



*County of
Hanover,
Virginia*

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the fiscal year ended
June 30, 2005



Hanover: People, Tradition, and Spirit

This document was prepared by the Department of Finance, County of Hanover, Virginia, Post Office Box 470, 7497 County Complex Road, Hanover, Virginia 23069-0470. For additional information, contact Terry S. Adams, Director of Finance at (804) 365-6012 or e-mail to tsadams@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 Department" home page).



COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

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INTRODUCTORY SECTION



BOARD OF SUPERVISORS

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

Charles D. McGhee, Vice-Chairman
Henry District

Timothy E. Ernst
Ashland District

John E. Gordon, Jr.
South Anna District

Robert R. Setliff
Chickahominy District

Aubrey M. Stanley
Beaverdam District

Elton J. Wade, Sr.
Cold Harbor District



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

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

Terry S. Adams, CPA
Director
tsadams@co.hanover.va.us

Greg L. Akers, CPA
Assistant Director
glakers@co.hanover.va.us

Department of Finance
County of Hanover
P. O. Box 470
7496 County Complex Road
Hanover, Virginia 23069-0470
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Phone: 804-365-6015
Fax: 804-365-6319

November 4, 2005

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, 2005.

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, 2005, 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, 2005, 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.

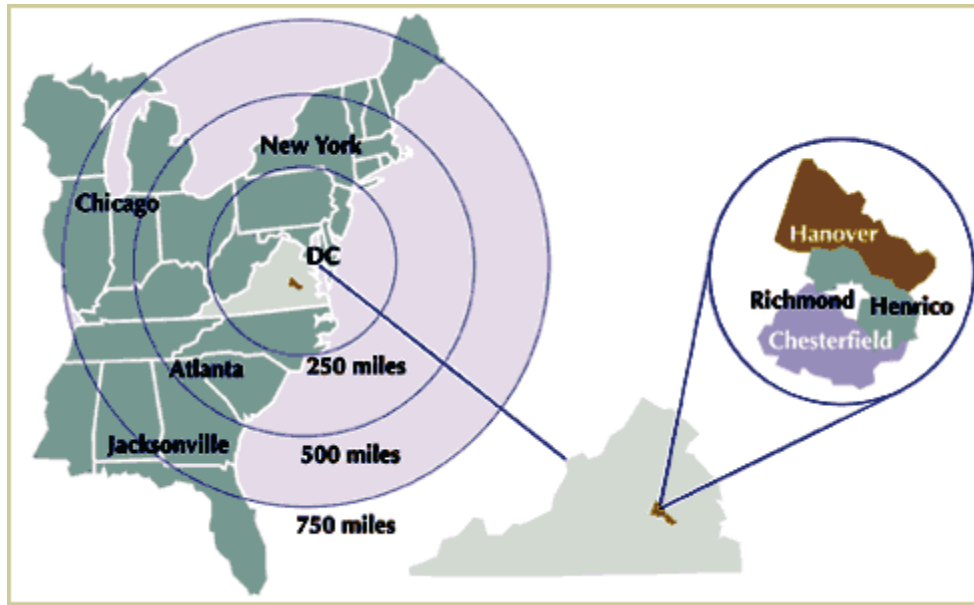
GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County 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 Economic Development Authority (the “EDA”). 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 EDA 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 EDA 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 EDA.

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: While general property tax collections were in line with budgetary estimates, sales tax collections were over budget by \$1.7 million for 2005. The overall positive economic environment has enabled the County to continue to have the lowest unemployment rate in the Richmond region at 2.9% calendar year 2004. Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 2.5% last year. Tax collections remained strong in 2004-05; the County has collected over 98% of taxes every year since 1997.
- Total outstanding delinquent taxes represent only 1.5% 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 sales price at \$280,000 in January 2005, a 5.7% increase over the prior year value of \$265,000. The average value of a house in the County is now \$195,000, a 7.7% increase over the prior year.
- The County has also maintained its strong bond rating of AA1/AA/AA+ (with a positive outlook) with only six counties in Virginia and ~45 counties nationwide having higher bond ratings than Hanover.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 6.9% (policy is <10%) as this ratio is the lowest since 1990.
- The undesignated fund balance as of June 2005 was \$16.2 million, which represented 10.5% of General Fund revenues in fiscal year 2005 and exceeds the policy of 10%.
- Population growth rate was 1.9%, with a total population of 97,600 estimated for July 2005.

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 the same as the previous year. Hanover's \$39,784 median adjusted gross income is the 8th highest, which is also the same rank as the prior year. These ratings are higher than all but four 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. The County's commitment to remain a low tax locality does impact 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.

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. This year the Board undertook a competitiveness analysis of the County's economic development program. This analysis included a SWOT analysis and a tour of three other jurisdictions in the Richmond Region: Henrico County, Chesterfield County, and Goochland County. The Board has identified the provision of infrastructure for economic development as a top priority and has requested that the revision of the Comprehensive Plan be advanced to study the options available.

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. Owens & Minor, a Fortune 500 company, will re-locate its home office from Henrico County to the Atlee Station office park in March 2006. About 450 people will be employed at the Hanover office. Nearly 1 million 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 past five 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 this fall. According to Advantis Real Estate, 24.5 percent of all industrial leases over 50,000 square feet in the Richmond Region were signed in Hanover County between 2003 and 2005, although Hanover only contains 7.5% of all industrial space available in the region.

Last year commercial and industrial development represented 43% of the total value of building permits issued in Hanover. This is one of the highest percentages in the past ten years. Through August 2005 of this year, that percentage is 30%, still above the County's historic percentage. Several major retail developments have opened or plan to open in 2005, 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 planned for 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; and 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 2006 capital budget for County and School projects is \$23.5 million, which is \$5.0 million lower than fiscal year 2005. The decrease is primarily attributable to the 2005 budget including \$14.2 million for Kersey Creek Elementary School that will open in 2006. The County budget policies recommend the use of "pay-as-you-go" funding for 10% of more to recognize the need to balance the use of debt with the use of other resources for funding. The fiscal year 2006 County and School Five-Year CIP includes 35.5% in "pay-as-you-go" funding (non-debt sources). The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan.
- **Bond Referendum:** In order to meet our capital needs over the next five years, a referendum is included on the November 2005 ballot. The County has successfully implemented all projects approved by the citizens in the 1994 and 1997 referendums. By using a similar model, the County and schools can fund the necessary capital infrastructure for our public safety, schools, parks and libraries for the upcoming five years. The 2005 bond referendum includes three questions totaling \$95.1 million as follows: Schools \$51.9 million, Public Safety \$33.4 million, Parks and Libraries \$9.7 million.
- **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.

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 periodic formal request for proposals, solicits insurance companies/agencies/pools to provide worker's compensation, property, auto, liability, inland marine, boiler and crime insurance. The County has experienced favorable loss ratios. 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 Statute. The County insures most of its other exposures through the Virginia Municipal Liability Pool (VMLP). These entities are non-profit insurance pools created to provide local governmental entities with a stable insurance market for workers’ compensation, property, and liability coverages, to reduce the cost of insurance for local governments and public school systems, and to improve risk management and loss prevention programs. As a member of the insurance pools, the County receives annual dividends, which represent a return of premiums, based upon the County’s individual loss experience, the overall performance of the pools, 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, boiler and machinery equipment breakdown, general liability, personal injury, vehicle liability, theft, embezzlement, sexual harassment, age and sex discrimination, zoning, false arrest, illegal searches, slander, and building code enforcement. The ways in which these risks of loss are managed and mitigated include, but are not limited to, insurance, insurance consulting services, and safety policies. The various pools have loss prevention departments to help the County administer its 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 provides 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, 2004. 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 received the GFOA’s Distinguished Budget Presentation Award for its annual budget document for fiscal year 2005-2006. 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. 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, Jr., County Administrator

Terry S. Adams, 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, 2004

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



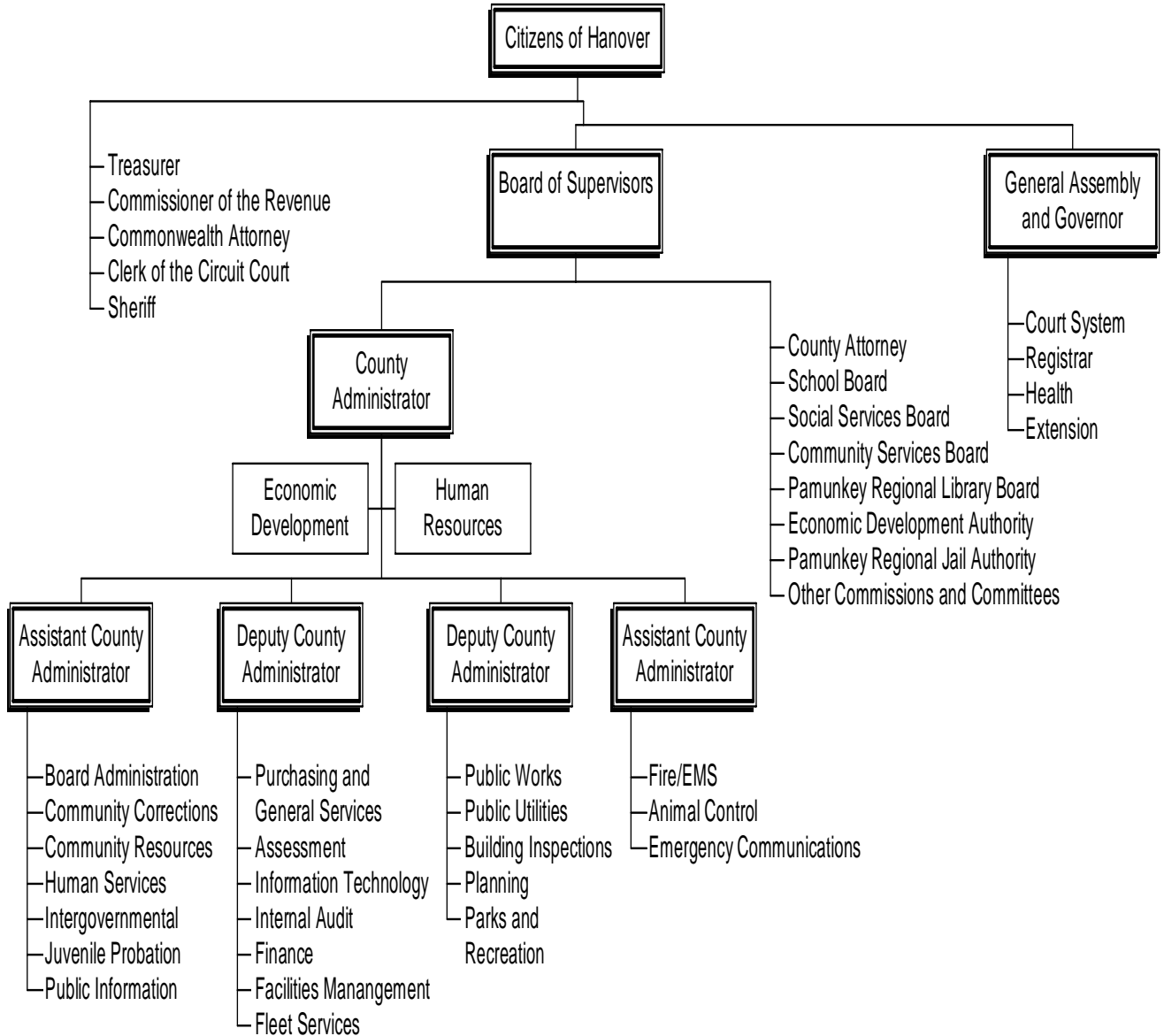
Nancy L. Zielke

President

Jeffrey R. Enev

Executive Director

County of Hanover, Virginia Organizational Chart



DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2005

Board of Supervisors

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

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

Constitutional Officers

T. Scott Harris
M. Scott Miller
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
Michael G. Harman, Sr.
Terry S. Adams

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

School Board

Glenn T. Millican, Jr., Chairman
Sue Forbes Watson, Vice Chairman
John F. Axselle, III
Robert L. Hundley, Jr.
Robert L. Wood
Earl J. Hunter, Jr.
Ann F. H. Gladstone

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 S. Wilson
Charla S. 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, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County 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, 2005, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005 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 conjunction with this report in considering the results of our audit.

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.

Our audit was conducted 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 4, 2005

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, 2005. 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 1-8 of this report.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$238.9 million (*net assets*). Of this amount, \$34.6 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 \$6.7 million, of which the governmental activities increased by \$1.8 million and business-type activities increased by \$4.9 million.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$42.2 million, an increase of \$12.4 million from prior year. The School Improvements Fund, previously shown within Discretely Presented Component Unit – School Board, has been reclassified to the primary government for consistency with debt issuance responsibility. Of the \$12.4 million increase, \$9.9 million is the result of bond proceeds in the School Improvements Fund where the majority of expenses are encumbered. Of the \$42.2 million total, 72.3% (\$30.5 million), is *available for spending* at the County's discretion (*unreserved fund balance*).
- Undesignated fund balance for the General Fund was \$16.2 million, or 10.5% of total General Fund revenues, representing an increase of \$1.0 million or 7.5%. This exceeds the fund balance policy minimum of 10% of total General Fund revenues.
- The County's total debt increased by \$4.0 million (2.5%) during the current fiscal year. The net increase was a result of \$16.1 million of VPSA debt for school 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 economic 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 five 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, the County Improvements Fund and the School Improvements Fund; all three 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 30-33 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 fleet maintenance and management for its self-insurance health revenue. 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 34-36 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 37 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 39-63 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 66 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 \$238.9 million at the close of the most recent fiscal year. By far the largest portion of the County's net assets (\$194.7 million, 81.5% 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 are 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 (\$9.5 million, 4.0% of total) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$34.6 million, 14.5% 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. Fiscal year 2005 represents the County's fourth 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 \$6.7 million during the current fiscal year. The \$1.8 million increase in governmental activities is due to a combination of budgetary methods that have yielded surpluses, cash investment in capital assets, and strong principal debt retirement practices. The \$4.9 million increase in business type activities includes \$3.1 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			
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 88,618,144	72,026,459	23,236,777	27,925,861	111,854,921	99,952,320
Capital assets	183,577,751	185,848,562	161,282,445	155,345,853	344,860,196	341,194,415
Total assets	272,195,895	257,875,021	184,519,222	183,271,714	456,715,117	441,146,735
Long-term liabilities outstanding	136,820,363	129,257,720	33,214,691	38,530,087	170,035,054	167,787,807
Other liabilities	43,906,895	39,252,309	3,917,785	2,241,396	47,824,680	41,493,705
Total liabilities	180,727,258	168,510,029	37,132,476	40,771,483	217,859,734	209,281,512
Net assets:						
Invested in capital assets, net of related debt	64,429,211	62,499,667	130,259,289	123,953,003	194,688,500	186,452,670
Restricted	6,379,543	6,124,298	3,151,730	4,318,022	9,531,273	10,442,320
Unrestricted	20,659,883	20,741,027	13,975,727	14,229,206	34,635,610	34,970,233
Total net assets	\$ 91,468,637	89,364,992	147,386,746	142,500,231	238,855,383	231,865,223

