

## County of Hanover, Virginia Management's Discussion and Analysis

As management of the County of Hanover, 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, 2006. 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 1-11 of this report.

### Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$258.0 million (*net assets*). Of this amount, \$43.4 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 \$19.1 million, of which the governmental activities increased by \$12.6 million and business-type activities increased by \$6.5 million.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$46.7 million, an increase of \$4.4 million from prior year. Of the \$46.7 million total, 83.7% (\$39.1 million) is *available for spending* at the County's discretion (*unreserved fund balance*).
- Undesignated fund balance for the General Fund was \$21.3 million, or 12.4% of total General Fund revenues, representing an increase of \$5.1 million. This exceeds the County's undesignated fund balance policy minimum of 10% of total General Fund revenues.
- The County's total debt increased by \$12.2 million (7.5%) during the current fiscal year. The net increase was a result of the issuance of \$14.0 million of VPSA debt for school projects and \$9.0 million of Water and Sewer Revenue bonds, less principal payments.

### Overview of the Financial Statements

This discussion and analysis is 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.

**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 activities 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; human services; parks, recreation and cultural; community development; education; and interest on long-term debt. The business-type activities consist of 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 32-33 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, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the 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 funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the County Improvements Fund and the School Improvements Fund; all three of which are considered to be *major funds*. Data from the other two County funds are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* elsewhere in this report. The County adopts an annual appropriated General Fund budget, for which a budgetary comparison statement has been provided to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 34-37 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 its fleet maintenance and healthcare benefit self-insurance activities. 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 38-40 of this report.

***Fiduciary funds*** are used to account for resources received and held in a fiduciary capacity for the benefit of individuals, private organizations, or other governments. 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. A separate statement of fiduciary net assets can be found on page 41 of this report, while a statement of changes in assets and liabilities for fiduciary funds is provided on page 88.

**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 43-68 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. This required supplementary information can be found on page 70 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the pension-related required supplementary information. Combining and individual fund statements and schedules can be found starting on page 71 of this report.

This report also contains a statistical section that supplements the basic financial statements by presenting detailed trend information, to assist the users to assess the economic condition of the County. The County implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section (GASB 44)* in fiscal year 2006, which resulted in the reformatting and addition of new information in the statistical section. The new statistical section contains five categories of trend information about the County – financial trend information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. The most significant new addition to the statistical section is the ten-year trend information on governmental fund balances, net assets and changes in net assets, as well as the new operating indicators and capital asset statistics. We encourage our readers to review the statistical section, to better understand the County's operations, services and financial condition.

## Government-wide Financial Analysis

As noted earlier, over time, changes in net assets may serve as a useful indicator of a County's financial position. Of interest, the County's assets exceeded liabilities by \$258.0 million at the close of the most recent fiscal year. By far the largest portion of the County's net assets (\$203.8 million, 79.0% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, like water and wastewater services, schools, libraries, law enforcement, fire and emergency medical services. 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 is 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 (\$10.8 million, 4.2% of total) represents resources that are subject to external restrictions on how they may be used, including amounts restricted for road building, stormwater management and school construction. The remaining balance of unrestricted net assets (\$43.4 million, 16.8% 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. As noted previously, the County's net assets increased by \$19.1 million during the current fiscal year. The \$12.6 million increase in net assets of governmental activities is due to a combination of budgetary methods that have yielded surpluses, a 10.5% growth in general property tax revenue, cash investment in capital assets, and strong debt principal retirement practices. The \$6.5 million increase in net assets of business-type activities includes \$3.5 million of donated capital assets accepted into the public utility system. The remaining utility fund net assets increase resulted from nonoperating capacity fees, which help the 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    |             |             |             |
|   | 2006           | 2005        | 2006          | 2005        | 2006        | 2005        |
| Current and other assets                        | \$ 99,563,970  | 88,618,144  | 29,835,728    | 23,236,777  | 129,399,698 | 111,854,921 |
| Capital assets                                  | 195,360,409    | 183,577,751 | 168,879,284   | 161,282,445 | 364,239,693 | 344,860,196 |
| Total assets                                    | 294,924,379    | 272,195,895 | 198,715,012   | 184,519,222 | 493,639,391 | 456,715,117 |
| Long-term liabilities outstanding               | 141,816,730    | 136,820,363 | 42,413,551    | 35,282,639  | 184,230,281 | 172,103,002 |
| Other liabilities                               | 49,012,147     | 43,906,895  | 2,378,164     | 1,849,837   | 51,390,311  | 45,756,732  |
| Total liabilities                               | 190,828,877    | 180,727,258 | 44,791,715    | 37,132,476  | 235,620,592 | 217,859,734 |
| Net assets:                                     |                |             |               |             |             |             |
| Invested in capital assets, net of related debt | 67,583,618     | 64,429,211  | 136,220,116   | 130,259,289 | 203,803,735 | 194,688,500 |
| Restricted                                      | 7,058,772      | 6,379,543   | 3,716,918     | 3,151,730   | 10,775,690  | 9,531,273   |
| Unrestricted                                    | 29,453,112     | 20,659,883  | 13,986,263    | 13,975,727  | 43,439,375  | 34,635,610  |
| Total net assets                                | \$ 104,095,502 | 91,468,637  | 153,923,297   | 147,386,746 | 258,018,799 | 238,855,383 |

