

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

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 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 (the *primary government*) 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. The County and its component units are together referred to herein as the *reporting entity*.

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, approves transfers between categories, authorizes school debt issuances and appoints School Board members. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary 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 economic development services. The County appoints the seven board members of the EDA. By statute, the EDA has the power to cause the issuance of tax-exempt industrial revenue bonds to 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. Financial statements of the EDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The EDA 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 activities) report information about the primary government (the County) and its component units, exclusive of fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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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. Revenues that are not properly classified as program revenues, including all taxes, are reported 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, proprietary, and Retiree Medical Benefits Trust fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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, net of estimated uncollectible amounts, 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, including time requirements, if any, have been met. Employer contributions to the Retiree Medical Benefits Trust fund are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan. Agency funds are custodial in nature and do not involve the measurement of results of operations. In agency fund financial statements, assets equal liabilities, and are reported using the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual, i.e., as soon as they are both measurable and available. Revenues from intergovernmental reimbursement grants are recorded when earned. Other 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 other intergovernmental revenues to be available if they are collected within 31 days of the end of the current fiscal period, and are due on or before the last day of the current fiscal period. Sales taxes, which are collected by the State and subsequently remitted to the County, are recognized consistent with the State's recognition. County revenues and receivables include May and June sales tax received from the State in July and August. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Other local taxes, licenses, certain charges for services 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. All other revenue items are considered to be measurable and available and are recorded as revenues when cash is received.

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*

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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 also reports two nonmajor *special revenue funds* in its governmental funds financial statements, which account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. The County's nonmajor special revenue funds consist of the *Comprehensive Services Fund* and the *Community Services Fund*, which are reported in the aggregate as *Other Governmental Funds*.

The County has two proprietary funds. The *Public Utilities Fund*, a major fund, accounts for the activities and operations of wastewater treatment and water distribution. The *Airport Fund*, a nonmajor fund, accounts for the activities and operations of the County's airport.

Additionally, the County reports the following fund categories:

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 the *Retiree Medical Benefits Trust Fund* and *Agency Funds*. The agency funds include the *Bell Creek Community Development Authority Fund*, the *Lewistown Community Development Authority Fund*, and the *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 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 funds and of the County's internal service funds are charges to customers for sales and services, and internal charges, respectively. The Public Utilities Fund also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the utilities system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of 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.

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D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The County and its component units follow the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted cash and investments held by outside custodians in order to comply with the provisions of bond indentures, and the investments of the Retiree Medical Benefits Trust (Trust) held by the Trust's Finance Board. Investments are reported at fair value, based on quoted market prices at year end. As of June 30, 2009, the pooled cash and investments have been allocated between the County and the respective component units based upon their respective ownership percentages. Investment earnings are allocated to the participating funds and component units based upon their respective average monthly equity balances in the pooled account. Cash, cash equivalents and investments – restricted, represent unspent bond proceeds for capital projects and, when applicable, accumulated interest thereon, as well as amounts set aside for bond debt service or to comply with other debt covenants. For purposes of the statements of cash flows, the amounts reported as cash and cash equivalents for the proprietary fund types represent amounts maintained in the reporting entity's investment pool, as they are considered to be demand deposits for the purpose of complying with GASB Statement No. 9.

2. Receivables and payables

Activities 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 noncurrent portion of interfund loans). Any residual balances outstanding between the County's governmental 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 allowances for uncollectibles. The property tax receivable allowance is calculated based upon criteria established by the Virginia 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 October 5. The real estate taxes reported as revenue are the second installment (October 5) of the levy on assessed value at January 1, 2008, and the first installment (June 5) of the levy on assessed value at January 1, 2009.

The County levies personal property taxes on motor vehicles, boats, mobile homes, aircraft and tangible business property. Personal property tax levies are based on the estimated fair market value as of January 1, with payment due on February 5 of the following year. 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 (the place where the vehicle is usually kept) in the County.

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Past due general property taxes in excess of the established allowance for uncollectibles are reported as deferred revenue in the governmental funds financial statements if not collected within 31 days of the end of the current fiscal year.

The 1998 Virginia General Assembly enacted legislation providing property tax relief to citizens. The Personal Property Tax Relief Act (PPTRA) was intended to be phased in over five years on the first \$20,000 of value for motor vehicles not used for business purposes. In 2005 the General Assembly capped PPTRA relief at \$950 million statewide beginning with the 2006 tax year. Hanover receives a total of \$15,002,000 in four payments annually. County 2008 tax bills, payable in fiscal year 2009, included a fifty-eight percent reduction on the first \$20,000 in value for qualifying vehicles. PPTRA payments received from the Commonwealth of Virginia are classified as noncategorical State aid in the General Fund.

3. Inventories

All County 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. Inventory of the County's discretely presented School Board Component Unit is accounted for using the purchases method.

4. Restricted assets

In accordance with applicable bond covenants, governmental activities report restricted cash, cash equivalents and investments at June 30, 2009 of \$438,458 maintained in the County Improvements Fund as a debt service reserve. Business-type activities report restricted cash, cash equivalents and investments of \$3,445,007, of which \$3,432,646 consists of reserves required by water and sewer revenue bond covenants, and \$12,361 is restricted by an airport revenue bond covenant for debt service on the airport revenue bond.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, 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 asset's 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

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6. *Compensated absences*

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

7. *Long-term obligations*

In the government-wide and proprietary fund statements of net assets, long-term debt and other long-term obligations are reported as liabilities.

In the governmental funds financial statements, newly issued long-term debt and other new long-term obligations, including bond premiums, discounts and issuance costs are reported in the statement of revenues, expenditures and changes in fund balances during the current period. The face amount of general long-term debt issued is reported as other financing sources, while premiums received on debt issuances are reported as separate other financing sources, and 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 fund 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 fiduciary fund financial statements, net assets of the Retiree Medical Benefits Trust Fund are held by the trust for payment of retiree health benefits, and are reported as net assets held in trust for other postemployment benefits.

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, which are subject to change.