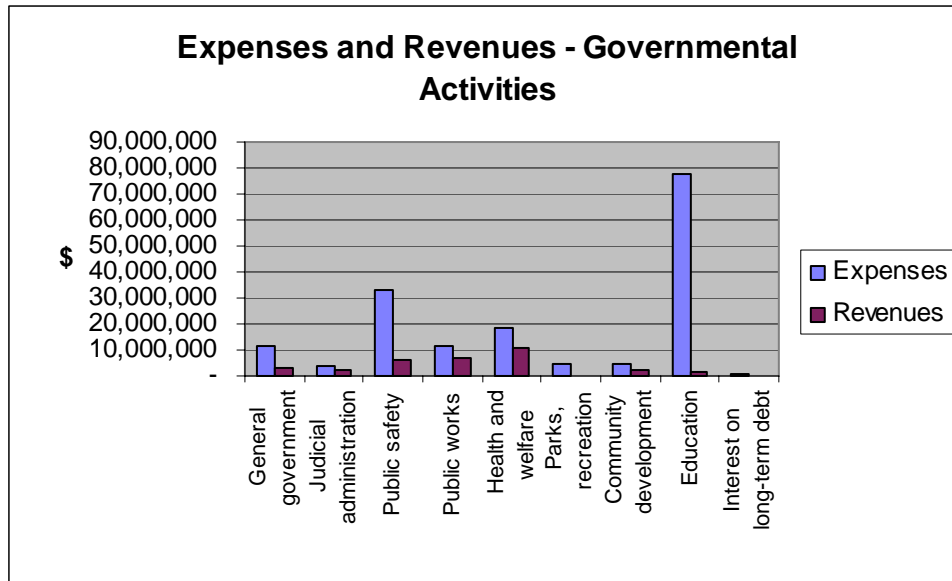
Summary of Activities

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 12,175,810	9,810,240	15,463,650	14,920,100	27,639,460	24,730,340
Operating grants and contributions	14,390,381	15,127,498	451,600	471,777	14,841,981	15,599,275
Capital grants and contributions	7,417,338	6,113,612	8,901,655	7,824,732	16,318,993	13,938,344
General revenues:						
Property taxes	94,939,793	86,761,263	-	-	94,939,793	86,761,263
Other taxes	25,475,779	23,059,560	-	-	25,475,779	23,059,560
Noncategorical State aid	14,066,416	14,289,391	-	-	14,066,416	14,289,391
Grants and contributions	693,279	835,610	-	-	693,279	835,610
Other	411,689	373,141	560,981	31,330	972,670	404,471
Total revenues	\$ 169,570,485	156,370,315	25,377,886	23,247,939	194,948,371	179,618,254
Expenses:						
General government	\$ 11,897,058	10,693,123	-	-	11,897,058	10,693,123
Judicial administration	3,663,672	3,052,208	-	-	3,663,672	3,052,208
Public safety	33,111,907	28,952,210	-	-	33,111,907	28,952,210
Public works	11,304,517	9,238,569	-	-	11,304,517	9,238,569
Health and welfare	18,840,933	17,410,730	-	-	18,840,933	17,410,730
Parks, recreation and cultural	4,894,299	4,641,602	-	-	4,894,299	4,641,602
Community development	4,582,344	4,282,306	-	-	4,582,344	4,282,306
Education	78,974,707	83,221,865	-	-	78,974,707	83,221,865
Interest on long-term debt	462,760	590,519	-	-	462,760	590,519
Public utilities	-	-	20,491,371	17,142,203	20,491,371	17,142,203
Total expenses	167,732,197	162,083,132	20,491,371	17,142,203	188,223,568	179,225,335
Increase in net assets before transfers	1,838,288	(5,712,817)	4,886,515	6,105,736	6,724,803	392,919
Transfers	-	-	-	-	-	-
Increase in net assets	1,838,288	(5,712,817)	4,886,515	6,105,736	6,724,803	392,919
Net assets - beginning of year (as restated)	89,630,349	95,343,166	142,500,231	136,394,495	232,130,580	231,737,661
Net assets - end of year	\$ 91,468,637	89,630,349	147,386,746	142,500,231	238,855,383	232,130,580

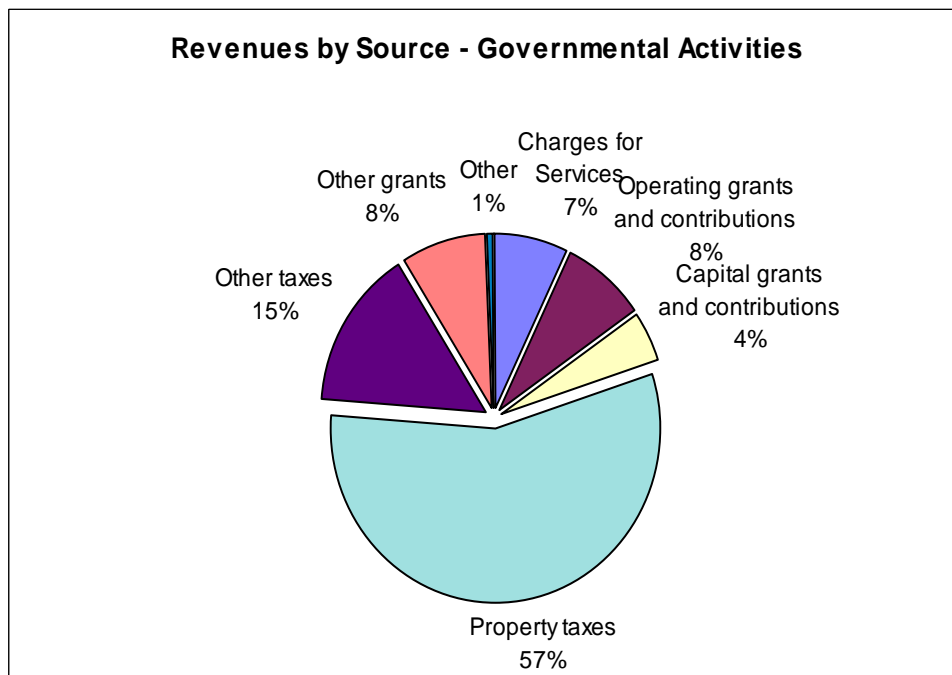
Governmental activities increased the County's net assets by \$1.8 million. Generally, net asset changes are for the difference between revenues and expenses. Revenues of \$169.6 million represent an increase of \$13.2 million or 8.4%. While expenditures of \$167.7 million increased \$5.6 million or 3.5% 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 \$94.9 million representing an increase of \$8.1 million or 9.3%. The increase was primarily due to the continued growth in the tax base from primarily new residential and commercial construction, reassessment of existing real property, and limited growth in the personal property tax base. The local remittance of the personal property tax revenue increased by \$200,000 or 1.2%, while the state remittance for personal property tax declined by \$100,000. These changes were the result of growth in the non-qualifying vehicles, at the same time that the valuation fell for qualifying vehicles.
- Charges for services increased by \$2.4 million to \$12.2 million. This 24.5% increase includes the recognition of \$1.6 million for E911 service fees. The E911 tax rate was increased from \$1.00 to \$3.00 per telephone land line in fiscal year 2005. This revenue is utilized to fund emergency communication expenditures.
- Other local taxes were \$25.5 million, which represents an increase of \$2.4 million or 10.4%. Increase primarily attributable to an additional \$2.0 million of sales tax generated by strengthening business activity.
- Operating grants and contributions were \$14.4 million, a decrease of \$700,000 or 4.6%. Prior year included \$2.3 million of Federal and state assistance for Hurricane Isabel, while FY2004-05 includes only \$395,000 of Federal assistance for Tropical Storm Gaston. This decrease was offset by increases in grants among various departments, including \$200,000 in shared expenses, over \$170,000 for the Clerk of the Circuit Court and \$130,000 for Social Service.
- Local expenditures for public safety increased \$4.1 million or 14.1%. Public safety is a priority of the Board and this increase included seventeen new Fire/EMS positions, nine Sheriff Office positions and one Emergency Communications position. Increase also included grant funding for equipment and computers.
- Local expenditures for education of \$79.0 million decreased by \$4.2 million, or 5.0% from the prior year. The decrease was primarily due to timing of construction and related transfer of equity to School Component Unit. State revenues increased in FY2004-05 as the result of the Governor's initiative to fund the State's Standard's of Quality for Education. The State had not kept up with its own guidelines for funding in the years prior. Education has been designated a priority by the Board.

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 \$4.9 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 \$3.7 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 \$4.9 million primarily due to the \$3.1 million in donated assets. Summary of relevant net financial impacts are as follows:

- The Department of Public Utilities recently completed a rate study. The methodology of the study continues to align the cost for provision of water and sewer services to the appropriate user fee (charges for services) and calculates the value of a connection to the system based upon the cost current and future infrastructure (capacity fees). Preliminary data resulted in an overall rate increase of 6.0% for the FY2006 adoption budget. Final results were presented in July 2005 and will be reflected in future budgets. The slowing growth in the Suburban Service Area continued in FY2004-05.
 - Charges for services were \$15.5 million, \$600,000 and 4.6% higher than the prior year and in line with budgetary estimates.
 - Capacity fees were \$5.8 million, \$1.0 million and 20.8% greater than the prior year. Prior collections were \$1.7 million lower than fiscal year 2003. Residential building activity in the Suburban Service Area continues to be low, although commercial connections were higher than budgetary estimates.
- Donated capital assets were \$3.1 million and were the result of developer's constructing water and sewer lines as part of residential and commercial development.
- Expenses were \$20.5 million, which were \$3.4 million or 19.9% higher than the prior year primarily due to increase a \$1.0 million increase in depreciation expense due to the addition of the Totopotomoy Wastewater Treatment Plant to capital assets and an increase of \$500,000 in recovered cost and service charge to the General Fund.

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 \$42.2 million, an increase of \$12.4 million in comparison with the prior year. The School Improvements Fund, previously shown within Discretely Presented Component Unit – School Board, has been reclassified to the primary government for consistency with debt issuance responsibility. Of the \$13.6 million increase, \$9.9 million is the result of bond proceeds in the School Improvements Fund where the majority of expenses are encumbered. 72.3% of this total amount, \$30.5 million, constitutes unreserved fund balance, which is available for spending at the County's discretion. The unreserved fund balance includes \$14.0 million already designated as described in footnote V. B. on page 58. Fund balance of \$11.8 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 (\$11.0 million), 2) required debt reserves (\$770,000), and 3) inventory (\$11,576).

The General Fund is the primary operating fund of the County. The fund balance of the County's General Fund increased \$3.1 million during the current fiscal year. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$22.4 million, while total fund balance reached \$22.9

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 14.5% of total General Fund revenues, while total fund balance represents 14.9% of that same amount. Of unreserved fund balances, the \$16.2 million undesignated portion represents 10.5% of total General Fund revenues, and exceeds the 10% minimum per fund balance 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 \$200,000 to \$14.0 million. This decrease was primarily due to the net of the purchase of capital assets, which resulted in an increase of capital assets net of debt in the amount of \$6.3 million, a reduction in net asset restrictions of \$1.2 million and a total growth in net assets of \$4.9 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 \$3.4 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:

- \$510,000 for Sheriff's Office, primarily grant funding for equipment;
- \$150,000 under general government administration for voting machines;
- \$165,000 under judicial administration for a grant funding microfilming project.

The remaining \$1.8 million in budget adjustments were made for various revenue sources, and unplanned events including:

- \$510,000 for Tropical Storm Gaston recovery;
- \$438,000 Sheriff and Fire/EMS grants, primarily for equipment and computers;
- \$150,000 for consultant contract regarding the communications system;
- \$152,000 additional State funding for a variety of items, primarily salaries and public safety expenses;
- \$125,000 expansion of the elderly and handicapped tax relief program.

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, 2005, amounts to \$345.0 million (net of accumulated depreciation). This was an increase of \$3.7 million or 1.1%. 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 \$1.4 million, which include an aerial ladder truck and two tanker trucks.
- Business activity capital assets increased \$6.0 million, and primarily consisted of completion of the construction of a new wastewater treatment facility.

Additional information on the County’s capital assets can be found in note IV. C. on pages 50-52 of this report. Capital assets net of accumulated depreciation are illustrated in the following table:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2005 Total</u>	<u>2004 Total</u>
Land	\$ 12,170,665	3,997,354	16,168,019	16,657,281
Buildings and systems	129,681,235	59,916,319	189,597,554	128,895,205
Improvements other than buildings	9,383,915	91,767,562	101,151,477	91,443,079
Machinery and equipment	10,889,098	1,131,260	12,020,358	10,634,886
Infrastructure	13,341,242	-	13,341,242	12,435,421
Construction in progress	8,111,596	4,469,950	12,581,546	81,128,543
Total	<u>\$ 183,577,751</u>	<u>161,282,445</u>	<u>344,860,196</u>	<u>341,194,415</u>

Long-term debt: At the end of the current fiscal year, the County had total bonded debt outstanding of \$163.3 million. Of this amount, \$124.9 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 \$4 million (2.5%). The net increase was primarily a result of \$17.1 million issued for School projects less principal payments. The County is in compliance with all debt policy requirements as illustrated on pages 112 and 113 in the Statistical Section.

The County maintains a “AA+” (with a positive outlook) rating from Fitch Ratings, 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 54-57 of this report. The following table illustrates the County’s outstanding debt:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 124,905,617	-	124,905,617
Revenue bonds	-	33,211,383	33,211,383
Capital lease obligations	5,218,579	-	5,218,579
Total	<u>\$ 130,214,196</u>	<u>33,211,383</u>	<u>163,335,579</u>

Economic Factors and Next Year’s Budgets and Rates

The unemployment rate for the County in August 2005 was 3.1%, which is an increase from a rate of 2.8% a year ago. However, this still compares favorably to the State’s average unemployment rate of 3.7% and the national average rate of 4.9% for the same period.

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 \$3.9 million for spending in the 2006 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 polices and desired reserve levels for future needs.

All County general property tax rates remained the same for calendar year 2005 as had existed in 2004. The public utilities user fees and capacity fees increased by 6.0% for the 2006 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, County of Hanover, P. O. Box 470, Hanover, VA 23069.

BASIC FINANCIAL STATEMENTS

COUNTY OF HANOVER, VIRGINIA

Statement of Net Assets

June 30, 2005

	Primary Government			Component Units	
	Governmental	Business-type	Total	School	Economic Development Authority
	Activities	Activities			
ASSETS					
Current Assets:					
Cash, cash equivalents and investments	\$ 29,730,374	13,252,838	42,983,212	11,182,834	169,104
Receivables (net of allowance for uncollectables)	46,958,000	3,203,199	50,161,199	4,042,041	-
Inventories	184,092	-	184,092	75,587	-
Total current assets	76,872,466	16,456,037	93,328,503	15,300,462	169,104
Non-current Assets:					
Cash, cash equivalents and investments - restricted	11,745,678	6,780,740	18,526,418	-	-
Capital assets (net of accumulated depreciation)					
Land	12,170,665	3,997,354	16,168,019	4,770,629	-
Buildings and system	129,681,235	59,916,319	189,597,554	67,235,396	-
Improvements other than buildings	9,383,915	91,767,562	101,151,477	2,861,674	-
Machinery and equipment	10,889,098	1,131,260	12,020,358	7,828,528	-
Infrastructure	13,341,242	-	13,341,242	-	-
Construction in progress	8,111,596	4,469,950	12,581,546	2,322,987	-
Total capital assets	183,577,751	161,282,445	344,860,196	85,019,214	-
Total non-current assets	195,323,429	168,063,185	363,386,614	85,019,214	-
Total assets	\$ 272,195,895	184,519,222	456,715,117	100,319,676	169,104
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 2,796,634	1,219,783	4,016,417	1,140,463	15,158
Incurred but not reported	1,170,000	-	1,170,000	-	-
Accrued liabilities	1,984,045	177,203	2,161,248	11,902,613	-
Accrued bond interest	116,342	452,851	569,193	2,205,017	-
Unearned revenue	37,839,874	-	37,839,874	83,463	-
Current portion of bonds payable	9,108,333	1,892,446	11,000,778	-	-
Current portion of capital lease obligations	790,722	-	790,722	-	-
Current portion of compensated absences	3,378,295	34,613	3,412,908	2,097,973	-
Current portion of landfill closure	101,304	-	101,304	-	-
Current portion of contractual obligations	-	140,889	140,889	-	-
Current portion of early retirement liability	-	-	-	132,911	-
Total current liabilities	\$ 57,285,549	3,917,785	61,203,333	17,562,440	15,158
Non-current Liabilities:					
Bonds payable	115,797,284	31,318,937	147,116,222	-	-
Capital lease obligations	4,427,857	-	4,427,857	-	-
Compensated absences	571,912	414,037	985,949	1,689,754	-
Deposits	-	181,823	181,823	-	-
Refundable developer capacity fees	-	221,083	221,083	-	-
Liability for landfill closure	2,644,656	-	2,644,656	-	-
Liability for early retirement program	-	-	-	1,526,824	-
Long-term contractual obligations	-	1,078,811	1,078,811	-	-
Total non-current liabilities	123,441,709	33,214,691	156,656,401	3,216,578	-
Total liabilities	\$ 180,727,258	37,132,476	217,859,734	20,779,018	15,158
NET ASSETS					
Invested in capital assets, net of related debt	\$ 64,429,211	130,259,289	194,688,500	85,019,214	-
Restricted for:					
Capital projects	5,609,521	3,151,730	8,761,251	-	-
Debt service	770,022	-	770,022	-	-
Unrestricted	20,659,883	13,975,727	34,635,610	(5,478,556)	153,946
Total net assets	\$ 91,468,637	147,386,746	238,855,383	79,540,658	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, 2005