**Summary of Activities**

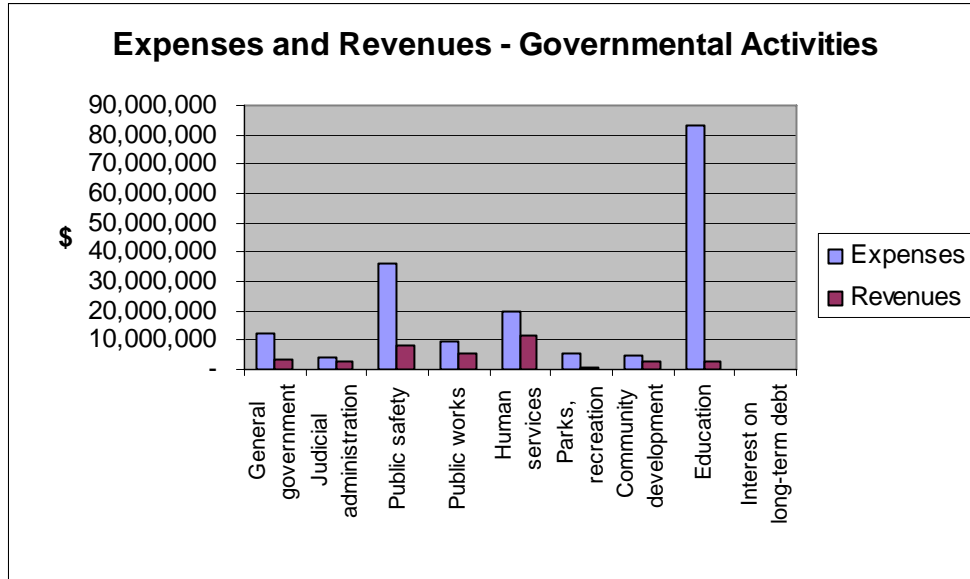
|                                    | Governmental   |             | Business-type |             | Total       |             |
|------------------------------------|----------------|-------------|---------------|-------------|-------------|-------------|
|                                    | Activities     |             | Activities    |             |             |             |
|                                    | 2006           | 2005        | 2006          | 2005        | 2006        | 2005        |
| Revenues:                          |                |             |               |             |             |             |
| Program revenues:                  |                |             |               |             |             |             |
| Charges for services               | \$ 14,696,970  | 12,175,810  | 19,226,205    | 15,463,650  | 33,923,175  | 27,639,460  |
| Operating grants and contributions | 14,310,471     | 14,390,381  | 75,300        | 451,600     | 14,385,771  | 14,841,981  |
| Capital grants and contributions   | 7,205,048      | 7,417,338   | 8,495,258     | 8,901,655   | 15,700,306  | 16,318,993  |
| General revenues:                  |                |             |               |             |             |             |
| Property taxes                     | 104,905,885    | 94,939,793  | -             | -           | 104,905,885 | 94,939,793  |
| Other taxes                        | 28,190,135     | 25,475,779  | -             | -           | 28,190,135  | 25,475,779  |
| Noncategorical State aid           | 15,674,963     | 14,066,416  | -             | -           | 15,674,963  | 14,066,416  |
| Grants and contributions           | 1,144,348      | 693,279     | -             | -           | 1,144,348   | 693,279     |
| Other                              | 1,430,959      | 411,689     | 588,383       | 560,981     | 2,019,342   | 972,670     |
| Total revenues                     | 187,558,779    | 169,570,485 | 28,385,146    | 25,377,886  | 215,943,926 | 194,948,371 |
| Expenses:                          |                |             |               |             |             |             |
| General government                 | 12,118,463     | 11,897,058  | -             | -           | 12,118,463  | 11,897,058  |
| Judicial administration            | 3,978,959      | 3,663,672   | -             | -           | 3,978,959   | 3,663,672   |
| Public safety                      | 35,956,589     | 33,111,907  | -             | -           | 35,956,589  | 33,111,907  |
| Public works                       | 9,570,693      | 11,304,517  | -             | -           | 9,570,693   | 11,304,517  |
| Human services                     | 19,849,312     | 18,840,933  | -             | -           | 19,849,312  | 18,840,933  |
| Parks, recreation and cultural     | 5,260,603      | 4,894,299   | -             | -           | 5,260,603   | 4,894,299   |
| Community development              | 4,878,481      | 4,582,344   | -             | -           | 4,878,481   | 4,582,344   |
| Education                          | 83,003,947     | 78,974,707  | -             | -           | 83,003,947  | 78,974,707  |
| Interest on long-term debt         | 314,867        | 462,760     | -             | -           | 314,867     | 462,760     |
| Public utilities                   | -              | -           | 21,848,595    | 20,491,371  | 21,848,595  | 20,491,371  |
| Total expenses                     | 174,931,914    | 167,732,197 | 21,848,595    | 20,491,371  | 196,780,509 | 188,223,568 |
| Increase in net assets             | 12,626,865     | 1,838,288   | 6,536,551     | 4,886,515   | 19,163,416  | 6,724,803   |
| Net assets - beginning of year     | 91,468,637     | 89,630,349  | 147,386,746   | 142,500,231 | 238,855,383 | 232,130,580 |
| Net assets - end of year           | \$ 104,095,502 | 91,468,637  | 153,923,297   | 147,386,746 | 258,018,799 | 238,855,383 |

