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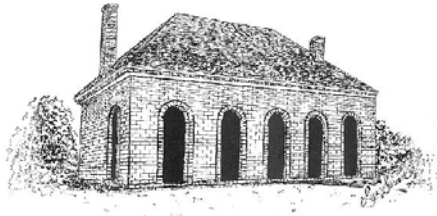
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*HANOVER COURTHOUSE*

**HANOVER COUNTY**

ESTABLISHED IN 1720

**FINANCE DEPARTMENT**

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November 14, 2007

The Honorable Members of the Board of Supervisors  
Citizens of the County  
County of Hanover, Virginia

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of Hanover County (the County) for the fiscal year ended June 30, 2007. 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. This report has been prepared by the Department of Finance in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) where applicable, and the Auditor of Public Accounts (APA).

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.

This report is intended to provide informative and relevant financial information for the citizens of the County, the Board of Supervisors (the Board), investors, creditors and other concerned readers. All are encouraged to contact the Department of Finance with any comments or questions concerning this report.

The County's financial statements have been audited by Cherry, Bekaert and Holland, L.L.P., 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, 2007, 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 auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditors' 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 County's compliance with the financial and administrative requirements applicable to each of the County's major federal programs. 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's MD&A can be found immediately following the report of the independent auditors.

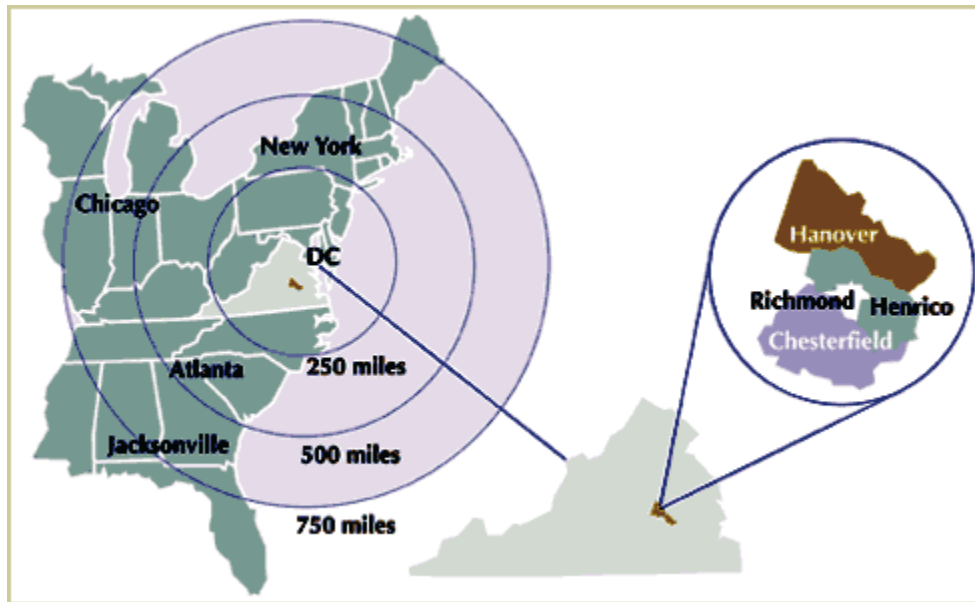
## **Profile of the County**

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. 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 offices of the Board of Supervisors, County Administrator, County Attorney, Commissioner of the Revenue, Treasurer, Registrar, and the departments of Human Resources, Finance, Internal Audit, Assessor, Public Information Office, Purchasing, General Services, and Information Technology constitute the general government administration of the County. The officers, along with the staff of the various departments, implement the laws and policies of the County by developing and executing the procedures that are necessary in order to provide general support services to residents of the County.

The Court system is made up of the Circuit Court, General District Court, Magistrate, Juvenile and Domestic Relations Court, Clerk of the Circuit Court, Court Services, and Commonwealth's Attorney. The public safety operations of the County include the Sheriff, Pamunkey Regional Jail, Juvenile Court Services Unit, Community Corrections, Emergency Communications, Fire/EMS, Animal Control and Building Inspections.