Function/Programs	Net (Expense) Revenue and Changes in Net Assets												
	Program Revenues			Primary Government			Component Units						
	Expenses	Charges for Services	Grants and Contributions	Capital	Governmental Activities	Business-Type Activities	Total	School	Development Authority	Economic			
Primary government:													
Governmental activities:													
General governmental administration	\$ 11,897,058	2,391,346	488,021	-	(9,017,691)	-	(9,017,691)	-	-	-	-	-	-
Judicial administration	3,663,672	1,329,836	1,194,428	-	(1,139,408)	-	(1,139,408)	-	-	-	-	-	-
Public safety	33,111,907	2,079,389	4,343,241	38,644	(26,650,633)	-	(26,650,633)	-	-	-	-	-	-
Public works	11,304,517	674,414	432,633	6,125,656	(4,071,814)	-	(4,071,814)	-	-	-	-	-	-
Health and welfare	18,840,933	2,889,334	7,920,889	-	(8,030,710)	-	(8,030,710)	-	-	-	-	-	-
Parks, recreation and cultural	4,894,299	302,452	-	-	(4,591,847)	-	(4,591,847)	-	-	-	-	-	-
Community development	4,582,344	2,509,039	11,169	40	(2,062,096)	-	(2,062,096)	-	-	-	-	-	-
Education	78,974,707	-	-	1,252,998	(77,721,709)	-	(77,721,709)	-	-	-	-	-	-
Interest on long-term debt	462,760	-	-	-	(462,760)	-	(462,760)	-	-	-	-	-	-
Total governmental activities	167,732,197	12,175,810	14,390,381	7,417,338	(133,748,668)	-	(133,748,668)	-	-	-	-	-	-
Business-type activities:													
Public utilities	20,491,371	15,463,650	451,600	8,901,655	-	4,325,534	4,325,534	-	-	-	-	-	-
Total business-type activities	20,491,371	15,463,650	451,600	8,901,655	-	4,325,534	4,325,534	-	-	-	-	-	-
Total primary government	\$ 188,223,568	27,639,460	14,841,981	16,318,993	(133,748,668)	-	(129,423,134)	-	-	-	-	-	-
Component Units:													
School Board	\$ 139,519,701	6,952,558	71,375,753	-	-	-	-	(61,191,390)	-	-	-	-	-
Industrial Development Authority	266,163	191,163	-	-	-	-	-	-	-	-	-	-	-
Total component units	\$ 139,785,864	7,143,721	71,375,753	-	-	-	-	(61,191,390)	-	-	-	-	(75,000)
General revenues:													
Taxes:													
General property taxes					94,939,793		94,939,793						
Sales taxes					14,361,323		14,361,323						
Utility taxes					4,418,593		4,418,593						
Motor vehicle licenses					2,359,824		2,359,824						
Recordation taxes					2,313,113		2,313,113						
Other					2,022,926		2,022,926						
Non-categorical State Aid					14,066,416		14,066,416						
Grants and contributions not restricted to specific programs					693,279		693,279						
Unrestricted investment earnings					411,689		411,689						
Payment from Hanover County					-		-						
Total general revenues and transfers					135,586,956		135,586,956						
Change in net assets					1,838,288		1,838,288						
Net assets - beginning (as restated)					89,630,349		89,630,349						
Net assets - ending					\$ 91,468,637		\$ 91,468,637						

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

COUNTY OF HANOVER, VIRGINIA

Governmental Funds

Balance Sheet

June 30, 2005

	General	County Improvements Fund	School Improvements Fund	Other Governmental Funds	Totals Governmental Funds
ASSETS					
Cash, cash equivalents and investments	\$ 20,490,165	7,352,906	615,320	186,515	28,644,906
Receivables (Net of allowances for uncollectables)	45,454,746	483,135	-	1,020,119	46,958,000
Due from other funds	180,000	-	-	-	180,000
Inventories	11,576	-	-	-	11,576
Cash, cash equivalents and investments - restricted	-	770,022	10,975,656	-	11,745,678
Total assets	<u>\$ 66,136,487</u>	<u>8,606,063</u>	<u>11,590,976</u>	<u>1,206,634</u>	<u>87,540,160</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,007,363	701,388	538,663	380,783	2,628,197
Accrued liabilities	1,642,841	-	-	280,664	1,923,505
Due to other funds	-	-	-	180,000	180,000
Deferred revenue	40,572,090	-	-	6,000	40,578,090
Total liabilities	<u>43,222,294</u>	<u>701,388</u>	<u>538,663</u>	<u>847,447</u>	<u>45,309,792</u>
Fund Balances:					
Reserved for:					
Encumbrances	541,457	652,640	9,754,596	19,742	10,968,435
Inventory	11,576	-	-	-	11,576
Debt service	-	770,022	-	-	770,022
Total reserved	<u>553,033</u>	<u>1,422,662</u>	<u>9,754,596</u>	<u>19,742</u>	<u>11,750,033</u>
Unreserved, reported in:					
Designated for specific purposes (Note V-B)					
General Fund	6,203,575	-	-	-	6,203,575
Capital Improvements Funds	-	6,458,695	1,219,825	-	7,678,520
Special Revenue Funds	-	-	-	86,690	86,690
Undesignated, reported in					
General Fund	16,157,585	-	-	-	16,157,585
Capital Improvements Funds	-	23,318	77,892	-	101,210
Special Revenue Funds	-	-	-	252,755	252,755
Total unreserved	<u>22,361,160</u>	<u>6,482,013</u>	<u>1,297,717</u>	<u>339,445</u>	<u>30,480,335</u>
Total fund balances	<u>22,914,193</u>	<u>7,904,675</u>	<u>11,052,313</u>	<u>359,187</u>	<u>42,230,368</u>
Total liabilities and fund balances	<u>\$ 66,136,487</u>	<u>8,606,063</u>	<u>11,590,976</u>	<u>1,206,634</u>	<u></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	\$ 183,465,938
Receivables on the statement of net assets that do not provide current financial resources are not reported in the funds	2,738,216
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	(151,366)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(136,814,519)
Net assets of governmental activities	<u>\$ 91,468,637</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, 2005

	General	County Improvements	School Improvements	Other Governmental	Total Governmental Funds
REVENUES					
General property taxes	\$ 94,604,793	-	-	-	94,604,793
Other local taxes	25,475,779	-	-	-	25,475,779
Permits, privilege fees and regulatory licenses	2,723,338	-	-	-	2,723,338
Fines and forfeitures	900,479	-	-	-	900,479
Revenues from use of money and property	467,382	-	57,222	215,000	739,604
Charges for services	2,832,367	1,538,892	947,707	2,444,566	7,763,532
Miscellaneous	337,454	-	-	3,938	341,392
Recovered costs	2,529,499	1,282,791	-	213,605	4,025,895
Intergovernmental	24,117,077	1,954,890	305,291	4,284,720	30,661,978
Total revenues	153,988,168	4,776,573	1,310,220	7,161,829	167,236,790
EXPENDITURES					
General governmental administration	\$ 10,142,750	678,199	-	-	10,820,949
Judicial administration	3,329,039	88,687	-	-	3,417,726
Public safety	30,845,961	2,602,229	-	-	33,448,190
Public works	6,018,823	4,102,947	-	-	10,121,770
Health and welfare	6,025,997	61,608	-	12,556,307	18,643,912
Parks, recreation and cultural	4,633,167	147,132	-	-	4,780,299
Community development	4,466,646	41,152	-	-	4,507,798
Education	73,923,835	-	10,337,971	-	84,261,806
Debt service:					
Principal retirement	1,448,913	-	-	-	1,448,913
Interest and fiscal charges	476,297	-	-	-	476,297
Total debt service	1,925,210	-	-	-	1,925,210
Total expenditures	141,311,428	7,721,954	10,337,971	12,556,307	171,927,660
Excess (deficiency) of revenues over (under) expenditures	12,676,740	(2,945,381)	(9,027,751)	(5,394,478)	(4,690,870)
OTHER FINANCING SOURCES AND USES					
Other financing sources:					
Proceeds of general obligation bonds	-	-	17,097,408	-	17,097,408
Transfers in	-	2,143,147	1,750,000	5,579,282	9,472,429
Total other financing sources	-	2,143,147	18,847,408	5,579,282	26,569,837
Other financing uses:					
Transfers out	9,472,429	-	-	-	9,472,429
Transfers to internal service funds	55,000	-	-	-	55,000
Total other financing uses	9,527,429	-	-	-	9,527,429
Net other financing sources (uses)	\$ (9,527,429)	2,143,147	18,847,408	5,579,282	17,042,408
Net change in fund balance	\$ 3,149,311	(802,234)	9,819,657	184,804	12,351,538
Fund balances - beginning (as restated)	19,764,882	8,706,909	1,232,656	174,383	29,878,830
Fund balances - ending	\$ 22,914,193	7,904,675	11,052,313	359,187	42,230,368

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, 2005

Net change in fund balances - total governmental funds	\$ 12,351,538
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.	(4,776,100)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.	1,665,479
School Component Unit General obligation debt guaranteed by County is reported in governmental activities in statement of net assets. Fund statements include \$8,873,194 transfer to School Component Unit for debt payments net of \$296,261 asset equity allocated to Schools. County has a tenancy-in-common for school assets with outstanding debt.	8,576,933
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).	668,216
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.	(15,648,495)
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.	(754,578)
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.	(244,705)
Changes in net assets of governmental activities	<u>\$ 1,838,288</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

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 94,766,000	94,967,000	94,604,793	(362,207)
Other local taxes	22,973,000	22,973,000	25,475,779	2,502,779
Permits, privilege fees and regulatory licenses	2,600,000	2,600,000	2,723,338	123,338
Fines and forfeitures	679,000	679,000	900,479	221,479
Revenues from use of money and property	705,000	705,000	467,382	(237,618)
Charges for services	2,336,000	2,517,814	2,832,367	314,553
Miscellaneous	593,000	656,932	337,454	(319,478)
Recovered costs	2,417,000	2,446,517	2,529,499	82,982
Intergovernmental	24,166,000	26,067,672	24,117,077	(1,910,595)
Total revenues	<u>151,235,000</u>	<u>153,612,935</u>	<u>153,988,168</u>	<u>415,233</u>
EXPENDITURES				
General governmental administration	\$ 10,437,249	10,882,702	10,142,750	739,952
Judicial administration	3,362,263	3,709,272	3,329,039	380,233
Public safety	30,209,186	32,495,619	30,845,961	1,649,658
Public works	5,871,471	6,423,455	6,018,823	404,632
Health and welfare	6,130,524	6,651,412	6,025,997	625,415
Parks, recreation and cultural	4,521,880	4,844,912	4,633,167	211,745
Community development	4,620,657	4,836,436	4,466,646	369,790
Education	77,264,098	75,726,154	73,923,835	1,802,319
Debt service:				
Principal retirement	1,394,000	1,449,000	1,448,913	87
Interest and fiscal charges	1,437,624	789,713	476,297	313,416
Total debt service	<u>2,831,624</u>	<u>2,238,713</u>	<u>1,925,210</u>	<u>313,503</u>
Total expenditures	<u>145,248,952</u>	<u>147,808,675</u>	<u>141,311,428</u>	<u>6,497,247</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,986,048</u>	<u>5,804,260</u>	<u>12,676,740</u>	<u>6,912,480</u>
OTHER FINANCING SOURCES AND USES				
Other financing uses:				
Transfers out	8,931,048	9,711,954	9,472,429	239,525
Transfers to internal service funds	15,000	55,000	55,000	-
Total other financing uses	<u>8,946,048</u>	<u>9,766,954</u>	<u>9,527,429</u>	<u>239,525</u>
Net other financing sources (uses)	<u>\$ (8,946,048)</u>	<u>(9,766,954)</u>	<u>(9,527,429)</u>	<u>(239,525)</u>
Net change in fund balance	\$ (2,960,000)	(3,962,694)	3,149,311	6,672,955
Fund balances - beginning	2,960,000	19,764,882	19,764,882	-
Fund balances - ending	<u>\$ -</u>	<u>15,802,188</u>	<u>22,914,193</u>	<u>6,672,955</u>

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

COUNTY OF HANOVER, VIRGINIA

Proprietary Funds

Statement of Net Assets

June 30, 2005

	Business-type Activities- Enterprise Fund <u>Public Utilities</u>	Governmental Activities - Internal <u>Service Funds</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and investments	\$ 13,252,838	1,085,468
Receivables (Net of allowances for uncollectables):		
Accounts	3,203,199	-
Total receivables	<u>3,203,199</u>	<u>-</u>
Inventories	-	172,516
Total current assets	<u>16,456,037</u>	<u>1,257,984</u>
Non-current Assets:		
Cash, cash equivalents and investments - restricted	6,780,740	-
Capital assets:		
Land	3,997,354	-
Buildings and system	75,132,498	-
Improvements other than buildings	134,414,574	-
Machinery and equipment	5,195,212	377,301
Construction in progress	4,469,950	-
Less accumulated depreciation	<u>(61,927,143)</u>	<u>(265,488)</u>
Total capital assets (net of accumulated depreciation)	<u>161,282,445</u>	<u>111,813</u>
Total non-current assets	<u>168,063,185</u>	<u>111,813</u>
Total assets	<u>184,519,222</u>	<u>1,369,797</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	1,219,783	168,437
Incurred but not reported	-	1,170,000
Accrued liabilities	177,203	60,540
Accrued bond interest	452,851	-
Current portion of bonds payable	1,816,411	-
Current portion of compensated absences	34,613	-
Current portion of contractual obligations	140,889	-
Total current liabilities	<u>3,841,750</u>	<u>1,398,977</u>
Non-current Liabilities:		
Bonds payable	31,394,972	-
Compensated absences	414,037	122,186
Deposits	181,823	-
Refundable developer capacity fees	221,083	-
Long-term contractual obligations	1,078,811	-
Total non-current liabilities	<u>33,290,726</u>	<u>122,186</u>
Total liabilities	<u>37,132,476</u>	<u>1,521,163</u>
NET ASSETS		
Invested in capital assets, net of related debt	130,259,289	111,813
Restricted for other purposes	3,151,730	-
Unrestricted	13,975,727	(263,179)
Total net assets	<u>\$ 147,386,746</u>	<u>(151,366)</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, 2005

	Business-type Activities- Enterprise Fund <u>Public Utilities</u>	Governmental Activities - Internal <u>Service Funds</u>
OPERATING REVENUES		
Charges for services	\$ 15,296,609	16,069,947
Capacity fees	14,439	-
Recovered cost	-	45,960
Miscellaneous	152,602	32,027
Total operating revenues	<u>15,463,650</u>	<u>16,147,934</u>
OPERATING EXPENSES		
Personal services	3,734,908	962,841
Fringe benefits	972,283	257,415
Health care claims	-	15,012,081
Contractual services	2,431,633	108,573
Internal services	1,362,166	249
Other charges	5,082,512	170,574
Depreciation	5,578,077	36,017
Total operating expenses	<u>19,161,579</u>	<u>16,547,750</u>
Operating loss	<u>(3,697,929)</u>	<u>(399,816)</u>
NON-OPERATING REVENUES (EXPENSES)		
Non-operating revenues:		
Intergovernmental	451,600	-
Capacity fees - non-operating	5,793,005	-
Interest income	560,981	100,111
Total non-operating revenues	<u>6,805,586</u>	<u>100,111</u>
Non-operating expenses:		
Interest expense and fiscal charges:		
Senior debt	537,592	-
Subordinate debt and fiscal charges	792,200	-
Interest expense and fiscal charges	<u>1,329,792</u>	<u>-</u>
Net non-operating revenues	<u>5,475,794</u>	<u>100,111</u>
Income (loss) before contributions and transfers	<u>1,777,865</u>	<u>(299,705)</u>
Donated capital assets	3,108,650	-
Transfers in	-	55,000
Change in net assets	4,886,515	(244,705)
Total net assets - beginning (as restated)	142,500,231	93,339
Total net assets - ending	<u>\$ 147,386,746</u>	<u>(151,366)</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, 2005

	Business-type Activities- Enterprise Fund <u>Public Utilities</u>	Governmental Activities - Internal <u>Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 15,241,502	16,147,934
Payments to suppliers	(10,151,098)	(15,426,519)
Payments to employees	(3,730,605)	(1,199,162)
Net cash provided by operating activities	<u>1,359,799</u>	<u>(477,747)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments on advances from other funds	(22,985)	-
Advances from other funds	-	55,000
Federal Grants	388,439	-
Net cash provided by capital and related financing activities	<u>365,454</u>	<u>55,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	40,504	-
Capital contributions	5,793,005	-
Refundable developer capacity fee credits	(27,985)	-
Acquisition and construction of capital assets	(8,226,065)	(88,507)
Payments on long-term contractual obligations	(732,625)	-
Principal paid on capital debt	(2,515,868)	-
Interest paid on capital debt	(1,570,554)	-
Net cash used by capital and related financing activities	<u>(7,239,588)</u>	<u>(88,507)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	550,994	100,111
Net cash provided by investing activities	<u>550,994</u>	<u>100,111</u>
Net increase in cash and cash equivalents	(4,963,341)	(411,143)
Cash and cash equivalents, July 1	24,996,919	1,496,611
Cash and cash equivalents, June 30	<u>\$ 20,033,578</u>	<u>1,085,468</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (3,697,929)	(399,816)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Nondepartmental & Capital Expenses	(229,631)	
Depreciation expense	5,578,077	36,017
(Increase) decrease in accounts receivable	(251,272)	-
(Increase) decrease in inventory	-	21,938
Increase (decrease) in customer deposits	33,996	-
Increase (decrease) in accounts payable	(112,358)	(359,680)
Incurred but not reported	-	202,700
Increase (decrease) in accrued liabilities	4,304	1,868
Increase (decrease) in compensated absences	34,612	19,226
Total adjustments	<u>5,057,728</u>	<u>(77,931)</u>
Net cash provided by operating activities	<u>\$ 1,359,799</u>	<u>(477,747)</u>
Non-cash investing, capital, and financing activities:		
Donated capital assets	3,108,650	-
Capitalized interest	181,477	-

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, 2005

	<u>Agency Funds</u>
ASSETS	
Cash, cash equivalents and investments	\$ 3,806,780
Accounts receivable	31,065
Total assets	<u>\$ 3,837,845</u>
 LIABILITIES	
Accounts payable	\$ 919,579
Accrued liabilities	42,974
Deposits	2,844,387
Deferred revenue	30,905
Total liabilities	<u>\$ 3,837,845</u>

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



COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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. The School Board does not issue separate financial statements.