As noted previously, the increase in net assets attributable to the County's **governmental activities** totaled \$12.6 million for the current fiscal year. Generally, net asset changes are the result of the difference between revenues and expenses. Fiscal year 2006 revenues of \$187.6 million represent an increase of \$18.0 million or 10.6% over the prior year, while expenses of \$174.9 million increased \$7.2 million or 4.3% compared to the prior year. A summary of key elements follows:

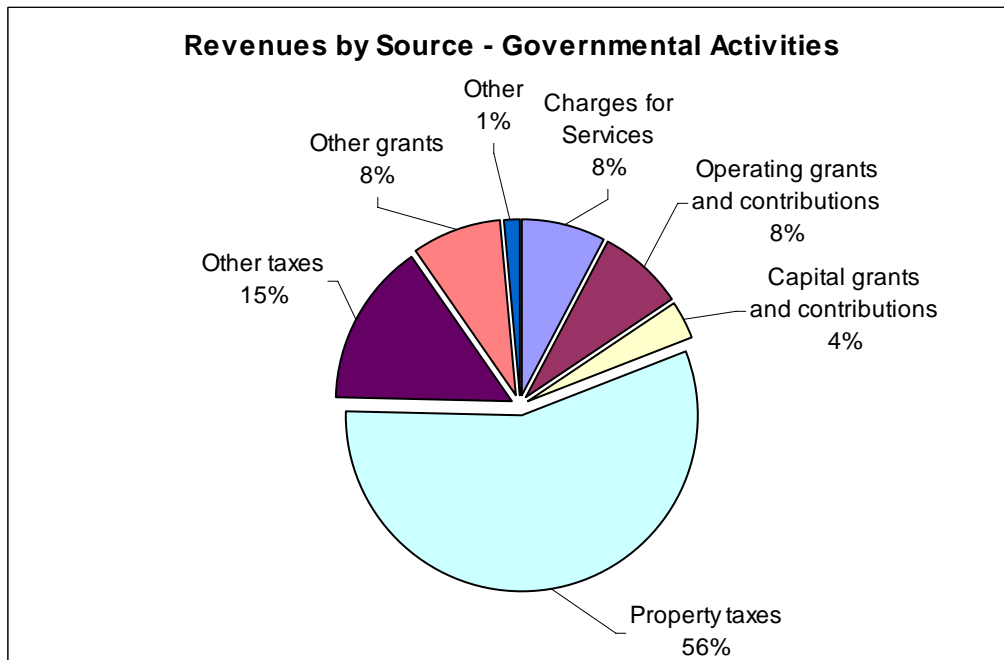
- General property taxes, including the payments received from the State as reimbursement under the State's personal property tax relief program, were \$104.9 million, representing an increase of \$10.0 million or 10.5%. The increase was primarily due to the continued growth in the tax base from new residential and commercial construction of 4.2%, reassessment of existing real property at 8.4%, and growth in the personal property tax base. The local remittance of the personal property tax revenue increased by \$1.8 million or 10.5% and the State remittance for personal property tax increased by \$1.7 million or 12.3%. These changes were the result of growth in the valuation of qualifying vehicles.
- Charges for services increased by \$2.5 million to \$14.7 million. This 20.7% increase includes the recognition of an additional \$1.3 million in EMS fees. In March 2005, the County established an EMS fee recovery program that leverages funding primarily from Medicare/Medicaid and insurance companies.
- Other local taxes totaled \$28.2 million, which represents an increase of \$2.7 million or 10.7%. This increase was primarily attributable to an increase of \$1.9 million in sales tax, generated by strengthening business activity.
- Operating grants and contributions totaled \$14.3 million, a decrease of \$80,000 or 0.6%. Grants and contribution revenue for fiscal 2006 was consistent with the prior year.
- Local expenses for public safety increased \$2.8 million or 8.6%. Public safety is a priority of the Board of Supervisors and this increase included eleven new Fire/EMS positions, seventeen Sheriff's Office positions and two Emergency Communications positions. The increase also included the acquisition of equipment and computers, funded by grants.

Local expenditures for education of \$83.0 million increased by \$4.0 million, or 5.1% from the prior year. The increase was the result of increases in teacher salaries, the addition of 48 new positions to maintain our ratio of students to instructional positions, and an additional \$550,000 to fund mandates required by the Federal No Child Left Behind Act.

The following graph illustrates the County's FY06 expenses and program revenues for each functional area comprising its governmental activities. Education expense represents the County's payment to its School Component Unit on the accrual basis.