Public Works administers capital projects of the County, maintains the stormwater management program, administers the State-sponsored erosion and sediment control law, and oversees solid waste management, the Cannery and the County Airport. Facilities Management provides property management of all County-owned, nonschool related properties.

The Department of Social Services determines eligibility for public assistance programs, which are mandated by federal and state law. The Community Services Board provides mental health, mental retardation, and substance abuse services. In addition, it provides adult services, group home services, and supervised living services. Hanover is served by the Pamunkey Regional Health District of Hanover, Goochland, New Kent, and Charles City. Other human services expenditures include the Tax Relief for the Elderly and Disabled Program and services as required by the Comprehensive Services Act.

Parks and Recreation provides and promotes leisure services such as park activities, educational and hobby programs, senior citizen activities, youth programs, adult athletic leagues, bus tours, special events, and other activities for County residents in addition to maintenance of the County's grounds. The Pamunkey Regional Library provides public library service to the County through six branch libraries, the bookmobile and remote access to the library collection through the library's web site.

The Planning Department is responsible for the Comprehensive Plan; demographics; and the acceptance, review, and disposition of all land use and subdivision applications. The Geographic Information System Office is responsible for developing, maintaining, and distributing geographic related data sets and applications. The services of the Economic Development Department are designed to attract, retain, generate, and facilitate expansion of high quality business and industry resulting in a stable and diverse local economy and an improved standard of living for the residents of the County.

The County's Department of Public Utilities operates and maintains public water and sanitary sewer systems in the "Suburban Service Area" (the crescent-shaped area north of the Chickahominy River, generally between Route 1 and Creighton Road and includes the Town of Ashland), the Doswell area, the Route 33 area, and the Hanover Courthouse area. The County provides utility service to approximately 19,500 water and 17,700 wastewater customers.

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 its own appropriations within the categories defined by the Commonwealth of Virginia. The Board of Supervisors' (the Board) financial accountability over the School Board includes appropriating the annual budget by fund and 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 credit 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 generally 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. 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's 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 required 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 each fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 39 as part of the basic financial statements. For other governmental funds with appropriated annual budgets, this comparison is presented in the Supplementary Information subsection of this report, which starts on page 75.

### **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:**

Based on its proximity to Richmond and its rural character, the County has been an attractive location for businesses relocating or expanding and for real estate developers interested in the opportunities in residential markets. The County is primarily served by Interstates 95 and 295, with Interstate 95 connecting the County to the metropolitan Richmond area to the south and providing the passage to Washington, D.C., to the north. Interstate 295 connects the east and west portions of the County together and represents the northern "loop" around the metropolitan Richmond area.

The County continues to attract and maintain diverse sectors of employment. Historically, the County's major employment sectors have been in services, retail and wholesale trade, and construction. The County has benefited from the stability each of these sectors has maintained in terms of each sector's percentage of total employment. This characteristic has contributed to the continuation of Hanover's lowest unemployment rate in the Richmond region at 2.5% for calendar year 2006. Hanover also enjoys a high per capita income and median household income with both higher than the state or national average.

General property tax collections were over budget by \$1.5 million and sales tax collections were at budget estimates for fiscal 2007. Property values continue to be strong with a real property assessment growth of 16.4% for 2007. Sales tax revenue growth continued at 6.8% in fiscal year

2007. The real property tax rate was lowered from \$0.86 per 100 of assessed value to \$0.81 cents for the 2007 tax year, which includes fiscal year 2007 collections for the June 5, 2007, due date. Hanover continues to have the lowest tax rate in the region combined with an overall positive economic environment that has enabled the County to continue to thrive economically. Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 10.9% last year. Tax collections remained strong in 2006-07. The County collected 96.4% of the tax levy within the fiscal year.
- The County continues to see increasingly high median new home sales prices with the new home median sales price at \$386,500, a 10.5% increase over the prior year sales price of \$349,700. The average assessed value of a house in the County is \$255,600, a 17.5% increase over the prior year.
- The County maintained its strong bond ratings of AAA from Fitch Rating Services, AA+ from Standard & Poor's and Aa1 from Moody's. The County is the smallest county by population in the United States to receive a rating of AAA from Fitch Ratings.
- The population growth rate was 1.6%, with a total estimated population of 100,721 at July 2007.

