virginia, there is no state statute that limits the amount of general obligation debt a County entity may issue. Additional information on the County's long-term debt can be found in note IV. F. on pages 58-60 of this report. The following table illustrates the County's outstanding debt:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
General obligation bonds	\$ 117,076,403	-	117,076,403
Revenue bonds	-	35,960,676	35,960,676
Capital lease obligations	<u>6,272,493</u>	<u>-</u>	<u>6,272,493</u>
Total	<u>\$ 123,348,896</u>	<u>35,960,676</u>	<u>159,309,572</u>

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the County is currently 2.8%, which is an increase from a rate of 2.5% a year ago. However, this still compares favorably to the State's average unemployment rate of 3.3% and the national average rate of 5.1%.

The County recognizes the value in properly illustrating year-end commitments, therefore as part of the unreserved fund balance the County has designated for specific purposes \$2.9 million for spending in the 2005 fiscal year budget. It is in this manner that the County is able to utilize all of or portions of surpluses generated during the current fiscal year as a source of funding in a subsequent year while meeting fund balance policies and desired reserve levels for future needs.

All County general property tax rates, with the exception of real estate and public service, remained the same for calendar year 2004 as had existed in 2003. The real estate tax rate increased 4 cents to \$.86, a 4.9% rate increase. Public service corporation taxes are also impacted by the real property tax rate increase, and therefore the generating equipment tax rate also increased by the same 4 cents to a new rate of \$.50. The public utilities user fees increased, on average, by 2.3% and the capacity fees increased by 3% for the 2005 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance and Management Services, County of Hanover, P. O. Box 470, Hanover, VA 23069.



BASIC FINANCIAL STATEMENTS

COUNTY OF HANOVER, VIRGINIA

Statement of Net Assets

June 30, 2004

	Primary Government			Component Units	
	Governmental	Business-type	Total	School	Industrial Development Authority
	Activities	Activities			
ASSETS					
Current Assets:					
Cash, cash equivalents and investments	\$ 26,595,145	13,955,698	40,550,843	11,537,809	154,196
Receivables (net of allowance for uncollectables)	43,347,360	2,951,927	46,299,287	3,750,572	-
Internal balances	22,985	(22,985)	-	-	-
Inventories	207,367	-	207,367	71,692	-
Total current assets	70,172,857	16,884,640	87,057,497	15,360,073	154,196
Non-current Assets:					
Cash, cash equivalents and investments - restricted	1,853,602	11,041,221	12,894,823	164,905	-
Capital assets (net of accumulated depreciation)					
Land	12,697,427	3,959,854	16,657,281	4,243,867	-
Buildings and system	105,535,503	23,359,702	128,895,205	53,924,204	-
Improvements other than buildings	10,149,725	81,293,354	91,443,079	2,814,172	-
Machinery and equipment	9,969,964	664,922	10,634,886	7,371,535	-
Infrastructure	12,435,421	-	12,435,421	-	-
Construction in progress	35,060,522	46,068,021	81,128,543	13,519,245	-
Total capital assets	185,848,562	155,345,853	341,194,415	81,873,023	-
Total non-current assets	187,702,164	166,387,074	354,089,238	82,037,928	-
Total assets	\$ 257,875,021	183,271,714	441,146,735	97,398,001	154,196
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 2,392,739	1,332,141	3,724,880	1,144,751	250
Accrued liabilities	1,836,489	172,898	2,009,387	11,924,614	-
Accrued bond interest	129,880	525,369	655,249	2,205,017	-
Unearned revenue	34,893,201	63,161	34,956,362	212,050	-
Current portion of bonds payable	9,268,194	1,799,857	11,068,051	-	-
Current portion of capital lease obligations	1,053,913	-	1,053,913	-	-
Current portion of compensated absences	2,892,924	42,466	2,935,390	1,733,951	-
Current portion of landfill closure	76,304	-	76,304	-	-
Current portion of contractual obligations	-	736,625	736,625	-	-
Current portion of early retirement liability	-	-	-	265,690	-
Total current liabilities	\$ 52,543,644	4,672,517	57,216,161	17,486,073	250
Non-current Liabilities:					
Bonds payable	107,808,209	34,114,799	141,923,008	-	-
Capital lease obligations	5,218,579	-	5,218,579	-	-
Compensated absences	461,777	371,572	833,349	1,819,376	-
Deposits	-	147,827	147,827	-	-
Refundable developer capacity fees	-	249,068	249,068	-	-
Liability for landfill closure	2,477,820	-	2,477,820	-	-
Liability for early retirement program	-	-	-	1,517,111	-
Long-term contractual obligations	-	1,215,700	1,215,700	-	-
Total non-current liabilities	115,966,385	36,098,966	152,065,351	3,336,487	-
Total liabilities	\$ 168,510,029	40,771,483	209,281,512	20,822,560	250
NET ASSETS					
Invested in capital assets, net of related debt	\$ 62,499,667	123,953,003	186,452,670	81,873,023	-
Restricted for:					
Capital projects	5,354,276	3,065,313	8,419,589	166,928	-
Debt service	770,022	1,252,709	2,022,731	-	-
Unrestricted	20,741,027	14,229,206	34,970,233	(5,464,510)	153,946
Total net assets	\$ 89,364,992	142,500,231	231,865,223	76,575,441	153,946

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2004

Function/Programs	Net (Expense) Revenue and										
	Program Revenues			Changes in Net Assets			Component Units				
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total	School	Development Authority	Industrial	
Primary government:											
Governmental activities:											
General governmental administration	\$ 10,712,124	1,826,275	439,106	-	(8,446,743)	-	(8,446,743)	-	-	-	-
Judicial administration	3,057,632	1,220,044	1,015,457	-	(822,131)	-	(822,131)	-	-	-	-
Public safety	29,003,658	1,359,546	4,196,307	497,117	(22,950,688)	-	(22,950,688)	-	-	-	-
Public works	9,254,986	556,516	1,728,013	4,322,471	(2,647,986)	-	(2,647,986)	-	-	-	-
Health and welfare	17,441,669	2,947,057	7,742,865	-	(6,751,747)	-	(6,751,747)	-	-	-	-
Parks, recreation and cultural	4,649,850	269,206	-	-	(4,380,644)	-	(4,380,644)	-	-	-	-
Community development	4,289,916	1,631,596	5,750	-	(2,652,570)	-	(2,652,570)	-	-	-	-
Education	73,124,850	-	-	-	(73,124,850)	-	(73,124,850)	-	-	-	-
Interest on long-term debt	590,519	-	-	-	(590,519)	-	(590,519)	-	-	-	-
Total governmental activities	152,125,204	9,810,240	15,127,498	4,819,588	(122,367,878)	-	(122,367,878)	-	-	-	-
Business-type activities:											
Public utilities	17,142,203	14,920,100	471,777	7,824,732	-	6,074,406	6,074,406	-	-	-	-
Total business-type activities	17,142,203	14,920,100	471,777	7,824,732	-	6,074,406	6,074,406	-	-	-	-
Total primary government	\$ 169,267,407	24,730,340	15,599,275	12,644,320	(122,367,878)	6,074,406	(116,293,472)	-	-	-	-
Component Units:											
School Board	\$ 133,733,807	6,219,384	60,536,593	1,294,024	-	-	-	(65,683,806)	-	-	60,660
Industrial Development Authority	219,114	279,774	-	-	-	-	-	-	-	-	60,660
Total component units	\$ 133,952,921	6,499,158	60,536,593	1,294,024	-	-	-	(65,683,806)	-	-	121,320
General revenues:											
General property taxes					86,761,263		86,761,263				
Other local taxes					23,059,560		23,059,560				
Non-categorical State Aid					14,289,391		14,289,391				
Grants and contributions not restricted to specific programs					835,610		835,610				
Unrestricted investment earnings					140,128	7,829	147,957	59,497			
Gain on sale of capital assets					18,668	23,501	42,169				
Payment from Hanover County					-	-	-	70,058,579			
Total general revenues and transfers					125,104,620	31,330	125,135,950	70,118,076			
Change in net assets					2,736,742	6,105,736	8,842,478	4,434,270			60,660
Net assets - beginning					86,628,250	136,394,495	223,022,745	72,141,171			93,286
Net assets - ending					\$ 89,364,992	142,500,231	231,865,223	76,575,441			153,946

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Governmental Funds

Balance Sheet

June 30, 2004

	<u>General</u>	County Improvement <u>Fund</u>	Other Governmental <u>Funds</u>	Totals Governmental <u>Funds</u>
ASSETS				
Cash, cash equivalents and investments	\$ 17,333,456	7,676,272	88,806	25,098,534
Receivables (Net of allowances for uncollectables)	41,789,836	621,222	936,302	43,347,360
Due from other funds	137,985	-	-	137,985
Inventories	12,913	-	-	12,913
Cash, cash equivalents and investments - restricted	-	770,022	-	770,022
Total assets	<u>\$ 59,274,190</u>	<u>9,067,516</u>	<u>1,025,108</u>	<u>69,366,814</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,118,896	346,089	399,637	1,864,622
Accrued liabilities	1,521,877	-	255,940	1,777,817
Due to other funds	-	-	115,000	115,000
Deferred revenue	36,868,535	14,517	80,149	36,963,201
Total liabilities	<u>39,509,308</u>	<u>360,606</u>	<u>850,726</u>	<u>40,720,640</u>
Fund Balances:				
Reserved for:				
Encumbrances	341,659	628,570	41,007	1,011,236
Inventory	12,913	-	-	12,913
Debt Service	-	770,022	-	770,022
Total reserved	<u>354,572</u>	<u>1,398,592</u>	<u>41,007</u>	<u>1,794,171</u>
Unreserved, reported in:				
Designated for specific purposes (Note V-B)				
General Fund	4,186,764	-	-	4,186,764
Capital Improvement Fund	-	7,058,317	-	7,058,317
Special Revenue Funds	-	-	19,810	19,810
Undesignated, reported in				
General Fund	15,223,546	-	-	15,223,546
Capital Improvement Fund	-	250,000	-	250,000
Special Revenue Funds	-	-	113,565	113,565
Total unreserved	<u>19,410,310</u>	<u>7,308,317</u>	<u>133,375</u>	<u>26,852,002</u>
Total fund balances	<u>19,764,882</u>	<u>8,706,909</u>	<u>174,382</u>	<u>28,646,173</u>
Total liabilities and fund balances	<u>\$ 59,274,190</u>	<u>9,067,515</u>	<u>1,025,108</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 185,789,240
Restricted cash from bond proceeds in School Component Unit capital fund are reported in governmental activities in the statement of net assets. Related bond payable liability separately listed below	1,083,580
Receivables on the statement of net assets that do not provide current financial resources are not reported in the funds	2,070,000
Internal Service Funds are used by management to charge the costs of fleet management and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets	1,060,639
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(129,284,640)
Net assets of governmental activities	<u>\$ 89,364,992</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2004

	<u>General</u>	<u>County Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
REVENUES				
General property taxes	\$ 87,102,894	-	-	87,102,894
Other local taxes	23,059,560	-	-	23,059,560
Permits, privilege fees and regulatory licenses	2,382,618	-	-	2,382,618
Fines and forfeitures	755,612	-	-	755,612
Revenues from use of money and property	212,463	-	205,000	417,463
Charges for services	1,687,522	1,645,834	2,478,085	5,811,441
Miscellaneous	483,832	-	5,321	489,153
Recovered costs	2,047,236	1,189,901	228,220	3,465,357
Intergovernmental	25,056,312	2,334,243	4,265,799	31,656,354
Total revenues	<u>142,788,049</u>	<u>5,169,978</u>	<u>7,182,425</u>	<u>155,140,452</u>
EXPENDITURES				
General governmental administration	\$ 9,380,390	616,232	-	9,996,622
Judicial administration	2,904,596	-	-	2,904,596
Public safety	27,165,362	1,702,410	-	28,867,772
Public works	7,236,596	4,111,066	-	11,347,662
Health and welfare	5,429,389	139,167	11,841,397	17,409,953
Parks, recreation and cultural	4,285,675	28,545	-	4,314,220
Community development	4,226,933	27,315	-	4,254,248
Education (contribution to component unit)	72,967,687	-	-	72,967,687
Debt service:				
Principal retirement	1,527,625	-	-	1,527,625
Interest and fiscal charges	605,076	-	-	605,076
Total debt service	<u>2,132,701</u>	<u>-</u>	<u>-</u>	<u>2,132,701</u>
Total expenditures	<u>135,729,329</u>	<u>6,624,735</u>	<u>11,841,397</u>	<u>154,195,461</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,058,720</u>	<u>(1,454,757)</u>	<u>(4,658,972)</u>	<u>944,991</u>
OTHER FINANCING SOURCES AND USES				
Other financing sources:				
Transfers in	-	1,804,055	4,434,473	6,238,528
Total other financing sources	<u>-</u>	<u>1,804,055</u>	<u>4,434,473</u>	<u>6,238,528</u>
Other financing uses:				
Transfers out	6,238,527	-	-	6,238,527
Transfers to internal service funds	43,550	-	-	43,550
Total other financing uses	<u>6,282,077</u>	<u>-</u>	<u>-</u>	<u>6,282,077</u>
Net other financing sources (uses)	<u>\$ (6,282,077)</u>	<u>1,804,055</u>	<u>4,434,473</u>	<u>(43,549)</u>
Net change in fund balance	\$ 776,643	349,298	(224,499)	901,442
Fund balances - beginning	18,988,239	8,357,611	398,881	27,744,731
Fund balances - ending	<u>\$ 19,764,882</u>	<u>8,706,909</u>	<u>174,382</u>	<u>28,646,173</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 901,442
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 capital outlays exceeded depreciation in the current period.	(1,375,537)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.	(31,653)
School Component Unit General obligation debt guaranteed by County is reported in governmental activities in statement of net assets. Fund statements include \$7,727,463 transfer to School Component Unit for debt payments. County has a tenancy-in-common for school assets with outstanding debt. \$5,182,225 asset equity allocated to Schools (principal paid less governmental activities depreciation).	2,909,108
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (e.g., tax receivable accrual).	(246,855)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,527,625
Some expenses reported in this statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	200,639
Internal service funds are used by management to charge the costs of fleet management and self-insurance to individual funds. The net expense of certain activities of internal service funds is reported with governmental entities.	(1,148,027)
Changes in net assets of governmental activities	<u>\$ 2,736,742</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 60,690,000	60,851,000	61,929,653	1,078,653
Real and personal public service corporation property taxes	4,300,000	4,300,000	3,921,174	(378,826)
Personal property taxes (local remittance)	16,227,000	16,227,000	16,662,307	435,307
Machinery and tools taxes	1,673,000	1,673,000	1,575,549	(97,451)
Merchants' capital taxes	676,000	676,000	709,013	33,013
Delinquent taxes	925,000	925,000	1,095,219	170,219
Penalties and interest	860,000	860,000	1,209,979	349,979
Total general property taxes	85,351,000	85,512,000	87,102,894	1,590,894
Other local taxes:				
Local sales and use taxes	11,717,000	11,717,000	12,354,866	637,866
Consumer utility taxes	4,200,000	4,200,000	4,224,798	24,798
Contractor license taxes	465,000	465,000	432,676	(32,324)
Franchise license taxes	581,000	581,000	674,845	93,845
Motor vehicle licenses	2,272,000	2,272,000	2,291,651	19,651
Bank stock taxes	338,000	338,000	347,074	9,074
Taxes on recordation and wills	1,578,000	1,578,000	2,054,751	476,751
Lodging taxes	695,000	695,000	678,899	(16,101)
Total other local taxes	21,846,000	21,846,000	23,059,560	1,213,560
Permits, privilege fees and regulatory licenses:				
General Government Administration:				
Cable TV franchise fees	613,000	613,000	643,915	30,915
Total general government administration	613,000	613,000	643,915	30,915
Public Safety:				
Animal licenses	67,000	67,000	64,266	(2,734)
Building permits	721,000	721,000	592,001	(128,999)
Heating and air conditioning permits	219,000	219,000	204,703	(14,297)
Electrical permits	158,000	158,000	118,816	(39,184)
Plumbing permits	122,000	122,000	87,008	(34,992)
Septic tank permits	12,000	12,000	12,872	872
Fire inspection fees	79,000	79,000	68,550	(10,450)
Total public safety	1,378,000	1,378,000	1,148,216	(229,784)
Health and Welfare:				
Well and septic inspection	10,000	10,000	8,200	(1,800)
Total health and welfare	10,000	10,000	8,200	(1,800)
Public Works:				
Erosion and sediment inspections	181,000	181,000	200,275	19,275
Stormwater management	32,000	32,000	32,000	-
Total public works	213,000	213,000	232,275	19,275
Community Development:				
Planning permits and fees	299,000	299,000	350,012	51,012
Planning-Brown Grove	11,000	-	-	-
Total community development	310,000	299,000	350,012	51,012
Total permits, privilege fees and regulatory licenses	2,524,000	2,513,000	2,382,618	(130,382)
Fines and forfeitures:				
Judicial Administration:				
Court fines and forfeitures	536,000	593,600	581,003	(12,597)
Courthouse maintenance fees	42,000	42,000	68,304	26,304
Interest on court fines	29,000	29,000	55,735	26,735
Total judicial administration	607,000	664,600	705,042	40,442
Public Safety:				
Security alarm fines	20,000	20,000	50,570	30,570
Total public safety	20,000	20,000	50,570	30,570
Total fines and forfeitures	627,000	684,600	755,612	71,012

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues from use of money and property:				
Revenue from use of money	\$ 760,000	760,000	140,128	(619,872)
Revenue from use of property:				
Public Works:				
Airport rental income	24,000	24,000	20,626	(3,374)
Other revenue from use of property	77,000	77,000	51,709	(25,291)
Total revenues from use of money and property	861,000	861,000	212,463	(648,537)
Charges for services:				
Judicial Administration:				
Clerk of the Circuit Court fees	276,000	327,805	503,841	176,036
Total judicial administration	276,000	327,805	503,841	176,036
Public Safety:				
Animal Control fees	34,000	34,000	37,879	3,879
Total public safety	34,000	34,000	37,879	3,879
Public Works:				
Solid Waste: Disposal fees	250,000	250,000	276,268	26,268
Total public works	250,000	250,000	276,268	26,268
Parks, Recreation and Cultural:				
Parks and Recreation fees	181,000	181,000	232,852	51,852
Total parks, recreation and cultural	181,000	181,000	232,852	51,852
Community Development:				
GIS: E911 service fees	741,000	741,000	634,368	(106,632)
Cannery fees	7,000	7,000	2,314	(4,686)
Planning-Brown Grove	-	11,000	-	(11,000)
Total community development	748,000	759,000	636,682	(122,318)
Total charges for services	1,489,000	1,551,805	1,687,522	135,717
Miscellaneous:				
Refunds	125,000	216,910	166,749	(50,161)
Insurance recoveries	86,000	227,262	253,598	26,336
Sale of County assets	182,000	182,000	50,321	(131,679)
Gifts and donations	-	4,606	13,164	8,558
Reserve for revenue transfers	93,000	21,192	-	(21,192)
Total miscellaneous	486,000	651,970	483,832	(168,138)
Recovered costs:				
General Government Administration:				
Pamunkey Regional Jail	220,000	220,000	220,500	500
Public Utilities Fund	848,000	848,000	848,000	-
Fleet Management Fund	23,000	23,000	-	(23,000)
County Attorney	43,000	43,000	40,420	(2,580)
General Services	84,000	84,000	73,440	(10,560)
Total general government administration	1,218,000	1,218,000	1,182,360	(35,640)
Judicial Administration:				
Clerk of Circuit Court	-	-	8,348	8,348
Commonwealth Attorney	-	1,229	2,813	1,584
Total judicial administration	-	1,229	11,161	9,932
Public Safety:				
Emergency Medical Services	15,000	15,000	-	(15,000)
Sheriff	100,000	100,000	122,881	22,881
Fire	60,000	30,000	-	(30,000)
Total public safety	175,000	145,000	122,881	(22,119)