II. Reconciliation of government-wide and fund financial statements

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

The governmental funds balance sheet includes a reconciliation between *total fund balances – 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:

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Bonds payable, net	\$ 153,990,050
Accrued bond interest	371,829
Capital leases payable	1,836,239
Compensated absences (excludes internal services)	5,136,446
Liability for landfill closure	<u>2,542,011</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets - governmental activities	<u>\$ 163,876,575</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the *net change in fund balance - total governmental funds* and the *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 22,252,664
Depreciation expense (excludes internal services)	<u>(5,750,783)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	<u>\$ 16,501,881</u>

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

Compensated absences (excludes internal services)	\$ (190,777)
Landfill closure and postclosure costs	61,603
Other postemployment benefit (OPEB) costs	803,687
Accrued interest	(157,722)
Amortization of bond premiums	432,283
Amortization of deferred amount on refunding	<u>(172,278)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	<u>\$ 776,796</u>

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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 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 of Supervisors for review. The Board holds informational budget sessions, workshops, and a public hearing to obtain detailed information on budgetary issues and citizen input, and a final budget is legally adopted through passage of a Budget Appropriation Resolution no later than June 30. The Budget Appropriation Resolution establishes budgetary appropriation amounts at the fund level.

To address changes to the fiscal plan, the Board has adopted a budget policy which establishes thresholds for making adjustments to the adopted budget. The budget policy effectively establishes a *legal level of budgetary control*, the lowest level at which County administration may not reallocate resources without Board approval, at the department level, with a \$25,000 limitation placed on transfers between departments. The budget policy generally authorizes the County Administrator to transfer amounts as needed within a department's budget, and to transfer amounts between departments and between capital projects up to the \$25,000 limit. The Board of Supervisors must approve all other transfers and all requests for supplemental appropriations. The School Board is authorized to transfer budgeted amounts within the school component unit funds. However, any transfer or supplemental appropriation that increases the School's total appropriated budget requires subsequent Board of Supervisors approval.

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

IV. Detailed notes on all funds

A. Deposits and investments

As of June 30, 2009, the reporting entity's pooled cash and investments, including \$2,652,499 held on behalf of agency funds, and amounts separately invested by the Retiree Medical Benefits Trust's Finance Board, were as follows:

(See schedule on following page)

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Investment Type	Fair Value	Credit Quality Rating					
		AAA/AAAm	AA	A	A-1+	N/R	N/A
Pooled Investments:							
Cash on hand	\$ 3,400	-	-	-	-	-	3,400
Cash deposits	8,287,431	-	-	-	-	-	8,287,431
Demand and time deposits	1,117,481	-	-	-	1,117,481	-	-
State Treasurer's local government investment pool	2,693	2,693	-	-	-	-	-
Money market mutual funds (AAAm ratings)	22,337,118	22,337,118	-	-	-	-	-
U.S. government and agency bonds	69,464,380	28,715,424	-	-	-	36,083,935	4,665,021
Corporate notes and bonds	5,349,457	3,720,792	1,388,054	240,611	-	-	-
Total pooled deposits and investments	\$ 106,561,960	54,776,027	1,388,054	240,611	1,117,481	36,083,935	12,955,852

Retiree Medical Benefits Trust:	Fair Value	Fund Credit Quality Rating		
		AAAm	N/R	N/A
Mutual funds:				
Money market	\$ 408,329	408,329	-	-
Domestic equity	488,503	-	-	488,503
International equity	310,920	-	-	310,920
Fixed income	467,585	-	467,585	-
Other	80,681	-	-	80,681
Total trust investments	\$ 1,756,018	408,329	467,585	880,104

Deposits: 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 (the Act) or covered by Federal depository insurance. The Act requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Act further provides for the pooling of the collateral pledged by financial institutions with the Treasurer of Virginia to secure public deposits as a class. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of government entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts are assessed on a pro-rata basis to the members of the pool. 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. A municipal financial institution collateral pool that provides for additional assessments is similar to depository insurance; therefore, funds deposited in accordance with the Act are considered to be fully insured.

Pooled Investments: In accordance with Section 2.2-4500 of the Code of Virginia (Code) and other applicable law and regulations, the County's pooled investment policy (County Policy) permits investments in obligations of the United States or agencies thereof; held directly, by collateralized repurchase agreements, or in mutual funds registered under the Investment Company Act of 1940, whose portfolios are restricted to U.S. Government and U.S. agency obligations, 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, certain corporate notes, bankers acceptances and repurchase agreements, savings accounts or time deposits in approved banks or savings institutions within the Commonwealth, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

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

	Maximum
Negotiable certificates of deposits/bank notes	100%
Repurchase agreements	50%
Corporate notes	50%
Bankers' acceptances	40%
Commercial paper	35%
State bonds, notes and other evidences of indebtedness	25%
County, town, city, district, authority or other public body bonds, notes and other evidences of indebtedness	25%

The County 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.

The County Policy also limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except that 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.

Retiree Medical Benefits Trust (Trust) Investments: The primary goal of the Trust is to meet the reporting entity's current and long-term retiree health care benefit obligations while minimizing required employer contributions. The Trust's investment objectives include maintenance of a moderate risk profile and a prudent degree of investment diversification, while optimizing long-term investment returns commensurate with minimizing volatility and the risk of loss over established time horizons. In addition to the investments permitted under Section 2.2-4000 of the Code as applicable to the County's pooled investments, the Code also authorizes the Trust to purchase other investments, including domestic and international stocks, REITS and corporate bonds that meet the prudent person standard set forth in the Code. To meet this standard, the Trust investment policy (Trust Policy) restricts investment in stocks and REITs to readily-marketable securities that are actively traded on a major exchange; restricts fixed-income investments to high-quality U.S. Treasury and agency, municipal or corporate fixed-income investments; prohibits the investment of Trust assets in hedge funds, derivatives, options or futures for the purpose of portfolio leveraging; and prohibits other enumerated investment types and transactions. In addition to these constraints on the Trust investment portfolio, the Trust Policy also requires periodic comparison of investment performance to appropriate benchmarks, and periodic review of asset allocations, investment manager performance and investment guidelines.

The Code vests authority to administer the Trust investment policy in the Trust's Finance Board, which has established asset allocations in two broad classes called investment assets and liquidity assets. The liquidity assets will be invested in accordance with the provisions of Virginia Code Section 2.2-4500 et seq. applicable to liquid assets. These funds will be used to pay for benefits and expenses of the Trust. The investment assets will be invested in longer-term securities or mutual funds in accordance with targets for each asset class, with the objective to achieve an average total

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annual rate of return that is equal to or greater than the Trust's actuarial discount rate. The target asset classes and asset weightings are as follows:

Trust Asset Class	Fair Value	Trust Asset Weightings		
		Range	Target	Actual
Liquidity assets:				
Cash equivalent	\$ 408,329	0 - 100%	100%	100.0%
Investment assets:				
Domestic equity	488,503	26 - 46%	36%	36.2%
International equity	310,920	13 - 33%	23%	23.1%
REITs	41,494	0 - 12%	6%	3.1%
Inflation hedged	39,187	0 - 10%	0%	2.9%
Fixed income	467,585	20 - 60%	35%	34.7%
Cash equivalent	-	0 - 20%	0%	0.0%
Total investment assets	1,347,689		100%	100.0%
Total trust investments	\$ 1,756,018			

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, both the reporting entity's pooled investment portfolio and the Trust manage maturity of fixed-income accounts to precede or coincide with the expected need of funds, which has resulted in the creation of three pooled investment portfolios of differing maturities and the classification of Trust investments into liquidity and investment assets, as described above. The deposit and fixed income investment types in the pooled investment portfolio and the Trust portfolio are presented below using the segmented time distribution reporting method, by maturity in years.