- **Economic Development Authority:** The Economic Development Authority (the “EDA”) was created to foster and stimulate economic development in the County. Included in the discretely presented component unit EDA are the activities of industrial development services. The County appoints the seven members of the EDA. By statute, the EDA 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 EDA, the determination of its operating budget and annual service fee rates and the approval of private activity prospective bond issues. On July 28, 2004, the authority’s name was changed from the Industrial 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. The Authority does not issue separate financial statements.

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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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 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. Revenues from intergovernmental reimbursement grants are recorded when earned. 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 three 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 *School Improvements Fund* accounts for the resources to be used for the acquisition or construction of major capital facilities and equipment used for school operations. Capital assets are transferred to the School Component Unit, except those financed by County guaranteed debt, which are shown under the primary government up to the amount of outstanding debt.

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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.

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.

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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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.

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, 2004, and the first installment (June 5) of the levy on assessed value at January 1, 2005.

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. The State froze tax relief at the 70% level for 2002 tax bills. County 2004 tax bills, payable in fiscal year 2005, 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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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 include unexpended bond proceeds of \$10,975,656 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 balance. Business-type activities include restricted cash of \$6,780,740 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	25-35
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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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.

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	\$ 124,905,617
Accrued bond interest	116,342
Capital leases payable	5,218,579
Compensated absences (excludes internal services)	3,828,021
Liability for landfill closure	2,745,960
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>136,814,519</u>

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:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

Capital outlay	3,651,890
Depreciation expense (excludes internal services)	<u>(8,427,990)</u>
Net adjustment to increase <i>net changes in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net</i> <i>assets</i> to governmental activities	<u>\$ (4,776,100)</u>

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:

In the statement of activities, only the <i>loss</i> 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.	\$ (55,266)
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Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>1,720,745</u>
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Net adjustments to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 1,665,479</u>
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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:

Issuance of general obligation bonds	\$17,097,408
Principal repayments	<u>(1,448,913)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 15,648,495</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:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

Compensated absences (less internal services)	\$ (576,279)
Change in landfill closure liability	(191,836)
Accrued interest	<u>13,537</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (754,578)</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 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, 2005, 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 unrestricted deficit net asset balances as of June 30, 2005. The Internal Services, Fleet Management \$59,489 unrestricted fund balance deficit will be recovered through control of future rate adjustments. The Internal Services, Self-Insurance \$203,689 fund balance deficit will also be recovered through control of future rate adjustments and employer contributions. In addition, \$210,000 of General Fund balance was designated to make an additional contribution next fiscal year to the Self-Insurance Fund to eliminate the deficit ending fund balance.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

IV. Detailed notes on all funds

A. Deposits and investments

To increase returns and minimize fees, the County follows the practice of pooling cash and investments of all funds held with the County Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Amounts below exclude funds the Treasurer holds and invests on behalf of the Pamunkey Regional Jail Authority, as they are reported separately in the Authority's Comprehensive Annual Report. Cash and investments are summarized by Primary Government and Component Units in the Statement of Net Assets as Cash, Cash Equivalents and Investments. As of June 30, 2005, the assets held by the Treasurer including \$3,806,780 for Fiduciary Funds were as follows:

<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Cash on Hand	\$ 4,812	N/A
Cash Deposits	(2,043,371)	N/A
Demand and Time Deposits	229,425	N/A
State Treasurer's Local Government Investment Pool	2,311	AAAm
Money Market Mutual Funds	29,462,997	AAAm
Commercial Paper	8,071,003	A-1+
US Government and Agency Bonds	<u>40,932,179</u>	AAA, A-1+
Total deposits and investments	\$ <u>76,668,348</u>	

Deposits: The Primary Government bank balance of deposits with banks and savings institutions at year end was \$809,386, while the carrying value was (\$2,043,371) because of reconciling items such as outstanding checks and deposits in transit. All cash of the County is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. 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.

Investments: In accordance with the Code of Virginia and other applicable law, including regulations, the County's Investment policy (Policy) permits investments in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

The County's Policy establishes limitations on the holding on non-U.S Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

Negotiable Certificates of Deposits/Bank Notes	100% maximum
Repurchase Agreements	50% maximum
Corporate Notes	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	35% maximum
State Bonds, Notes and Other Evidences of Indebtedness	25% maximum
County, Town, City, District, Authority or other public body Bonds, Note and Other Evidences of Indebtedness	25% maximum

The County's Policy expressly prohibits the following securities, unless specifically approved in writing by the Treasurer: derivative products; reverse repurchase agreements; and any other security not specifically authorized in the policy.

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to proceed or coincide with expectation need of funds, which has resulted in the creation of short and long term portfolios. Furthermore, the County's Policy limits the investment of operating funds to investments with a stated maturity of no more than 5 years from the date of purchase. Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities. As of June 30, 2005, the effective duration of the County's short term portfolio was 0.17 years. The short term portfolio included money market mutual funds, commercial paper, and US government and agency bonds totaling \$43,192,570. The effective duration of the County's long term portfolio was 1.7 years. The long term portfolio included money market mutual funds and US government and agency bonds totaling \$17,659,184.

Credit Risk: As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Furthermore, the Policy requires maturity may not exceed 270 days and the issuing corporation, or its guarantor has a net worth of at least \$50 million and the net income has averaged \$3 million for the five previous years.

Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

The County's rated debt investments as of June 30, 2005, were rated by Standard & Poor's and/or an equivalent national rating organization. The ratings presented above are using the S&P rating scale. 96% of the \$40,932,179 of U.S. Government Agency Securities were rated AAA, while the remaining 4% are rated A-1+.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

Concentration of Credit Risk: The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each Federal Agency	35% maximum
Each Repurchase Agreement Counterparty	25% maximum

As of June 30, 2005, investments in the following issuers exceeded five percent of the portfolio: FHLMA notes (24%) and FNMA notes (23%).

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				Subtotal	Business Activities	Total
	General	County Improvement	School Improvement	Non-major and Other Funds		Public Utilities	
Receivables							
Interest	\$ 182,787	-	-	-	182,787	10,453	193,240
Taxes	41,036,771	-	-	-	41,036,771	-	41,036,771
Accounts	1,282,994	-	-	960,442	2,243,436	3,309,180	5,552,616
Intergovernmental	4,458,824	483,135	-	228,197	5,170,156	-	5,170,156
Gross Receivables	46,961,376	483,135	-	1,188,639	48,633,150	3,319,633	51,952,783
Less Allowance for							
Uncollectibles	(1,506,630)	-	-	(168,520)	(1,675,150)	(116,434)	(1,791,584)
Net total receivables	\$ 45,454,746	483,135	-	1,020,119	46,958,000	3,203,199	50,161,199

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	\$40,293,874	37,833,874
EMS transport fees	278,216	-
Grant draw downs prior to meeting all eligibility requirements	6,000	6,000
Total deferred/unearned revenue for County funds	<u>\$40,578,090</u>	<u>37,839,874</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

C. Capital assets

Capital asset activity for the year ended June 30, 2005 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	\$ 12,697,427	-	(526,762)	12,170,665
Construction in progress	35,060,522	1,984,974	(28,933,900)	8,111,596
Total capital assets, not being depreciated	<u>47,757,949</u>	<u>1,984,974</u>	<u>(29,460,662)</u>	<u>20,282,261</u>
Capital assets, being depreciated:				
Buildings	140,167,533	26,091,817	-	166,259,350
Improvements other than buildings	13,758,621	91,293	-	13,849,914
Machinery and equipment	28,215,648	3,391,774	(1,709,589)	29,897,833
Infrastructure	20,322,503	1,906,745	-	22,229,248
Total capital assets, being depreciated	<u>202,464,305</u>	<u>31,481,629</u>	<u>(1,709,589)</u>	<u>232,236,345</u>
Less accumulated depreciation for:				
Buildings	(34,632,030)	(1,946,085)	-	(36,578,115)
Improvements other than buildings	(3,608,896)	(857,103)	-	(4,465,999)
Machinery and equipment	(18,245,684)	(2,472,640)	1,709,589	(19,008,735)
Infrastructure	(7,887,082)	(1,000,924)	-	(8,888,006)
Total accumulated depreciation	<u>(64,373,692)</u>	<u>(6,276,752)</u>	<u>1,709,589</u>	<u>(68,940,855)</u>
Total capital assets, being depreciated, net	<u>138,090,613</u>	<u>25,204,877</u>	<u>-</u>	<u>163,295,490</u>
Governmental activities capital assets, net	<u>\$ 185,848,562</u>	<u>27,189,851</u>	<u>(29,460,662)</u>	<u>183,577,751</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,959,854	37,500	-	3,997,354
Construction in progress	46,068,021	8,046,463	(49,644,534)	4,469,950
Total capital assets, not being depreciated	<u>50,027,875</u>	<u>8,083,963</u>	<u>(49,644,534)</u>	<u>8,467,304</u>
Capital assets, being depreciated:				
Buildings and system	36,846,692	38,285,806	-	75,132,498
Improvements other than buildings	120,381,210	14,033,364	-	134,414,574
Machinery and equipment	4,532,462	756,070	(93,320)	5,195,212
Total capital assets, being depreciated	<u>161,760,364</u>	<u>53,075,240</u>	<u>(93,320)</u>	<u>214,742,284</u>
Less accumulated depreciation for:				
Buildings	(13,486,990)	(1,729,189)	-	(15,216,179)
Improvements other than buildings	(39,087,856)	(3,559,156)	-	(42,647,012)
Machinery and equipment	(3,867,540)	(289,732)	93,320	(4,063,952)
Total accumulated depreciation	<u>(56,442,386)</u>	<u>(5,578,077)</u>	<u>93,320</u>	<u>(61,927,143)</u>
Total capital assets, being depreciated, net	<u>105,317,978</u>	<u>47,497,163</u>	<u>-</u>	<u>152,815,141</u>
Business-type activities capital assets, net	<u>\$ 155,345,853</u>	<u>55,581,126</u>	<u>(49,644,534)</u>	<u>161,282,445</u>

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

Governmental activities:	
General governmental administration	\$916,154
Judicial administration	235,622
Public safety	2,304,775
Public works	1,507,586
Health and welfare	71,287
Parks, recreation and cultural	239,131
Community development	22,550
Education	3,130,885
Capital assets held by the internal service funds are charged to various functions based on their usage of the assets	<u>36,017</u>
Total depreciation expense - governmental activities	<u><u>\$8,464,007</u></u>

Business-type activities:	
Total depreciation expense business-type activities, (Public utilities)	\$5,578,077

Discretely presented component units

Activity for the School Board for the year ended June 30, 2005, 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	\$ 4,243,867	526,762	-	4,770,629
Construction in progress	<u>13,519,245</u>	<u>10,327,307</u>	<u>(21,523,565)</u>	<u>2,322,987</u>
Total capital assets, not being depreciated	<u>17,763,112</u>	<u>10,854,069</u>	<u>(21,523,565)</u>	<u>7,093,616</u>
Capital assets, being depreciated:				
Buildings	70,390,957	17,996,966	-	88,387,923
Improvements other than buildings	3,212,067	213,435	-	3,425,502
Machinery and equipment	<u>14,869,752</u>	<u>1,784,531</u>	<u>(556,675)</u>	<u>16,097,608</u>
Total capital assets, being depreciated	<u>88,472,776</u>	<u>19,994,932</u>	<u>(556,675)</u>	<u>107,911,033</u>
Less accumulated depreciation for:				
Buildings	(16,466,753)	(4,685,774)	-	(21,152,527)
Improvements other than buildings	(397,895)	(165,933)	-	(563,828)
Machinery and equipment	<u>(7,498,217)</u>	<u>(1,286,435)</u>	<u>515,572</u>	<u>(8,269,080)</u>
Total accumulated depreciation	<u>(24,362,865)</u>	<u>(6,138,142)</u>	<u>515,572</u>	<u>(29,985,435)</u>
Total capital assets, being depreciated, net	<u>64,109,911</u>	<u>13,856,790</u>	<u>(41,103)</u>	<u>77,925,598</u>
School activities capital assets, net	<u>\$ 81,873,023</u>	<u>24,710,859</u>	<u>(21,564,668)</u>	<u>85,019,214</u>

Total depreciation expense – School component unit activities \$3,616,895

COUNTY OF HANOVER
Notes to Financial Statements
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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 are shown under the County up to the amount of outstanding debt.

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds		
General	Special Revenue, Community Services	\$180,000

At year end, the General Fund made a temporary \$180,000 advance to the Community Services Fund that will be repaid in the next fiscal year.

	Transfers In				<u>Total</u>
	<u>County Improvements</u>	<u>School Improvements</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Fleet Management</u>	
General Fund Transfers Out:					
Governmental Funds	\$ 2,143,147	1,750,000	5,579,282		9,472,429
Internal Service Funds				55,000	55,000

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 for the year ended June 30, 2005, were:

Governmental Activities	\$574,690
Business-Type Activities	22,756
School Activities	<u>323,886</u>
	<u>\$921,332</u>

Obligations under noncancellable operating leases are not significant.

COUNTY OF HANOVER
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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	\$ 384,847
Building	11,429,888
Machinery and Equipment	2,329,857
Less: Accumulated Depreciation	<u>(4,974,315)</u>
Total	<u>\$9,170,277</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30, 2005</u>	<u>Total Minimum Lease Payments</u>
2006	\$ 951,724
2007	969,353
2008	979,385
2009	989,173
2010	1,000,335
2011-2013	<u>923,829</u>
Total minimum lease payments	5,813,799
Less amount representing imputed interest	<u>(595,220)</u>
Present value of net minimum capital lease payments	<u>\$ 5,218,579</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 82.9% and 100.0%, respectively.