The following graph illustrates the County's FY06 governmental revenues by source on a percentage basis.



The increase in the net assets attributable to the County's **business-type activities** totaled \$6.5 million for the current fiscal year. Similar to changes in net assets attributable to governmental activities, changes in business-type activity net assets also result from the difference between revenues and expenses. However, unlike governmental activities, which rely primarily on general tax revenues to finance operations, business-type activities are financed to a significant extent by fees charged for goods and services provided. The County's business-type activities consist of its water and waste-water treatment services, provided by its Public Utility Fund. Like all business-type activities, the County's Public Utility Fund attempts to recover as much of the operating expenses it incurs to meet service demands as possible through user charges. Nevertheless, Public Utility operating revenues were less than its operating expenses for fiscal 2006, resulting in a net loss of \$1.6 million, primarily due to a continued moderate growth of 2.3% in the Suburban Service Area. Even with the operating loss, business-type activity net assets increased by \$6.5 million during the fiscal year, primarily due to nonoperating capacity fees received of \$5.0 million and \$3.5 million of donated assets. A summary of relevant FY06 financial results follows:

- The Department of Public Utilities implemented rate increases of 6% in fiscal 2006 as identified by a recently completed rate study. The methodology of the study aligns 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 (capacity fees) based upon the cost of current and future infrastructure.
- Charges for services totaled \$19.2 million, which were \$3.8 million (24.3%) higher than the prior fiscal year. This increase was primarily due to the user rate increases and record demand for water due to a seasonal draught, offset by lower than anticipated customer growth.
- Capacity fees totaled \$5.0 million, which were \$748,000 (13.1%) lower than the prior year. Residential building activity in the Suburban Service Area continues to be low, and commercial connections have moderated compared to the prior year's higher than anticipated commercial activity.
- Donated capital assets totaled \$3.5 million, and resulted from the construction of water and sewer lines by developers as part of residential and commercial development.
- Expenses totaled \$21.8 million, which were \$1.4 million (6.6%) higher than the prior year. The increase in expenses was primarily due to increase a \$1.0 million increase in depreciation expense, which resulted from a full service year in FY06 for the Totopotomoy Wastewater Treatment Plant; purchase of additional water capacity from the City of Richmond; and an increase of \$851,000 in other charges due to higher costs for water purchased from the City of Richmond and Henrico County.