As of June 30, 2009, deposits and fixed income investments are summarized at fair value and maturity as follows:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	More than 3
Pooled Investments:				
Cash on hand	\$ 3,400	3,400	-	-
Cash deposits	8,287,431	8,287,431	-	-
Demand and time deposits	1,117,481	1,117,481	-	-
State Treasurer local government investment pool	2,693	2,693	-	-
Money market mutual funds	22,337,118	22,337,118	-	-
U.S. Government and agency bonds	69,464,380	48,154,297	20,276,792	1,033,291
Corporate notes and bonds	5,349,457	144,157	5,205,300	-
Total pooled deposits and investments	\$ 106,561,960	80,046,577	25,482,092	1,033,291

Retiree Medical Benefits Trust:	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 5	More than 5
Money market mutual fund	\$ 408,329	408,329	-	-
Fixed Income	467,585	-	433,905	33,680
Total trust deposits and investments	\$ 875,914	408,329	433,905	33,680

Credit Risk: As required by State statute, the County 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 Ratings, and that its maturity may not

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exceed 270 days and the issuing corporation, or its guarantor must have a net worth of at least \$50 million and the issuer's net income must average \$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 Investors Service. Notes having a maturity of greater than one year must be rated AA by Standard & Poor's and Aa by Moody's Investors Service.

The County's rated pooled debt investments as of June 30, 2009 were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization. The credit quality and fund credit quality ratings presented previously in this note are determined using the S&P rating scales. Deposits and investments not exposed to credit quality risk, as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, are designated as not applicable (N/A) in the credit rating column, and those that are not rated are designated as N/R.

The Trust Policy requires that the overall credit quality of the Trust's fixed income investments must be at least A. The Trust Policy also permits the Trust to purchase fixed income investments with credit quality ratings of Baa3 or BBB by at least two credit rating agencies (Fitch, Moody's or S&P), up to a maximum of 20 percent of the total market value of fixed-income investments. If a security is downgraded below investment grade as defined by two of these credit rating agencies, the investment manager must notify the Finance Board and a plan of action regarding the security must be adopted.

Concentration of Credit Risk: The County Policy establishes limitations on the pooled investment portfolio composition by issuer in order to control concentration of credit risk. No more than five percent of the pooled investment 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, 2009, investments in the following issuers exceeded five percent of the pooled investments: Federal National Mortgage Association (15%), Federal Home Loan Bank (20%), and Federal Home Loan Mortgage Corporation (18%).

The Trust Policy also establishes guidelines for Trust portfolio holdings. Fixed income securities of any one issuer with the exception of the U.S. government and its agencies may not exceed five percent of the total bond portfolio at the time of purchase. The Trust Policy also limits equity holdings of any one issuer to five percent of the total market value of the stock portfolio, requires that no more than twenty-five percent of the total market value of the stock portfolio may be invested in any one industry category, and establishes standards and limits on any non-U.S. equity allocation. The Trust may also invest in mutual funds that are compliant with the Investment Company Act of 1940, with investment objectives and policies consistent, to the extent practical, with the standards and limitations for equity and fixed-income investments contained in the Trust Policy.

Custodial Credit Risk – Deposits: For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. The County's deposits at June 30, 2009 were fully insured under the Virginia Security for Public Deposits Act, and are therefore not considered to be subject to custodial credit risk.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Custodial Credit Risk – Investments: For investments, custodial risk is the risk that, in the event of the failure of the counterparty, the reporting entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County Policy requires that all investment securities purchased for the County be held by the County or by the County’s designated custodian. If held by a custodian, the securities must be in the County’s or in the custodian’s nominee name and identifiable on the custodian’s books as belonging to the County and the custodian must be a third party, not a counterparty to the investment transaction. As of June 30, 2009, all of the County’s pooled investments were held by the trust department of the County’s custodial bank in the County’s name. Additionally, all Trust investments were held by the trust department of the Trust’s custodial bank in the Trust’s name as of June 30, 2009.

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government and School Component Unit, excluding fiduciary funds, at June 30, 2009, are as follows:

	Primary Government						Total Primary Government	School Component Unit
	General Fund	County Improvements Fund	Other Governmental Funds	Public Utilities	Airport Fund	Internal Services Funds		
Receivables:								
Interest	\$ 292,750	-	-	-	-	-	292,750	-
Taxes	57,609,692	-	-	-	-	-	57,609,692	-
Accounts	1,859,985	1,052,526	383,195	4,030,034	-	76,356	7,402,096	146,678
Commonwealth of Virginia	4,192,674	59,072	484,573	-	54	-	4,736,373	2,693,817
Federal government	388,108	146,655	21,627	-	3,957	-	560,347	1,276,500
Gross receivables	64,343,209	1,258,253	889,395	4,030,034	4,011	76,356	70,601,258	4,116,995
Allowance for uncollectibles	(1,640,319)	-	(56,147)	(132,342)	-	-	(1,828,808)	-
Net total receivables	\$ 62,702,890	1,258,253	833,248	3,897,692	4,011	76,356	68,772,450	4,116,995

The governmental funds financial statements report *deferred revenue* in connection with prepaid taxes and receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The government-wide financial statements report *unearned revenue* in connection with assets which have not yet been earned, including prepaid taxes and taxes receivable that were levied to finance expenditures of the next fiscal year. Accordingly, the second installment of the 2009 real property tax levy, due on October 5, 2009, is reported as unearned revenue at June 30, 2009 in the government-wide financial statements, and as deferred revenue in the governmental fund financial statements. At June 30, 2009, the various components of *deferred revenue* and *unearned revenue* were as follows:

	Unavailable - Deferred Revenue	Unearned Revenue
	Governmental Funds Financial Statements	Government - wide Financial Statements
Property tax levies not yet due	\$ 51,792,933	\$ 51,792,933
Past due taxes (net of allowance for uncollectibles)	4,580,000	-
EMS transport fees	446,534	-
Unearned health insurance premiums - Self Insurance Fund	-	1,343,414
Total deferred/unearned revenue - primary government	<u>\$ 56,819,467</u>	<u>\$ 53,136,347</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