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Health and Welfare:				
Health	\$ 1,000	1,000	17,231	16,231
Community Resources	5,000	5,000	5,000	-
Total health and welfare	6,000	6,000	22,231	16,231
Public Works:				
Public Works	-	6,100	10,685	4,585
Solid Waste Management	9,000	9,000	16,662	7,662
Total public works	9,000	15,100	27,347	12,247
Parks, Recreation and Cultural:				
Parks and Recreation	31,000	31,000	36,354	5,354
Total parks, recreation and cultural	31,000	31,000	36,354	5,354
Community Development:				
Contributions: Greater Richmond Convention Center	174,000	174,000	442,432	268,432
Economic Development	164,000	164,000	202,470	38,470
Total community development	338,000	338,000	644,902	306,902
Total recovered costs	1,777,000	1,754,329	2,047,236	292,907
Total revenues from local sources	114,961,000	115,374,704	117,731,737	2,357,033
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
ABC profits	77,000	77,000	121,546	44,546
Wine taxes	83,000	83,000	75,341	(7,659)
Motor vehicle carriers' taxes	98,000	98,000	90,304	(7,696)
Vehicle rental tax	210,000	210,000	134,871	(75,129)
Personal property taxes (state remittance)	14,188,000	14,188,000	13,613,569	(574,431)
Delinquent personal property taxes (state remittance)	90,000	90,000	158,982	68,982
Total non-categorical aid	14,746,000	14,746,000	14,194,613	(551,387)
Categorical aid:				
Shared expenses:				
General Government Administration:				
Commissioner of the Revenue	193,000	193,000	195,216	2,216
Treasurer	197,000	197,000	198,098	1,098
Registrar	44,000	44,000	45,792	1,792
Total general government administration	434,000	434,000	439,106	5,106
Judicial Administration:				
Commonwealth's Attorney	448,000	450,522	415,925	(34,597)
Clerk of the Circuit Court	379,000	379,000	406,710	27,710
Total judicial administration	827,000	829,522	822,635	(6,887)
Public Safety:				
Sheriff	2,761,000	2,801,921	2,797,556	(4,365)
Total shared expenses	4,022,000	4,065,443	4,059,297	(6,146)
Other categorical aid (County Department: State Agency):				
Judicial Administration:				
Clerk of Circuit Court: Library of Virginia	13,000	185,230	9,510	(175,720)
Clerk of Circuit Court: Technology Grant	-	79,865	74,076	(5,789)
Commonwealth's Attorney: Criminal Justice Services	90,000	90,000	109,236	19,236
Total judicial administration	103,000	355,095	192,822	(162,273)

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		(Negative)
Public Safety:				
Adult Probation: DCJS	\$ 200,000	200,000	243,662	43,662
Emergency Communications: Wireless 911	195,000	195,000	202,591	7,591
Emergency Medical Services (EMS): EMS	52,000	52,000	45,500	(6,500)
Fire: Fire Programs	130,000	130,000	118,923	(11,077)
Fire: Dept of Emergency Management	-	10,908	8,728	(2,180)
Fire: Dept of Fire Programs	-	33,599	33,599	-
Juvenile Court Services Unit: Youth/Family Services	84,000	84,000	83,537	(463)
Sheriff: Alcohol Beverage Control	-	48,717	12,661	(36,056)
Sheriff: Motor Vehicles	10,000	27,000	4,508	(22,492)
Total public safety	671,000	781,224	753,709	(27,515)
Health and Welfare:				
Community Resources: Criminal Justice Services	25,000	25,000	29,434	4,434
Social Services: Social Services	705,000	868,893	738,700	(130,193)
Total health and welfare	730,000	893,893	768,134	(125,759)
Public Works:				
Airport: Aviation	33,000	33,000	-	(33,000)
Solid Waste: Environmental Quality	13,000	13,000	11,961	(1,039)
VDEM: Countywide Hurricane Isabel	-	375,000	282,410	(92,590)
Total public works	46,000	421,000	294,371	(126,629)
Community Development:				
Planning: CLG Grant	-	15,000	-	(15,000)
Total community development	-	15,000	-	(15,000)
Total other categorical aid	1,550,000	2,466,212	2,009,036	(457,176)
Total categorical aid	5,572,000	6,531,655	6,068,333	(463,322)
Total revenue from the Commonwealth	20,318,000	21,277,655	20,262,946	(1,014,709)
Revenue from the Federal government:				
Categorical aid (County Department: Federal Agency):				
Public Safety:				
Fire: Emergency Management	-	20,175	20,175	-
Fire: Justice	-	97,431	97,431	-
Fire: Environmental Protection Agency	-	30,000	-	(30,000)
Fire: US Fire Administration	-	469,648	467,331	(2,317)
Sheriff: Justice	-	11,059	19,171	8,112
Sheriff: COPS Technology	-	486,950	-	(486,950)
Sheriff: ABC Grant	-	-	40,934	40,934
Total public safety	-	1,115,263	645,042	(470,221)
Health and Welfare:				
Community Resources: Health and Human Services	95,000	95,000	60,512	(34,488)
Community Resources: Justice	25,000	25,000	20,821	(4,179)
Community Resources: Federal Emergency Mgmt. Agency	-	4,500	4,500	-
Social Services: Health and Human Services	2,531,000	2,822,105	2,623,099	(199,006)
Total health and welfare	2,651,000	2,946,605	2,708,932	(237,673)
Public Works:				
VDEM: FEMA Countywide Hurricane Isabel	-	1,875,000	1,433,642	(441,358)
Total public works	-	1,875,000	1,433,642	(441,358)
Community Development:				
Planning: Housing and Urban Development	-	17,250	5,750	(11,500)
Total community development	-	17,250	5,750	(11,500)
Total categorical aid	2,651,000	5,954,118	4,793,366	(1,160,752)
Total revenue from the Federal government	2,651,000	5,954,118	4,793,366	(1,160,752)
Total intergovernmental	22,969,000	27,231,773	25,056,312	(2,175,461)
Total revenues	\$137,930,000	142,606,477	142,788,049	181,572

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES				
General government administration:				
Legislative - Board of Supervisors	\$ 368,437	413,689	391,692	21,997
General and financial administration:				
County Administrator	943,682	967,830	955,932	11,898
Human Resources	520,848	601,711	568,663	33,048
County Attorney	854,971	868,221	842,860	25,361
Commissioner of the Revenue	925,073	1,012,176	922,151	90,025
Assessor	653,972	665,427	623,332	42,095
Treasurer	979,749	993,457	928,844	64,613
Finance	760,101	764,782	742,449	22,333
Management Services	188,030	191,999	188,872	3,127
Purchasing	435,426	436,507	388,456	48,051
Information Technology	2,351,082	2,361,742	2,320,735	41,007
General Services	307,149	326,967	276,694	50,273
Total general and financial administration	8,920,083	9,190,819	8,758,988	431,831
Board of elections - Registrar and Electoral Board	294,885	446,138	229,710	216,428
Total general government administration	9,583,405	10,050,646	9,380,390	670,256
Judicial administration:				
Courts:				
Circuit Court	137,460	137,750	144,495	(6,745)
General District Court	17,287	88,485	57,070	31,415
Magistrates	2,700	3,100	1,601	1,499
Juvenile and Domestic Relations District Court	22,546	22,546	15,026	7,520
Clerk of the Circuit Court	814,814	1,136,558	921,874	214,684
Court Services	937,209	936,625	828,212	108,413
Total courts	1,932,016	2,325,064	1,968,278	356,786
Commonwealth's Attorney	934,098	938,892	936,318	2,574
Total judicial administration	2,866,114	3,263,956	2,904,596	359,360
Public safety:				
Sheriff	12,009,311	12,830,205	12,171,117	659,088
Fire and rescue services:				
Fire and Emergency Management Services	6,628,439	7,840,506	7,706,432	134,074
Correction and Detention:				
Pamunkey Regional Jail	2,638,250	2,638,250	2,465,876	172,374
Juvenile Court Services	484,749	747,257	615,558	131,699
Community Corrections	200,000	210,305	210,302	3
Total correction and detention	3,322,999	3,595,812	3,291,736	304,076
Inspections - Building Inspections	1,150,511	1,171,704	1,147,218	24,486
Other protection:				
Emergency Communications	2,380,605	2,411,970	2,208,994	202,976
Animal Control	661,767	664,912	639,865	25,047
Total other protection	3,042,372	3,076,882	2,848,859	228,023
Total public safety	26,153,632	28,515,109	27,165,362	1,349,747

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public works:				
Sanitation and waste removal:				
Public Works	\$ 1,012,126	3,374,035	2,734,060	639,975
Solid Waste Services	2,989,040	3,073,419	2,970,500	102,919
Total sanitation and waste removal	4,001,166	6,447,454	5,704,560	742,894
Maintenance of buildings, grounds and equipment:				
Facilities Management	1,315,870	1,492,289	1,402,698	89,591
Airport	145,077	152,982	129,338	23,644
Total maintenance of buildings, grounds and equip.	1,460,947	1,645,271	1,532,036	113,235
Total public works	5,462,113	8,092,725	7,236,596	856,129
Health and welfare:				
Health	428,293	428,293	428,293	-
Welfare:				
Social Services	4,081,335	4,554,559	4,108,214	446,345
Community Resources	332,266	344,701	305,535	39,166
Tax Relief	-	611,000	587,347	23,653
Total welfare	4,413,601	5,510,260	5,001,096	509,164
Total health and welfare	4,841,894	5,938,553	5,429,389	509,164
Parks, recreation and cultural:				
Parks and Recreation	2,249,126	2,312,496	2,310,909	1,587
Pamunkey Regional Library	1,974,766	1,974,766	1,974,766	-
Total parks, recreation and cultural	4,223,892	4,287,262	4,285,675	1,587
Community development:				
Planning and community development:				
Planning	1,484,890	1,612,831	1,519,996	92,835
GIS	537,053	596,331	554,573	41,758
Economic Development	978,635	1,002,375	924,208	78,167
Cannery	44,809	61,199	40,808	20,391
Contributions	1,065,871	1,076,796	1,049,605	27,191
Total planning and community development	4,111,258	4,349,532	4,089,190	260,342
Environmental mgmt. - Soil and Water Conservation Dist.	72,400	72,400	72,400	-
Cooperative extension program - VPI Extension	81,301	81,301	65,343	15,958
Total community development	4,264,959	4,503,233	4,226,933	276,300
Debt service:				
Principal retirement	1,528,000	1,528,000	1,527,625	375
Interest and fiscal charges	1,387,745	630,811	605,076	25,735
Total debt service	2,915,745	2,158,811	2,132,701	26,110
Transfers to component units:				
Education:				
School Fund	71,510,423	71,702,423	70,826,329	876,094
Textbook Fund	637,358	637,358	637,358	-
School Improvements Fund	1,504,000	1,504,000	1,504,000	-
Total education	73,651,781	73,843,781	72,967,687	876,094
Total transfers to component units	73,651,781	73,843,781	72,967,687	876,094
Total expenditures	133,963,535	140,654,076	135,729,329	4,924,747
Excess (deficiency) of revenues over (under) expenditures	3,966,465	1,952,401	7,058,720	5,106,319
OTHER FINANCING SOURCES AND USES				
Other financing uses:				
Transfers to governmental funds:				
County Improvements Fund	1,662,000	2,016,039	1,804,055	211,984
Comprehensive Services Fund	1,625,635	1,625,935	1,625,935	-
Community Services Fund	3,198,835	3,215,155	2,808,537	406,618
Total transfers to governmental funds	6,486,470	6,857,129	6,238,527	618,602

COUNTY OF HANOVER, VIRGINIA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, concluded
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Transfers to internal service funds:				
Fleet Services Management Fund	\$ 15,000	43,550	43,550	-
Total transfers to internal service funds	15,000	43,550	43,550	-
Total other financing uses	6,501,470	6,900,679	6,282,077	618,602
Net other financing sources (uses)	(6,501,470)	(6,900,679)	(6,282,077)	(618,602)
Net change in fund balance	(2,535,005)	(4,948,278)	776,643	4,487,717
Fund balance beginning	2,535,005	18,988,239	18,988,239	-
Fund balance ending	\$ -	14,039,961	19,764,882	4,487,717

The accompanying notes are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA

Proprietary Funds

Statement of Net Assets

June 30, 2004

	Business-type Activities- Enterprise Fund <u>Public Utilities</u>	Governmental Activities - Internal <u>Service Funds</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and investments	\$ 13,955,698	1,496,611
Receivables (Net of allowances for uncollectables):		
Accounts	2,951,927	-
Total receivables	<u>2,951,927</u>	<u>-</u>
Inventories	-	194,454
Total current assets	<u>16,907,625</u>	<u>1,691,065</u>
Non-current Assets:		
Cash, cash equivalents and investments - restricted	11,041,221	-
Capital assets:		
Land	3,959,854	-
Buildings and system	36,846,692	-
Improvements other than buildings	120,381,210	-
Machinery and equipment	4,532,462	288,793
Construction in progress	46,068,021	-
Less accumulated depreciation	<u>(56,442,386)</u>	<u>(229,471)</u>
Total capital assets (net of accumulated depreciation)	<u>155,345,853</u>	<u>59,322</u>
Total non-current assets	<u>166,387,074</u>	<u>59,322</u>
Total assets	<u>183,294,699</u>	<u>1,750,387</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	1,332,141	528,117
Accrued liabilities	172,898	58,672
Accrued bond interest	525,369	-
Due to other funds	22,985	-
Deferred revenue	63,161	-
Current portion of bonds payable	1,799,857	-
Current portion of compensated absences	42,466	-
Current portion of contractual obligations	736,625	-
Total current liabilities	<u>4,695,502</u>	<u>586,789</u>
Non-current Liabilities:		
Bonds payable	34,114,799	-
Compensated absences	371,572	102,960
Deposits	147,827	-
Refundable developer capacity fees	249,068	-
Long-term contractual obligations	1,215,700	-
Total non-current liabilities	<u>36,098,966</u>	<u>102,960</u>
Total liabilities	<u>40,794,468</u>	<u>689,749</u>
NET ASSETS		
Invested in capital assets, net of related debt	123,953,003	59,322
Restricted for other purposes	4,318,022	-
Unrestricted	14,229,206	1,001,317
Total net assets	<u>\$ 142,500,231</u>	<u>1,060,639</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Business-type Activities- Enterprise Fund <u>Public Utilities</u>	Governmental Activities - Internal <u>Service Funds</u>
OPERATING REVENUES		
Charges for services	\$ 14,599,618	13,264,351
Capacity fees	54,751	-
Recovered cost	-	15,545
Miscellaneous	265,731	-
Total operating revenues	<u>14,920,100</u>	<u>13,279,896</u>
OPERATING EXPENSES		
Personal services	3,519,564	902,399
Fringe benefits	795,933	228,167
Health care claims	-	13,105,870
Contractual services	750,997	89,140
Internal services	850,430	247
Other charges	5,658,130	136,391
Depreciation	4,504,492	30,204
Total operating expenses	<u>16,079,546</u>	<u>14,492,418</u>
Operating loss	<u>(1,159,446)</u>	<u>(1,212,522)</u>
NON-OPERATING REVENUES (EXPENSES)		
Non-operating revenues:		
Intergovernmental	471,777	-
Capacity fees - non-operating	4,781,727	-
Gain on sale of property	23,501	-
Interest income	7,829	20,945
Total non-operating revenues	<u>5,284,834</u>	<u>20,945</u>
Non-operating expenses:		
Interest expense and fiscal charges:		
Senior debt	(895,825)	-
Subordinate debt and fiscal charges	(166,832)	-
Interest expense and fiscal charges	<u>(1,062,657)</u>	<u>-</u>
Net non-operating revenues	<u>4,222,177</u>	<u>20,945</u>
Income before contributions and transfers	<u>3,062,731</u>	<u>(1,191,577)</u>
Donated capital assets	3,043,005	-
Transfers in	-	43,550
Change in net assets	<u>6,105,736</u>	<u>(1,148,027)</u>
Total net assets - beginning	136,394,495	2,208,666
Total net assets - ending	<u>\$ 142,500,231</u>	<u>1,060,639</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2004

	Business-type Activities- Enterprise Fund Public Utilities	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 14,677,931	13,279,896
Payments to suppliers	(8,053,825)	(13,092,392)
Payments to employees	(3,459,633)	(1,129,463)
Net cash provided by operating activities	<u>3,164,473</u>	<u>(941,959)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments on advances from other funds	(118,777)	-
Advances from other funds	-	43,550
Federal Grants	469,197	-
Net cash provided by capital and related financing activities	<u>350,420</u>	<u>43,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	10,709,115	-
Capital contributions	4,781,727	-
Refundable developer capacity fee credits	(186,295)	-
Acquisition and construction of capital assets	(13,856,251)	(18,983)
Payments on long-term contractual obligations	(700,422)	-
Principal paid on capital debt	(1,101,020)	-
Interest paid on capital debt	(1,266,924)	-
Proceeds from sale of capital assets	23,501	-
Net cash used by capital and related financing activities	<u>(1,596,569)</u>	<u>(18,983)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	7,839	20,945
Net cash provided by investing activities	<u>7,839</u>	<u>20,945</u>
Net increase in cash and cash equivalents	1,926,163	(896,447)
Cash and cash equivalents, July 1	23,070,756	2,393,058
Cash and cash equivalents, June 30	<u>\$ 24,996,919</u>	<u>1,496,611</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,159,446)	(1,212,522)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	4,504,492	30,204
(Increase) decrease in accounts receivable	(144,163)	-
Increase (decrease) in allowance for uncollectable accounts	(35,348)	-
(Increase) decrease in inventory	-	(2,464)
(Increase) decrease in deferred revenue	2,580	-
Increase (decrease) in customer deposits	(18,965)	-
Increase (decrease) in accounts payable	(9,738)	241,720
Increase (decrease) in accrued liabilities	(17,435)	6,343
Increase (decrease) in compensated absences	42,496	(5,240)
Total adjustments	<u>4,323,919</u>	<u>270,563</u>
Net cash provided by operating activities	<u>\$ 3,164,473</u>	<u>(941,959)</u>
Non-cash investing, capital, and financing activities:		
Donated capital assets	3,043,005	-
Capitalized interest	356,880	-

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2004

	<u>Fiduciary Fund</u>
ASSETS	
Cash, cash equivalents and investments	\$ 2,808,398
Accounts receivable	488,109
Total assets	<u>\$ 3,296,507</u>
LIABILITIES	
Accounts payable	\$ 351,643
Accrued liabilities	1,084,970
Deposits	1,859,894
Total liabilities	<u>\$ 3,296,507</u>

The notes to the financial statements are an integral part of this statement.



COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

I. Summary of significant accounting policies

A. Reporting entity

The County of Hanover (the “County”) was established by an act of the Virginia General Assembly in 1720. It is a political subdivision of the Commonwealth of Virginia operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and six other board members elected from seven magisterial districts. The Board also has responsibility for appointing the County Administrator. The County has taxing powers subject to statewide restrictions and tax limits. The accompanying financial statements present the County and its component units, entities for which the County is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the County.

Discretely Presented Component Units

- **School Board:** The County provides education through its own school system administered by the Hanover County School Board (the “School Board”). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate, but financially dependent. The Board of Supervisors administers the School Board’s appropriation of funds at the category level, approving transfers between categories, authorizing school debt issuances and appointing School Board members. Financial statements of the School Board are included in the discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplemental information section.

- **Industrial Development Authority:** The Industrial Development Authority (the “IDA”) was created to foster and stimulate economic development in the County. Included in the discretely presented component unit IDA are the activities of industrial development services. The County appoints the seven members of the IDA. By statute, the IDA has the power to cause the issuance of tax-exempt industrial revenue bonds to those qualifying enterprises wishing to utilize that form of financing. The County is involved in the day-to-day operations of the IDA, the determination of its operating budget and annual service fee rates and the approval of private activity prospective bond issues. Subsequent to fiscal year end, on July 28, 2004, the authority’s name was changed to the Economic Development Authority of Hanover County. Financial statements of the Authority are included in the discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplemental information section.

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 and fiduciary 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers general property tax and intergovernmental revenues to be available if they are collected within 31 days of the end of the current fiscal period. Sales taxes, which are collected by the State and subsequently remitted to the County, are recognized consistent with the State's recognition. County revenues and receivables include May and June sales tax received from the State in July and August. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The County reports two major governmental funds. The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund. The *County Improvements Fund* accounts for the resources to be used for the acquisition or construction of major governmental capital facilities and equipment.

The County has one major proprietary fund. The *Public Utilities Fund* accounts for the activities and operations of wastewater treatment and water distribution.

Additionally, the County reports the following fund types:

Internal service funds account for self-insurance activities and fleet management services provided to other departments or agencies of the County on a cost reimbursement basis.

Fiduciary funds consist of Agency Funds. Agency funds are custodial in nature (assets and liabilities), and do not involve measurement of operations. Agency funds consist of Community Development Authority, Escrow and Special Welfare funds.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and of the County's internal service funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Cash equivalents are carried at fair value, based on quoted market prices at year end. Cash, cash equivalents and investments include cash on hand, checking and savings accounts, certificates of deposit, U.S. government agency securities, banker's acceptances, repurchase agreements, commercial paper, corporate notes, local bonds, state bonds, money market accounts, mortgage-backed securities and mutual funds. Cash equivalents are purchased on a competitive basis when possible and in instruments authorized by the Code of Virginia. Cash, cash equivalents and investments restricted represents unspent bond proceeds from construction projects and related compliance with debt covenant restrictions.

Certain proceeds of revenue and general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and cash equivalents on the balance sheet because their use is limited by applicable bond covenants.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the County activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable and property tax receivables are shown net of an allowance for uncollectibles. Accounts receivable utilize percentage of receivable methods based upon aged receivable balances in determining allowance for uncollectibles. The property tax receivable allowance is calculated based upon criteria established by the State Auditor of Public Accounts.

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute. The real estate in the County is assessed each year as of January 1 on the estimated market value of the property. On January 1, the real estate taxes become an enforceable lien on the property. For real estate assessed on January 1, payment is due in two equal installments on June 5 and December 5 and is classified delinquent on August 1 of the next fiscal year. The real estate taxes reported as revenue are the second installment (December 5) of the levy on assessed value at January 1, 2003, and the first installment (June 5) of the levy on assessed value at January 1, 2004.

The County levies personal property taxes on motor vehicles, boats, mobile homes, aircraft and tangible business property. Personal property taxes in the County are based on the estimated fair market value as of January 1, with payment due the following December 5. On January 1, personal property taxes become an enforceable lien on the property. The tax on a vehicle may be prorated for the length of time the vehicle has situs in the County. For financial disclosure purposes, taxes are classified delinquent if not received by August 1 of the next fiscal year.

The 1998 Virginia General Assembly enacted legislation providing property tax relief to citizens. The Personal Property Tax Relief Act (PPTRA) was being phased in over five years on the first \$20,000 of value for motor vehicles not used for business purposes. Due to a slow down in state revenue, the State froze tax relief at the 70% level. County 2003 tax bills, payable in fiscal year 2004, continued to include a 70% reduction on qualifying vehicles. The Commonwealth reimburses the County for the reduction following County receipt of the reduced tax. Commonwealth reimburses the County for full tax on qualifying vehicles valued \$1,000 and less. All PPTRA payments received from the Commonwealth of Virginia are classified as non-categorical state aid in the General Fund.

3. Inventories

All inventories are valued at cost using the first-in/ first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Governmental activities and the School Component unit include unexpended bond proceeds of \$1,248,485 classified as restricted cash on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable bond covenants. In addition, governmental activities include \$770,022 restricted cash for required debt services reserves, also reported as reserved fund

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

balance. Business-type activities include restricted cash of \$11,041,221 for reserves required by revenue bond agreements.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets and similar items are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as items with an initial, individual cost of more than \$5,000 and an estimated useful life of at least five years. 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 an assets' life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50
Vehicles, Trucks, Fire Trucks	5-15
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the County's policy to permit employees to accumulate earned but unused vacation, compensatory time and sick pay benefits. All such pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion of liability is estimated based on historical leave usage.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net Assets / Fund equity

Net assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

In the fund financial statements, County funds report reservations of fund balance for amounts that are not available for appropriation. Designations of fund balance represent tentative management plans that are subject to change.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance -- total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ 117,076,403
Accrued bond interest	129,880
Capital leases payable	6,272,492
Compensated absences (excludes internal services)	3,251,741
Liability for landfill closure	2,554,124
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ 129,284,640

B. Explanation of certain differences between the government-fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this difference are as follows:

Capital outlay	\$ 6,014,893
Depreciation expense (excludes internal services)	(7,390,430)
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets to governmental activities</i>	\$ (1,375,537)

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets." The details of this difference are as follows:

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

In the statement of activities, only the *loss* on the sale of capital assets is reported. However, in the Governmental Funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. \$ (31,653)

Net adjustments to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities. \$ (31,653)

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:

Principal repayments	\$ <u>1,527,625</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>1,527,625</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences (less internal services)	\$ (236,050)
Change in landfill closure liability	422,132
Accrued interest	<u>14,557</u>
Net adjustment to decrease <i>net changes in fund balances</i> – total governmental funds to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>200,639</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before December 1 of each year, all agencies of the County submit requests for appropriations to the County's County Administrator so that a budget may be prepared. No later than the fourth Wednesday in February, the proposed budget is presented to the County's Board for review. The Board holds a public hearing and a final budget must be prepared and adopted no later than June 30.

The Appropriations Resolution adopted by the Board of Supervisors places legal restrictions on expenditures at the fund level. The Board has adopted policies establishing thresholds for authorizing adjustments to the adopted budget. Board of Supervisors approval is needed for transfers of \$25,000 or more between department budget categories of personnel, operating, and capital, and any transfers

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

increasing the County's total appropriated budget. The County Administrator is authorized to transfer within department budget categories of personnel, operating, capital, and for amounts up to \$25,000 between departmental budget categories. The School Board is authorized to transfer budgeted amounts within the school funds, with any transfer that increases total appropriated budget requiring subsequent Board of Supervisors approval.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances to the extent service has not been received and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the year ended June 30, 2004, there were no occurrences of expenditures exceeding appropriations at the fund level (the legal level of budgetary control).

C. Deficit fund equity

There were two funds at the governmental reporting level that had a deficit fund balance as of June 30, 2004. The Internal Service, Fleet Management Unrestricted fund deficit of \$8,915 will be recovered through control of future rate adjustments. The School Board Component Unit, School Improvements fund deficit of \$500,067 is primarily the result of construction expenditures for which bond proceeds were planned to be issued subsequent to June 30, 2004.

IV. Detailed notes on all funds

A. Deposits and investments

Deposits –The Primary Government bank balance of demand deposits, savings accounts and certificates of deposit, which is different from the carrying value because of reconciling items such as outstanding checks and deposits in transit, was \$856,889. All cash of the County is maintained in accounts collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.1-359 et. Seq. of the Code of Virginia or covered by federal depository insurance.

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investment – Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, Treasurer of Virginia's Local Government Investment Pool, and mutual funds comprised of allowable investments listed above.

The Local Government Investment Pool (the "LGIP") is a diversified portfolio of investments managed by the Commonwealth Department of Treasury. The LGIP is administered for the benefit of local governments and other public entities of the Commonwealth, and participation is voluntary. The LGIP is not SEC registered; however, it maintains a policy to operate in a manner consistent with SEC Rule 2A7, permitting the LGIP investments to be valued at amortized cost. Therefore the fair value of the County's position in LGIP is not the same as the value of pool shares.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

Where possible, the County pools its investments to increase returns and minimize fees. Amounts invested on behalf of the Pamunkey Regional Jail Authority are reported separately in the Authority's Comprehensive Annual Report.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the County or its agent in the County's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

At year end, the County's pooled investment balances were as follows:

	Category			Reported Amount/ Fair Value
	1	2	3	
U. S. Government securities	\$ -	43,327,019	-	43,327,019
Commercial Paper		3,425,663		3,425,663
Banker's acceptances	-	3,198,215	-	3,198,215
Total	-	<u>49,950,897</u>	-	<u>49,950,897</u>
Investments not subject to categorization:				
Treasurer of Virginia, Local Government Investment Pool (LGIP)				2,262
Mutual funds				18,753,377
Cash deposits (temporary deficit)				(600,173)
Cash on hand				\$ 4,611
Total deposits and investments				<u>\$ 68,110,974</u>

The above schedule includes \$11,537,809 in cash and cash equivalents of the School Board Component Unit. The above schedule also includes \$154,196 in cash and cash equivalents of the Industrial Development Authority Component Unit.

Due to significantly higher cash flows at certain times during the year, the County's investments exceeded the amounts shown in the preceding table at various times during the fiscal year, but they generally were made in the same types of investments and risk categories.

B. Receivables

Receivables as of year end for the County's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities				Business Activities	Total
	General	County Improvement	Non-major and Other Funds	Subtotal	Public Utilities	
Receivables						
Interest	\$ 220,180	-	-	220,180	466	220,646
Taxes	38,612,288	-	-	38,612,288	-	38,612,288
Accounts	571,415	-	776,829	1,348,244	3,028,616	4,376,860
Intergovernmental	<u>4,072,191</u>	<u>621,222</u>	<u>301,197</u>	<u>4,994,610</u>	-	<u>4,994,610</u>
Gross receivables	43,476,074	621,222	1,078,026	45,175,322	3,029,082	48,204,404
Less allowance						

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

for uncollectibles	<u>(1,686,238)</u>	-	<u>(141,724)</u>	<u>(1,827,962)</u>	<u>(77,155)</u>	<u>(1,905,117)</u>
Net total receivables	<u>\$ 41,789,836</u>	<u>621,222</u>	<u>936,302</u>	<u>43,347,360</u>	<u>2,951,927</u>	<u>46,299,287</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Property taxes	\$36,868,535	34,798,535
Grant drawdowns prior to meeting all eligibility requirements	<u>94,666</u>	<u>94,666</u>
Total deferred/unearned revenue for County funds	<u>\$36,963,201</u>	<u>34,893,201</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,661,409	54,016	(17,998)	12,697,427
Construction in progress	<u>29,753,705</u>	<u>5,593,722</u>	<u>(286,905)</u>	<u>35,060,522</u>
Total capital assets, not being depreciated	<u>42,415,114</u>	<u>5,647,738</u>	<u>(304,903)</u>	<u>47,757,949</u>
Capital assets, being depreciated:				
Buildings	142,198,068	261,784	(2,292,319)	140,167,533
Improvements other than buildings	13,739,152	19,469	-	13,758,621
Machinery and equipment	28,648,737	3,198,707	(3,631,796)	28,215,648
Infrastructure	<u>17,883,095</u>	<u>2,439,408</u>	<u>-</u>	<u>20,322,503</u>
Total capital assets, being depreciated	<u>202,469,052</u>	<u>5,919,368</u>	<u>(5,924,115)</u>	<u>202,464,305</u>
Less accumulated depreciation for:				
Buildings	(31,544,277)	(3,087,753)	-	(34,632,030)
Improvements other than buildings	(3,206,851)	(402,045)	-	(3,608,896)
Machinery and equipment	(18,291,581)	(2,840,876)	2,886,773	(18,245,684)
Infrastructure	<u>(7,119,899)</u>	<u>(767,183)</u>	<u>-</u>	<u>(7,887,082)</u>
Total accumulated depreciation	<u>(60,162,608)</u>	<u>(7,097,857)</u>	<u>2,886,773</u>	<u>(64,373,692)</u>
Total capital assets, being depreciated, net	<u>142,306,444</u>	<u>(1,197,795)</u>	<u>(3,018,036)</u>	<u>138,090,613</u>
Governmental activities capital assets, net	<u>\$ 184,721,558</u>	<u>4,449,943</u>	<u>(3,322,939)</u>	<u>185,848,562</u>

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,619,094	355,760	(15,000)	3,959,854
Construction in progress	34,581,845	13,617,774	(2,131,598)	46,068,021
Total capital assets, not being depreciated	<u>38,200,939</u>	<u>13,973,534</u>	<u>(2,146,598)</u>	<u>50,027,875</u>
Capital assets, being depreciated:				
Buildings and system	36,245,492	631,200	(30,000)	36,846,692
Improvements other than buildings	115,841,094	4,540,115	-	120,381,209
Machinery and equipment	4,373,320	242,886	(83,743)	4,532,462
Total capital assets, being depreciated	<u>156,459,906</u>	<u>5,414,201</u>	<u>(113,743)</u>	<u>161,760,363</u>
Less accumulated depreciation for:				
Buildings	(12,618,106)	(898,884)	30,000	(13,486,990)
Improvements other than buildings	(35,822,415)	(3,265,440)	-	(39,087,855)
Machinery and equipment	(3,611,116)	(340,168)	83,743	(3,867,540)
Total accumulated depreciation	<u>(52,051,637)</u>	<u>(4,504,492)</u>	<u>113,743</u>	<u>(56,442,385)</u>
Total capital assets, being depreciated, net	104,408,269	909,709	-	105,317,978
Business-type activities capital assets, net	<u>\$ 142,609,208</u>	<u>14,883,243</u>	<u>(2,146,598)</u>	<u>155,345,853</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General governmental administration	\$869,548
Judicial administration	192,411
Public safety	2,005,101
Public works	1,424,223
Health and welfare	88,805
Parks, recreation and cultural	379,565
Community development	22,266
Education	2,085,734
Capital assets held by the internal service funds are charged to various functions based on their usage of the assets	<u>30,204</u>
Total depreciation expense - governmental activities	<u><u>\$7,097,857</u></u>

Business-type activities:

Total depreciation expense business-type activities, (Public utilities)	\$ 4,504,492
---	--------------

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

Discretely presented component units

Activity for the School Board for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
School Component Unit activities:				
Capital assets, not being depreciated:				
Land	\$ 3,281,388	962,479	-	4,243,867
Construction in progress	10,129,108	11,730,728	(8,340,591)	13,519,245
Total capital assets, not being depreciated	<u>13,410,496</u>	<u>12,693,207</u>	<u>(8,340,591)</u>	<u>17,763,112</u>
Capital assets, being depreciated:				
Buildings	67,934,453	2,456,505	-	70,390,958
Improvements other than buildings	1,778,443	1,433,624	-	3,212,067
Machinery and equipment	13,738,161	1,638,797	(507,207)	14,869,751
Total capital assets, being depreciated	<u>83,451,057</u>	<u>5,528,926</u>	<u>(507,207)</u>	<u>88,472,776</u>
Less accumulated depreciation for:				
Buildings	(14,363,487)	(2,103,266)	-	(16,466,753)
Improvements other than buildings	(273,138)	(124,757)	-	(397,895)
Machinery and equipment	(6,822,297)	(1,154,954)	479,034	(7,498,217)
Total accumulated depreciation	<u>(21,458,922)</u>	<u>(3,382,977)</u>	<u>479,034</u>	<u>(24,362,865)</u>
Total capital assets, being depreciated, net	<u>61,992,135</u>	<u>2,145,948</u>	<u>(28,173)</u>	<u>64,109,910</u>
School activities capital assets, net	<u>\$ 75,402,631</u>	<u>14,839,156</u>	<u>(8,368,764)</u>	<u>81,873,023</u>

State legislation passed in 2002 granted the County a “tenancy-in-common” with the School Board when the County incurs a financial obligation for school property which is payable over more than one fiscal year. For financial reporting purposes, the value of school assets financed by County guaranteed debt is transferred to the County, up to the amount of outstanding debt.

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds		
General	Public Utilities	\$22,985
General	Special Revenue, Community Services	\$115,000

In April 1980, the Board of Supervisors approved a loan from the General Fund to the Public Utilities Fund. This loan is being repaid over a 25 year period, with interest at 7% per annum. The remaining \$22,985 shown above is due fiscal year 2005.

At year end, the General Fund made a temporary \$115,000 advance to the Community Services Fund that will be repaid in the next fiscal year.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

D. Interfund receivables, payables, and transfers (continued)

	<u>County</u> <u>Improvements</u>	<u>Nonmajor</u> <u>Governmental</u>	<u>Total</u>
Transfer out			
General	\$1,804,055	4,434,472	\$6,238,527

Transfers are used to provide funding for operating and capital costs.

E. Leases

Operating Leases

The County leases building and office facilities and other equipment under various operating lease agreements. Most operating leases are subject to annual appropriation of funds. Total costs for such leases were \$474,213 for the year ended June 30, 2004. Obligations under noncancellable operating leases are not significant.