COUNTY OF HANOVER
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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>\$ 4,740,000</u>
Total governmental activities – County				<u>4,740,000</u>
Governmental activities – School:				
General obligation bonds	1999	4.00 - 5.625	10,000,000	7,500,000
General obligation bonds	2000	4.50 - 5.375	19,000,000	15,000,000
General obligation bonds	2002	4.39	20,000,000	17,000,000
General obligation bonds	2002	3.97	21,500,000	20,500,000
VPSA Bonds	1990	6.40 - 7.10	6,040,000	2,065,000
VPSA Bonds	1991	4.85 - 6.60	2,069,507	805,861
VPSA Bonds	1992	5.10 - 8.10	6,230,000	2,105,000
VPSA Bonds	1993	4.47 - 5.00	3,620,000	855,000
VPSA Refunding Bonds	1994	6.35 - 7.19	32,075,000	9,270,000
VPSA Bonds	1994	6.10 - 6.30	4,900,000	2,265,000
VPSA Bonds	1994	6.10 - 6.60	5,385,000	2,685,000
VPSA Bonds	1995	5.20 - 5.75	1,580,000	860,000
VPSA Bonds	1997	5.20 - 5.75	7,495,000	3,440,000
VPSA Bonds	1997	5.14	3,220,000	2,080,000
VPSA Bonds	1999	5.76	5,630,000	4,205,000
VPSA Bonds	1999	5.66	4,384,934	3,352,848
VPSA Bonds	2005	3.96	16,105,000	16,105,000
State Literary Fund loans	1985	3.00	1,480,000	74,000
State Literary Fund loans	1985	3.00	500,000	25,000
State Literary Fund loans	1988	3.00	1,969,350	295,500
State Literary Fund loans	1988	3.00	270,000	54,000
State Literary Fund loans	1988	3.00	310,000	62,000
State Literary Fund loans	1997	4.00	5,000,000	3,250,000
State Literary Fund loans	1998	4.00	3,725,000	2,607,500
State Literary Fund loans	1999	4.00	1,275,000	956,250
State Literary Fund loans	2002	4.00	2,065,000	<u>1,755,250</u>
Total governmental activities – School				119,173,209
Unamortized premium				<u>992,408</u>
				<u>\$ 120,165,617</u>
Total governmental activities				<u>\$124,905,617</u>

COUNTY OF HANOVER
Notes to Financial Statements
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The paydown of principal over the next five and ten years as a percentage of total outstanding principal is equal to 38.4% and 68.2% 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>
2006	\$ 9,061,075	5,606,009
2007	9,785,140	5,394,988
2008	9,793,131	4,905,113
2009	9,598,632	4,407,706
2010	9,329,704	3,920,276
2011-2015	36,883,597	13,848,026
2016-2020	29,125,430	5,951,431
2021-2025	9,531,500	1,070,615
2026	<u>805,000</u>	<u>17,509</u>
Total	<u>\$123,913,209</u>	<u>45,121,673</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	\$ 415,000
VRA Water and Sewer Revenue Bonds	2002	0.00	884,768	828,360
VRA Water and Sewer Revenue Bonds	2002	3.75	452,684	959,808
Water and Sewer Revenue Bonds	2003	3.72	10,000,000	8,640,000
Water and Sewer Revenue Bonds	2004	3.72	9,600,000	8,960,000
Water and Sewer Revenue Bonds	2005	3.99	14,065,000	<u>14,065,000</u>
				33,868,168
Deferred Loss WS Revenue Bond	1996			(1,099,277)
Unamortized premium				<u>442,492</u>
Total primary government				<u>\$33,211,383</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>
2006	\$ 1,816,441	1,350,519
2007	1,892,781	1,176,518
2008	1,909,173	1,109,917
2009	1,915,617	1,039,221
2010	1,947,116	967,682
2011-2015	10,105,125	3,764,354
2016-2020	8,932,082	1,883,391
2021-2025	5,239,833	588,909
2026	<u>110,000</u>	<u>2,324</u>
Total	<u>\$33,868,168</u>	<u>11,882,835</u>

COUNTY OF HANOVER
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Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due within <u>One Year</u>
General Governmental activities:					
Bonds payable					
Bonds payable – County	\$ 5,135,000	-	395,000	4,740,000	395,000
Bonds payable – School	111,941,403	16,105,000	8,873,194	119,173,209	8,666,075
Premium	-	992,408	-	992,408	47,258
Total bonds payable	<u>117,076,403</u>	<u>17,097,408</u>	<u>9,268,194</u>	<u>124,905,617</u>	<u>9,108,333</u>
Capital leases	6,272,492	-	1,053,913	5,218,579	790,722
Compensated absences	3,354,701	3,653,724	3,058,218	3,950,207	3,378,295
Landfill closure costs	2,554,124	191,836	-	2,745,960	101,304
Governmental activity long-term liabilities	<u>\$ 129,257,720</u>	<u>20,942,968</u>	<u>13,380,325</u>	<u>136,820,363</u>	<u>13,378,654</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 36,205,779	14,100,632	16,438,243	33,868,168	1,816,411
Premium	-	442,492	-	442,492	21,071
Discount	(291,123)	-	(291,123)	-	-
Deferred Amortization	-	(1,099,277)	-	(1,099,277)	54,964
Total bonds payable	<u>35,914,656</u>	<u>13,443,847</u>	<u>16,147,120</u>	<u>33,211,383</u>	<u>1,892,446</u>
Contractual obligations	1,952,325	-	732,625	1,219,700	140,889
Refundable developer capacity fees	249,068	-	27,985	221,083	-
Compensated absences	414,038	339,389	304,777	448,650	34,613
Deposits	147,827	113,878	79,882	181,823	-
Business-type activity long-term liabilities	<u>\$ 38,677,914</u>	<u>13,897,114</u>	<u>17,292,389</u>	<u>35,282,639</u>	<u>2,067,948</u>
Component Unit Activities:					
Compensated absences	\$ 3,553,327	2,202,542	1,968,142	3,787,727	2,097,973
Early retirement program	1,782,801	-	123,066	1,659,735	132,911
Component unit activities long-term liabilities	<u>\$ 5,336,128</u>	<u>2,202,542</u>	<u>2,091,208</u>	<u>5,447,462</u>	<u>2,230,884</u>

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 \$122,186 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 and a permanent cap was completed Fall 2003 over the 35-acre site. The \$2,745,960 reported as landfill closure and postclosure care liability at June 30, 2005 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 2005. Actual

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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 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 \$1,515,000, of which \$1,219,700 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.

The County's Public Utilities issued \$14,065,000 of revenue bonds that were combined with existing debt service reserves to establish an irrevocable trust to provide resources for all future debt service payments for \$15,070,000 of 1996 Water and Sewer Revenue Bonds. As a result, the refunded 1996 bonds are considered to be defeased, and the liability has been removed from the Utility Fund's statement of net assets. The reacquisition price exceeded the carrying value of the old debt by \$684,276. This amount is being netted against the new debt, and is amortized over the life of the new debt issued, which is shorter than the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments \$1,972,802 over the next 20 years, resulting in an economic gain (present value savings) of \$1,237,704.

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 2005. 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. All County and School Board full and benefited part-time employees are eligible to participate. Premiums are paid for participating employees to the self insurance fund, which is reported in the County's financial statements as an internal service fund. An administrator selected by the County processes all claims, and is reimbursed based on actual claims processed. Fund balances are used as a reserve and are used to offset rate increases and to fund losses in future years. The claims administrator also actuarially determines an amount for claims incurred but not reported (IBNR) at

COUNTY OF HANOVER
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fiscal year end. The IBNR liability is included in the financial statements. Changes in balances of health insurance claim liabilities during the past three years are as follows:

Fiscal Year	Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Employee/ Employer Payments	Payable (Receivable) End of Year	Incurred but not reported
2003	\$ 104,844	\$ 11,463,136	\$ 11,336,802	\$ 231,178	\$ 1,236,100
2004	231,178	13,321,925	13,105,870	447,233	967,300
2005	447,233	14,872,372	15,256,026	63,579	1,170,000

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	County Improvements	School Improvements	Other Governmental	Governmental Funds	School
Designated for:						
Asset Foreiture						
Federal: Sheriff's Office	\$ 197,123	-	-	-	197,123	-
Federal: Com. Attorney's Office	194	-	-	-	194	-
State: Sheriff's Office	143,624	-	-	-	143,624	-
State: Com. Attorney's Office	15,152	-	-	-	15,152	-
Law Library	1	-	-	-	1	-
Health Self-Insurance	210,000	-	-	-	210,000	-
Proffers						
Road	-	2,138,466	-	-	2,138,466	-
Non-Road	-	841,999	344,053	-	1,186,052	-
Stormwater Management	-	1,985,003	-	-	1,985,003	-
Economic Development	500,000	-	-	-	500,000	-
Reappropriation of						
unencumbered balances	887,068	1,484,290	575,772	-	2,947,130	404,732
Funding of subsequent						
fiscal year's budget	3,901,000	-	-	-	3,901,000	155,396
Undisbursed grant funds	349,413	8,937	300,000	86,690	745,040	-
Total Designated for specific purposes	\$ 6,203,575	6,458,695	1,219,825	86,690	13,968,785	560,128

C. Commitments

The County has commitments for active construction projects and other purchases as of June 30, 2005. The following schedule illustrates these obligations by area, with the majority of commitments for construction:

Governmental-type activities	\$ 20,667,348
Business-type activities	4,991,097
School Board component unit	1,239,216

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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.

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:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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 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 financial basis in the Commission. The pro rata basis is to be determined by the percentage

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

of population of each locality to the combined total population of all localities according to the most recent census. 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 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*** – The Plan is an agent and cost-sharing multiple-employer defined benefit pension plan. 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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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 2005 was 6% of annual covered payroll. The School Board non-professional contribution rate for the fiscal year ended 2005 was 4% of annual covered payroll. The School Board's required contributions to the teacher cost-sharing pool for the fiscal years ending 2005, 2004, and 2003 were \$8,706,944, \$6,364,999 and \$5,918,564, respectively and are equal to the required contributions for each year.
- c. *Annual Pension Cost*** – For the fiscal year 2005, County's annual pension cost of \$2,393,590 was equal to the County's required and actual contributions. For 2005, the County School Board non-professional employees annual pension cost of \$225,141 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%; an assumed annual cost of living adjustment of 3%; 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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

THREE-YEAR TREND INFORMATION

Hanover County

<u>Funds</u>	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost APC</u>	<u>Amount of APC Contributed</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Governmental	June 30, 2005	\$ 2,184,926	\$ 2,184,926	100.0 %	\$ -
Enterprise	June 30, 2005	208,664	208,664	100.0	-
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	-

Hanover School Board Non-Professional Employees

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost APC</u>	<u>Amount of APC Contributed</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 225,141	\$ 225,141	100.0 %	\$ -
June 30, 2004	77,709	77,709	100.0	-
June 30, 2003	68,409	68,409	100.0	-

G. Restatement of Beginning Fund Balances/Net Assets

For fiscal year 2005 the School Improvements Fund, previously shown within Discretely Presented Component Unit-School Board, has been reclassified to the primary government for consistency with debt issuance responsibility.

An additional liability was recognized for incurred but not reported (IBNR) claims for the internal service self insurance fund.

	<u>Statement of Activities</u>		<u>Fund Statements</u>	
	<u>Primary Governmental Activities</u>	<u>School Component Unit</u>	<u>Internal Service Funds, Self-Insurance</u>	<u>Internal Service Funds, Total</u>
Ending Net Assets Prior Year	\$89,364,992	76,575,441	1,010,232	1,060,639
School Improvements Fund	1,232,657	(1,232,657)	-	-
IBNR Claims	(967,300)	-	(967,300)	(967,300)
Beginning Net Assets As Restated	<u>\$89,630,349</u>	<u>75,342,784</u>	<u>42,932</u>	<u>93,339</u>



**REQUIRED
SUPPLEMENTARY INFORMATION**

Required Supplementary Information
Virginia Retirement System
Schedules of Funding Progress

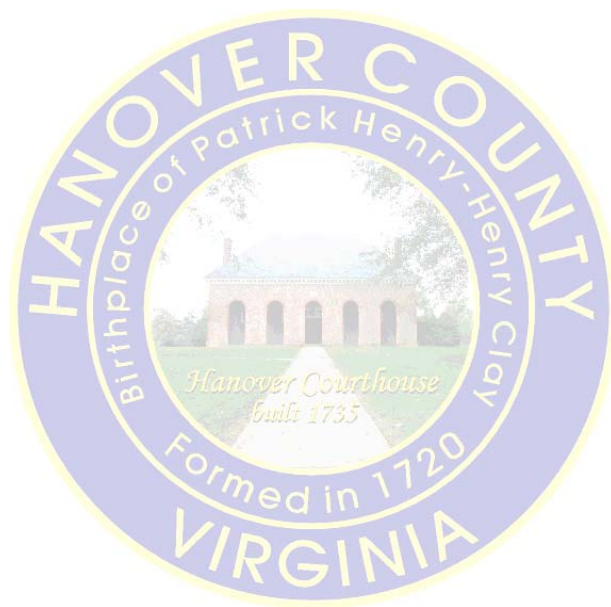
Hanover County

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Unfunded) Actuarial Accrued Liability (F/UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>F/UAAL as a Percentage of Covered Payroll</u>
June 30, 2004	\$ 73,223,629	\$ 79,165,006	\$(5,941,377)	92.5%	\$ 37,658,608	15.8%
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

Hanover County School Board Non-Professional Employees

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Unfunded) Actuarial Accrued Liability (F/UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>F/UAAL as a Percentage of Covered Payroll</u>
June 30, 2004	\$ 10,225,351	\$ 10,697,623	\$ (472,272)	95.6%	\$ 5,252,548	9.0%
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

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

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 1,299,000	1,504,000	1,538,892	34,892
Recovered Costs	500,000	4,723,157	1,282,791	(3,440,366)
Intergovernmental:	500,000	6,995,862	1,954,890	(5,040,972)
Total revenues	<u>2,299,000</u>	<u>13,223,019</u>	<u>4,776,573</u>	<u>(8,446,446)</u>
EXPENDITURES				
General government administration	879,000	946,541	678,199	268,342
Judicial administration	50,000	88,906	88,687	219
Public safety	1,256,000	3,873,276	2,602,229	1,271,047
Health and welfare	-	121,921	61,608	60,313
Public works:	1,815,000	16,011,674	4,102,947	11,908,727
Parks, recreation and cultural	50,000	149,942	147,132	2,810
Community development	219,000	660,909	41,152	619,757
Total expenditures	<u>4,269,000</u>	<u>21,853,169</u>	<u>7,721,954</u>	<u>14,131,215</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,970,000)</u>	<u>(8,630,150)</u>	<u>(2,945,381)</u>	<u>5,684,769</u>
OTHER FINANCING SOURCES AND USES				
Transfers in:				
General Fund	\$ 1,970,000	2,143,147	2,143,147	-
Net other financing sources (uses)	<u>1,970,000</u>	<u>2,143,147</u>	<u>2,143,147</u>	<u>-</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	-	(6,487,003)	(802,234)	5,684,769
Fund balance beginning	-	8,706,909	8,706,909	-
Fund balance ending	<u>\$ -</u>	<u>2,219,906</u>	<u>7,904,675</u>	<u>5,684,769</u>

SCHOOL IMPROVEMENTS FUND

School Improvements – Accounts for the acquisition or construction of capital assets used by School

COUNTY OF HANOVER, VIRGINIA

School Improvements Fund

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

For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
Revenue from use of money and property	\$ -	-	57,222	57,222
Charges for Services:				
Proffers	1,470,000	1,470,000	947,707	(522,293)
Total charges for services	1,470,000	1,470,000	947,707	(522,293)
Total revenue from local sources	1,470,000	1,470,000	1,004,929	(465,071)
Intergovernmental:				
Categorical State Aid:				
Education	300,000	300,000	305,291	5,291
Total categorical State aid	300,000	300,000	305,291	5,291
Total intergovernmental	300,000	300,000	305,291	5,291
Total revenues	1,770,000	1,770,000	1,310,220	(459,780)
EXPENDITURES				
Capital projects:				
Education	24,255,000	27,169,765	10,337,971	16,831,794
Total expenditures	24,255,000	27,169,765	10,337,971	16,831,794
Excess (deficiency) of revenues over (under) expenditures	(22,485,000)	(25,399,765)	(9,027,751)	16,372,014
OTHER FINANCING SOURCES AND USES				
Other financing sources:				
Transfers In:				
General Fund	1,550,000	1,750,000	1,750,000	-
Proceeds:				
General obligation bonds	20,935,000	22,245,000	17,097,408	(5,147,592)
Total proceeds	20,935,000	22,245,000	17,097,408	(5,147,592)
Total other financing sources	22,485,000	23,995,000	18,847,408	(5,147,592)
Net other financing sources (uses)	22,485,000	23,995,000	18,847,408	(5,147,592)
Net change in fund balance	-	(1,404,765)	9,819,657	11,224,422
Fund balance beginning	-	1,232,656	1,232,656	-
Fund balance ending	\$ -	(172,109)	11,052,313	11,224,422