C. Capital assets

Capital asset activity for the primary government for the year ended June 30, 2009 was as follows:

Primary Government

Governmental activities:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	\$ 8,601,076	225,083	-	8,826,159
Construction in progress	11,708,005	22,222,635	(19,241,533)	14,689,107
Total capital assets, not being depreciated	20,309,081	22,447,718	(19,241,533)	23,515,266
Capital assets, being depreciated:				
Buildings	219,436,389	21,073,159	-	240,509,548
Improvements other than buildings	6,648,738	92,643	-	6,741,381
Machinery and equipment	34,465,896	4,774,538	(1,894,474)	37,345,960
Infrastructure	25,730,346	2,460,377	-	28,190,723
Total capital assets, being depreciated	286,281,369	28,400,717	(1,894,474)	312,787,612
Less accumulated depreciation for:				
Buildings	(56,961,100)	(6,364,584)	-	(63,325,684)
Improvements other than buildings	(3,618,182)	(223,494)	-	(3,841,676)
Machinery and equipment	(23,155,515)	(3,280,276)	1,730,249	(24,705,542)
Infrastructure	(11,672,389)	(1,031,210)	-	(12,703,599)
Total accumulated depreciation	(95,407,186)	(10,899,564)	1,730,249	(104,576,501)
Total capital assets, being depreciated, net	190,874,183	17,501,153	(164,225)	208,211,111
Governmental activities capital assets, net	\$ 211,183,264	39,948,871	(19,405,758)	231,726,377
Business-type activities:				
Public Utilities:				
Capital assets, not being depreciated:				
Land	\$ 6,269,049	85,088	-	6,354,137
Construction in progress	5,386,967	8,795,466	(7,278,374)	6,904,059
Total capital assets, not being depreciated	11,656,016	8,880,554	(7,278,374)	13,258,196
Capital assets, being depreciated:				
Buildings	78,128,118	36,027	-	78,164,145
Improvements other than buildings	168,198,875	12,415,525	-	180,614,400
Machinery and equipment	5,978,043	390,090	(74,811)	6,293,322
Total capital assets, being depreciated	252,305,036	12,841,642	(74,811)	265,071,867
Less accumulated depreciation for:				
Buildings	(20,391,059)	(1,574,420)	-	(21,965,479)
Improvements other than buildings	(56,845,369)	(5,653,430)	-	(62,498,799)
Machinery and equipment	(4,968,393)	(332,576)	74,811	(5,226,158)
Total accumulated depreciation	(82,204,821)	(7,560,426)	74,811	(89,690,436)
Total capital assets, being depreciated, net	170,100,215	5,281,216	-	175,381,431
Public Utilities capital assets, net	\$ 181,756,231	14,161,770	(7,278,374)	188,639,627

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Airport Fund:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	\$ 3,932,827	-	-	3,932,827
Construction in progress	551,961	48,929	(556,190)	44,700
Total capital assets, not being depreciated	4,484,788	48,929	(556,190)	3,977,527
Capital assets, being depreciated:				
Buildings	3,669,137	-	-	3,669,137
Improvements other than buildings	7,534,599	556,190	-	8,090,789
Machinery and equipment	27,041	-	-	27,041
Total capital assets, being depreciated	11,230,777	556,190	-	11,786,967
Less accumulated depreciation for:				
Buildings	(101,646)	(118,079)	-	(219,725)
Improvements other than buildings	(2,715,859)	(279,007)	-	(2,994,866)
Machinery and equipment	(23,586)	(459)	-	(24,045)
Total accumulated depreciation	(2,841,091)	(397,545)	-	(3,238,636)
Total capital assets, being depreciated, net	8,389,686	158,645	-	8,548,331
Airport capital assets, net	\$ 12,874,474	207,574	(556,190)	12,525,858
Business-type activities capital assets, net	\$ 194,630,705	14,369,344	(7,834,564)	201,165,485
Total capital assets, net - Primary government	\$ 405,813,969	54,318,215	(27,240,322)	432,891,862

Capital assets activity for the School Component Unit for the year ended June 30, 2009 was as follows:

School Component Unit activities:

Capital assets, not being depreciated:				
Land	\$ 7,400,682	-	-	7,400,682
Construction in progress	29,555,289	9,204,473	(35,661,960)	3,097,802
Total capital assets, not being depreciated	36,955,971	9,204,473	(35,661,960)	10,498,484
Capital assets, being depreciated:				
Buildings	75,987,668	33,953,262	(7,718,088)	102,222,842
Improvements other than buildings	3,439,373	-	-	3,439,373
Machinery and equipment	20,141,867	2,261,961	(1,170,933)	21,232,895
Total capital assets, being depreciated	99,568,908	36,215,223	(8,889,021)	126,895,110
Less accumulated depreciation for:				
Buildings	(21,308,237)	(7,239,263)	5,031,245	(23,516,255)
Improvements other than buildings	(1,081,796)	(172,656)	-	(1,254,452)
Machinery and equipment	(11,198,799)	(1,347,095)	1,119,238	(11,426,656)
Total accumulated depreciation	(33,588,832)	(8,759,014)	6,150,483	(36,197,363)
Total capital assets, being depreciated, net	65,980,076	27,456,209	(2,738,538)	90,697,747
School Component Unit capital assets, net	\$ 102,936,047	36,660,682	(38,400,498)	101,196,231

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Depreciation expense was charged to functions of the primary government and School Component Unit as follows:

Primary government:

Governmental activities:

General governmental administration	\$ 1,050,319
Judicial administration	211,390
Public safety	2,693,979
Public works	1,354,374
Human services	108,410
Parks, recreation and cultural	326,989
Community development	5,322
Depreciation of capital assets held by the internal service funds is charged to various functions based on their usage of the assets	117,536
Total depreciation expense - governmental activities	5,868,319

Business-type activities:

Public Utilities	7,560,426
Airport	397,545
Total depreciation expense - business-type activities	7,957,971

Total depreciation expense - primary government \$ 13,826,290

School Component Unit \$ 8,759,014

The School Component Unit reports all depreciation expense for School property.

Tenancy in Common – 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, School property financed by County general obligation debt is reported by the County in the amount of outstanding capital-related debt. The preceding schedules of capital asset activity include the following amounts, the effect of which is to increase the net book value of School Component Unit capital assets reported by the County by \$2,686,843 under the Tenancy in Common during fiscal year 2009.