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of office facilities, computer equipment, and communications system. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases for Governmental activities are as follows:

Land	\$ 150,000
Building	5,989,256
Machinery and Equipment	2,329,857
Less: Accumulated Depreciation	<u>(3,117,923)</u>
Total	<u>\$5,351,190</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

<u>Year Ending</u> <u>June 30, 2004</u>	<u>Total Minimum</u> <u>Lease Payments</u>
2005	\$ 1,053,913
2006	790,722
2007	825,185
2008	863,504
2009	902,930
2010-2013	<u>1,836,238</u>
Total minimum lease payments	6,272,492
Less amount representing imputed interest	<u>(815,557)</u>
Present value of net minimum capital lease payments	<u>\$ 5,456,935</u>

In total, the paydown of principal over the next five years and ten years as a percentage of total outstanding capital lease obligations is equal to 81.3% and 100.0%, respectively.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

F. Long-term debt

General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds (including State Literary Fund Loans) have been issued for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date Issued</u>	<u>Interest Rates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Governmental activities – County:				
General obligation bonds	1997	4.70 - 6.50%	\$ 7,940,000	<u>\$ 5,135,000</u>
Total governmental activities – County				<u>5,135,000</u>
Governmental activities – School:				
General obligation bonds	1999	4.00 - 5.625	10,000,000	8,000,000
General obligation bonds	2000	4.50 - 5.375	19,000,000	16,000,000
General obligation bonds	2002	4.39	20,000,000	18,000,000
General obligation bonds	2002	3.97	21,500,000	21,500,000
VPSA Bonds	1985	8.74	3,400,000	170,000
VPSA Bonds	1990	6.40 - 7.10	6,040,000	2,385,000
VPSA Bonds	1991	4.85 - 6.60	2,069,507	911,585
VPSA Bonds	1992	5.10 - 8.10	6,230,000	2,435,000
VPSA Bonds	1993	4.47 - 5.00	3,620,000	1,040,000
VPSA Refunding Bonds	1994	6.35 - 7.19	32,075,000	11,165,000
VPSA Bonds	1994	6.10 - 6.30	4,900,000	2,515,000
VPSA Bonds	1994	6.10 - 6.60	5,385,000	2,955,000
VPSA Bonds	1995	5.20 - 5.75	1,580,000	940,000
VPSA Bonds	1997	5.20 - 5.75	7,495,000	3,725,000
VPSA Bonds	1997	5.14	3,220,000	2,240,000
VPSA Bonds	1999	5.76	5,630,000	4,490,000
VPSA Bonds	1999	5.66	4,384,934	3,560,568
State Literary Fund loans	1985	3.00	1,480,000	148,000
State Literary Fund loans	1985	3.00	500,000	50,000
State Literary Fund loans	1988	3.00	1,969,350	394,000
State Literary Fund loans	1988	3.00	270,000	67,500
State Literary Fund loans	1988	3.00	310,000	77,500
State Literary Fund loans	1997	4.00	5,000,000	3,500,000
State Literary Fund loans	1998	4.00	3,725,000	2,793,750
State Literary Fund loans	1999	4.00	1,275,000	1,020,000
State Literary Fund loans	2002	4.00	2,065,000	<u>1,858,500</u>
Total governmental activities – School				<u>111,941,403</u>
Total governmental activities				<u>\$ 117,076,403</u>

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

The paydown of principal over the next five and ten years as a percentage of total outstanding principal is equal to 38.5% and 68.8% respectively. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,268,194	5,524,521
2006	9,061,075	5,071,971
2007	8,975,140	4,624,475
2008	8,988,131	4,175,783
2009	8,793,632	3,719,431
2010-2014	35,438,520	12,798,805
2015-2019	26,699,768	5,515,719
2020-2023	<u>9,851,943</u>	<u>769,179</u>
Total	<u>\$117,076,403</u>	<u>42,199,884</u>

Revenue bonds

The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Currently, all outstanding revenue bonds have been issued on behalf of the public utilities function. Revenue bonds currently outstanding are as follows:

	<u>Date Issued</u>	<u>Interest Rates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Water and Sewer Revenue Bonds	1996	3.65 – 5.25%	\$18,000,000	\$15,470,000
VRA Water and Sewer Revenue Bonds	2002	0.00	884,768	838,748
VRA Water and Sewer Revenue Bonds	2002	3.75	452,684	977,031
Water and Sewer Revenue Bonds	2003	3.72	10,000,000	9,320,000
Water and Sewer Revenue Bonds	2004	3.72	9,600,000	<u>9,600,000</u>
				36,205,779
Unamortized discount				<u>(291,123)</u>
Total primary government				<u>\$35,914,656</u>

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,799,857	1,487,739
2006	1,814,857	1,418,745
2007	1,834,857	1,349,875
2008	1,854,857	1,280,441
2009	1,859,857	1,209,848
2010-2014	9,689,285	4,940,699
2015-2019	9,844,285	2,952,981
2020-2024	5,064,285	1,371,217
2025-2026	<u>2,198,536</u>	<u>176,662</u>
Total	<u>\$35,960,676</u>	<u>16,188,207</u>

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General Governmental activities:					
Bonds payable					
Bonds payable – County	\$ 5,530,000	-	395,000	5,135,000	395,000
Bonds payable – School	<u>119,997,143</u>	-	8,055,740	111,941,403	8,873,194
Total bonds payable	<u>125,527,143</u>	-	8,450,740	117,076,403	9,268,194
Capital leases	7,405,117	-	1,132,625	6,272,492	1,053,913
Compensated absences	3,123,889	3,071,314	2,840,502	3,354,701	2,892,924
Landfill closure costs	<u>2,976,256</u>	-	422,132	2,554,124	76,304
Governmental activity long-term liabilities	<u>\$ 139,032,405</u>	3,071,314	12,845,999	129,257,720	13,291,335
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 26,293,328	10,709,115	1,087,787	35,914,656	1,799,857
Total bonds payable	<u>26,293,328</u>	10,709,115	1,087,787	35,914,656	1,799,857
Contractual obligations	2,588,340	64,407	700,422	1,952,325	736,625
Refundable developer capacity fees	435,362	-	186,294	249,068	-
Compensated absences	<u>371,542</u>	315,233	272,737	414,038	42,466
Business-type activity long-term liabilities	<u>\$ 29,688,572</u>	11,088,755	2,247,240	38,530,087	2,578,948
Component Unit Activities:					
Compensated absences	\$ 3,462,915	1,780,243	1,689,831	3,553,327	1,733,951
Early retirement program	<u>1,896,751</u>	-	113,950	1,782,801	265,690
Component unit activities long-term liabilities	<u>\$ 5,359,666</u>	1,780,243	1,803,781	5,336,128	1,999,641

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$102,960 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are primarily liquidated by the General Fund.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The landfill closed December 31, 2002 with a permanent cap already in place over approximately half the 35-acre site at closing. The capping was completed Fall 2003. The \$2,554,124 reported as landfill closure and postclosure care liability at June 30, 2004 represents the remaining estimated cost of postclosure care. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The General Fund is responsible for landfill closure costs.

The County has no legal debt margin requirement. Any issuance of general obligation bonded debt, except State Literary Fund loans and Virginia Public School Authority bonds, must be approved by a

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

voting majority of the qualified County voters. Revenue bonds and State Literary Fund loans may be issued by the adoption of a resolution by the Board of Supervisors.

The County has overlapping debt with the Town of Ashland, Virginia of \$2,425,000, of which \$1,952,325 was for construction of water and sewer lines. The County has a contractual obligation to reimburse the Town for water and sewer line debt in accordance with the annexation agreement. The bonds expire on February 1, 2013.

V. Other information

A. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. The County carries commercial insurance for all risks of loss including property, theft, auto liability, general liability and construction insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage for each of the past three years. There was no reduction in insurance coverage during fiscal year 2004. All claims are paid in full at the time of damage. In addition, the County provides various surety bond coverage as required under regulations and at industry-recommended desired levels.

The County is a participating member in the Virginia Municipal Group Self Insurance Association and the School Board is a participating member in the School Systems of Virginia Self Insurance Program. Both of these non-profit entities provide workers' compensation coverage in compliance with the Virginia Workers' Compensation code.

The County has chosen to retain the risk associated with the employee's health insurance plan. Risk is retained at 100% up to an individual stop loss amount of \$100,000 for individual claims paid during the contract year. Premiums are paid for all eligible full and part-time employees of the County and School Board, to a claims administrator who processes all claims. Any excess above the amount of the incurred but not reported (IBNR) claims at the end of the year are left in a reserve account with the claims administrator or transferred to the Self-Insurance Reserve Fund maintained by the County. This reserve account will be used to offset rate increases and to fund losses in future years. As of June 30, 2004, the Self-Insurance Reserve Fund had a balance of \$1,121,952. The annual liability for claims costs, including IBNR claims, is estimated during the annual renewal process each contract year (January 1 through December 31). The estimated claims cost is based on the prior year's experience as well as industry trends.

Changes in balances of health insurance claim liabilities during the past three years are as follows:

Fiscal Year	(Receivable) Beginning of Year Balance	Claims and Other Charges	Employee/ Employer Payments	Balances Remitted Back to County	(Receivable) End of Year
2002	\$ (13,066)	9,527,533	9,409,623	-	104,844
2003	104,844	11,463,136	11,336,802	-	231,178
2004	231,178	13,321,925	13,105,870	-	447,233

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

B. Fund Balance Designated for Specific Purposes:

Designated portions of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designation of fund balance by specific purpose is as follows:

	Governmental Funds			Subtotal	Component Unit
	General	Community Services	County Improvements	Governmental Funds	School
Designated for:					
Asset Foreiture					
Federal: Sheriff's Office	\$ 99,415	-	-	99,415	-
Federal: Com. Attorney's Office	191	-	-	191	-
State: Sheriff's Office	125,544	-	-	125,544	-
State: Com. Attorney's Office	11,588	-	-	11,588	-
Law Library	66,073	-	-	66,073	-
Proffers					
Road	-	-	1,889,967	1,889,967	-
Non-Road	-	-	710,594	710,594	166,928
Stormwater Management	-	-	1,670,135	1,670,135	-
Economic Development	500,000	-	-	500,000	-
Reappropriation of unencumbered balances	519,953	19,810	2,492,819	3,032,582	715,348
Funding of subsequent fiscal year's budget	2,864,000	-	-	2,864,000	286,279
Undisbursed grant funds	-	-	294,802	294,802	-
Total designated for specific purposes	\$ 4,186,764	19,810	7,058,317	11,264,891	1,168,555

C. Commitments

The County has commitments for active construction projects and other purchases as of June 30, 2004. The following schedule illustrates these obligations by area, with the majority of commitments for construction:

Governmental-type activities	\$ 4,084,707
Business-type activities	5,049,565
School Board component unit	3,237,126

D. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (the “Library”) is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed by the Board of Supervisors of the Counties of Hanover, Goochland, King William and King and Queen, for specific terms of office. The trustees cannot be removed without cause. The County appoints three of the seven trustees of the Library’s Board. Further, designation of management and accountability for fiscal matters rest with the Library’s Board. The Library provides library services for the Counties of Hanover, Goochland, King William and King and Queen. It applies, receives and invests its own funds and formulates and approves its own budget. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization. Complete financial statements for the Library can be obtained from the Director’s office at P.O. Box 119, Hanover, Virginia 23069.
- **Pamunkey Regional Jail Authority:** The Pamunkey Regional Jail Authority (the “Jail”) is a political subdivision of the Commonwealth of Virginia and is governed by a separate board, appointed by the Board of Supervisors of the Counties of Hanover and Caroline, and the Town Council of the Town of Ashland. The County appoints two of the five board members. Further, designation of management and accountability of fiscal matters rests with the Jail Board. The County serves as fiscal agent for the Jail Board; however, the board formulates and approves its own budget. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization.

The purpose of the Jail is to maintain and operate a regional jail facility to meet the needs of the participating jurisdictions for additional jail facilities. The participating jurisdictions have entered into a Service Agreement which is a long-term contract regulating usage of the Jail and establishing payment terms applicable to participating jurisdictions. Under the Service Agreement, the County is obligated to commit all of its prisoners to the Jail at a per diem rate to be determined annually by the Jail. It is anticipated that the County will provide a majority of the prisoners to the facility. Complete financial statements for the Jail can be obtained from the Superintendent’s office at P.O. Box 510, Hanover, Virginia 23069.

- **Middle Peninsula Juvenile Detention Commission:** The Middle Peninsula Juvenile Detention Commission (the “Commission”) is a political subdivision of the Commonwealth of Virginia and is governed by a separate board. The Commission was created by resolutions adopted in 1993 by its member jurisdictions. The member jurisdictions are as follows: Counties of Caroline, Charles City, Essex, Gloucester, Hanover, James City, King George, King and Queen, King William, Lancaster, Matthews, Middlesex, New Kent, Northumberland, Westmoreland, and York and the Cities of Poquoson, Richmond and Williamsburg. Each member jurisdiction appoints one member to the Commission. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization.

The Commission was created to enhance the region for the protection of the citizens by the maintenance and operation of a juvenile detention facility (the “Center”) to serve the member jurisdictions. The member jurisdictions have entered into a Service Agreement which is a long-term contract governing the parties’ respective obligations. Under the Service Agreement, the County is obligated to pay a per diem rate to be determined annually by the Commission for each day a juvenile from the County is held at the Center or in another detention facility secured by the Commission. If the sum of all per diem rates paid during the fiscal year is below \$2,500, the

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

County shall pay the Commission the amount equal to the difference. Complete financial statements for the Commission can be obtained from the fiscal agent's office at James City County, P.O. Box 8784, Williamsburg, Virginia 23187.

- **Greater Richmond Convention Center Authority:** The Greater Richmond Convention Center Authority (the "GRCCA"), a political subdivision of the Commonwealth of Virginia, was created on January 9, 1998 pursuant to the Public Recreational Facilities Authorities Act, Chapter 56 of Title 15.2, Code of Virginia. The political subdivisions participating in the incorporation of the GRCCA are the City of Richmond and the Counties of Chesterfield, Hanover and Henrico. The GRCCA is governed by a five member commission comprised of the chief administrative officer of each of the four incorporating political subdivisions and the President/CEO of the Retail Merchants Association of Greater Richmond.

The GRCCA was created to acquire, finance, expand, renovate, construct, lease, operate and maintain the facility and grounds of a visitors and convention center or centers including the facility and grounds currently known as the Richmond Centre. Since August 1996, each locality has been designating revenue from the transient occupancy tax for expansion of the convention center. Project financing took place in February 2000, and the expanded Richmond Centre opened in late January 2003. Complete financial statements for the GRCCA can be obtained from the fiscal agent's office at Chesterfield County, P.O. Box 40, Chesterfield, Virginia 23832.

- **Capital Region Airport Commission:** The Capital Region Airport Commission (the "Commission") was created under Chapter 380 as amended by Chapter 410 of the Code of Virginia. The Commission is comprised of a 14-member Board of Directors, with four members each being appointed by the City of Richmond, County of Henrico and County of Chesterfield governing bodies and two members being appointed by the County of Hanover governing body. The Commission generates its revenues from service charges to users of the Richmond International Airport (the "Airport") facilities to recover the costs of maintaining, repairing and operating the Airport. Virginia law requires that the Commission submit an annual budget showing estimated revenues and estimated expenditures to the governing bodies of the localities for their approval. After approval of the proposed budget by the governing bodies, if the Commission's budget contains estimated expenditures that exceed estimated revenues, the governing bodies are required to fund the deficit in proportion to their pro rata basis in the Commission. The pro rata basis is to be determined by the percentage of population of each locality to the combined total population of all localities according to the most recent census. The pro rata percentages of equity in the Commission for the Counties of Hanover, Henrico and Chesterfield and the City of Richmond are 9%, 32%, 30% and 29%, respectively. If, however, actual revenues are less than estimated revenues identified in the budget (resulting in a deficit), the localities may, at their discretion, appropriate funds necessary to fund the deficit. To date, the County has not had to fund any deficits. Complete financial statements for the Commission can be obtained from the Director's office at Richmond International Airport, Box A-3, Richmond, Virginia 23231.
- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (the "Waste Authority") was established under the provisions of the Virginia Water and Sewer Authorities Act. The Waste Authority's board is comprised of representatives from the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan and Prince George; the Cities of Colonial Heights, Petersburg and Richmond; and the Town of Ashland. The 20 member board is comprised of no less than one and no more than three members from each of the participating jurisdictions, determined on a population basis. The

COUNTY OF HANOVER, VIRGINIA
Notes to the Financial Statements
June 30, 2004

County has two representatives serving on the Waste Authority's Board. The Waste Authority is responsible for creating and implementing recycling and solid waste management programs for its local member jurisdictions in order to meet waste reduction mandates set by the Virginia General Assembly. Except for contribution requirements and direct payments for special projects, no participant has any ongoing financial interest or responsibility in the Waste Authority. Complete financial statements can be obtained from the Authority's office at 2100 West Laburnum Ave, Suite 105, Richmond, Virginia 23227.

- **Greater Richmond Partnership:** The Greater Richmond Partnership, Inc. (the "GRP") serves the Counties of Chesterfield, Hanover and Henrico and the City of Richmond by seeking to enhance economic development in the participating localities. The County has one representative serving on GRP's Board of Directors. Complete financial statements can be obtained from Partnership's office at Riverfront Plaza, 901 East Byrd Street, Suite 801, West Tower, Richmond, Virginia 23219.
- **Richmond Metropolitan Convention and Visitors Bureau:** The Richmond Metropolitan Convention and Visitors Bureau (the "RMCVB") serves the Counties of Chesterfield, Hanover and Henrico and the City of Richmond by promoting conventions and tourism in the participating localities. The County has two representatives serving on RMCVB's Board of Directors. Complete financial statements can be obtained from the Bureau's office at 401 North 3rd Street, Richmond, Virginia 23219.

F. Employee retirement systems and pension plans

Defined Benefits Pension Plan

- a. ***Plan Description*** – All full-time, salaried permanent employees of participating employers must participate in the Virginia Retirement System. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent 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 an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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

- b. ***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 is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended June

2004 was 4% of annual covered payroll. The School Board non-professional contribution rate for the fiscal year ended 2004 was 1.5% of annual covered payroll. The School Board's required contributions to the teacher cost-sharing pool for the fiscal years ending 2004, 2003, and 2002 were \$6,364,999, \$5,918,564 and \$5,460,644, respectively and are equal to the required contributions for each year.