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, 2005

	Special Revenue		
	Comprehensive Services	Community Services	Total
ASSETS			
Cash, cash equivalents and investments	\$ 184,112	\$ 2,403	\$ 186,515
Accounts receivable (net of allowance for uncollectable accounts)	62,338	729,584	791,922
Due from other governmental units	215,306	12,891	228,197
Total assets	<u>\$ 461,756</u>	<u>744,878</u>	<u>1,206,634</u>
LIABILITIES			
Accounts payable	\$ 204,920	175,863	380,783
Accrued liabilities	4,081	276,583	280,664
Due to other funds	-	180,000	180,000
Deferred revenue	-	6,000	6,000
Total liabilities	<u>209,001</u>	<u>638,446</u>	<u>847,447</u>
FUND BALANCES			
Reserved for encumbrances	-	19,742	19,742
Unreserved:			
Undesignated	252,755	-	252,755
Designated for specific purposes	-	86,690	86,690
Total fund balance	<u>252,755</u>	<u>106,432</u>	<u>359,187</u>
Total liabilities and fund balance	<u>\$ 461,756</u>	<u>744,878</u>	<u>1,206,634</u>

COUNTY OF HANOVER, VIRGINIA

Non-major Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2005

	Special Revenue		
	Comprehensive Services	Community Services	Total
REVENUES			
Revenues from local sources:			
Revenues from use of money and property	\$ -	215,000	215,000
Charges for services	-	2,444,566	2,444,566
Recovered cost	110,438	103,167	213,605
Miscellaneous	-	3,938	3,938
Total revenues from local sources	110,438	2,766,671	2,877,109
Intergovernmental	1,932,782	2,351,938	4,284,720
Total revenues	2,043,220	5,118,609	7,161,829
EXPENDITURES			
Health and welfare	3,865,592	8,690,715	12,556,307
Total expenditures	3,865,592	8,690,715	12,556,307
Excess (deficiency) of revenues over (under) expenditures	(1,822,372)	(3,572,106)	(5,394,478)
OTHER FINANCING SOURCES AND USES			
Transfers in	1,961,561	3,617,721	5,579,282
Total other financing sources and uses	1,961,561	3,617,721	5,579,282
Net change in fund balance	139,189	45,615	184,804
Fund balances - beginning	113,566	60,817	174,383
Fund balances - ending	\$ 252,755	106,432	359,187

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, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources				
Recovered costs	\$ -	-	110,438	110,438
Total revenues from local sources	-	-	110,438	110,438
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State Agency):				
Education	2,212,894	2,479,644	1,932,782	(546,862)
Total intergovernmental	2,212,894	2,479,644	1,932,782	(546,862)
Total revenues	2,212,894	2,479,644	2,043,220	(436,424)
EXPENDITURES				
Health and welfare:				
Comprehensive Services	3,955,233	4,441,205	3,865,592	575,613
Total expenditures	3,955,233	4,441,205	3,865,592	575,613
Excess (deficiency) of revenues over (under) expenditures	(1,742,339)	(1,961,561)	(1,822,372)	(139,189)
OTHER FINANCING SOURCES AND USES				
Transfers in:				
General Fund	1,742,339	1,961,561	1,961,561	-
Total operating transfers in	1,742,339	1,961,561	1,961,561	-
Total other financing sources and uses	1,742,339	1,961,561	1,961,561	-
Net change in fund balance	-	-	139,189	139,189
Fund balance beginning	-	113,566	113,566	-
Fund balance ending	\$ -	113,566	252,755	139,189

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, 2005

	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	215,000	45,000
Total revenues from use of money and property	170,000	170,000	215,000	45,000
Charges for services	2,395,963	2,395,963	2,444,566	48,603
Recovered cost	158,000	158,000	103,167	(54,833)
Miscellaneous	26,000	7,548	3,938	(3,610)
Total revenues from local sources	2,749,963	2,731,511	2,766,671	35,160
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State Agency):				
Mental Health, Retardation and Substance Abuse	1,565,104	1,772,056	1,787,465	15,409
Total categorical aid	1,565,104	1,772,056	1,787,465	15,409
Total revenue from the Commonwealth	1,565,104	1,772,056	1,787,465	15,409
Revenue from the Federal government:				
Categorical aid (Federal Agency):				
Health and Human Services	452,591	569,779	564,473	(5,306)
Total categorical aid	452,591	569,779	564,473	(5,306)
Total revenue from the Federal government	452,591	569,779	564,473	(5,306)
Total intergovernmental	2,017,695	2,341,835	2,351,938	10,103
Total revenues	4,767,658	5,073,346	5,118,609	45,263
EXPENDITURES				
Health and welfare:				
Community Services	8,436,367	9,017,062	8,690,715	326,347
Total health and welfare	8,436,367	9,017,062	8,690,715	326,347
Total expenditures	8,436,367	9,017,062	8,690,715	326,347
Excess (deficiency) of revenues over (under) expenditures	(3,668,709)	(3,943,716)	(3,572,106)	371,610
OTHER FINANCING SOURCES AND USES				
Transfers in:				
General Fund	3,668,709	3,857,244	3,617,721	(239,523)
Total operating transfers in	3,668,709	3,857,244	3,617,721	(239,523)
Net change in fund balance	-	(86,472)	45,615	132,087
Fund balance beginning	-	60,817	60,817	-
Fund balance ending	\$ -	(25,655)	106,432	132,087



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.

Self-Insurance - Accounts for payment of health insurance premiums from departments and employee deductions and related claims.

Fleet Management – Accounts for preventative maintenance and repair service for vehicles, motorized equipment, radios and communications equipment.

COUNTY OF HANOVER, VIRGINIA

Internal Service Funds

Combining Statement of Net Assets

June 30, 2005

	<u>Self-Insurance</u>	<u>Fleet Management</u>	<u>Total</u>
ASSETS			
Cash, cash equivalents and investments	\$ 1,042,490	42,978	1,085,468
Inventory	-	172,516	172,516
Capital assets:			
Machinery and equipment	-	377,301	377,301
Less accumulated depreciation	-	(265,488)	(265,488)
Total capital assets (net of accumulated depreciation)	-	111,813	111,813
Total assets	1,042,490	327,307	1,369,797
LIABILITIES			
Accounts payable	\$ 64,624	103,813	168,437
Incurred but not reported	1,170,000	-	1,170,000
Accrued liabilities	11,556	48,984	60,540
Compensated absences	-	122,186	122,186
Total liabilities	1,246,180	274,983	1,521,163
NET ASSETS			
Invested in capital assets	-	111,813	111,813
Unrestricted	(203,690)	(59,489)	(263,179)
Total net assets	\$ (203,690)	52,324	(151,366)

COUNTY OF HANOVER, VIRGINIA

Internal Service Funds

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

For the Year Ended June 30, 2005

	<u>Self-Insurance</u>	<u>Fleet Management</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 14,728,339	1,341,608	16,069,947
Recovered cost	-	45,960	45,960
Miscellaneous revenue		32,027	32,027
Total operating revenues	<u>14,728,339</u>	<u>1,419,595</u>	<u>16,147,934</u>
OPERATING EXPENSES			
Health care claims	15,012,081	-	15,012,081
Personal services	-	962,841	962,841
Fringe benefits	-	257,415	257,415
Contractual services	62,991	45,582	108,573
Internal services	-	249	249
Other charges	-	170,574	170,574
Depreciation	-	36,017	36,017
Total operating expenses	<u>15,075,072</u>	<u>1,472,678</u>	<u>16,547,750</u>
Operating income	<u>(346,733)</u>	<u>(53,083)</u>	<u>(399,816)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	\$ 100,111	-	100,111
Non-operating income	100,111	-	100,111
Income before transfers	<u>(246,622)</u>	<u>(53,083)</u>	<u>(299,705)</u>
Transfers in	-	55,000	55,000
Change in net assets	<u>(246,622)</u>	<u>1,917</u>	<u>(244,705)</u>
Total net assets - beginning (as restated)	42,932	50,407	93,339
Total net assets - ending	<u>\$ (203,690)</u>	<u>52,324</u>	<u>(151,366)</u>

COUNTY OF HANOVER, VIRGINIA

Internal Service Funds

Combining Statement of Cash Flows

For the Year Ended June 30, 2005

	Self-Insurance	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments from customers and users	\$ 14,728,339	1,419,595	16,147,934
Payments to suppliers	(15,254,981)	(171,538)	(15,426,519)
Payments to employees	2,801	(1,201,963)	(1,199,162)
Net cash provided by operating activities	<u>(523,841)</u>	<u>46,094</u>	<u>(477,747)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advance from other funds	-	55,000	55,000
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>55,000</u>	<u>55,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	-	(88,507)	(88,507)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(88,507)</u>	<u>(88,507)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on cash and cash equivalents	100,111	-	100,111
Net cash provided by investing activities	<u>100,111</u>	<u>-</u>	<u>100,111</u>
Decrease in cash and cash equivalents	(423,730)	12,587	(411,143)
Cash, cash equivalents and investments at beginning of year	1,466,220	30,391	1,496,611
Cash, cash equivalents and investments at end of year	<u>\$ 1,042,490</u>	<u>42,978</u>	<u>1,085,468</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ (346,733)	(53,083)	(399,816)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation Expense		36,017	36,017
Decrease (increase) in:			
Inventory	-	21,938	21,938
Increase (decrease) in:			
Accounts payable	(382,609)	22,929	(359,680)
Incurred but not reported	202,700	-	202,700
Accrued liabilities	2,801	(933)	1,868
Compensated absences	-	19,226	19,226
Total adjustments	<u>(177,108)</u>	<u>99,177</u>	<u>(77,931)</u>
Net cash provided by operating activities	<u>\$ (523,841)</u>	<u>46,094</u>	<u>(477,747)</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

Agency Funds

Combining Balance Sheet

June 30, 2005

	Community Development Authority	Escrow	Special Welfare	Total
ASSETS				
Cash, cash equivalents and investments	\$ 364,553	3,254,299	187,928	3,806,780
Accounts receivable	30,905	160	-	31,065
Total assets	<u>\$ 395,458</u>	<u>3,254,459</u>	<u>187,928</u>	<u>3,837,845</u>
LIABILITIES				
Accounts payable	\$ 364,553	555,026	-	919,579
Accrued liabilities	-	42,974	-	42,974
Deposits	-	2,656,459	187,928	2,844,387
Deferred revenue	30,905			30,905
Total liabilities	<u>\$ 395,458</u>	<u>3,254,459</u>	<u>187,928</u>	<u>3,837,845</u>

COUNTY OF HANOVER, VIRGINIA

Agency Funds

Combining Statement of Changes in Assets and Liabilities

June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Community Development Authority				
Assets:				
Cash, cash equivalents and investments	\$ -	1,324,179	959,626	364,553
Accounts receivable	488,109	873,880	1,331,084	30,905
	<u>\$ 488,109</u>	<u>2,198,059</u>	<u>2,290,710</u>	<u>395,458</u>
Liabilities:				
Accounts payable	\$ -	855,418	490,865	364,553
Deferred revenue	488,109	873,001	1,330,205	30,905
	<u>\$ 488,109</u>	<u>1,728,419</u>	<u>1,821,070</u>	<u>395,458</u>
Escrow				
Assets:				
Cash, cash equivalents and investments	\$ 2,670,948	26,168,991	25,585,640	3,254,299
Accounts receivable	-	43,611	43,451	160
	<u>\$ 2,670,948</u>	<u>26,212,602</u>	<u>25,629,091</u>	<u>3,254,459</u>
Liabilities:				
Accounts payable	\$ 351,642	6,284,584	6,081,200	555,026
Accrued liabilities	596,861	22,416,550	22,970,437	42,974
Deposits	1,722,445	4,172,887	3,238,873	2,656,459
Total liabilities	<u>\$ 2,670,948</u>	<u>32,874,021</u>	<u>32,290,510</u>	<u>3,254,459</u>
Special Welfare				
Assets:				
Cash, cash equivalents and investments	\$ 137,450	201,298	150,820	187,928
Liabilities:				
Deposits	\$ 137,450	201,298	150,820	187,928
Total Fiduciary Funds				
Assets:				
Cash, cash equivalents and investments	\$ 2,808,398	27,694,468	26,696,086	3,806,780
Accounts receivable	488,109	917,491	1,374,535	31,065
Total assets	<u>\$ 3,296,507</u>	<u>28,611,959</u>	<u>28,070,621</u>	<u>3,837,845</u>
Liabilities:				
Accounts payable	\$ 351,642	7,140,002	6,572,065	919,579
Accrued liabilities	596,861	22,416,550	22,970,437	42,974
Deposits	1,859,895	4,374,185	3,389,693	2,844,387
Deferred revenue	488,109	873,001	1,330,205	30,905
Total liabilities	<u>\$ 3,296,507</u>	<u>34,803,738</u>	<u>34,262,400</u>	<u>3,837,845</u>



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.

COUNTY OF HANOVER, VIRGINIA
Discretely Presented Component Unit School Board
Combining Balance Sheet
June 30, 2005

<u>Governmental and Special Revenue Funds</u>				
	<u>School</u>	<u>Textbook</u>	<u>Cafeteria</u>	<u>Totals</u>
ASSETS				
Cash, cash equivalents and investments	\$ 9,978,642	560,697	643,495	11,182,834
Accounts receivable	132,815	6,452	63	139,330
Due from other governmental units	3,846,928	-	55,783	3,902,711
Inventory	-	-	75,587	75,587
Total assets	<u>\$ 13,958,385</u>	<u>567,149</u>	<u>774,928</u>	<u>15,300,462</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 867,296	244,774	28,393	1,140,463
Accrued liabilities	11,526,977	3,681	371,955	11,902,613
Deferred revenue	83,463	-	-	83,463
Total liabilities	<u>12,477,736</u>	<u>248,455</u>	<u>400,348</u>	<u>13,126,539</u>
Fund balances:				
Reserved for:				
Encumbrances	1,075,917	163,298	-	1,239,215
Inventory	-	-	75,587	75,587
Unreserved:				
Undesignated	-	-	298,993	298,993
Designated for specific purposes	404,732	155,396	-	560,128
Total fund balances	<u>1,480,649</u>	<u>318,694</u>	<u>374,580</u>	<u>2,173,923</u>
Total liabilities and fund balances	<u>\$ 13,958,385</u>	<u>567,149</u>	<u>774,928</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				\$ 85,019,214
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds				(7,652,479)
Net assets of School Component Unit activities				<u>\$ 79,540,658</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, 2005

	<u>Governmental and Special Revenue Funds</u>			
	<u>School</u>	<u>Textbook</u>	<u>Cafeteria</u>	<u>Totals</u>
REVENUES				
Revenue from use of money and property	\$ -	31,425	10,937	42,362
Charges for services - operating	489,934	-	5,195,555	5,685,489
Miscellaneous	722,721	-	24,423	747,144
Recovered costs	519,925	-	-	519,925
Transfers from primary government	73,267,356	656,479	-	73,923,835
Intergovernmental - operating	69,602,670	627,618	1,145,465	71,375,753
Total revenues	<u>\$ 144,602,606</u>	<u>1,315,522</u>	<u>6,376,380</u>	<u>152,294,508</u>
EXPENDITURES				
Education	\$ 130,100,237	1,436,629	6,540,446	138,077,312
Debt service:				
Principal retirement	8,873,194	-	-	8,873,194
Interest and fiscal charges	5,268,461	-	-	5,268,461
Total expenditures	<u>\$ 144,241,892</u>	<u>1,436,629</u>	<u>6,540,446</u>	<u>152,218,967</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 360,714</u>	<u>(121,107)</u>	<u>(164,066)</u>	<u>75,541</u>
Net change in fund balance	\$ 360,714	(121,107)	(164,066)	75,541
Fund balances beginning	1,119,935	439,801	534,750	2,094,486
Increase in reserve for inventory	-	-	3,896	3,896
Fund balances ending	<u>\$ 1,480,649</u>	<u>318,694</u>	<u>374,580</u>	<u>2,173,923</u>

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, 2005

Net change in fund balances - total governmental funds	\$ 75,541
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.	3,933,510
School Component Unit General obligation debt guaranteed by County is reported in governmental activities in statement of net assets. Fund statements include \$8,873,194 transfer to School Component Unit for debt payments net of \$296,261 asset equity allocated to Schools. County has a tenancy-in-common for school assets with outstanding debt.	(8,576,933)
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.	8,873,194
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.	(107,438)
Changes in net assets of School Component Unit activities	<u>\$ 4,197,874</u>