Amounts included in capital asset activity	Primary Government - Governmental Activity	School Component Unit	Total Reporting Entity
Buildings	\$ 7,718,088	(7,718,088)	-
Accumulated depreciation for buildings	(5,031,245)	5,031,245	-
Buildings, net	\$ 2,686,843	(2,686,843)	-

Also see Tenancy in Common at Exhibit 5 for disclosure of the impact of the tenancy in common on the County's fiscal year 2009 change in net assets of governmental activities. At June 30, 2009, School Component Unit capital assets financed by outstanding County guaranteed debt with a net book value of \$132,363,929 were reported under the primary government as tenant in common with the School Board.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

D. Interfund transfers

Transfers are used to provide funding for operating and capital costs. Interfund transfers for the year ended June 30, 2009 are as follows:

Primary Government	Transfers In	Transfers Out
General Fund	\$ -	16,372,661
County Improvements Fund	6,483,672	-
School Improvements Fund	2,608,000	-
Other Governmental Funds	6,947,908	-
Airport Fund	333,081	-
Total primary government	\$ 16,372,661	16,372,661

E. Noncurrent liabilities

The following is a summary of changes in the government-wide noncurrent liabilities of the primary government and the School Component Unit for the year ended June 30, 2009:

Primary Government	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
Principal amount of bonds payable	\$ 142,150,677	42,590,000	35,181,693	149,558,984	13,142,672
Premium	2,827,902	4,052,224	432,283	6,447,843	432,374
Deferred amount on refunding	(480,515)	(1,708,540)	(172,278)	(2,016,777)	(172,278)
Total bonds payable	144,498,064	44,933,684	35,441,698	153,990,050	13,402,768
Capital lease obligations	2,739,169	-	902,930	1,836,239	1,000,335
Compensated absences	5,085,473	4,412,972	4,212,185	5,286,260	4,138,946
Liability for landfill closure	2,603,614	-	61,603	2,542,011	76,304
Total governmental activities	154,926,320	49,346,656	40,618,416	163,654,560	18,618,353
Business-type activities:					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	37,555,927	110,051	2,151,427	35,514,551	2,192,926
Premium	516,342	-	28,499	487,843	28,498
Deferred amount on refunding	(934,385)	-	(54,964)	(879,421)	(54,964)
Total bonds payable	37,137,884	110,051	2,124,962	35,122,973	2,166,460
Compensated absences	494,208	480,439	434,155	540,492	474,815
Deposits	178,907	166,012	127,780	217,139	-
Capacity fee credits	415,756	40,786	81,712	374,830	-
Contractual obligations	793,007	-	152,966	640,041	152,966
Total Public Utilities	39,019,762	797,288	2,921,575	36,895,475	2,794,241
Airport Fund:					
Taxable airport revenue bond payable	1,768,604	-	54,819	1,713,785	57,640
Compensated absences	3,840	4,233	3,392	4,681	4,135
Total Airport Fund	1,772,444	4,233	58,211	1,718,466	61,775
Total business-type activities	40,792,206	801,521	2,979,786	38,613,941	2,856,016
Total noncurrent liabilities - Primary government	\$ 195,718,526	50,148,178	43,598,202	202,268,501	21,474,369
School Component Unit					
Compensated absences	\$ 4,248,117	1,867,494	1,657,813	4,457,798	1,739,640
Early retirement program	1,228,252	-	646,170	582,082	265,690
Total noncurrent liabilities - School Component Unit	\$ 5,476,369	1,867,494	2,303,983	5,039,880	2,005,330

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Internal service funds primarily serve governmental funds. Their noncurrent liabilities are included in the preceding governmental activities totals, including \$149,814 of compensated absences at year-end. Capital lease obligations, compensated absences and the liability for landfill closure reported as governmental activities liabilities of the primary government are liquidated by the General Fund.

Liability for landfill closure

State and federal laws and regulations required the County to place a final cover on its landfill site when it stopped 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 in 2003 over the 35-acre site. The \$2,542,011 reported as landfill closure and post closure care liability at June 30, 2009 represents the remaining estimated cost of post closure care. These amounts are based on what it would cost to perform all closure and post closure care in 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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 Virginia Public School Authority (VPSA) bonds and 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.

On February 18, 2009, the primary government issued \$42,590,000 of Series 2009 General Obligation Public Improvement and Refunding Bonds (Series 2009 Bonds) with an average interest rate of 4.3%. The Series 2009 Bonds were issued to finance certain capital improvements for Schools, public safety, and parks and libraries, and to refund existing bonds. Of the total issued, \$20,215,000 consisted of new general obligation debt for the purposes just described, \$4,680,000 was issued to advance refund \$5,000,000 of outstanding Series 1999 bonds, \$9,860,000 was issued to advance refund \$10,000,000 of outstanding Series 2002 bonds, and \$7,835,000 was issued to advance refund \$8,050,000 of Series 2002B bonds, which had average interest rates of 4.4%, 4.6% and 4.1%, respectively. The refunding net proceeds of \$24,758,539 were used to purchase full faith and credit U.S. Government securities which were deposited in an irrevocable escrow account to provide the resources to pay all principal and interest on the refunded bonds when due from the date of issuance of the Series 2009 Bonds and to redeem the Series 1999 bonds on July 15, 2009, the Series 2002 bonds on January 15, 2011, and the Series 2002B bonds on July 15, 2011. The reacquisition price exceeded the net carrying amount of the refunded bonds by \$1,708,540, and this amount is being amortized over the remaining life of the refunded bonds.

The County completed the advance bond refundings described above to reduce its total debt service payments over the next 13 years by approximately \$1,490,145 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and the new debt) of approximately \$1,141,085.

Revenue bonds

The County also issues bonds for which it pledges the income derived from the acquired or constructed assets to pay the debt service. Outstanding revenue bonds have been issued on behalf of the public utilities and airport functions.

The County has pledged the sum of its future Public Utilities Fund Operating Income or Loss, prior to depreciation expense, and its Public Utilities Fund Nonoperating Revenues (together "Net Available Revenues") in the approximate amount of \$48,443,530 as of June 30, 2009, to secure the total remaining debt service requirements of the then-outstanding Public Utilities Water and Sewer Revenue Bonds (Bonds), which have financed various Public Utilities improvements. Based on an

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

estimate of the average Net Available Revenues over the ten year period ended June 30, 2009 of approximately \$11.6 million annually, it is estimated that approximately 17 percent of future Utility Net Available Revenues are pledged through fiscal 2034, and will expire in that fiscal year with the final maturity of the current Bonds. However, future water and sewer revenue bonds which may be issued to finance future utility improvements will likely contain similar pledges, and future annual Net Available Revenues may differ significantly from the average used in this estimate. During fiscal 2009, pledged Net Available Revenues totaled \$9,155,454, and the water and sewer revenue bond debt service requirement was \$3,633,131.