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 the County with the 12<sup>th</sup> lowest level of fiscal stress, which is the same ranking as the previous year. The County's median adjusted gross income of \$41,554 is the 10<sup>th</sup> highest, which is down from the 8<sup>th</sup> highest in the prior year. 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 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 the County continues to mature and grow, the Board maintains its 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's development regulations. In 2006 the Board completed a competitiveness analysis of the County's economic development program and identified the provision of infrastructure for economic development as a top priority in the 2007 Comprehensive Plan update.

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. A sixth Economic Development Zone was added by the Board as a part of the recent Comprehensive Plan update. The County's commercial tax base continues to grow through a combination of existing business expansions and new business attraction.

In the past five years, the County has added over 600 acres of zoned property in three business parks—Winding Brook, Northlake Business Park, and Bell Creek Business Park and are now generating revenue for the County and creating high-quality employment opportunities for residents. Owens & Minor, a Fortune 500 company, has relocated its home office from Henrico County to the Atlee Station office park. Approximately 500 people are employed at the Hanover office. Nearly one million square feet of office and commercial space has been added to Winding Brook, Northlake Business Park, Bell Creek Business Park, and the Crescent Business Center in Lakeridge Business Park during the past five years. Bass Pro Shops will open a 150,000 square foot retail store at Winding Brook by October 2008. The Bass Pros project includes the extension of the Lakeridge Parkway from its current terminus to Lakeridge Industrial Park, which will interconnect the Lewistown Road and Atlee/Elmont interchanges. Completion of the improvements at the Atlee/Elmont interchange has opened up approximately 350 acres of new land for retail, hotel, commercial and industrial development. A new Home Depot was opened at this location in 2005 and Gander Mountain opened a 67,000 square foot outdoor sports store in September 2007. Also, the completion of the North Lakeridge Parkway extension to U.S. Rt. 1 in 2006 opened up an additional 200 acres for development. From 2003 through September 2007, commercial and industrial development has represented 30 percent of the total value of building permits issued in Hanover.

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, receive public comment during public hearings, and formulate desired service level plans and phase-in funding to attain desired goals over the long-term. Primarily, these long-term financial plans include the Five-Year Capital Improvements Program and Five-Year Financial Plan:

- Capital Improvements Program (CIP): The 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 2008 capital budget for County and School projects, including Public Utilities, is \$43.4 million. This budget includes \$18.1 million of projects approved in the 2005 referendum. The County budget policies recommend the use

of “pay-as-you-go” funding of 10% or more, to recognize the need to balance the use of debt with the use of other resources for funding. The fiscal year 2008 County and School Five-Year CIP includes 42.2% in “pay-as-you-go” funding (from non-debt sources). The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan.

- **Bond Referendum:** A referendum for \$95.1 million was included on the November 2005 ballot in the form of three questions; one each for school, public safety and parks and library projects. The referendum approval ratings were some of the highest in the State, ranging from 79.2% for schools to 73.2% for parks and library projects. Hanover voter turnout was the fifth highest in the State and demonstrated strong support of the CIP. Of the \$95.1 million of debt that was approved by the voters, the first issuance of \$21.1 million was sold in October 2006.
- **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 for the General Fund. 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 initiatives. The County’s conservative revenue forecasting has enabled it to meet future targets.

The County has adopted Board-approved financial policies, including Accounting, Budget, Debt, Fund Balance, Investments and Deposits, Purchasing, Deferred Compensation 457(b) Plan Investment, Revenue, and Travel policies. These policies are periodically reviewed, with amendments approved by the Board as necessary. To add clarification and more detail, most policies have associated regulations that are approved by the County Administrator.