- c. **Annual Pension Cost** – For the fiscal year 2004, County's annual pension cost of \$1,482,672 was equal to the County's required and actual contributions. For 2004, the County School Board non-professional employees annual pension cost of \$77,709 was equal to the required and actual contributions. This actuarial valuation uses the assumptions and methods that were adopted as a result of the 2000 Experience Study. In particular, it uses an assumed investment rate of return of 8.00%; an assumed annual cost of living adjustment of 3.00%; salary increases that range between 4.25% and 6.10 % depending on the member's service and classification (general employee or uniformed officer); and retirement, mortality and disability and termination rates that were also based on the 2000 Experience Study prepared for VRS. Liabilities were determined under the Entry Age Normal actuarial cost method. The actuarial value of the County and School Board Non-Professional 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. Funded (unfunded) actuarial liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Funds	Fiscal Year Ending	Annual Pension Cost APC	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
Governmental	June 30, 2004	\$1,352,429	\$1,352,429	100.0 %	\$ -
Enterprise	June 30, 2004	130,242	130,242	100.0	-
Governmental	June 30, 2003	\$1,283,371	\$1,283,371	100.0 %	\$ -
Enterprise	June 30, 2003	119,229	119,229	100.0	-
Governmental	June 30, 2002	\$ 714,114	\$ 714,114	100.0 %	\$ -
Enterprise	June 30, 2002	68,918	68,918	100.0	-

School Board Non-Professional Employees

Fiscal Year Ending	Annual Pension Cost APC	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 77,709	\$ 77,709	100.0 %	\$ -
June 30, 2003	68,409	68,409	100.0	-
June 30, 2002	170,884	170,884	100.0	-

**Required Supplementary Information
Virginia Retirement System
Schedules of Funding Progress**

Hanover County

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Actuarial Accrued Liability (F/UAAAL)	Funded Ratio	Covered Payroll	F/UAAAL as a Percentage of Covered payroll
June 30, 2003	\$ 69,296,169	\$ 67,758,546	\$ 1,537,623	102.3%	\$31,983,538	4.8%
June 30, 2002	64,800,322	60,276,935	4,523,387	107.5%	32,358,264	14.0
June 30, 2001	60,901,803	52,641,552	8,260,251	115.7%	28,095,098	29.4

Hanover County School Board Non-Professional Employees

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded (Unfunded) Actuarial Accrued Liability (F/UAAAL)	Funded Ratio	Covered Payroll	F/UAAAL as a Percentage of Covered payroll
June 30, 2003	9,969,033	9,280,648	688,385	107.4%	4,057,091	17.0%
June 30, 2002	9,846,744	9,031,748	814,996	109.0%	4,377,546	18.6
June 30, 2001	9,402,324	8,053,467	1,348,857	116.8%	3,842,518	35.1

SUPPLEMENTARY INFORMATION

COUNTY IMPROVEMENTS FUND

County Improvements – Accounts for the acquisition or construction of the County's capital assets

COUNTY OF HANOVER, VIRGINIA

County Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, to be continued

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Revenues from local sources:				
Public Works:				
Public Works Fees	\$ 350,000	350,000	709,809	359,809
Road proffers	850,000	355,000	585,635	230,635
Total public works	1,200,000	705,000	1,295,444	590,444
Nondepartmental:				
Proffers	780,000	527,000	350,390	(176,610)
Total nondepartmental	780,000	527,000	350,390	(176,610)
Total charges for services	1,980,000	1,232,000	1,645,834	413,834
Recovered costs:				
Public Works:				
Public Works	-	4,719,725	1,189,901	(3,529,824)
Total public works	-	4,719,725	1,189,901	(3,529,824)
Community Development:				
Planning	-	1,217	-	(1,217)
Total community development	-	1,217	-	(1,217)
Total recovered costs	-	4,720,942	1,189,901	(3,531,041)
Total revenues from local sources	1,980,000	5,952,942	2,835,735	(3,117,207)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (County Department: State Agency):				
Judicial Administration:				
Clerk of Circuit Court: Compensation Board	-	48,169	-	(48,169)
Total judicial administration	-	48,169	-	(48,169)
Public Safety:				
Fire/EMS: Fire Programs	-	165,691	165,691	-
Total public safety	-	165,691	165,691	-
Public Works:				
Airport: Airport Commission	-	371,878	17,139	(354,739)
Public Works: Highways	500,000	4,080,175	1,174,941	(2,905,234)
Public Works: Transportation	-	31,127	5,965	(25,162)
Public Works: Water Control Board	-	-	7,355	7,355
Total public works	500,000	4,483,180	1,205,400	(3,277,780)

COUNTY OF HANOVER, VIRGINIA

County Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual, to be continued

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Parks, Recreation and Cultural:				
Total categorical aid	\$ 500,000	4,697,040	1,371,091	(3,325,949)
Total revenue from the Commonwealth	500,000	4,697,040	1,371,091	(3,325,949)
Revenue from the Federal government:				
Categorical aid (County Department: Federal Agency):				
Public Safety:				
Fire/EMS: Office of Domestic Prep	-	163,656	163,656	-
Federal: US Fire Administration	-	84,000	84,000	-
Sheriff-COPS Technology	-	9,800	9,500	(300)
Fire: Department of Emergency Management	-	74,270	74,270	-
Total public safety	-	331,726	331,426	(300)
Public Works:				
Airport: Aviation Authority	-	1,604,065	158,804	(1,445,261)
Public Works: Highways	-	1,928,836	472,922	(1,455,914)
Total public works	-	3,532,901	631,726	(2,901,175)
Total revenue from the Federal government	-	3,864,627	963,152	(2,901,475)
Total intergovernmental	500,000	8,561,667	2,334,243	(6,227,424)
Total revenues	2,480,000	14,514,609	5,169,978	(9,344,631)
EXPENDITURES				
Capital projects:				
General government administration	403,000	683,774	616,232	67,542
Judicial administration	-	61,054	-	61,054
Public safety	1,160,000	3,835,636	1,702,410	2,133,226
Health and welfare	70,000	261,087	139,167	121,920
Public works:				
Airport	-	2,318,618	103,278	2,215,340
Solid Waste Management	650,000	1,090,454	691,789	398,665
Public Works: Roads	1,350,000	11,684,535	2,852,255	8,832,280
Public Works: Stormwater management	445,000	1,307,225	444,059	863,166
Facilities Management/other public works	64,000	145,367	19,685	125,682
Total public works	2,509,000	16,546,199	4,111,066	12,435,133
Parks, recreation and cultural	100,000	336,361	28,545	307,816
Community development	-	379,937	27,315	352,622
Total capital projects	4,242,000	22,104,048	6,624,735	15,479,313
Total expenditures	4,242,000	22,104,048	6,624,735	15,479,313
Excess (deficiency) of revenues over (under) expenditures	(1,762,000)	(7,589,439)	(1,454,757)	6,134,682

COUNTY OF HANOVER, VIRGINIA

County Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual, concluded

For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
OTHER FINANCING SOURCES AND USES				
Other financing sources:				
Transfers in:				
General Fund	\$ 1,662,000	2,016,039	1,804,055	(211,984)
Total transfers in	<u>1,662,000</u>	<u>2,016,039</u>	<u>1,804,055</u>	<u>(211,984)</u>
Total other financing sources	<u>1,662,000</u>	<u>2,016,039</u>	<u>1,804,055</u>	<u>(211,984)</u>
Net other financng sources (uses)	<u>1,662,000</u>	<u>2,016,039</u>	<u>1,804,055</u>	<u>(211,984)</u>
Excess of revenues and other financing sources under expenditures and other financing uses	(100,000)	(5,573,400)	349,298	5,922,698
Fund balance beginning	100,000	8,357,611	8,357,611	-
Fund balance ending	<u>\$ -</u>	<u>2,784,211</u>	<u>8,706,909</u>	<u>5,922,698</u>

NONMAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purpose.

Comprehensive Services - Accounts for the operations of the Commonwealth of Virginia's Comprehensive Services Act for which a community policy and management team comprised of representatives of the School Board, Social Services, Community Services, Health, and Probation provide oversight.

Community Services - Accounts for the operation of mental health, mental retardation, and substance abuse services.

COUNTY OF HANOVER, VIRGINIA
 Non-major Governmental Fund
 Combining Balance Sheet
 June 30, 2004

	Special Revenue		
	Comprehensive Services	Community Services	Total
ASSETS			
Cash, cash equivalents and investments	\$ 84,377	4,429	88,806
Accounts receivable (net of allowance for uncollectable accounts)	25,217	609,887	635,104
Due from other governmental units	277,745	23,453	301,198
Total assets	\$ 387,339	637,769	1,025,108
LIABILITIES			
Accounts payable	\$ 269,866	129,771	399,637
Accrued liabilities	3,908	252,032	255,940
Due to other funds	-	115,000	115,000
Deferred revenue	-	80,149	80,149
Total liabilities	273,774	576,952	850,726
FUND BALANCES			
Reserved for encumbrances	-	41,007	41,007
Unreserved:			
Undesignated	113,565	-	113,565
Designated for specific purposes	-	19,810	19,810
Total fund balance	113,565	60,817	174,382
Total liabilities and fund balance	\$ 387,339	637,769	1,025,108

COUNTY OF HANOVER, VIRGINIA

Non-major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2004

	Special Revenue		
	Comprehensive Services	Community Services	Total
REVENUES			
Revenues from local sources:			
Revenues from use of money and property	\$ -	205,000	205,000
Charges for services	-	2,478,085	2,478,085
Recovered cost	126,746	101,474	228,220
Miscellaneous	-	5,321	5,321
Total revenues from local sources	<u>126,746</u>	<u>2,789,880</u>	<u>2,916,626</u>
Intergovernmental	2,076,985	2,188,814	4,265,799
Total revenues	<u>2,203,731</u>	<u>4,978,694</u>	<u>7,182,425</u>
EXPENDITURES			
Health and welfare	4,066,220	7,775,177	11,841,397
Total expenditures	<u>4,066,220</u>	<u>7,775,177</u>	<u>11,841,397</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,862,489)</u>	<u>(2,796,483)</u>	<u>(4,658,972)</u>
OTHER FINANCING SOURCES AND USES			
Transfers in	1,625,936	2,808,537	4,434,473
Total other financing sources and uses	<u>1,625,936</u>	<u>2,808,537</u>	<u>4,434,473</u>
Net change in fund balance	(236,553)	12,054	(224,499)
Fund balances - beginning	350,118	48,763	398,881
Fund balances - ending	<u>\$ 113,565</u>	<u>60,817</u>	<u>174,382</u>

COUNTY OF HANOVER, VIRGINIA

Comprehensive Services Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources				
Recovered costs	\$ -	100,000	126,746	26,746
Total revenues from local sources	-	100,000	126,746	26,746
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State Agency):				
Education	2,145,824	2,437,824	2,076,985	(360,839)
Total intergovernmental	2,145,824	2,437,824	2,076,985	(360,839)
Total revenues	2,145,824	2,537,824	2,203,731	(334,093)
EXPENDITURES				
Health and welfare:				
Comprehensive Services	3,771,460	4,401,878	4,066,220	335,658
Total expenditures	3,771,460	4,401,878	4,066,220	335,658
Excess (deficiency) of revenues over (under) expenditures	(1,625,636)	(1,864,054)	(1,862,489)	(1,565)
OTHER FINANCING SOURCES AND USES				
Transfers in:				
General Fund	1,625,636	1,625,936	1,625,936	-
Total operating transfers in	1,625,636	1,625,936	1,625,936	-
Total other financing sources and uses	1,625,636	1,625,936	1,625,936	-
Net change in fund balance	-	(238,118)	(236,553)	1,565
Fund balance beginning	-	350,118	350,118	-
Fund balance ending	\$ -	112,000	113,565	1,565

COUNTY OF HANOVER, VIRGINIA

Community Services Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
Revenues from use of money and property:				
Sale of materials and supplies	\$ 170,000	170,000	205,000	35,000
Total revenues from use of money and property	170,000	170,000	205,000	35,000
Charges for services	2,425,394	2,425,394	2,478,085	52,691
Recovered cost	145,000	160,300	101,474	(58,826)
Miscellaneous	31,000	29,000	5,321	(23,679)
Total revenues from local sources	2,771,394	2,784,694	2,789,880	5,186
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State Agency):				
Mental Health, Retardation and Substance Abuse	1,489,109	1,551,694	1,570,750	19,056
Total categorical aid	1,489,109	1,551,694	1,570,750	19,056
Total revenue from the Commonwealth	1,489,109	1,551,694	1,570,750	19,056
Revenue from the Federal government:				
Categorical aid (Federal Agency):				
Health and Human Services	555,073	736,964	618,064	(118,900)
Total categorical aid	555,073	736,964	618,064	(118,900)
Total revenue from the Federal government	555,073	736,964	618,064	(118,900)
Total intergovernmental	2,044,182	2,288,658	2,188,814	(99,844)
Total revenues	4,815,576	5,073,352	4,978,694	(94,658)
EXPENDITURES				
Health and welfare:				
Community Services	8,038,216	8,361,075	7,775,177	585,898
Total health and welfare	8,038,216	8,361,075	7,775,177	585,898
Total expenditures	8,038,216	8,361,075	7,775,177	585,898
Excess (deficiency) of revenues over (under) expenditures	(3,222,640)	(3,287,723)	(2,796,483)	491,240
OTHER FINANCING SOURCES AND USES				
Transfers in:				
General Fund	3,198,835	3,215,155	2,808,537	(406,618)
Total operating transfers in	3,198,835	3,215,155	2,808,537	(406,618)
Net change in fund balance	(23,805)	(72,568)	12,054	84,622
Fund balance beginning	23,805	48,763	48,763	-
Fund balance ending	\$ -	(23,805)	60,817	84,622



INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and other government units, on a cost reimbursement basis.

COUNTY OF HANOVER, VIRGINIA

Internal Service Funds

Combining Statement of Net Assets

June 30, 2004

	<u>Self-Insurance</u>	<u>Fleet Management</u>	<u>Total</u>
ASSETS			
Cash, cash equivalents and investments	\$ 1,466,220	30,391	1,496,611
Inventory	-	194,454	194,454
Capital assets:			
Machinery and equipment	-	288,793	288,793
Less accumulated depreciation	-	(229,471)	(229,471)
Total capital assets (net of accumulated depreciation)	-	59,322	59,322
Total assets	1,466,220	284,167	1,750,387
LIABILITIES			
Accounts payable	\$ 447,233	80,884	528,117
Accrued liabilities	8,755	49,917	58,672
Compensated absences	-	102,960	102,960
Total liabilities	455,988	233,761	689,749
NET ASSETS			
Invested in capital assets	-	59,322	59,322
Unrestricted	1,010,232	(8,915)	1,001,317
Total net assets	\$ 1,010,232	50,407	1,060,639

COUNTY OF HANOVER, VIRGINIA

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2004

	<u>Self-Insurance</u>	<u>Fleet Management</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 12,023,583	1,240,768	13,264,351
Recovered cost	-	15,545	15,545
Total operating revenues	<u>12,023,583</u>	<u>1,256,313</u>	<u>13,279,896</u>
OPERATING EXPENSES			
Health care claims	13,105,870	-	13,105,870
Personal services	-	902,399	902,399
Fringe benefits	-	228,167	228,167
Contractual services	60,612	28,528	89,140
Internal services	-	247	247
Other charges	-	136,391	136,391
Depreciation	-	30,204	30,204
Total operating expenses	<u>13,166,482</u>	<u>1,325,936</u>	<u>14,492,418</u>
Operating income	<u>(1,142,899)</u>	<u>(69,623)</u>	<u>(1,212,522)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	\$ 20,945	-	20,945
Non-operating income	<u>20,945</u>	<u>-</u>	<u>20,945</u>
Income before transfers	<u>(1,121,954)</u>	<u>(69,623)</u>	<u>(1,191,577)</u>
Transfers in	-	43,550	43,550
Change in net assets	<u>(1,121,954)</u>	<u>(26,073)</u>	<u>(1,148,027)</u>
Total net assets - beginning	<u>2,132,186</u>	<u>76,480</u>	<u>2,208,666</u>
Total net assets - ending	<u>\$ 1,010,232</u>	<u>50,407</u>	<u>1,060,639</u>

COUNTY OF HANOVER, VIRGINIA
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2004

	Self-Insurance	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments from customers and users	\$ 12,023,583	1,256,313	13,279,896
Payments to suppliers	(12,950,426)	(141,966)	(13,092,392)
Payments to employees	(257)	(1,129,206)	(1,129,463)
Net cash provided by operating activities	<u>(927,100)</u>	<u>(14,859)</u>	<u>(941,959)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advance from other funds	-	43,550	43,550
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>43,550</u>	<u>43,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	-	(18,982)	(18,982)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(18,982)</u>	<u>(18,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on cash and cash equivalents	20,945	-	20,945
Net cash provided by investing activities	<u>20,945</u>	<u>-</u>	<u>20,945</u>
Decrease in cash and cash equivalents	(906,155)	9,709	(896,446)
Cash, cash equivalents and investments at beginning of year	2,372,375	20,683	2,393,058
Cash, cash equivalents and investments at end of year	<u>\$ 1,466,220</u>	<u>30,392</u>	<u>1,496,612</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ (1,142,899)	(69,623)	(1,212,522)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation Expense		30,204	30,204
Decrease (increase) in:			
Inventory	-	(2,464)	(2,464)
Increase (decrease) in:			
Accounts payable	216,056	25,664	241,720
Accrued liabilities	(257)	6,600	6,343
Compensated absences	-	(5,240)	(5,240)
Total adjustments	<u>215,799</u>	<u>54,764</u>	<u>270,563</u>
Net cash provided by operating activities	<u>\$ (927,100)</u>	<u>(14,859)</u>	<u>(941,959)</u>

FIDUCIARY FUNDS

Community Development Authority (CDA) – Accounts for monies collected on behalf of, and subsequently remitted to CDA.

Escrow - Accounts for monies held as security deposits for services provided by the County or for performance by contractors.

Special Welfare - Accounts for monies received for and expenditures made on behalf of social service clients.

COUNTY OF HANOVER, VIRGINIA

Fiduciary Funds

Combining Balance Sheet

June 30, 2004

	Community Development Authority	Escrow	Special Welfare	Total
ASSETS				
Cash, cash equivalents and investments	\$ -	2,670,948	137,450	2,808,398
Accounts receivable	488,109	-	-	488,109
Total assets	<u>\$ 488,109</u>	<u>2,670,948</u>	<u>137,450</u>	<u>3,296,507</u>
LIABILITIES				
Accounts payable	\$ -	351,643	-	351,643
Accrued liabilities	488,109	596,861	-	1,084,970
Deposits	-	1,722,444	137,450	1,859,894
Total liabilities	<u>\$ 488,109</u>	<u>2,670,948</u>	<u>137,450</u>	<u>3,296,507</u>

COUNTY OF HANOVER, VIRGINIA

Fiduciary Funds

Combining Statement of Changes in Assets and Liabilities

June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Community Development Authority				
Assets:				
Accounts Receivable	\$ -	498,602	10,493	488,109
Liabilities:				
Accrued Liabilities	\$ -	498,602	10,493	488,109
Escrow				
Assets:				
Cash, cash equivalents and investments	\$ 2,969,143	23,578,113	23,876,308	2,670,948
	\$ 2,969,143	23,578,113	23,876,308	2,670,948
Liabilities:				
Accounts payable	\$ 314,816	36,827	-	351,643
Accrued liabilities	28,696	568,165	-	596,861
Deposits	2,625,631	1,839,898	2,743,085	1,722,444
Total liabilities	\$ 2,969,143	2,444,890	2,743,085	2,670,948
Special Welfare				
Assets:				
Cash, cash equivalents and investments	\$ 81,411	207,536	151,497	137,450
Liabilities:				
Deposits	\$ 81,411	207,536	151,497	137,450
Total Fiduciary Funds				
Assets:				
Cash, cash equivalents and investments	\$ 3,050,554	23,785,649	24,027,805	2,808,398
Accounts Receivable	-	498,602	10,493	488,109
Total Assets	\$ 3,050,554	24,284,251	24,038,298	3,296,507
Liabilities:				
Accounts payable	\$ 314,816	36,827	-	351,643
Accrued liabilities	28,696	1,066,767	10,493	1,084,970
Deposits	2,707,042	2,047,434	2,894,582	1,859,894
Total liabilities	\$ 3,050,554	3,151,028	2,905,075	3,296,507



DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Special Revenue Funds:

School – Accounts for the activities of primary and secondary education.

Textbook – Accounts for the distribution of textbooks to students.

Cafeteria – Accounts for the operations of school food services.

Capital Projects Fund:

School Improvements - Accounts for the construction and capital improvements of the County's schools and facilities.