COUNTY OF HANOVER, VIRGINIA

School Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services:				
Tuition and other charges for services	\$ 617,529	481,681	489,934	8,253
Total charges for services	617,529	481,681	489,934	8,253
Miscellaneous:				
Sale of assets	5,000	5,000	11,308	6,308
Miscellaneous	306,593	709,227	711,413	2,186
Total miscellaneous revenue	311,593	714,227	722,721	8,494
Recovered costs:				
Recovered costs	398,600	481,933	519,925	37,992
Total recovered costs	398,600	481,933	519,925	37,992
Transfers from primary government:				
General Fund	76,607,619	75,069,675	73,267,356	(1,802,319)
Total transfers from primary government	76,607,619	75,069,675	73,267,356	(1,802,319)
Total revenue from local sources	77,935,341	76,747,516	74,999,936	(1,747,580)
Revenue from the Commonwealth:				
Non-categorical aid:				
Lottery proceeds and basic school aid	48,872,747	50,813,145	50,200,608	(612,537)
Total non-categorical aid	48,872,747	50,813,145	50,200,608	(612,537)
Categorical aid:				
Categorical aid programs	12,421,769	13,973,389	14,289,039	315,650
Total categorical aid	12,421,769	13,973,389	14,289,039	315,650
Total revenue from the Commonwealth	61,294,516	64,786,534	64,489,647	(296,887)
Revenue from the Federal government:				
Categorical aid:				
Department of Education	5,078,925	5,791,636	5,113,023	(678,613)
Total revenue from the Federal government	5,078,925	5,791,636	5,113,023	(678,613)
Total intergovernmental revenue	66,373,441	70,578,170	69,602,670	(975,500)
Total revenues	144,308,782	147,325,686	144,602,606	(2,723,080)
EXPENDITURES				
Education:				
General support	\$ 7,397,012	7,469,169	7,280,597	188,572
Pupil transportation	6,267,266	6,294,420	6,099,929	194,491
Operations and maintenance	9,864,438	9,929,320	9,604,490	324,830
Instruction	104,993,233	108,670,555	105,463,610	3,206,945
Facilities	1,645,078	1,940,127	1,651,611	288,516
Total education	130,167,027	134,303,591	130,100,237	4,203,354
Debt service:				
Principal retirement	8,873,294	8,873,294	8,873,194	100
Interest and fiscal charges	5,268,461	5,268,461	5,268,461	-
Total debt service	14,141,755	14,141,755	14,141,655	100
Total expenditures	144,308,782	148,445,346	144,241,892	4,203,454
Excess (deficiency) of revenues over (under) expenditures:	-	(1,119,660)	360,714	1,480,374
Net change in fund balance	-	(1,119,660)	360,714	1,480,374
Fund balance beginning	-	1,119,660	1,119,935	(275)
Fund balance ending	\$ -	-	1,480,649	1,480,649

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, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of property	\$ -	-	31,425	31,425
Total revenue from use of property	-	-	31,425	31,425
Operating transfers from primary government:				
General Fund	656,479	656,479	656,479	-
Total transfers from primary government	656,479	656,479	656,479	-
Total revenue from local sources	656,479	656,479	687,904	31,425
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
Textbook	641,139	641,139	627,618	(13,521)
Total intergovernmental revenue	641,139	641,139	627,618	(13,521)
Total revenues	1,297,618	1,297,618	1,315,522	17,904
EXPENDITURES				
Education:				
Textbook	1,297,618	1,601,446	1,436,629	164,817
Total education	1,297,618	1,601,446	1,436,629	164,817
Total expenditures	1,297,618	1,601,446	1,436,629	164,817
Excess (deficiency) of revenue over (under) expenditures	-	(303,828)	(121,107)	182,721
Net change in fund balance	-	(303,828)	(121,107)	182,721
Fund balance beginning	-	439,801	439,801	-
Fund balance ending	\$ -	135,973	318,694	182,721

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, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ 8,000	8,000	10,937	2,937
Charges for services	5,235,332	5,235,332	5,195,555	(39,777)
Miscellaneous Revenue	17,000	17,000	24,423	7,423
Total revenue from local sources	<u>5,260,332</u>	<u>5,260,332</u>	<u>5,230,915</u>	<u>(29,417)</u>
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
School food programs	64,000	64,000	63,870	(130)
Total revenue from the Commonwealth	<u>64,000</u>	<u>64,000</u>	<u>63,870</u>	<u>(130)</u>
Revenue from the Federal government:				
Categorical aid:				
USDA donated commodities	195,000	195,000	228,054	33,054
School food programs	636,077	636,077	718,894	82,817
Breakfast reimbursement	111,700	111,700	134,647	22,947
Total revenue from the Federal government	<u>942,777</u>	<u>942,777</u>	<u>1,081,595</u>	<u>138,818</u>
Total intergovernmental revenue	<u>1,006,777</u>	<u>1,006,777</u>	<u>1,145,465</u>	<u>138,688</u>
Total revenues	<u>6,267,109</u>	<u>6,267,109</u>	<u>6,376,380</u>	<u>109,271</u>
EXPENDITURES				
Education:				
Cafeteria	6,553,388	6,553,388	6,540,446	12,942
Total education	<u>6,553,388</u>	<u>6,553,388</u>	<u>6,540,446</u>	<u>12,942</u>
Total expenditures	<u>6,553,388</u>	<u>6,553,388</u>	<u>6,540,446</u>	<u>12,942</u>
Net change in fund balance	(286,279)	(286,279)	(164,066)	122,213
Fund balance beginning	286,279	534,750	534,750	-
Increase in reserve for inventory	-	-	3,896	3,896
Fund balance ending	<u>\$ -</u>	<u>248,471</u>	<u>374,580</u>	<u>126,109</u>



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

Special Revenue Fund:

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

COUNTY OF HANOVER, VIRGINIA

Discretely Presented Component Unit - Economic Development Authority

Balance Sheet

June 30, 2005

ASSETS

Cash, cash equivalents and investments	\$ 169,104
Total assets	<u>169,104</u>

FUND EQUITY

Liabilities:

Accounts payable	15,158
Total liabilities	<u>15,158</u>

Fund balances:

Unreserved:

Undesignated	153,946
Total fund balances	<u>153,946</u>
Total liabilities and fund balances	<u>\$ 169,104</u>

COUNTY OF HANOVER, VIRGINIA

Discretely Presented Component Unit - Economic Development Authority

Schedule of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services:				
Industrial Development fees	\$ 200,147	445,842	191,163	(254,679)
Total charges for services	<u>200,147</u>	<u>445,842</u>	<u>191,163</u>	<u>(254,679)</u>
Total revenues	<u>200,147</u>	<u>445,842</u>	<u>191,163</u>	<u>(254,679)</u>
EXPENDITURES				
Community Development:				
Industrial Development Authority	200,147	520,842	266,163	254,679
Total expenditures	<u>200,147</u>	<u>520,842</u>	<u>266,163</u>	<u>254,679</u>
Excess (deficiency) of revenues over (under) expenditures	-	(75,000)	(75,000)	(509,358)
OTHER FINANCING SOURCES AND USES				
Transfers from primary government:				
General Fund	-	75,000	75,000	-
Total operating transfers from primary government	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Total revenues and other financing sources	<u>200,147</u>	<u>520,842</u>	<u>266,163</u>	<u>(254,679)</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	153,946	153,946	-
Fund balance at end of year	<u>\$ -</u>	<u>153,946</u>	<u>153,946</u>	<u>-</u>



SCHEDULES

COUNTY OF HANOVER, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:		
Pass-through payments:		
Department of Education:		
National School Lunch Program	10.555	\$ 718,894
School Breakfast Program	10.553	134,647
Child & Adult Food Program	10.558	10,459
Department of Agriculture & Consumer Services:		
USDA Donated Food - Cafeteria	10.550	228,054
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	383,405
DEPARTMENT OF DEFENSE:		
Direct Payments:		
JROTC	12.000	166,616
DEPARTMENT OF EDUCATION:		
Pass-through Payments:		
Department of Education:		
Adult Education State Grant Program	84.002	36,401
Title I Grants to Local Education Agencies	84.010	522,747
Special Education Grants to States	84.027	2,472,406
Vocational Education Basic Grants to States	84.048	159,500
Schedule Education Preschool Grants	84.173	119,172
Special Education Grants for Infants and Families with Disabilities	84.181	113,664
Safe and Drug-Free Schools and Communities State Grants	84.186	70,074
Title V-Innovative Education Program Strategies	84.298	132,066
Education Technology Stage Grants	84.318	23,503
Improving Teacher Quality-Title II	84.367	315,130
English Language Acquisition Grants - Title III	84.365	16,895
Grants for State Assessments & Related Activities	84.369	21,000
DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Direct Payments:		
Headstart	93.600	885,049
Pass-through Payments:		
Department of Social Services:		
Promoting Safe and Stable Families	93.556	20,415
Temporary Assistance to Needy Families	93.558	200,855
Refugee & Entrant Assistance-State Administered Programs	93.566	579
Low Income Home Energy Assistance	93.568	21,102

COUNTY OF HANOVER, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED:		
Pass-through Payments:		
Department of Social Services:		
Child Care and Development Block Grant.	93.575	\$ 697,477
Refugee and Entrant Assistance - Discretionary Grants	93.576	3,781
Child Care Mandatory and Matching Funds of the Child Care and Development	93.596	173,359
Chafee Education and Training Vouchers Program	93.599	9,621
Adoption Incentive	93.603	1,796
Foster Care Title IV-E	93.658	607,415
Adoption Assistance	93.659	53,990
Social Services Block Grant	93.667	148,305
Chafee Foster Care Independence Program	93.674	16,676
State Children's Insurance Program	93.767	(356)
Medical Assistance Program	93.778	360,582
Pass-through Payments:		
Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Public Health and Social Services Emergency Fund	93.003	8,000
Consolidated Knowledge Development & Application (KD&A) Program	93.230	53,129
Block Grant for Community Mental Health Services	93.958	53,570
Block Grant for Prevention & Treatment of Substance Abuse	93.959	388,720
DEPARTMENT OF HOMELAND SECURITY:		
Direct Payments:		
Citizen's Corps	97.053	12,000
State Domestic Preparedness Equipment Support Program	97.004	297,799
Pass-through Payments:		
Department of Emergency Management Services:		
Public Assistance Grants	97.036	521,233
DEPARTMENT OF JUSTICE:		
Direct Payments:		
Crime Victim Compensation	16.576	22,504
Pass-through Payments:		
Department of Alcohol Beverage Control:		
Enforcing Underage Drinking Laws Program	16.727	4,218
Department of Criminal Justice Services:		
Public Safety Partnership and Community Policing Grant	16.710	543,002
Local Law Enforcement Block Grant	16.592	10,258

COUNTY OF HANOVER, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments		
Department of Transportation:		
Highway Planning & Construction	20.205	\$ 905,664
FEDERAL AVIATION ADMINISTRATION:		
Direct Payments:		
Airport Improvement Program	20.106	75,569
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Payments:		
Americorps	94.006	16,806
		<u>\$ 11,757,750</u>

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

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					Component Unit - School	Total
	General	County Improvement	School Improvement	Other Governmental	Enterprise		
Intergovernmental Revenue per financial	\$ 24,117,077	1,954,890	305,291	4,284,720	451,600	71,375,753	102,489,331
Less amounts not related to federal financial assistance	20,300,891	935,013	305,291	3,720,247	278,639	65,181,135	90,721,216
Less unexpended at year end	147,020	2,269	-	8,170	-	-	157,459
Add unexpended from prior year	-	147,094	-	-	-	-	147,094
Federal Schedule Expenditures	\$ 3,669,166	1,164,702	-	556,303	172,961	6,194,618	11,757,750

COUNTY OF HANOVER, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

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

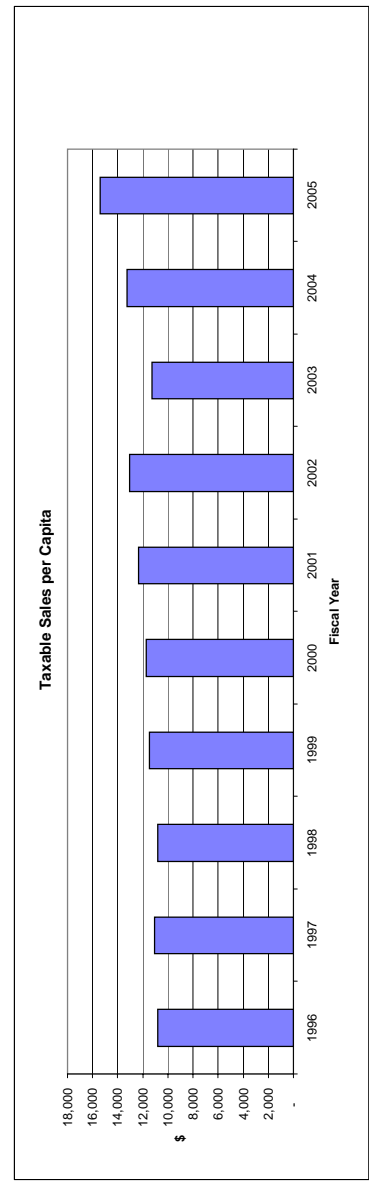
COUNTY OF HANOVER, VIRGINIA
 General Governmental Revenues by Source (1)
 Last Ten Fiscal Years

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			Intergovernmental		Total	% Change (3)
		Sales Tax	Other			Miscellaneous (2)	Personal Property	Other				
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%	
2005	94,604,793	14,361,323	11,114,456	2,723,338	724,744	11,153,585	5,252,044	13,726,699	86,050,851	239,711,833	10.7%	
% Change	8.6%	16.2%	3.8%	14.3%	70.6%	18.3%	21.8%	-0.3%	13.1%	10.7%		
% Ch. Since 1996	90.2%	79.9%	96.5%	75.7%	-57.9%	166.5%	224.2%	n/a	110.4%	111.5%		

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:

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	13,250
2005	15,401



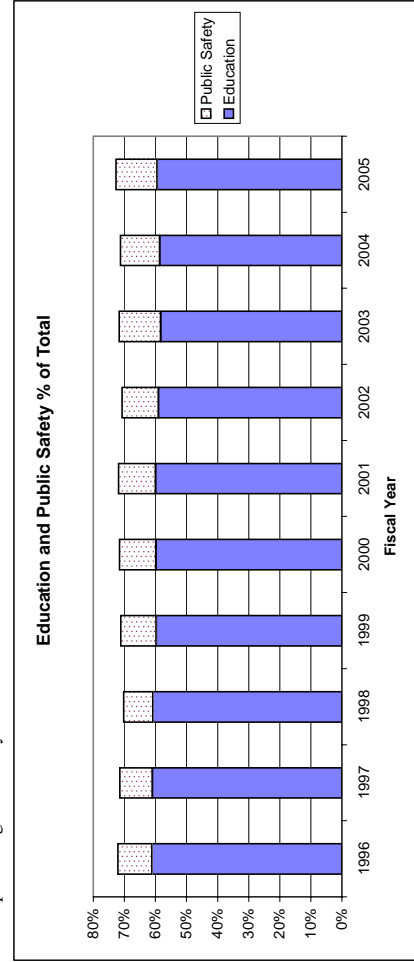
COUNTY OF HANOVER, VIRGINIA
 General Governmental Expenditures by Function (1)
 Last Ten Fiscal Years

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)
	\$											
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	15,463,031	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%	
2005	10,142,750	3,329,039	30,845,961	6,018,823	18,582,304	138,077,312	4,633,167	4,732,809	16,066,865	232,429,030	8.5%	
% Change	8.1%	14.6%	13.5%	-16.8%	7.6%	10.1%	8.1%	6.4%	0.5%	8.5%		
% Ch. Since 1996	107.2%	208.6%	167.8%	104.8%	178.6%	115.9%	209.4%	126.2%	59.9%	122.0%		

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:

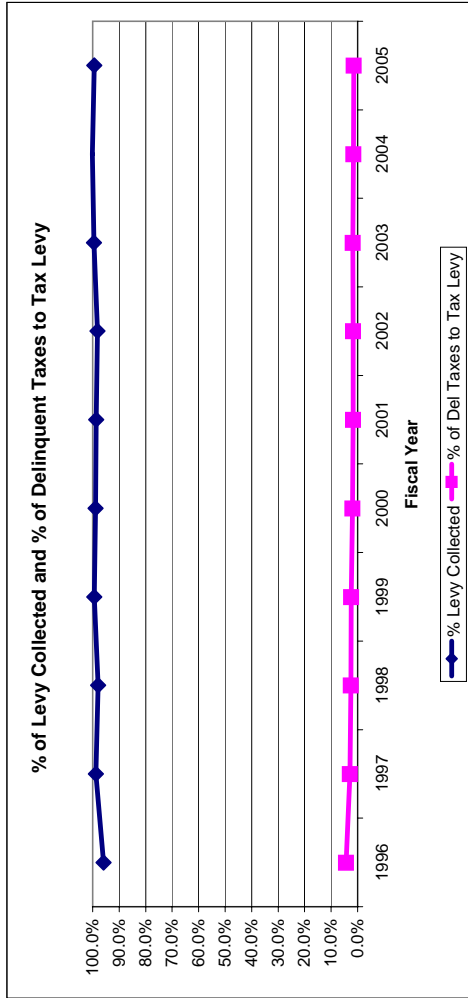
	Education	Public Safety
1996	61%	11%
1997	61%	11%
1998	61%	9%
1999	60%	11%
2000	60%	12%
2001	60%	12%
2002	59%	12%
2003	58%	13%
2004	59%	13%
2005	59%	13%



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
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%
2005	106,293,313	8.2%	105,603,172	99.4%	1,557,327	107,160,499	100.8%	1,557,723	-1.4%	1.5%
% Change	8.2%		7.3%	-0.7%	24.2%	7.5%	-0.6%	-1.4%		-8.9%
% Ch. Since 1996	114.7%		122.3%	3.6%	13.0%	119.3%	2.1%	-27.9%		-66.4%

Notes: (1) Total tax levy represents levies, including the Commonwealth of Virginia's personal property tax relief reimbursement starting 2000, net of supplemental levies for prior fiscal years, abatements, land use redemption and tax relief during the fiscal year.