The County has also pledged future lease rental income from the airport's fixed base operator (FBO), or successor FBOs, in the approximate amount of \$2,663,576 as of June 30, 2009, to secure the then-remaining debt service requirements on the Airport VRA Series 2007 revenue bond (Bond), which financed airport improvements completed in fiscal 2008. This pledge obligates substantially all future FBO rental income through July 1, 2027, and will expire on that date with the final maturity of the Bond. During fiscal 2009, pledged rental receipts totaled \$88,093, restricted cash available at June 30, 2009 consisting of accumulated interest pledged for future debt service on the Bond totaled \$12,361, and the debt service requirement was \$143,977.

County debt and related interest to maturity

Outstanding general obligation bonds and revenue bonds are comprised of the following issues:

(See schedule on following page)

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Purpose	Interest Rates (%)	Date Issued	Original Issue	Principal Outstanding
Governmental activities:				
General obligation bonds:				
County:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	\$ 7,440,000	\$ 6,720,000
Series 2006A Refunding	3.50 - 4.00	10-12-06	3,965,000	3,175,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	10,765,000	10,765,000
Total general obligation bonds - County				<u>20,660,000</u>
Schools:				
Series 1999 Public Improvement	4.00 - 5.625	01-15-99	10,000,000	500,000
Series 2000 Public Improvement	4.50 - 5.375	10-01-00	19,000,000	1,000,000
Series 2002 Public Improvement	2.00 - 4.875	06-01-02	20,000,000	3,000,000
Series 2002B Public Improvement	3.00 - 4.60	12-01-02	21,500,000	7,900,000
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	12,210,000
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	10,275,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	9,450,000	9,450,000
Series 2009 Refunding	2.50 - 5.00	02-18-09	22,375,000	22,375,000
VPSA Series 1990B	6.40 - 7.10	08-30-90	6,040,000	725,000
VPSA Series 1991	4.85 - 6.60	07-31-91	2,069,507	361,066
VPSA Series 1992A	5.10 - 8.10	12-17-92	6,230,000	930,000
VPSA Series 1993A	4.475 - 5.00	11-18-93	3,620,000	255,000
VPSA Series 1994A Refunding	6.35 - 7.19	01-03-94	32,075,000	2,215,000
VPSA Series 1994A	6.10 - 6.30	05-05-94	4,900,000	1,260,000
VPSA Series 1994B	6.10 - 6.60	11-22-94	5,385,000	1,605,000
VPSA Series 1995A	5.20 - 5.75	12-21-95	1,580,000	540,000
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	2,300,000
VPSA Series 1997A	4.35 - 5.35	11-20-97	3,220,000	1,440,000
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	3,080,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	2,513,165
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	13,685,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	5,945,000
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	5,981,593
VPSA Series 2007	4.10 - 5.10	11-08-07	13,838,206	13,197,160
State Literary Fund loans	4.00	1997	5,000,000	2,250,000
State Literary Fund loans	4.00	1998	3,725,000	1,862,500
State Literary Fund loans	4.00	1999	1,275,000	701,250
State Literary Fund loans	3.00	2002	2,065,000	1,342,250
Total general obligation bonds - Schools				<u>128,898,984</u>
Total governmental activities - general obligation bonds				<u>149,558,984</u>
Business-type activities:				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	3.00	06-14-02	920,400	644,280
Series 2002B	3.75	10-25-02	977,031	809,875
Series 2003A Refunding	3.72	04-10-03	10,000,000	5,940,000
Series 2004	3.28	03-30-04	9,600,000	6,400,000
Series 2005A Refunding	3.10 - 4.64	01-31-05	14,065,000	12,540,000
Series 2006	3.63 - 4.98	05-08-06	9,000,000	8,595,000
Series 2007	0.00	07-19-07	616,206	585,396
Total Public Utilities				<u>35,514,551</u>
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,713,785
Total Airport Fund				<u>1,713,785</u>
Total Business-type activities				<u>37,228,336</u>
Total bond indebtedness - Primary government				<u>\$ 186,787,320</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2009

Principal and interest to maturity for the County's governmental activities general obligation bonds and business-type activities revenue bonds outstanding at June 30, 2009, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities				Total	
	General Obligation Bonds		Water and Sewer Revenue Bonds		Taxable Airport Revenue Bond		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2010	\$ 13,142,672	6,302,688	2,192,926	1,375,383	57,640	86,337	15,393,238	7,764,408
2011	12,223,042	5,865,014	2,224,482	1,297,719	60,605	83,372	14,508,129	7,246,105
2012	11,363,735	5,345,874	2,251,097	1,217,851	63,723	80,254	13,678,555	6,643,979
2013	11,013,018	4,859,922	2,297,772	1,131,655	67,001	76,976	13,377,791	6,068,553
2014	10,785,599	4,421,402	2,334,512	1,046,688	70,448	73,529	13,190,559	5,541,619
2015-2019	47,217,789	15,494,531	11,671,032	3,894,827	410,479	309,407	59,299,300	19,698,765
2020-2024	30,574,550	6,052,606	7,139,490	2,065,176	527,501	192,384	38,241,541	8,310,166
2025-2029	13,238,579	1,103,256	3,668,240	767,237	456,388	47,532	17,363,207	1,918,025
2030-2034	-	-	1,735,000	132,443	-	-	1,735,000	132,443
Totals	\$ 149,558,984	49,445,293	35,514,551	12,928,979	1,713,785	949,791	186,787,320	63,324,063

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

In November, 2005 the County's voters authorized the issuance of general obligation bonds in the amount of \$95,075,000. Of the total authorized, the County has issued \$55,203,206 and has additional construction commitments totaling \$16,380,871 for authorized projects as of June 30, 2009. The County plans to issue the remaining bonds in future fiscal years to finance these commitments and complete the authorized capital projects.

The County has overlapping debt with the Town of Ashland, Virginia of \$795,000, of which the share applicable to the County approximates \$640,041. The County's applicable share is for water and sewer bonds for which the County assumed ownership January 1, 1996, under an annexation agreement. The County has a contractual obligation to reimburse the Town for water and sewer line debt in accordance with the agreement. The bonds expire on August 1, 2012.