## **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 the 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 \$46.7 million, an increase of \$4.4 million in comparison with the prior year. Of the \$46.7 million, 83.7% (\$39.1 million) constitutes unreserved fund balance, which is available for spending at the County's discretion. The unreserved fund balance includes \$17.3 million designated as described in footnote V. B. on page 63. Fund balance of \$7.6 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 fiscal year for which funding has been received (\$6.8 million), and (2) provide required debt reserves (\$770,000), and a portion has been expended for inventory (\$14,700). The Capital Improvements Fund reported an undesignated fund balance of \$91,563, a moderate increase from the prior year.

The General Fund is the primary operating fund of the County. The fund balance of the County's General Fund increased \$6.6 million during the current fiscal year. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$28.8 million, while total fund balance reached \$29.5 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 16.7% of total General Fund revenues, while the total General Fund fund balance represents 17.2% of that same amount. Of General Fund unreserved fund balances, the \$21.3 million undesignated portion represents 12.4% of total General Fund revenues, and exceeds the 10% minimum per fund balance policy.

**Proprietary funds:** The County's proprietary funds financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, but in more detail. Public Utilities total net assets increased \$6.5 million, or 4.4% during the current fiscal year. The majority of the increase, totaling \$6.0 million, is the increase in net assets invested in capital assets, net of related debt, which resulted primarily from additions to utility improvements other than buildings (\$8.7 million) and increased construction in progress (\$4.2 million), net of current year depreciation (\$6.5 million). Restricted net assets also increased by \$565,000 and unrestricted net assets remained stable at \$14.0 million. A summary of Public Utility operations for the year was previously provided in the discussion of business-type activities.

## **General Fund Budgetary Highlights**

Budget amendments resulted in an increase of \$4.2 million between the original budget and the final budget, with \$2.2 million of the increase resulting from reappropriation of prior fiscal year-end encumbered and unencumbered fund balance amounts for completion of ongoing projects in the current fiscal year. Significant reappropriations included:

- \$441,000 for Sheriff's Office, primarily grant funding for equipment;
- \$184,000 under general government administration for voting machines;
- \$176,000 under judicial administration for a grant funded microfilming project;
- \$170,000 for the Department of Social Services, primarily grant funding for services;
- \$160,000 for Parks & Recreation for federal funding for a dam repair.

The remaining \$2.0 million in budget amendments were funded by various revenue sources. Significant amendments included:

- \$115,000 for new recreation courses, funded by fees generated by increased participation;
- \$245,000 for voting machines, funded by a grant;
- \$497,000 for Sheriff and Fire/EMS equipment and computers, funded by grants;
- \$100,000 to provide funding for the 2007 Comprehensive Plan Update;
- \$106,000 additional State funding for various items, including emergency communications;
- \$585,000 transfer to County Improvements Fund for capital projects, including \$363,000 for a Sheriff's storage facility.

## 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, 2006, totals \$364.2 million, net of accumulated depreciation. This represents an increase of \$19.4 million or 5.6% over the prior year. The investment in capital assets includes land, buildings, improvements, infrastructure (primarily stormwater drainage basins), machinery and equipment and construction in progress. State law grants the County a *tenancy in common* with the School Component Unit for School capital assets for which the County incurs an obligation payable over more than one fiscal year, under which the County reported net capital assets of \$114 million at year end. Major capital asset events during the current fiscal year included the following:

- Governmental activities construction in progress includes the addition of \$13.2 million for Kersey Creek Elementary School and \$3.1 million for the Georgetown Alternative Education School in fiscal year 2006.
- Business-type activity capital assets increased \$7.6 million (net of accumulated depreciation), and primarily consisted of completed and in-progress water infrastructure projects.