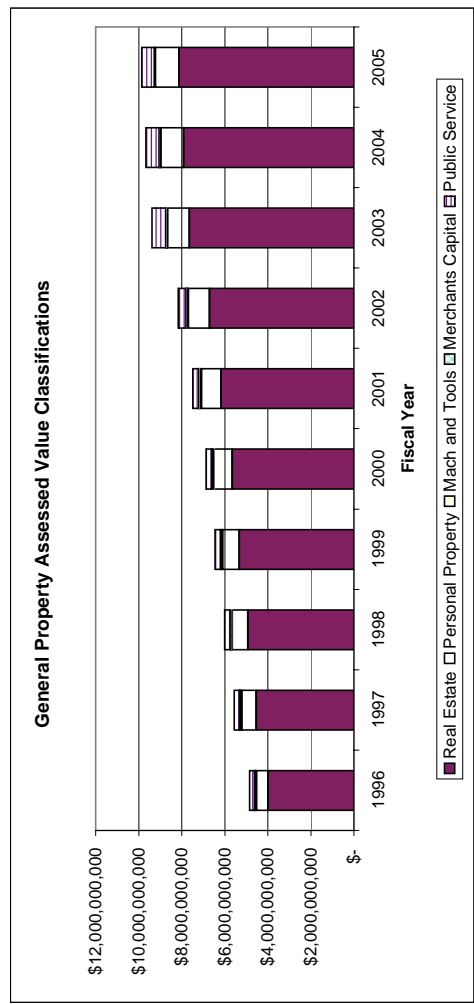


COUNTY OF HANOVER, VIRGINIA
Assessed and Estimated Market Value of Taxable Property (1)
Last Ten Fiscal Years

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
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	6,170,352,700	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%
2005	8,117,318,650	1,104,271,432	44,360,770	42,696,180	599,353,434	9,908,000,466	2.5%	11,007,916,231	2.5%	112,779	0.6%

% Change	2.6%	4.9%	1.5%	12.5%	-3.2%	2.5%	2.5%	2.5%	0.6%
% Ch. Since 1996	103.6%	105.8%	-29.7%	49.5%	149.9%	104.1%	92.4%	49.2%	
% of Total	81.9%	11.1%	0.4%	0.4%	6.0%	100.0%			

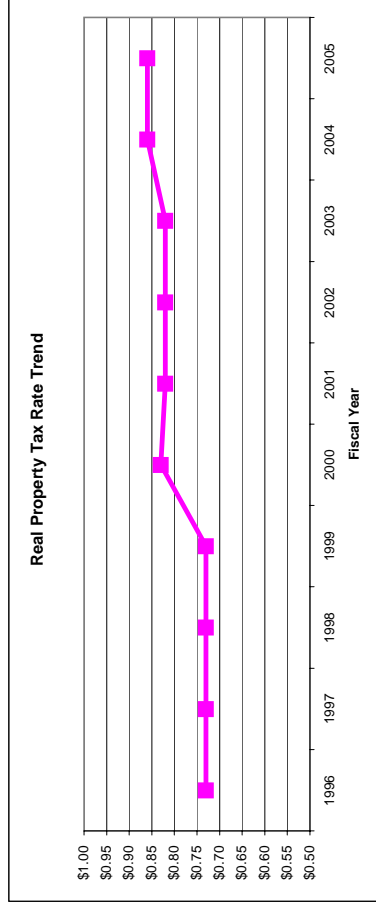
- Notes:
- (1) Assessed values of all classes of property estimated market value as of assessment date, unless otherwise noted.
 - (2) An assessment rate of 10% is applied to the cost to determine the assessed value for calculation of the tax levy.
 - (3) Market value adjustments include: machinery and 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	Aircraft (2)	Machinery and Tools	Merchants' Capital	Real Property	Personal Property	Machinery and Tools
1996			3.64	1.00	3.64	1.90	0.10	0.90	0.90
1997	\$0.73	-	3.64	1.82	1.82	1.90	0.10	0.77	0.77
1998	0.73	-	3.64	1.82	1.82	1.90	0.10	0.77	0.77
1999	0.73	-	3.64	1.82	1.82	1.90	0.10	0.77	0.77
2000	0.83	-	3.64	1.82	1.82	1.90	0.10	0.77	0.77
2001	0.82	-	3.64	1.82	1.82	1.90	0.09	0.77	0.77
2002	0.82	-	3.64	1.82	1.82	1.90	0.09	0.77	0.77
2003	0.82	0.45	3.64	1.82	1.82	1.90	0.09	0.77	0.77
2004	0.86	0.49	3.64	1.82	1.82	1.90	0.09	0.77	0.77
2005	0.86	0.49	3.64	1.82	1.82	1.90	0.09	0.77	0.77
% Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% Ch. Since 1996	17.8%	n/a	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, 2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2005 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Doswell Limited Partnership	Power generation facility	\$ 295,181,386	3.1%
Virginia Electric and Power Company	Electric company	100,819,721	1.0%
Memorial Regional Medical Center	Hospital	85,724,170	0.9%
Paramount Parks, Inc.	Amusement park	73,826,560	0.8%
Richmond Newspapers, Inc./Media General, Inc.	Newspaper publisher	62,721,275	0.6%
Verizon Virginia	Telecommunications	61,481,208	0.6%
Bear Island Paper Company	Paper mill	49,265,840	0.5%
Richfood, Inc.	Grocery wholesaler	48,027,855	0.5%
Richmond Home for Ladies (Covenant Woods)	Nursing home	27,052,010	0.3%
Rappahannock Electric Cooperative	Electric company	24,636,561	0.3%
		<u>\$ 828,736,586</u>	<u>8.6%</u>

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

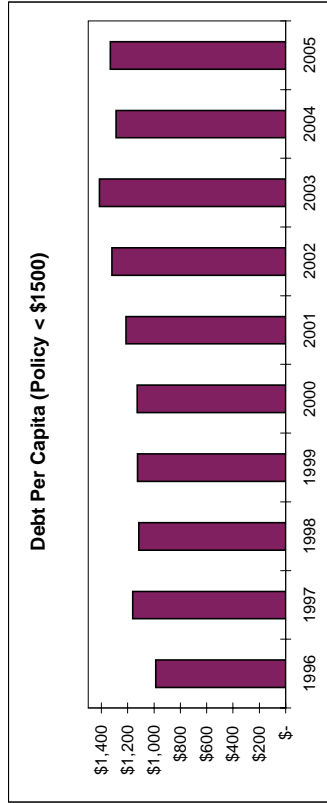
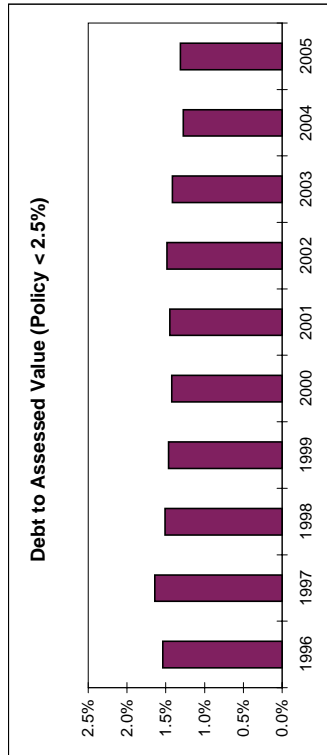
COUNTY OF HANOVER, VIRGINIA

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)
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
2005	97,606	9,908,000,466	124,905,617	-	124,905,617	1.3%	1,280	130,124,196	1.3%	1,333
% Change	1.9%	2.5%	6.7%	0.0%	6.7%	4.1%	4.7%	5.5%	2.9%	3.5%
% Ch. Since 1996	28.9%	104.1%	86.1%	-100.0%	105.5%	0.7%	59.4%	74.2%	-14.6%	35.1%

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

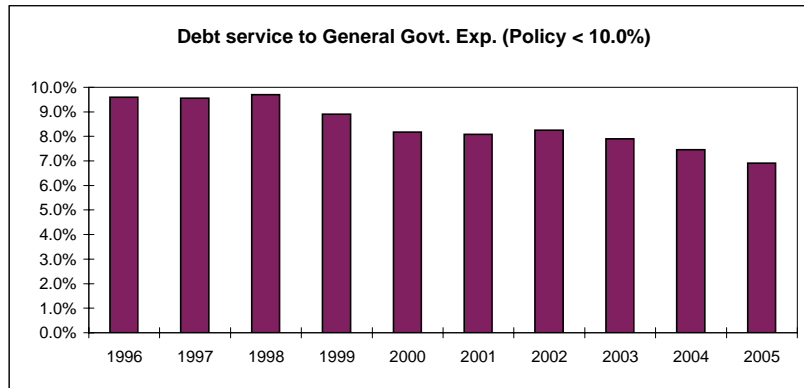
Ratio of Debt Service (1) to General Governmental Expenditures

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)
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%
2005	10,322,107	5,744,758	16,066,865	232,429,030	6.9%
% Change	7.7%	-10.2%	0.5%	8.5%	-7.4%
% Ch. Since 1996	94.2%	21.3%	59.9%	122.0%	-28.0%

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, 2005

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)	\$ 124,905,617	100.0%	\$ 124,905,617	(3)
Overlapping:				
Town of Ashland (2)	1,515,000	80.5%	1,219,700	
	<u>\$ 126,420,617</u>		<u>\$ 126,125,317</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

Fiscal Year	Net Revenues (2)	Capacity Fees	Unrestricted Reserves (3)	Senior Debt Service	Subordinate Debt Service	Total Debt Service	Deposits to Debt Funds (4)	Coverage Test 1 (5)	Coverage Test 2a (6)	Coverage Test 2b (7)
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	14,715,890	4,836,478	13,955,698	1,996,845	986,031	2,982,876	-	4.4	6.2	6.4
2005	12,243,450	5,807,444	13,252,838	3,076,445	792,200	3,868,645	-	2.7	3.0	3.5
% Change	-16.8%	20.1%	-5.0%	54.1%	-19.7%	29.7%	n/a	-37.2%	-50.7%	-46.2%
% Ch. Since 1996	49.1%	65.8%	-17.9%	318.1%	-55.8%	-3.6%	n/a	-11.9%	-65.5%	-73.8%

Notes:

(1) Revenue covenants on 1996 Water and Sewer System Revenue Bonds must meet two coverage tests.

(2) Net revenue represents net income, excluding interest expense and depreciation.

(3) Unrestricted cash and cash equivalents.

(4) Debt funds include the Renewal, Replacement and Expansion Fund and the Debt Service Reserve Fund.

(5) 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

(6) The ratio of net revenues less 50% of capacity fees divided by 100% of senior debt service must exceed 1.0.

(7) 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
1996	75,693	\$ 25,685	34.5	2.1%	\$ 2,985	14,014	895	15.7
1997	78,400	27,803	34.5	2.3%	2,943	14,670	958	15.3
1998	81,330	28,649	34.5	1.7%	3,031	15,241	1,002	15.2
1999	84,056	29,873	34.5	1.4%	3,303	15,834	1,088	14.6
2000	86,797	31,451	37.4	1.6%	3,581	16,306	1,157	14.1
2001	89,284	33,555	37.4	2.5%	3,741	16,633	1,210	13.7
2002	91,807	33,578	37.4	3.1%	3,487	17,198	1,245	13.8
2003	93,880	33,980	37.4	3.1%	3,676	17,580	1,315	13.4
2004	95,774	n/a	37.4	2.9%	n/a	17,979	1,381	13.0
2005	97,606	n/a	37.4	n/a	n/a	18,150	1,434	12.7
% Change	1.9%		0.0%			1.0%	3.8%	-2.8%
% Ch. Since 1996	28.9%		8.4%			29.5%	60.2%	-19.2%

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	
1996	78	\$ 25,495,868	1,096	\$ 96,078,526	730,000
1997	69	24,398,207	958	97,457,157	767,000
1998	59	11,793,180	1,080	103,318,276	769,000
1999	101	31,391,786	1,215	120,970,092	801,000
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	340	44,964,978	626	94,748,322	1,150,000
2005	479	75,165,118	570	110,741,818	1,258,000
% Change	40.9%	67.2%	-8.9%	16.9%	
% Ch. Since 1996	514.1%	194.8%	-48.0%	15.3%	

Notes: (1) County of Hanover Building Inspections Office w/ commercial including new, alterations and additions, and residential including new units.
(2) Federal Deposit Insurance Corporation

COUNTY OF HANOVER, VIRGINIA

Miscellaneous Statistics

June 30, 2005

Date of incorporation	1720
Form of government	Board-administrator
Number of employees (full-time)	956
Area in square miles	471
Name of Government Facilities and Services:	
Culture and Recreation:	
Parks/Boat Launch	11
Park acreage	756
Fire Protection:	
Number of stations (volunteer)	16
Number of fire personnel and officers (full-time)	104
Number of calls answered	17,621
Number of inspections conducted	979
Sheriff Protection:	
Number of stations	1
Number of sheriff personnel and officers (full-time)	216
Number of patrol units	113
Number of law violations:	
Physical arrests	3,944
Traffic violations	9,090
Parking violations	58
Sewerage System:	
Miles of sanitary sewers	346
Number of treatment plants	4
Number of service connections	17,001
Daily average treatment in gallons	6,287,000
Maximum daily capacity of treatment plant in gallons	13,480,000
Water System:	
Miles of water mains	354
Number of service connections	18,825
Number of fire hydrants	1,915
Daily average distributed in gallons	6,351,000
Maximum daily capacity of plant in gallons	19,945,000
Education:	
Number of elementary schools	13
Number of elementary school instructors	606
Number of secondary schools	8
Number of secondary school instructors	828

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 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, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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.

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 4, 2005



**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, 2005. 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, 2005.

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 4, 2005

COUNTY OF HANOVER, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Fiscal Year Ended June 30, 2005

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>
JROTC	12.000
Public Safety Partnership and Community Policing Grant	16.710
Highway Planning and Construction	20.205
Title I Grants to Local Education Agencies	84.010
Title V - Innovative Education Program Strategies	84.298
Improving Teacher Quality - Title II	84.367
Block Grant for prevention & treatment of substance abuse	93.959

8. Dollar threshold to distinguish between Types A and B Programs: **\$352,733**
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

Terry S. Adams
Director of Finance

Greg L. Akers
Assistant Director of Finance

FINANCIAL REPORTING

Darlene T. Dankos, Accountant
Nancy M. Mancuso, Account Clerk

BUDGET

Christopher A. Sorensen, Budget Manager
Adel R. Fabiato, Analyst
Anne M. Stickley, Analyst
Matt Peanort, Analyst
Barbara Horlacher, 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