Conduit debt obligations

The County's Economic Development Authority Component Unit (EDA) is empowered by the Commonwealth of Virginia to issue Industrial Revenue Bonds (IRBs) on behalf of businesses relocating to or expanding their operations within the County. Principal and interest on the IRBs are paid entirely by the businesses. Neither the EDA nor the County guarantees the repayment of principal or interest to the bondholders, and the debt is not a pledge of the faith and credit of the EDA or the County. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2009, the principal amounts outstanding on these IRBs, including those described below, totaled \$196.8 million.

To assist Bon Secours Health System, Inc. to provide quality health care at the lowest possible cost to residents of the County and surrounding localities, on October 17, 2008, the EDA issued \$124,700,000 of Revenue Bonds, Series 2008D (Bon Secours Health System, Inc.) to refund the EDA's outstanding Variable Rate Revenue Bonds, Series 2002B and its outstanding Variable Rate Revenue Refunding Bonds, Series 2005A (Bon Secours Health System, Inc.). The bonds are limited obligations of the EDA payable solely from the receipts by the EDA from a loan agreement between Bon Secours and the EDA. As neither the County nor the EDA are otherwise obligated to pay the

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principal or interest on the bonds, the related transactions, including the liability for the bonds, are not recorded in the County's or EDA's financial statements.

Defeasance of debt

During fiscal year 2009 and in prior years, the County defeased certain outstanding bonds by placing the proceeds of newly issued bonds in irrevocable escrow funds to provide for all future debt service payments on the old bonds. Accordingly, the escrow fund assets and the liabilities for the defeased bonds are not included in the accompanying financial statements. During fiscal 2009, the County defeased \$5,000,000 of Series 1999 general obligation bonds, \$10,000,000 of Series 2002 general obligation bonds, and \$8,050,000 of Series 2002B general obligation bonds, as described previously in this note. At June 30, 2009, the County had general obligation bonds that are outstanding but considered defeased totaling \$33,050,000.

Capital leases

The County has financed the acquisition of office facilities and a communications system by entering into capital lease agreements. The balance of capital assets, net of accumulated depreciation, the minimum lease payments, and the present value of the minimum lease payments as of June 30, 2009, are as follows:

<u>Asset Class</u>	<u>Primary Government - Governmental Activities</u>
Land	\$ 384,847
Building	11,429,888
Machinery and equipment	2,329,857
Total assets, at cost	14,144,592
Accumulated depreciation	(6,251,659)
Total assets, net	\$ 7,892,933

<u>Fiscal Year</u>	<u>Minimum Lease Payments</u>
2010	\$ 1,000,335
2011	635,618
2012	277,649
2013	10,562
Total minimum lease payments	1,924,164
Portion representing interest	(87,925)
Present value of minimum lease payments	\$ 1,836,239

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 insurance through commercial carriers or through the Virginia Municipal Liability Pool. The County carries commercial insurance for all risks of loss including property, theft, auto liability, general liability and construction

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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 2009. All claims are paid in full at the time of damage. In addition, the County provides various surety bond coverages as required under regulations, generally at industry-recommended 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 not-for-profit entities provide workers' compensation coverage in compliance with the Virginia Workers' Compensation code.

The County and School Board have 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 \$150,000 for individual claims paid during the contract year and an aggregate plan stop loss of 125% of expected claims. 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. Net asset balances in the Self Insurance Fund are used as a reserve to offset rate increases and to fund losses in future years. The County's benefits consultant actuarially determines an estimated liability for combined County and School Board healthcare claims that have been incurred but not reported (IBNR) at fiscal year end, which is reported in the Self Insurance Fund. Changes in balances of combined health insurance claim liabilities and IBNR during the past three years are as follows:

Fiscal Year	Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Claim Payments	Payable (Receivable) End of Year	Incurred but not reported
2007	\$ (175,082)	18,633,669	18,251,370	207,217	1,737,000
2008	207,217	21,400,163	21,825,404	(218,024)	2,295,000
2009	(218,024)	25,176,493	24,683,562	274,907	2,265,000

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 at June 30, 2009 is as follows:

	Primary Government				School Component Unit
	General Fund	County Improvements Fund	Other Governmental Funds	Total Primary Government	
Designated for:					
Capital Improvements - County	\$ -	3,516,994	-	3,516,994	-
Economic Development	500,000	-	-	500,000	-
Funding of subsequent fiscal year's budget	4,245,600	67,500	-	4,313,100	96,307
Reappropriation of unencumbered balances	915,085	-	2,131	917,216	2,287,871
Revenue stabilization during periods of economic downturn	2,066,529	-	-	2,066,529	-
Total designated for specific purposes	\$ 7,727,214	3,584,494	2,131	11,313,839	2,384,178

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C. Commitments and contingent liabilities

Operating leases

The County leases building and office facilities and other equipment under various operating lease agreements, substantially all of which are subject to annual appropriation of funds. Total costs for such leases for the year ended June 30, 2009, were:

Governmental activities	\$	881,491
Business-type activities		23,985
Total primary government		905,476
School component unit		206,221
Total reporting entity	\$	1,111,697

Other commitments

At June 30, 2009, the primary government had commitments for capital projects totaling \$31,570,645. Funding for the commitments will be provided by existing resources in the applicable funds, and future bond proceeds, State and Federal grants and other resources, as follows:

	Primary Government				Total Primary Government
	County	School	Public	Airport	
	Improvements Fund	Improvements Fund	Utilities Fund		
Total capital commitments at June 30, 2009	\$ 22,885,988	3,176,152	5,487,480	21,025	31,570,645
Financed by use of:					
Fund balance reserved for encumbrances	8,018,764	767,571	-	-	8,786,335
Unrestricted net assets	-	-	5,487,480	2,381	5,489,861
Authorized but unissued general obligation bonds	13,972,290	2,408,581	-	-	16,380,871
State and federal grants	565,502	-	-	18,644	584,146
Other	329,432	-	-	-	329,432
Total financing sources	\$ 22,885,988	3,176,152	5,487,480	21,025	31,570,645

Contingent liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the 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.

D. Joint ventures

- **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 (Airport) facilities to recover the costs of maintaining,

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repairing and operating the Airport. Virginia law requires that the Commission submit an annual budget showing estimated revenues and estimated expenditures to the governing bodies of the localities for their approval. After approval of the proposed budget by the governing bodies, if the Commission's budget contains estimated expenditures that exceed estimated revenues, the governing bodies are required to fund the deficit in proportion to their pro rata financial basis in the Commission. The pro rata basis is to be determined by the percentage of the population of each locality to the combined total population of all participating localities according to the most recent census, with Hanover County's pro rata share approximating 9.12%. If 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 been required to fund any deficit. Complete financial statements for the Commission can be obtained from the Director's office at Richmond International Airport, Box A-3, Richmond, Virginia 23231, or at <http://www.flyrichmond.com/Load.php?Content=Financials>.