COUNTY OF HANOVER, VIRGINIA
Discretely Presented Component Unit School Board
Combining Balance Sheet
June 30, 2004

	Governmental and Special Revenue Funds			Capital Projects Fund	Totals
	School	Textbook	Cafeteria	School Improvements	
ASSETS					
Cash, cash equivalents and investments	\$ 9,937,461	461,682	802,110	336,556	11,537,809
Accounts receivable	52,663	4,079	-	-	56,742
Due from other governmental units	3,659,231	-	34,600	-	3,693,831
Inventory	-	-	71,692	-	71,692
Cash, cash equivalents and investments - restricted	-	-	-	1,248,485	1,248,485
Total assets	<u>\$ 13,649,355</u>	<u>465,761</u>	<u>908,402</u>	<u>1,585,041</u>	<u>16,608,559</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 762,943	22,114	7,310	352,384	1,144,751
Accrued liabilities	11,554,426	3,845	366,343	-	11,924,614
Deferred revenue	212,050	-	-	-	212,050
Total liabilities	<u>12,529,419</u>	<u>25,959</u>	<u>373,653</u>	<u>352,384</u>	<u>13,281,415</u>
Fund balances:					
Reserved for:					
Encumbrances	985,790	303,828	-	984,593	2,274,211
Inventory	-	-	71,692	-	71,692
Unreserved:					
Undesignated	-	135,974	176,778	(500,067)	(187,315)
Designated for specific purposes	134,145	-	286,279	748,131	1,168,555
Total fund balances	<u>1,119,935</u>	<u>439,802</u>	<u>534,749</u>	<u>1,232,657</u>	<u>3,327,143</u>
Total liabilities and fund balances	<u>\$ 13,649,354</u>	<u>465,761</u>	<u>908,402</u>	<u>1,585,041</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 81,873,023
Restricted cash from bond proceeds in School Component Unit capital fund are reported in governmental activities in the statement of net assets along with related bond payable liability	(1,083,580)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(7,541,145)</u>
Net assets of School Component Unit activities	<u>\$ 76,575,441</u>

COUNTY OF HANOVER, VIRGINIA

Discretely Presented Component Unit - School Board

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2004

	Governmental and Special Revenue Funds			Capital Projects	Totals
				Fund	
	School	Textbook	Cafeteria	School Improvements	
REVENUES					
Revenue from use of money and property	\$ -	7,466	-	52,031	59,497
Charges for services - operating	425,410	-	4,839,889	-	5,265,299
Charges for services - capital	-	-	-	997,263	997,263
Miscellaneous	345,627	-	21,637	162,314	529,578
Recovered costs	424,507	-	-	-	424,507
Transfers from primary government	70,826,329	637,358	-	1,504,000	72,967,687
Intergovernmental - operating	58,799,563	706,735	1,030,295	-	60,536,593
Intergovernmental - capital	-	-	-	296,761	296,761
Total revenues	130,821,436	1,351,559	5,891,821	3,012,369	141,077,185
EXPENDITURES					
Education	117,776,915	1,563,218	6,119,311	11,730,728	137,190,172
Debt service:					
Principal retirement	8,055,740	-	-	-	8,055,740
Interest and fiscal charges	5,794,545	-	-	-	5,794,545
Total expenditures	131,627,200	1,563,218	6,119,311	11,730,728	151,040,457
Excess (deficiency) of revenues over (under) expenditures	(805,764)	(211,659)	(227,490)	(8,718,359)	(9,963,272)
Net change in fund balance	(805,764)	(211,659)	(227,490)	(8,718,359)	(9,963,272)
Fund balances beginning	1,925,699	651,461	764,704	9,951,016	13,292,880
Decrease in reserve for inventory	-	-	(2,465)	-	(2,465)
Fund balances ending	\$ 1,119,935	439,802	534,749	1,232,657	3,327,143

COUNTY OF HANOVER, VIRGINIA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Discretely Presented School Component Unit to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ (9,963,272)
<p>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 capital outlays exceeded depreciation in the current period.</p>	9,015,808
<p>School Component Unit General obligation debt guaranteed by County is reported in governmental activities in statement of net assets. Fund statements include \$7,727,463 transfer to School Component Unit for debt payments. County has a tenancy-in-common for school assets with outstanding debt. \$5,182,225 asset equity allocated to Schools (principal paid less governmental activities depreciation).</p>	(2,909,108)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	8,055,740
<p>Some expenses reported in this statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	235,102
Changes in net assets of School Component Unit activities	\$ 4,434,270

COUNTY OF HANOVER, VIRGINIA

School Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual, to be continued
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
Charges for services:				
Tuition and other charges for services	\$ 555,789	434,714	425,410	(9,304)
Total charges for services	<u>555,789</u>	<u>434,714</u>	<u>425,410</u>	<u>(9,304)</u>
Miscellaneous:				
Miscellaneous	253,345	337,708	345,627	7,919
Total miscellaneous revenue	<u>253,345</u>	<u>337,708</u>	<u>345,627</u>	<u>7,919</u>
Recovered costs:				
Recovered costs	268,388	316,680	424,507	107,827
Total recovered costs	<u>268,388</u>	<u>316,680</u>	<u>424,507</u>	<u>107,827</u>
Transfers from primary government:				
General Fund	71,510,423	71,702,423	70,826,329	(876,094)
Total transfers from primary government	<u>71,510,423</u>	<u>71,702,423</u>	<u>70,826,329</u>	<u>(876,094)</u>
Total revenue from local sources	<u>72,587,945</u>	<u>72,791,525</u>	<u>72,021,873</u>	<u>(769,652)</u>
Revenue from the Commonwealth:				
Non-categorical aid:				
Lottery proceeds and basic school aid	41,638,641	41,857,696	41,582,317	(275,379)
Total non-categorical aid	<u>41,638,641</u>	<u>41,857,696</u>	<u>41,582,317</u>	<u>(275,379)</u>
Categorical aid:				
Categorical aid programs	11,677,601	12,058,294	12,188,183	129,889
Total categorical aid	<u>11,677,601</u>	<u>12,058,294</u>	<u>12,188,183</u>	<u>129,889</u>
Total revenue from the Commonwealth	<u>53,316,242</u>	<u>53,915,990</u>	<u>53,770,500</u>	<u>(145,490)</u>
Revenue from the Federal government:				
Categorical aid:				
Department of Education	4,554,242	5,392,325	5,029,063	(363,262)
Total revenue from the Federal government	<u>4,554,242</u>	<u>5,392,325</u>	<u>5,029,063</u>	<u>(363,262)</u>
Total intergovernmental revenue	<u>57,870,484</u>	<u>59,308,315</u>	<u>58,799,563</u>	<u>(508,752)</u>
Total revenues	<u>130,458,429</u>	<u>132,099,840</u>	<u>130,821,436</u>	<u>(1,278,404)</u>

COUNTY OF HANOVER, VIRGINIA

School Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual, concluded
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
EXPENDITURES				
Education:				
General support	\$ 5,815,157	6,472,956	6,525,775	(52,819)
Pupil transportation	5,763,101	5,804,750	5,607,301	197,449
Operations and maintenance	9,335,653	9,767,904	9,398,312	369,592
Instruction	94,599,239	96,892,588	95,236,403	1,656,185
Facilities	1,094,893	1,236,955	1,009,124	227,831
Total education	<u>116,608,043</u>	<u>120,175,153</u>	<u>117,776,915</u>	<u>2,398,238</u>
Debt service:				
Principal retirement	8,055,740	8,055,740	8,055,740	-
Interest and fiscal charges	5,794,646	5,794,646	5,794,545	101
Total debt service	<u>13,850,386</u>	<u>13,850,386</u>	<u>13,850,285</u>	<u>101</u>
Total expenditures	<u>130,458,429</u>	<u>134,025,539</u>	<u>131,627,200</u>	<u>2,398,339</u>
Excess (deficiency) of revenues over (under) expenditures	-	(1,925,699)	(805,764)	1,119,935
Net change in fund balance	-	(1,925,699)	(805,764)	1,119,935
Fund balance beginning	-	1,925,699	1,925,699	-
Fund balance ending	<u>\$ -</u>	<u>-</u>	<u>1,119,935</u>	<u>1,119,935</u>

COUNTY OF HANOVER, VIRGINIA

Textbook Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of property	\$ -	-	7,466	7,466
Total revenue from use of property	-	-	7,466	7,466
Operating transfers from primary government:				
General Fund	637,358	637,358	637,358	-
Total transfers from primary government	637,358	637,358	637,358	-
Total revenue from local sources	637,358	637,358	644,824	7,466
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
Textbook	708,730	708,730	706,735	(1,995)
Total revenue from the Commonwealth	708,730	708,730	706,735	(1,995)
Total intergovernmental revenue	708,730	708,730	706,735	(1,995)
Total revenues	1,346,088	1,346,088	1,351,559	5,471
EXPENDITURES				
Education:				
Textbook	1,371,513	1,896,564	1,563,218	333,346
Total education	1,371,513	1,896,564	1,563,218	333,346
Total expenditures	1,371,513	1,896,564	1,563,218	333,346
Excess (deficiency) of revenue over (under) expenditures	(25,425)	(550,476)	(211,659)	338,817
Net change in fund balance	(25,425)	(550,476)	(211,659)	338,817
Fund balance beginning	-	651,461	651,461	-
Fund balance ending	\$ (25,425)	100,985	439,802	338,817

COUNTY OF HANOVER, VIRGINIA

Cafeteria Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ 25,800	25,800	-	(25,800)
Charges for services	4,984,840	4,984,840	4,839,889	(144,951)
Miscellaneous Revenue	18,000	18,000	21,637	3,637
Total revenue from local sources	<u>5,028,640</u>	<u>5,028,640</u>	<u>4,861,526</u>	<u>(167,114)</u>
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
School food programs	63,836	63,836	61,983	(1,853)
Total revenue from the Commonwealth	<u>63,836</u>	<u>63,836</u>	<u>61,983</u>	<u>(1,853)</u>
Revenue from the Federal government:				
Categorical aid:				
USDA donated commodities	195,000	195,000	198,696	3,696
School food programs	612,680	612,680	658,951	46,271
Breakfast reimbursement	108,367	108,367	110,665	2,298
Total revenue from the Federal government	<u>916,047</u>	<u>916,047</u>	<u>968,312</u>	<u>52,265</u>
Total intergovernmental revenue	<u>979,883</u>	<u>979,883</u>	<u>1,030,295</u>	<u>50,412</u>
Total revenues	<u>6,008,523</u>	<u>6,008,523</u>	<u>5,891,821</u>	<u>(116,702)</u>
EXPENDITURES				
Education:				
Cafeteria	6,215,897	6,215,897	6,119,311	96,586
Total education	<u>6,215,897</u>	<u>6,215,897</u>	<u>6,119,311</u>	<u>96,586</u>
Total expenditures	<u>6,215,897</u>	<u>6,215,897</u>	<u>6,119,311</u>	<u>96,586</u>
Net change in fund balance	(207,374)	(207,374)	(227,490)	(20,116)
Fund balance beginning	-	764,704	764,704	-
Decrease in reserve for inventory	-	-	(2,465)	(2,465)
Fund balance ending	<u>\$ (207,374)</u>	<u>557,330</u>	<u>534,749</u>	<u>(22,581)</u>

COUNTY OF HANOVER, VIRGINIA

School Improvements Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
Revenue from use of money and property	\$ 75,000	75,000	52,031	(22,969)
Charges for Services:				
Proffers	1,623,000	1,623,000	997,263	(625,737)
Total charges for services	1,623,000	1,623,000	997,263	(625,737)
Miscellaneous revenue:				
Miscellaneous	-	-	162,314	162,314
Total miscellaneous revenue	-	-	162,314	162,314
Transfers from primary government:				
General Fund	1,504,000	1,504,000	1,504,000	-
Total transfers from primary government	1,504,000	1,504,000	1,504,000	-
Total revenue from local sources	3,202,000	3,202,000	2,715,608	(486,392)
Intergovernmental:				
Categorical State Aid:				
Education	297,000	297,000	296,761	(239)
Total categorical State aid	297,000	297,000	296,761	(239)
Total intergovernmental	297,000	297,000	296,761	(239)
Total revenues	3,499,000	3,499,000	3,012,369	(486,631)
EXPENDITURES				
Capital projects:				
Education	4,809,000	14,765,717	11,730,728	3,034,989
Total expenditures	4,809,000	14,765,717	11,730,728	3,034,989
Excess (deficiency) of revenues over (under) expenditures	(1,310,000)	(11,266,717)	(8,718,359)	2,548,358
OTHER FINANCING SOURCES AND USES				
Other financing sources:				
Proceeds:				
General obligation bonds	1,310,000	1,310,000	-	(1,310,000)
Total proceeds	1,310,000	1,310,000	-	(1,310,000)
Total other financing sources	1,310,000	1,310,000	-	(1,310,000)
Other financing uses:				
Net other financing sources (uses)	1,310,000	1,310,000	-	(1,310,000)
Net change in fund balance	-	(9,956,717)	(8,718,359)	1,238,358
Fund balance beginning	-	9,951,016	9,951,016	-
Fund balance ending	\$ -	(5,701)	1,232,657	1,238,358



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

Special Revenue Fund:

Industrial Development Authority – Accounts for the operations of the Hanover County Industrial Development Authority

COUNTY OF HANOVER, VIRGINIA

Discretely Presented Component Unit - Industrial Development Authority

Balance Sheet

June 30, 2004

ASSETS

Cash, cash equivalents and investments	\$ 154,196
Total assets	<u>154,196</u>

FUND EQUITY

Liabilities:

Accounts payable	250
Total liabilities	<u>250</u>

Fund balances:

Unreserved:

Undesignated	153,946
Total fund balances	<u>153,946</u>
Total liabilities and fund balances	<u>\$ 154,196</u>

COUNTY OF HANOVER, VIRGINIA

Discretely Presented Component Unit - Industrial Development Authority

Schedule of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Charges for services:				
Industrial Development fees	\$ 207,745	237,745	279,774	42,029
Total charges for services	<u>207,745</u>	<u>237,745</u>	<u>279,774</u>	<u>42,029</u>
Total revenues	<u>207,745</u>	<u>237,745</u>	<u>279,774</u>	<u>42,029</u>
EXPENDITURES				
Community Development:				
Industrial Development Authority	207,745	237,745	219,114	18,631
Total expenditures	<u>207,745</u>	<u>237,745</u>	<u>219,114</u>	<u>18,631</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	60,660	23,398
OTHER FINANCING SOURCES AND USES				
Transfers from primary government:				
Total revenues and other financing sources	<u>207,745</u>	<u>237,745</u>	<u>279,774</u>	<u>42,029</u>
Net change in fund balance	-	-	60,660	60,660
Fund balance at beginning of year	-	93,286	93,286	-
Fund balance at end of year	<u>\$ -</u>	<u>93,286</u>	<u>153,946</u>	<u>60,660</u>



SCHEDULES

COUNTY OF HANOVER, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:		
Pass-through payments: Food and Nutrition Service		
Department of Education:		
National School Lunch Program	10.555	\$658,951
School Breakfast Program	10.553	110,665
Department of Agriculture & Consumer Services:		
USDA Donated Food - Cafeteria	10.550	198,697
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	396,821
DEPARTMENT OF DEFENSE:		
Direct Payments:		
JROTC	12.000	151,835
DEPARTMENT OF EDUCATION:		
Pass-through Payments:		
Office of Ed & Adult Literacy Act:		
Adult Education State Grant Program	84.002	35,764
Title I Grants to Local Education Agencies	84.010	599,975
Special Education Grants to States	84.027	2,347,189
Vocational Education Basic Grants to States	84.048	165,442
Schedule Education Preschool Grants	84.173	86,854
Special Education Grants for Infants and Families with Disabilities	84.181	91,991
Safe and Drug-Free Schools and Communities State Grants	84.186	58,075
Title V-Innovative Education Program Strategies	84.298	82,552
Enhancing Education Thru Technology	84.318	35,785
Title II-Teacher Quality	84.367	332,389
Title III Immigration & Youth Subgrant	84.365	6,765
DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Direct Payments:		
Headstart	93.600	971,644
Pass-through Payments:		
Department of Social Services:		
Promoting Safe and Stable Families	93.556	40,375
Temporary assistance to needy families	93.558	254,677
Refugee and entrant assistance-state administered programs	93.566	1,263
Low income home energy assistance	93.568	12,335
Child care and development block grant.	93.575	423,723
Refugee and entrant assistance-discretionary grants	93.576	3,604
Child Care Mandatory and Matching Funds of the Child Care and Development	93.596	309,870
Chafee Education and Training Vouchers Program	93.599	3,809
Foster care Title IV-E	93.658	498,837

COUNTY OF HANOVER, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Pass-through Payments:		
Department of Social Services:		
Adoption assistance	93.659	\$95,302
Social services block grant	93.667	332,422
Chafee Foster Care Independent living	93.674	30,854
Medical assistance program	93.778	335,181
Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Public health and social services emergency fund	93.003	43,822
Gov office for substance abuse prevention	93.230	95,521
TOPPS II SCADS Data Submission	93.238	4,000
Block Grant for community mental health services	93.958	51,570
Block Grant for prevention & treatment of substance abuse	93.959	361,491
DEPARTMENT OF HOMELAND SECURITY:		
Direct Payments:		
FEMA - Citizen's Corps Council	97.053	4,500
Assistance to Firefighters Grant	97.044	551,331
Pass-through Payments:		
Department of Criminal Justice Services		
State Domestic Preparedness Equipment Support Program	97.004	123,428
Virginia Department of Emergency Management		
Public Assistance Grants	97.036	1,513,746
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:		
Pass-through Payments		
Department of Housing and Community Development:		
Community Development Block Grant/State's Program	14.228	5,750
DEPARTMENT OF JUSTICE:		
Direct Payments:		
Crime Victim Assistance	16.575	20,822
Pass-through Payments:		
Department of Alcohol Beverage Control		
Enforcing Underage Drinking Laws Program	16.727	78,997
Office of Community Oriented Policing Services		
Public Safety Partnership and Community Policing Grant	16.710	9,500
Local Law Enforcement Block Grant	16.592	11,065
Bureau of Justice Assistance		
Byrne Formula Grant Program	16.579	8,106
DEPARTMENT OF TRANSPORTATION:		
Pass-through Payments:		
National Highway Safety Administration		
State and Community Highway Safety	20.600	472,922

COUNTY OF HANOVER, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
FEDERAL AVIATION ADMINISTRATION:		
Direct Payments:		
Airport Improvement Program	20.106	\$243,814
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Payments:		
Americorps	94.006	7,930
Total		12,281,961

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

1. GENERAL

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires a schedule of expenditures of federal awards showing total federal expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA). The accompanying schedule of federal awards presents the activity of all federal financial assistance programs of the County of Hanover, Virginia, and its component units. The County of Hanover reporting entity is defined in Note 1 of the County's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule

2. BASIS OF ACCOUNTING

The schedule of federal awards is presented using the modified accrual basis of accounting, which is more fully described in Note I. C. to the County's financial statements. Hanover County participated in federal programs below in which non-cash benefits are provided through the state to eligible program participants:

Food Distribution Programs (CFDA Numbers 10.550, 10.555) – The value of food commodities was calculated using the U.S. Department of Agriculture's Food and Nutrition Service commodity price lists.