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

|                                   | <u>Governmental</u><br><u>Activities</u> | <u>Business-type</u><br><u>Activities</u> | <u>2006</u><br><u>Total</u> | <u>2005</u><br><u>Total</u> |
|-----------------------------------|--|---|-----------------------------|-----------------------------|
| Land                              | \$ 12,667,815                            | 4,051,674                                 | 16,719,489                  | 16,168,019                  |
| Buildings and systems             | 128,196,769                              | 58,292,385                                | 186,489,154                 | 189,597,554                 |
| Improvements other than buildings | 9,066,503                                | 96,514,123                                | 105,580,626                 | 101,151,477                 |
| Machinery and equipment           | 11,647,155                               | 1,317,932                                 | 12,965,087                  | 12,020,358                  |
| Infrastructure                    | 13,694,985                               | -   | 13,694,985                  | 13,341,242                  |
| Construction in progress          | 20,087,182                               | 8,703,170                                 | 28,790,352                  | 12,581,546                  |
| Total                             | <u>\$ 195,360,409</u>                    | <u>168,879,284</u>                        | <u>364,239,693</u>          | <u>344,860,196</u>          |

**Long-term debt:** At the end of the current fiscal year, the County had total bonded debt outstanding of \$175.5 million. Of this amount, \$130.5 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 \$12.2 million (7.5%). The net increase was primarily a result of \$14.0 million issued for School projects and the issuance of \$9.0 million of Water and Sewer Revenue Bonds, less principal payments. The County is in compliance with all debt policy requirements as illustrated on pages 116 and 118 in the Statistical Section of this report.

In September 2006, the County improved its strong bond rating, receiving an upgrade from AA+ to AAA from Fitch Rating Services and an upgrade from AA to AA+ from Standard & Poor's. Moody's maintained the rating of AA1. The Fitch Ratings upgrade is their highest possible municipal bond rating. The County became the smallest county by population in the United States to receive this distinction from Fitch Ratings. The County is also one of only 32 county governments nationwide (out of more than 3,100 counties) to have achieved the AAA bond rating from Fitch, and the seventh in Virginia.

In October 2006, the County issued \$35.5 million of general obligation bonds. Of the \$35.5 million, \$21.1 million was new debt approved in the November 2005 referendum. The new debt will fund capital projects for public safety, parks and library, and schools. The remaining balance of \$14.4 million was issued to current refund the County's Series 1997 general obligation bonds and advance refund the County's Series 2000 general obligation bonds.

In the Commonwealth of Virginia, there is no state statute that limits the amount of general obligation debt a County may issue. Additional information on the County's long-term debt can be found in note IV. F. on pages 59-62 and in note V. H. on page 68 of this report. The following table illustrates the County's outstanding debt at June 30, 2006:

|                           | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>           |
|---------------------------|------------------------------------|-------------------------------------|------------------------|
| General obligation bonds  | \$ 130,499,928                     | -                                   | 130,499,928            |
| Revenue bonds             | -                                  | 40,580,754                          | 40,580,754             |
| Capital lease obligations | 4,427,857                          | -                                   | 4,427,857              |
| <br>Total                 | <br><u>\$ 134,927,785</u>          | <br><u>40,580,754</u>               | <br><u>175,508,539</u> |

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for the County in August 2006 was 2.6%, which is a decrease from a rate of 2.7% a year ago. However, this still compares favorably to the State's average unemployment rate of 3.2% and the national average rate of 4.6% for the same period.

The County recognizes the value of properly illustrating year-end commitments. Accordingly, the County has designated \$3.5 million of its unreserved General Fund fund balance at June 30, 2006 to fund a portion of the fiscal 2007 General Fund budget. In this manner, the County is able to utilize all or portions of surpluses at the end of the current fiscal year as a source of funding in a subsequent year, while also meeting the County's fund balance policy and maintaining desired reserves for future needs.

In February 2006 the Board of Supervisors approved a proposal for a permanent vehicle license decal (no annual decal or related fee), and related changes in the personal property assessment method from using the NADA loan value to trade value, along with an offsetting personal property tax rate reduction of seven cents to \$3.57 per \$100 of value. In April 2006, the Board of Supervisors approved a six cent increase in the generating equipment tax rate from \$0.49 to \$0.55. All other calendar year 2006 County general property tax rates remained at the same rates that existed for calendar year 2005. In fiscal year 2007, public utilities user fee increases include an 8.0% rate increase for water, a 7.0% increase for sewer, and a 16.0% rate increase for capacity fees.

### **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.