### **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. 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 utilizes 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 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. 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 to improve risk management and loss prevention programs. As a member of the insurance pools, the County is eligible to receive 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 School Board is insured by Utica Mutual Insurance Company, Republic Franklin Insurance Company, and VARISK 2.

The risks of loss to which the County is 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 category of risk that would increase liability, and also had 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 to the VRS. The VRS is responsible for setting 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 403(b) retirement investment programs, as applicable. These plans are funded through employee deductions, and administered in accordance with adopted policies and regulations.

#### **Major initiatives and accomplishments:**

The County adopted the Comprehensive Plan for 2007-2027 in March 2007, a Public Safety Strategic Plan in April 2007 and a Human Services Strategic Plan in May 2007. The development and subsequent adoption of all of these plans involved the resources of numerous departments throughout the County. Strategic plans allow for the alignment of our efforts and establish common goals for all departments to strive to achieve.

During fiscal year 2007, the establishment of the Lewistown Community Development Authority (CDA) was approved by the Board. This 184 acre CDA is financing \$28.5 million of public improvements that will include roads, stormwater management and a park. The CDA bonds will be repaid from special real property taxes and a portion of incremental taxes being generated.

The school system continues to be recognized for superior achievements. The system is ranked in the top 5% in Virginia for student achievement, has one of the lowest drop out rates in the State (<1%) and has earned ten U.S. Dept. of Education Blue Ribbons for Excellence, including three No Child Left Behind (NCLB) Blue Ribbon Awards. One hundred percent (100%) of all Hanover schools are fully accredited. In 2006-2007, the school district opened its twenty-second and twenty-third schools, Kersey Creek Elementary and Georgetown School, an alternative education center. Laurel Meadow Elementary School and a Trades School are currently under construction and are scheduled to open in September 2008.

### **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, 2006. 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 2007-2008. 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.

Hanover County was also recognized by the National Association of Counties (NACo) in fiscal year 2007. The County was awarded two 2007 NACo Achievement Awards. The awards included the Sheriff's Office "Crime Management Initiative" and the Hanover Veterans Memorial that was coordinated by the Parks and Recreation Department. The Hanover Veterans Memorial was the result of work completed by an all-volunteer Hanover Veterans Memorial Committee that was established by the Board.

The County has received many awards and acknowledgements over the past year that recognizes the superior quality of life in Hanover. The County was named one of the nation's "100 Best communities for Young People" by "America's Promise—The Alliance for Youth" in January 2007. This award was received after a nationwide competition involving hundreds of communities.

Mechanicsville, an area in the County, was ranked by Money Magazine in its July 2007 issue as one of the Country's Top 100 Best Places to Live. Communities were ranked by job, income and cost-of-living data; housing affordability; school quality; arts and leisure opportunities; ease of living; health-care access; and racial diversity. Hanover was also recognized by Forbes Magazine as one of the 100 best school systems in the top 50 counties for providing the "biggest bang for the bucks" in terms of student performance compared to taxpayer costs. Finally, the County was identified by the Census Bureau as having the lowest poverty rate in the nation for a jurisdiction of its size.

The County utilizes its website [www.co.hanover.va.us](http://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 of information for County accomplishments, new initiatives and changes in service levels. In addition, the website provides many other topics of interest to County residents and service providers, and provides an excellent forum to recognize outstanding employees and their accomplishments. While many of those accomplishments could also be highlighted in this report, the remainder of this report will focus on the County's fiscal year 2007 results of operations and on an analysis of the financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services 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, especially Craig Eastman, Accounting Division Director. Credit also must be given to the Board for their unfailing support for maintaining the highest standards of professionalism in the management of the County's finances.

Respectfully submitted,

Cecil R. Harris, Jr., County Administrator

Terry S. Stone, Director of Finance