Food Stamps (CFDA Number 10.551) – The Virginia Department of Social Services uses an Electronic Benefits Transfer (EBT) process for food stamp benefit distribution statewide. Due to the State administration of the EBT process, those benefits are not included in the County's Schedule.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the County's basic financial statements as follows:

	Fund	Funds	Funds	Fund	Board	Total
Intergovernmental revenues	\$ 25,056,312	4,265,799	2,334,243	471,777	60,536,593	92,664,724
Less amounts not related to						
federal financial assistance	20,262,946	3,647,735	1,371,091	414,679	54,539,218	80,235,669
Less federal grant funds						
unexpended at fiscal year end			147,094			147,094
	<u>\$ 4,793,366</u>	<u>618,064</u>	<u>816,058</u>	<u>57,098</u>	<u>5,997,375</u>	<u>12,281,961</u>

COUNTY OF HANOVER, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with amounts reported in the related federal financial reports, except that certain federal financial reports are prepared on the cash basis of accounting and the schedule of federal awards is prepared on the modified accrual basis of accounting (see Note 2 above).

STATISTICAL SECTION

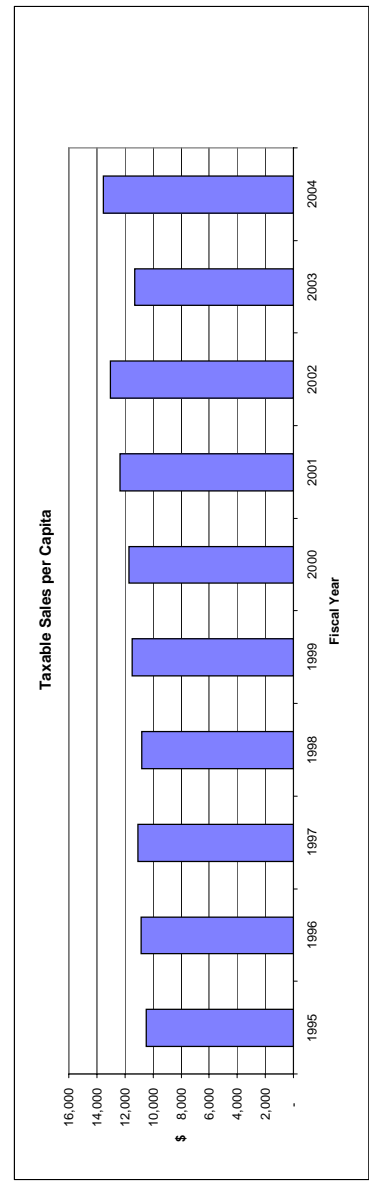
COUNTY OF HANOVER, VIRGINIA
 General Governmental Revenues by Source (1)
 Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes		Permits, Privilege Fees and Regulatory Licenses	Revenue from the Use of Money and Property	Charges for Services		Miscellaneous (2)		Personal Property	Other	Total	% Change (3)
		Sales Tax	Other			Services	Miscellaneous (2)						
1995	43,441,593	7,441,328	5,567,731	1,131,949	1,267,310	3,784,529	2,251,816	-	-	39,097,899	103,984,155	-	
1996	49,742,278	7,982,678	5,655,349	1,550,001	1,720,368	4,185,697	1,619,884	-	-	40,892,287	113,348,542	9.0%	
1997	56,735,607	8,445,475	6,379,131	1,417,037	1,933,496	4,944,903	1,797,987	-	-	44,489,370	126,143,006	11.3%	
1998	59,715,162	8,543,597	7,309,213	1,388,641	2,714,064	5,695,363	3,014,808	-	-	48,187,692	136,568,540	8.3%	
1999	64,468,263	9,401,369	7,691,389	1,749,818	1,923,587	6,146,541	2,609,705	-	-	56,145,940	150,136,612	9.9%	
2000	67,308,494	9,915,771	8,135,568	1,868,160	1,873,323	9,942,607	3,319,010	4,227,621	62,301,885	168,892,440	12.5%		
2001	72,440,101	10,723,090	9,096,341	1,785,941	2,096,042	8,600,966	3,650,335	7,914,635	65,136,043	181,443,494	7.4%		
2002	73,623,307	11,657,146	9,687,468	1,971,098	941,068	8,051,556	3,314,088	12,361,299	67,666,731	189,273,761	4.3%		
2003	79,536,223	10,315,156	9,804,459	2,031,537	914,055	8,408,558	3,314,525	12,868,949	69,547,888	196,741,350	3.9%		
2004	87,102,894	12,354,866	10,704,694	2,382,618	424,929	9,430,906	4,311,992	13,772,551	76,086,153	216,571,603	10.1%		
% Change	9.5%	19.8%	9.2%	17.3%	-53.5%	12.2%	30.1%	7.0%	9.4%	10.1%			
% Ch. Since 1995	100.5%	66.0%	92.3%	110.5%	-66.5%	149.2%	91.5%	n/a	94.6%	108.3%			

Notes: (1) Includes the General and Special Revenue Funds of the primary government and component units, does not include capital projects of County or School Improvements Funds.
 (2) Miscellaneous includes recovered costs, fines and forfeitures.
 (3) The percent of change from the year prior to the current year.

Taxable sales per capita for the preceding ten fiscal years is as follows:

1995	10,470
1996	10,832
1997	11,064
1998	10,790
1999	11,488
2000	11,734
2001	12,336
2002	13,042
2003	11,285
2004	13,517



COUNTY OF HANOVER, VIRGINIA
 General Governmental Expenditures by Function (1)
 Last Ten Fiscal Years

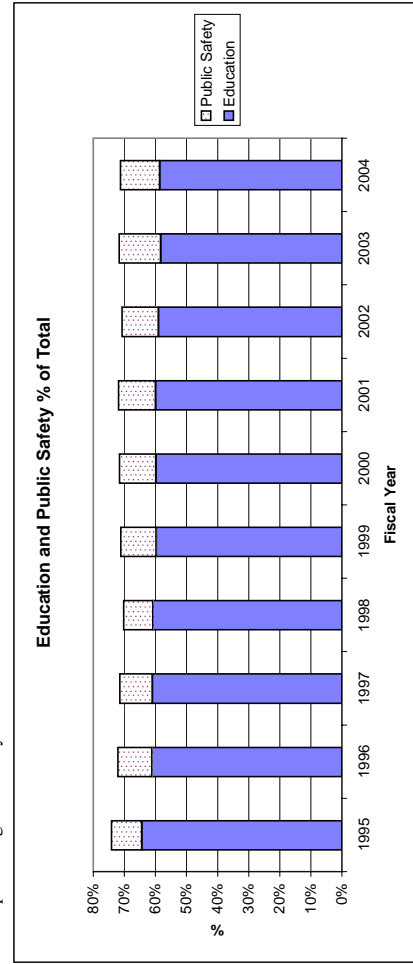
Fiscal Year	General Government Administration		Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Debt Service	Total	% Change (2)
	Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Debt Service	Total		
1995	4,601,517	1,030,341	9,186,051	2,646,401	6,664,426	60,505,124	1,290,911	1,689,416	9,410,343	94,024,530		
1996	4,895,920	1,078,829	11,516,902	2,939,208	6,670,098	63,966,410	1,497,282	2,092,210	10,049,654	104,706,513		11.4%
1997	5,717,224	1,257,961	12,047,443	3,138,558	7,451,630	69,821,705	1,997,718	2,217,681	10,956,878	114,606,798		9.5%
1998	6,407,065	1,319,086	12,404,079	2,917,295	9,718,087	79,502,523	2,566,686	3,286,422	12,688,208	130,809,451		14.1%
1999	6,417,468	1,530,273	16,451,739	3,909,898	10,828,633	85,850,266	2,680,380	3,312,124	12,797,999	143,778,780		9.9%
2000	6,940,188	1,897,526	18,601,572	4,646,566	12,025,972	95,356,915	3,092,214	3,740,991	13,033,061	159,335,005		10.8%
2001	7,767,247	2,453,645	20,675,562	3,892,151	13,001,788	103,553,132	3,263,939	4,251,965	13,979,252	172,838,681		8.5%
2002	8,506,643	2,528,845	21,716,653	4,276,644	14,992,483	108,736,862	3,751,679	4,680,515	15,219,947	184,410,271		6.7%
2003	8,973,601	2,744,047	26,190,869	4,849,232	14,775,931	113,949,908	4,203,813	4,510,591	15,465,031	195,661,023		6.1%
2004	9,380,390	2,904,596	27,165,362	7,236,596	17,270,786	125,459,444	4,285,675	4,446,047	15,982,986	214,131,882		9.4%

% Change	4.5%	5.9%	3.7%	49.2%	16.9%	10.1%	1.9%	-1.4%	3.4%	9.4%
% Ch. Since 1995	103.9%	181.9%	195.7%	173.5%	159.1%	107.4%	232.0%	163.2%	69.8%	127.7%

Notes: (1) Includes the General and Special Revenue Funds of the primary government and component units, does not include capital projects of County or School Improvements Funds.
 (2) The percent of change from the year prior to the current year

Education and Public Safety as a percentage of total expenditures for the preceding ten fiscal years is as follows:

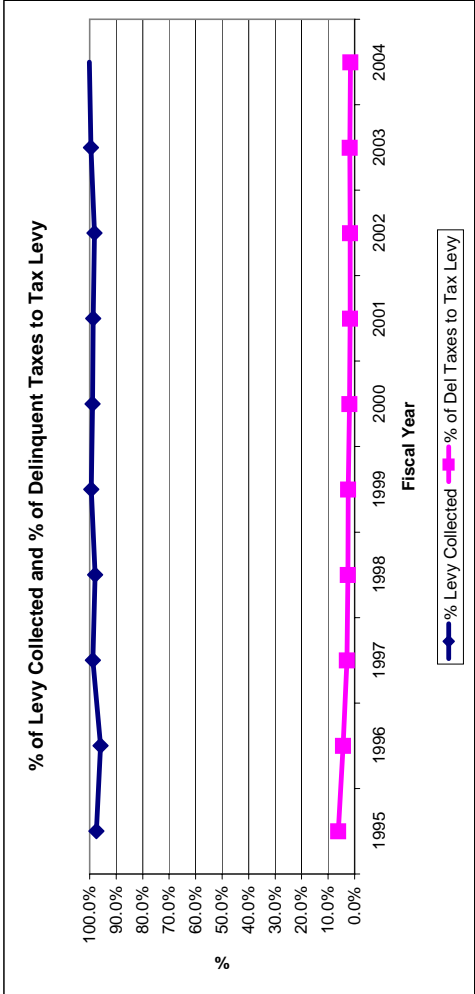
	Education	Public Safety
1995	64%	10%
1996	61%	11%
1997	61%	11%
1998	61%	9%
1999	60%	11%
2000	60%	12%
2001	60%	12%
2002	59%	12%
2003	58%	13%
2004	59%	13%



COUNTY OF HANOVER, VIRGINIA
 Property Tax Levies and Collections
 Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	% Change	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	% Change	Percent of Delinquent Taxes to Tax Levy
1995	42,403,369	-	41,304,505	97.4%	1,334,367	42,638,872	100.6%	2,619,875	-	6.2%
1996	49,513,585	16.8%	47,494,354	95.9%	1,378,773	48,873,127	98.7%	2,161,534	-17.5%	4.4%
1997	55,261,449	11.6%	54,574,561	98.8%	1,189,407	55,763,968	100.9%	1,614,034	-25.3%	2.9%
1998	59,207,986	7.1%	58,025,627	98.0%	853,600	58,879,227	99.4%	1,511,063	-6.4%	2.6%
1999	63,068,958	6.5%	62,697,867	99.4%	871,218	63,569,085	100.8%	1,536,980	1.7%	2.4%
2000	70,620,311	12.0%	69,878,017	98.9%	778,026	70,656,043	100.1%	1,356,694	-11.7%	1.9%
2001	79,780,410	13.0%	78,746,765	98.7%	722,216	79,468,981	99.6%	1,322,476	-2.5%	1.7%
2002	85,936,924	7.7%	84,367,719	98.2%	734,394	85,102,113	99.0%	1,502,427	13.6%	1.7%
2003	90,962,517	5.8%	90,549,792	99.5%	867,996	91,417,788	100.5%	1,677,177	11.6%	1.8%
2004	98,276,555	8.0%	98,411,265	100.1%	1,254,200	99,665,465	101.4%	1,580,249	-5.8%	1.6%
% Change	8.0%		8.7%	0.6%	44.5%	9.0%	0.9%	-5.8%		-12.8%
% Ch. Since 1995	131.8%		138.3%	2.8%	-6.0%	133.7%	0.9%	-39.7%		-74.0%

Notes: (1) Total tax levy represents levies, including the Commonwealth of Virginia's personal property tax relief reimbursement, net of supplemental levies for prior fiscal years, abatements, land use redemption and tax relief during the fiscal year.



COUNTY OF HANOVER, VIRGINIA
 Assessed and Estimated Market Value of Taxable Property (1)
 Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools (2,4)	Merchants' Capital	Public Service Companies (4)	Total Assessed Value	% Change	Estimated Market Value (3)	% Change	Estimated	
										Market Value Per Capita	% Change
1995	3,708,826,008	381,331,280	61,066,000	23,514,685	216,195,868	4,390,933,841	-	5,182,485,693	-	70,993	-
1996	3,986,711,318	536,640,110	63,146,155	28,558,641	239,810,146	4,854,866,370	10.6%	5,721,620,914	10.4%	75,590	6.5%
1997	4,530,283,409	679,214,190	65,058,736	30,838,951	252,096,942	5,557,492,228	14.5%	6,507,261,107	13.7%	83,001	9.8%
1998	4,917,691,350	729,359,972	66,829,075	29,925,680	262,282,845	6,006,088,922	8.1%	7,003,941,024	7.6%	86,118	3.8%
1999	5,318,705,300	774,033,676	66,878,495	30,184,422	268,327,336	6,458,129,229	7.5%	7,489,238,250	6.9%	89,098	3.5%
2000	5,652,771,200	842,807,335	69,293,290	35,488,335	272,057,490	6,872,417,650	6.4%	7,958,991,458	6.3%	91,697	2.9%
2001	6,170,552,700	912,405,216	71,543,965	36,233,425	292,677,312	7,483,212,618	8.9%	8,634,189,299	8.5%	96,705	5.5%
2002	6,707,526,800	979,968,718	72,243,695	37,515,940	372,231,447	8,169,486,600	9.2%	9,375,815,313	8.6%	102,125	5.6%
2003	7,637,172,050	1,011,227,278	44,844,800	37,327,513	650,801,107	9,381,372,748	14.8%	10,437,673,444	11.3%	111,181	8.9%
2004	7,911,038,250	1,052,222,261	43,715,905	37,951,150	618,887,688	9,663,815,254	3.0%	10,734,661,024	2.8%	112,083	0.8%

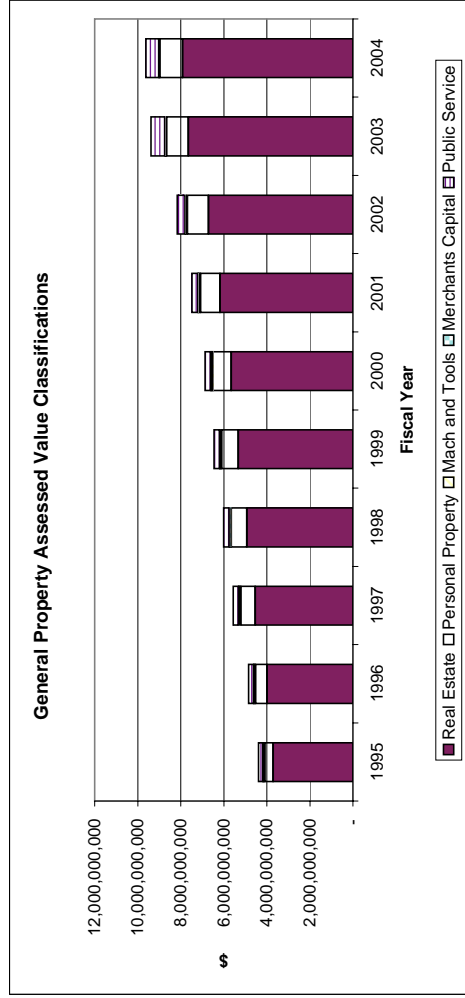
% Change 3.6% 4.1% -2.5% 1.7% -4.9% 3.0% 2.8% 0.8%

% Ch. Since 1995 113.3% 175.9% -28.4% 61.4% 186.3% 120.1% 107.1% 57.9%

% of Total 81.9% 10.9% 0.5% 0.4% 6.4% 100.0%

Notes:

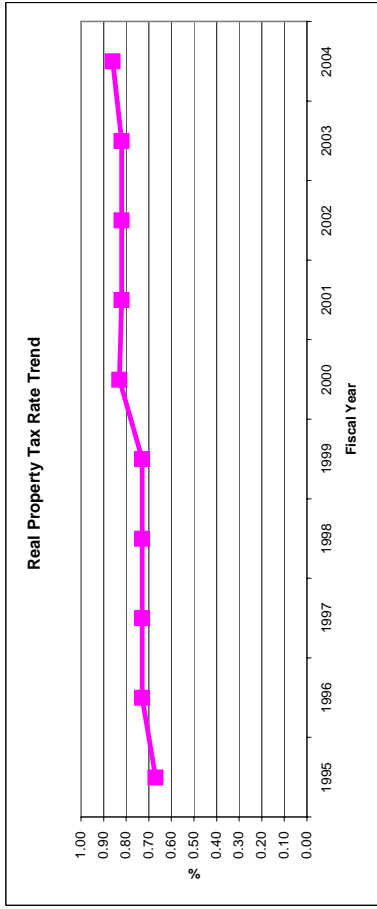
- (1) Assessed values of all classes of property estimated market value as of assessment date, unless otherwise noted.
- (2) An assessment rate of 10% is applied to the cost to determine the assessed value for calculation of the tax levy.
- (3) Market value adjustments include: machinery and tools at ~90% of cost, real estate sales: assessment ~95% traditional ratio and personal property ~78% loan: book value assessment.
- (4) In fiscal year 2003, a major taxpayer was reclassified from Machinery and Tools to the Public Service Category. The reclassification was the result of the deregulation of electric power generating companies.



COUNTY OF HANOVER, VIRGINIA
 Property Tax Rates - Direct and Overlapping Governments (1)
 Last Ten Fiscal Years

Calendar Year	County of Hanover, Virginia (Direct and Overlapping)				Town of Ashland, Virginia (Overlapping) (3)					
	Real Property	Power Generating Equipment	Personal Property	Fire and Rescue Volunteers	Aircraft (2)	Machinery and Tools	Merchants' Capital	Real Property	Personal Property	Machinery and Tools
1995	0.67	-	3.64	1.82	1.00	3.64	1.90	0.10	0.90	0.90
1996	0.73	-	3.64	1.82	1.00	3.64	1.90	0.10	0.90	0.90
1997	0.73	-	3.64	1.82	1.00	3.64	1.90	0.10	0.90	0.77
1998	0.73	-	3.64	1.82	1.00	3.64	1.90	0.10	0.77	0.77
1999	0.73	-	3.64	1.82	1.00	3.64	1.90	0.10	0.77	0.77
2000	0.83	-	3.64	1.82	1.00	3.64	1.90	0.10	0.77	0.77
2001	0.82	-	3.64	1.82	1.00	3.64	1.90	0.09	0.77	0.77
2002	0.82	-	3.64	1.82	1.00	3.64	1.90	0.09	0.77	0.77
2003	0.82	0.45	3.64	1.82	1.00	3.64	1.90	0.09	0.77	0.77
2004	0.86	0.49	3.64	1.82	1.00	3.64	1.90	0.09	0.77	0.77
% Change	4.9%	8.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% Ch. Since 1995	28.4%	n/a	0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-14.4%	-14.4%

Notes:
 (1) Per \$100 of assessed value.
 (2) Levies and assessments are classified under personal property for disclosure purposes.
 (3) The Town of Ashland rates are in addition to the County rates charged to the taxpayers within the Town's borders.



COUNTY OF HANOVER, VIRGINIA

Principal Taxpayers (1)

June 30, 2004

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2004 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Doswell Limited Partnership	Power generation facility	\$301,753,937	3.2%
Virginia Electric and Power Company	Electric company	108,680,470	1.2%
Memorial Regional Medical Center	Hospital	84,255,885	0.9%
Paramount Parks, Inc	Amusement park	72,260,945	0.8%
Richmond Newspapers, Inc./Media General Inc.	Newspaper publisher	70,200,555	0.7%
Verizon Virginia	Telecommunications	61,479,003	0.7%
Richfood, Inc.	Grocery wholesaler	51,077,545	0.5%
Bear Island Paper Company	Paper mill	48,456,635	0.5%
Virginia Natural Gas	Gas supplier	24,658,684	0.3%
Rappahannock Electric Corp	Bowling manufacturer	23,767,023	0.3%
		<u>\$846,590,682</u>	<u>9.0%</u>

Notes: (1) Hanover County Commissioner of the Revenue's Office

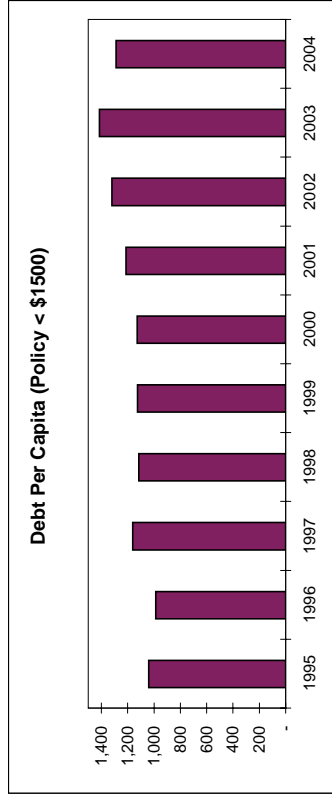
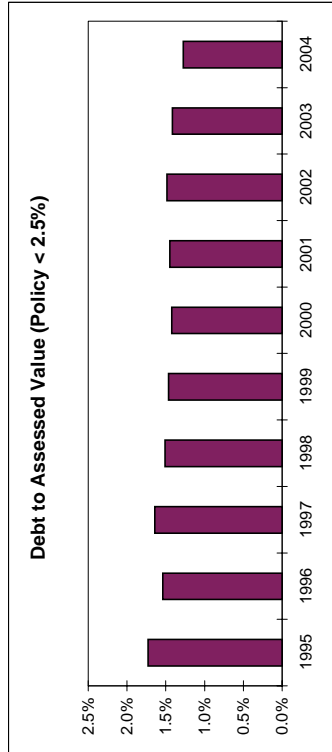
COUNTY OF HANOVER, VIRGINIA

Ratio of Net General Bonded Debt to Assessed Value and Net General Bonded Debt per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value	Gross Bonded Debt (2)	Less: Debt Payable from Enterprise Revenues (3)	Net General Bonded Debt	Ratio of Net General Bonded Debt to Assessed Value	Net General Bonded Debt per Capita	Outstanding Debt Funded by General Governmental Expenditures (4)	Ratio of	
									Outstanding Debt Funded by General Governmental Expenditures to Assessed Value (5)	Outstanding Debt Funded by General Governmental Expenditures per Capita (6)
1995	73,000	4,390,933,841	71,563,238	7,731,889	63,831,349	1.5%	874	75,952,384	1.7%	1,040
1996	75,693	4,854,866,370	67,116,513	6,345,741	60,770,772	1.3%	803	74,690,370	1.5%	987
1997	78,400	5,557,492,228	80,530,246	4,914,593	75,615,653	1.4%	964	91,161,661	1.6%	1,163
1998	81,330	6,006,088,922	80,084,618	3,418,445	76,666,173	1.3%	943	90,717,355	1.5%	1,115
1999	84,056	6,458,129,229	83,702,261	1,882,297	81,819,964	1.3%	973	94,515,944	1.5%	1,124
2000	86,797	6,872,417,650	87,133,519	301,149	86,832,370	1.3%	1,000	97,844,196	1.4%	1,127
2001	89,284	7,483,212,618	98,673,090	-	98,673,090	1.3%	1,105	108,396,604	1.4%	1,214
2002	91,807	8,169,486,600	112,615,627	-	112,615,627	1.4%	1,227	121,186,852	1.5%	1,320
2003	93,880	9,381,372,748	125,527,143	-	125,527,143	1.3%	1,337	132,932,260	1.4%	1,416
2004	95,774	9,663,815,254	117,076,403	-	117,076,403	1.2%	1,222	123,348,895	1.3%	1,288
% Change	2.0%	3.0%	-6.7%	0.0%	-6.7%	-9.5%	-8.6%	-7.2%	-9.9%	-9.0%
% Ch. Since 1995	31.2%	120.1%	63.6%	-100.0%	83.4%	-16.7%	39.8%	62.4%	-26.2%	23.8%

Notes:

- (1) County of Hanover Planning Department June 30 estimates.
- (2) Includes all long-term general obligation bonded debt and State Literary Fund Loans. Excludes revenue bonds and capital leases.
- (3) Includes general obligation debt payable from enterprise revenues.
- (4) Ratios of outstanding debt, including capital lease obligations, to assessed value and per capita are presented to illustrate the impact upon the general governmental funds.
- (5) County's debt policy states that outstanding debt funded by general government expenditures to assessed value should not exceed 2.5%
- (6) County's debt policy states that outstanding debt funded by general government expenditures per capita should not exceed \$1,500



COUNTY OF HANOVER, VIRGINIA

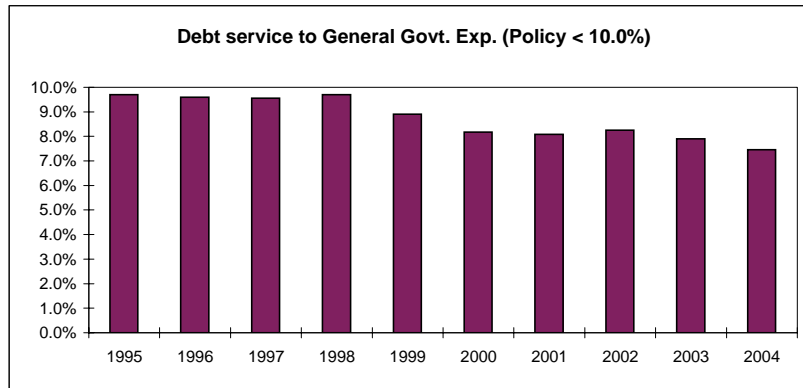
Ratio of Debt Service (1) to General Governmental Expenditures

Last Ten Fiscal Years

Fiscal Year	Principal	Interest and Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures (3)
1995	4,934,153	4,476,190	9,410,343	97,024,530	9.7%
1996	5,314,606	4,735,048	10,049,654	104,706,513	9.6%
1997	6,258,751	4,698,127	10,956,878	114,606,798	9.6%
1998	7,368,457	5,319,751	12,688,208	130,809,451	9.7%
1999	7,822,684	4,975,315	12,797,999	143,778,780	8.9%
2000	7,961,886	5,071,175	13,033,061	159,335,005	8.2%
2001	8,684,705	5,294,547	13,979,252	172,838,681	8.1%
2002	9,306,723	5,913,224	15,219,947	184,410,271	8.3%
2003	9,754,592	5,708,439	15,463,031	195,661,023	7.9%
2004	9,583,365	6,399,621	15,982,986	214,131,882	7.5%
% Change	-1.8%	12.1%	3.4%	9.4%	-5.6%
% Ch. Since 1995	94.2%	43.0%	69.8%	120.7%	-23.0%

Notes:

- (1) Debt service includes all debt obligations funded by general governmental expenditures.
- (2) Includes the General and Special Revenue Funds of the primary government and component units.
- (3) County's debt policy states that ratio of debt service to general government expenditures should not exceed 10%.



COUNTY OF HANOVER, VIRGINIA

Computation of Direct and Overlapping Debt and Legal Debt Margin

June 30, 2004

Jurisdiction	Net General Bonded Debt Outstanding	Percentage Applicable to County of Hanover	Amount Applicable to County of Hanover	Legal Debt Margin
Direct and Overlapping:				
County of Hanover (1)	117,076,403	100.0%	\$117,076,403	(3)
Overlapping:				
Town of Ashland (2)	2,425,000	80.5%	1,952,325	
	<u>\$119,501,403</u>		<u>\$ 119,028,728</u>	

Notes:

- (1) Excluding general obligation bonds reported in the enterprise funds.
- (2) County's applicable funding is for Water and Sewer Bonds for which the County assumed ownership January 1, 1996.
- (3) Counties in the State of Virginia are not subject to a legal debt margin.

COUNTY OF HANOVER, VIRGINIA

Revenue Bond Coverage (1)

Last Ten Fiscal Years (2)

Fiscal Year	Net Revenues (3)	Capacity Fees	Unrestricted Reserves (4)	Senior Debt Service	Subordinate Debt Service	Total Debt Service	Deposits to Debt Funds (5)	Coverage Test 1 (6)	Coverage Test 2a (7)	Coverage Test 2b (8)
1996	\$ 8,209,345	3,502,791	16,138,515	735,900	1,791,691	2,527,591	-	3.1	8.8	13.2
1997	12,311,406	5,583,623	19,291,700	1,901,625	2,110,983	4,012,608	-	2.8	5.0	6.7
1998	11,355,694	5,880,425	18,259,341	1,886,392	2,099,773	3,986,165	-	2.6	4.5	6.2
1999	11,577,233	5,342,219	18,290,691	1,852,277	2,087,704	3,939,981	-	2.7	4.8	6.5
2000	12,317,861	6,748,630	14,148,842	1,396,609	2,477,031	3,873,640	-	3.0	6.4	7.6
2001	17,467,033	6,647,492	11,272,210	1,200,484	1,317,411	2,517,895	-	6.3	11.8	11.0
2002	16,154,569	7,064,350	15,350,456	1,315,060	917,775	2,232,835	-	6.5	9.6	10.3
2003	14,602,557	6,537,958	19,031,402	1,221,541	951,800	2,173,341	-	6.0	9.3	11.4
2004	11,672,885	4,836,478	13,955,698	1,270,825	1,712,051	2,982,876	-	3.6	7.3	8.5
% Change	-20.1%	-26.0%	-26.7%	4.0%	79.9%	37.2%	n/a	-40.3%	-21.5%	-25.2%
% Ch. Since 1996	-5.2%	-13.4%	-27.7%	-33.2%	-18.9%	-25.7%	n/a	28.7%	45.5%	26.7%

Notes:

- (1) Revenue covenants on 1996 Water and Sewer System Revenue Bonds must meet two coverage tests.
- (2) Information prior to fiscal year 1996 is not applicable as covenants began with 1996 Water and Sewer System Revenue Bonds.
- (3) Net revenue represents net income, excluding interest expense and depreciation.
- (4) Unrestricted cash and cash equivalents.
- (5) Debt funds include the Renewal, Replacement and Expansion Fund and the Debt Service Reserve Fund.
- (6) The ratio of the net revenues divided by the sum of 120% of senior debt service plus any amounts required to be deposited in the Renewal, Replacement and Expansion Fund and the Debt Service Reserve Fund during the fiscal year must exceed 1.0
- (7) The ratio of net revenues less 50% of capacity fees divided by 100% of senior debt service must exceed 1.0.
- (8) The ratio of net revenues less 50% of capacity fees plus 50% of unrestricted reserves divided by 150% of senior debt service must exceed 1.0.

COUNTY OF HANOVER, VIRGINIA

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (2)	Ratio of Net General Bonded Debt per Per Capita Income (4)	School Enrollment (5)	School Instructional Positions (6)	School Enrollment to Instructional Positions Ratio
1995	73,000	23,539	34.5	2.2%	3,212	13,392	858	15.6
1996	75,693	24,603	34.5	2.2%	3,116	14,014	895	15.7
1997	78,400	26,372	34.5	2.5%	3,103	14,670	958	15.3
1998	81,330	27,465	34.5	1.8%	3,162	15,241	1,002	15.2
1999	84,056	28,437	34.5	1.5%	3,470	15,834	1,088	14.6
2000	86,797	30,015	37.4	1.2%	3,752	16,306	1,157	14.1
2001	89,284	31,129	37.4	2.3%	4,032	16,633	1,210	13.7
2002	91,807	33,366	37.4	2.8%	3,509	17,198	1,245	13.8
2003	93,880	n/a	37.4	2.7%	n/a	17,580	1,315	13.4
2004	95,774	n/a	37.4	n/a	n/a	17,979	1,381	13.0
% Change	2.0%		0.0%			2.3%	5.0%	-2.6%
% Ch. Since 1995	31.2%		8.4%			34.3%	n/a	n/a

Notes:

- (1) County of Hanover Planning Department June 30 estimates.
- (2) Virginia Employment Commission, Bureau of Economic Analysis. Calendar year annualized average.
- (3) U. S. Department of Commerce, Bureau of Census (updated in conjunction with census performed every 10 years)
- (4) County's debt policy states that debt per per capita income should not exceed \$5,000.
- (5) Hanover County School Board (Thirtieth day enrollment from school fiscal year)
- (6) Hanover County School Board (instructional positions include teachers, guidance counselors, librarians and other instructional-related positions)

COUNTY OF HANOVER, VIRGINIA

Construction and Bank Deposits

Last Ten Fiscal Years

Fiscal Year	Commercial Construction (1)		Residential Construction (1)		Bank Deposits (000) (2)
	Number of Permits	Value	Number of Permits	Value	
1995	92	10,303,225	962	82,850,833	694,503
1996	78	25,495,868	1,096	96,078,526	729,949
1997	69	24,398,207	958	97,457,157	766,789
1998	59	11,793,180	1,080	103,318,276	769,011
1999	101	31,391,786	1,215	120,970,092	801,071
2000	98	64,688,733	960	99,153,977	826,000
2001	201	39,315,714	925	123,695,607	870,000
2002	301	59,823,126	871	116,887,230	943,000
2003	300	43,901,154	864	132,731,396	989,000
2004	226	44,964,978	858	94,748,322	n/a
% Change	-24.7%	2.4%	-0.7%	-28.6%	
% Ch. Since 1995	145.7%	336.4%	-10.8%	14.4%	

- Notes:
- (1) County of Hanover Building Inspections Office w/ commercial including new, alterations and additions, and residential including new units.
 - (2) Virginia State Corporate Commission, Bureau of Financial Institutions

COUNTY OF HANOVER, VIRGINIA

Miscellaneous Statistics

June 30, 2004

Date of incorporation	1720
Form of government	Board-administrator
Number of employees (full-time)	947
Area in square miles	471
Name of Government Facilities and Services:	
Culture and Recreation:	
Parks/Boat Launch	11
Park acreage	705
Fire Protection:	
Number of stations (volunteer)	16
Number of fire personnel and officers (full-time)	90
Number of calls answered	18,833
Number of inspections conducted	726
Sheriff Protection:	
Number of stations	1
Number of sheriff personnel and officers (full-time)	207
Number of patrol units	108
Number of law violations:	
Physical arrests	3,321
Traffic violations	6,027
Parking violations	66
Sewerage System:	
Miles of sanitary sewers	333
Number of treatment plants	4
Number of service connections	16,597
Daily average treatment in gallons	6,063,000
Maximum daily capacity of treatment plant in gallons	8,480,000
Water System:	
Miles of water mains	351
Number of service connections	18,389
Number of fire hydrants	1,826
Daily average distributed in gallons	6,517,000
Maximum daily capacity of plant in gallons	16,000,000
Education:	
Number of elementary schools	13
Number of elementary school instructors	582
Number of secondary schools	8
Number of secondary school instructors	798

COMPLIANCE SECTION





**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia as of and for the year ended June 30, 2004, and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Hanover'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the County of Hanover in a separate letter dated November 9, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Hanover's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the finance committee, the Board of Supervisors, management, 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.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
November 9, 2004



Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the County of Hanover, 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, 2004. The County of Hanover'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 Hanover's management. Our responsibility is to express an opinion on the County of Hanover'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 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 material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Hanover'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 Hanover's compliance with those requirements.

In our opinion, the County of Hanover 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, 2004.

Internal Control Over Compliance

The management of the County of Hanover 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 Hanover'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 internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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.

The report is intended for the information of the finance committee, the Board of Supervisors, management, 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.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
November 9, 2004

COUNTY OF HANOVER, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Fiscal Year Ended June 30, 2004

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED OPINION**
2. Reportable conditions in internal control disclosed by the audit of the financial statements: **NO**
3. Noncompliance, which is material to the financial statements: **NO**
4. Reportable conditions in internal control over major programs: **NO**
5. The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**
6. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NO**
7. The programs tested as major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
State Administrative Matching Grants for Food Stamp Program	10.561
Childcare and Development Block Grant Cluster	93.575/93.596
Foster Care Title IV-E	93.658
Social Services Block Grant	93.667
Medical assistance program	93.778
Assistance to Firefighters grant	97.044
Public assistance grants	97.036
State domestic preparedness equipment support program	97.004
State and community highway safety	20.600

8. Dollar threshold to distinguish between Types A and B Programs: **\$368,459**
9. The County of Hanover was determined to be a low risk auditee.

B. Findings - Financial Statement Audit

NONE

C. Findings and Questioned Costs - Major Federal Awards

NONE

D. Resolution of Prior Year's Findings

There were no findings reported in the prior year.





HANOVER COUNTY FINANCE DEPARTMENT

Greg L. Akers
Acting Director of Finance

FINANCIAL REPORTING

Dawn R. Hardman, Accountant
Nancy M. Mancuso, Account Clerk

BUDGET

Christopher A. Sorensen, Budget Manager
Adel R. Fabiato, Analyst
Reginald M. Thompson, Analyst

FINANCIAL OPERATIONS

Howard W. Eckstein, Accountant
Pamela J. Hawkins, Technician
Donna B. Neely, Technician
Kathryn H. Shamblin, Account Clerk
Patricia B. Sawyer, Administrative Assistant

Hanover: People, Tradition and Spirit



HANOVER COUNTY

OUR VISION STATEMENT

Hanover- where a family of communities, inspired by its people, traditions, spirit and history, is the foundation for its future

OUR MISSION STATEMENT

The mission of Hanover government is to provide a superior quality of life that is defined, encouraged and supported by the community itself,

- Where government focuses efficiently and effectively on the general well-being, education and safety of the people, and
 - Where service delivery is based on sound financial management practices, and
 - Where growth is managed in creative and innovative ways
-

OUR VALUE STATEMENTS

- Commitment to Hanover Vision and Mission
- Open and Responsive Leadership that Promotes Trust
- Effective and Compassionate Government Focused on Citizen Needs
- Accountability for Results, Actions and Outcomes
- Mutual Respect that Fosters Civility
- Encouragement of Pride, Dedication and Integrity
- Foster an Environment that Encourages Citizen Participation in their Government and Community

Hanover: People, Tradition and Spirit