- **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, Title 15.2 of the 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. Beginning in August 1996, each locality has designated revenue from the transient occupancy tax for expansion of the convention center. The GRCCA has issued \$158,415,000 in Hotel Tax Revenue Bonds, which are secured by an 8 percent transient occupancy tax imposed and collected by the localities. The County made an expenditure of \$747,016 for transient occupancy tax to the GRCCA during fiscal year 2009. Complete financial statements for the GRCCA can be obtained from the fiscal agent's office at Chesterfield County, Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (Library) is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed for specific terms of office by the Boards of Supervisors of the counties to which it provides library services, including the Counties of Hanover, Goochland, King William and King and Queen. Management and accountability for fiscal matters rest with the Library's Board, of which Hanover County appoints three of the seven members. The Library receives contributions from the participating counties, but invests its own funds and formulates and approves its own budget. Hanover County does not bear any direct or indirect liabilities for the operation of the Library, and has no equity interest in it. In fiscal year 2009, Hanover County contributed a total of \$2,722,828 to the Library's operations. Complete financial statements for the Library can be obtained from the Director's office at P.O. Box 119, Hanover, Virginia 23069.

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- **Pamunkey Regional Jail Authority:** The Pamunkey Regional Jail Authority (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. Management and accountability for fiscal matters rest with the Jail Board. The County serves as fiscal agent for the Jail Board; however, the board formulates and approves its own budget. The County of Hanover does not bear any direct or indirect liabilities for the operation of the Jail, and has no equity interest in it.

The purpose of the Jail is to maintain and operate a regional jail facility to meet the needs of the participating jurisdictions for jail facilities. The participating jurisdictions have entered into a Service Agreement which is a long-term contract which regulates usage of the Jail and establishes 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. The County typically provides a majority of the inmates to the facility, and made per diem contributions totaling \$3,958,655 in fiscal year 2009. 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 (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, which include the 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. The County of Hanover does not bear any direct or indirect liabilities for the operation of this organization, and has no equity interest in it.

The Commission was created to enhance the protection of the region's 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. During fiscal year 2009, the County's per diem payments to the Commission totaled \$334,401. 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.

- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (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

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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. The County's fiscal year 2009 payments to the Waste Authority totaled \$205,361. Complete financial statements can be obtained from the Waste Authority at 2100 West Laburnum Avenue, Suite 105, Richmond, Virginia 23227.

- **Greater Richmond Partnership:** The Greater Richmond Partnership, Inc. (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. During fiscal year 2009, the County made payments to the GRP totaling \$390,000. 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 (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, and made fiscal 2009 contributions to RMCVB totaling \$147,648. Complete financial statements can be obtained from the Bureau's office at 401 North 3rd Street, Richmond, Virginia 23219.
- **Richmond Regional Planning District Commission:** The Richmond Regional Planning District Commission (the RRPDC) is comprised of members from the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan, the City of Richmond and the Town of Ashland. The primary functions of the RRPDC are to promote regional cooperation; coordinate the activities and policies of member local governments; resolve service delivery problems involving more than one government within the region and provide planning assistance to local governments. In accordance with its Charter, the RRPDC promotes the orderly physical, social and economic development of the region through planning and encouraging local governments to plan for the future. The County made payments to the RRPDC totaling \$900 in fiscal year 2009.

F. Defined benefit pension plan – Virginia Retirement System

The County and the School Board contribute to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan. The VRS requires periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. The required employer contributions for County employees and for School Board non-professional employees are established annually by the VRS, by separate actuarial valuations specific to each group. The VRS establishes a separate annual contribution requirement for the School Board's professional employees, who participate in the VRS statewide teacher cost-sharing pool.

- a. ***Plan Description*** – All full-time, salaried permanent employees of participating employers must participate in the Virginia Retirement System. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters and sheriffs) or at age 50 with 30 years of service if elected by the employer (age 50 with 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to

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1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5 percent per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs 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 downloaded from their web site at <http://www.varetire.org/Pdf/Publications/2008annurept.pdf>, or 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 5.00% of their annual salary to the VRS. This 5.00% member contribution may be assumed by the employer, which the County and School Board have done. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the Code of Virginia and approved by the VRS Board of Trustees. The contribution rates for the County for the first half of the fiscal year ended June 30, 2009, and for the School Board's non-professional and professional employee groups for the entire fiscal year then ended were 7.36%, 7.21%, and 9.89%, respectively, of annual covered payroll. On April 9, 2008, the Board of Supervisors passed a resolution providing a mandatory higher retirement multiplier (1.85%) for the County's sheriff, and, on an elective basis, to all other eligible employees in hazardous duty positions as described in the Code of Virginia, Section 51.1-138. On the same date, the Board also resolved to provide the health insurance credit program as provided in Section 51.1-140-2 of the Code to all eligible current and future County retirees. These coverages were effective January 1, 2009, and increased the County's contribution rate with respect to annual covered payroll for the second half of fiscal year 2009 to 8.09%. For its professional employee group, the School Board's contributions to the teacher cost-sharing pool for the fiscal years ending 2009, 2008, and 2007 were \$15,077,404, \$14,589,691, and \$12,929,743, respectively, and were equal to the actuarially determined required contributions for each year.
- c. *Annual Pension Cost*** - The following schedule shows the actuarially determined annual pension costs and the amounts contributed to the VRS for the current and preceding two fiscal years for the County employees and the School Board non-professional employee group:

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Funds	Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
County employees					
Governmental	2009	\$ 3,917,972	\$ 3,917,972	100%	\$ -
Enterprise	2009	341,356	341,356	100	-
Governmental	2008	3,581,804	3,581,804	100	-
Enterprise	2008	307,022	307,022	100	-
Governmental	2007	3,273,320	3,273,320	100	-
Enterprise	2007	291,021	291,021	100	-
School Board - non-professional employee group					
Governmental	2009	\$ 503,581	\$ 503,581	100%	\$ -
Governmental	2008	454,739	454,739	100	-
Governmental	2007	441,506	441,506	100	-

For the fiscal year 2009, the County's total annual pension cost of \$4,259,328 was equal to the County's required and actual contribution, and the School Board non-professional group's annual pension cost of \$503,581 was also equal to the required and actual contribution. The required contributions were each determined as part of the County and School Board's respective June 30, 2007 actuarial valuations, which both used the entry age actuarial cost method. The actuarial assumptions for both June 30, 2007 actuarial valuations included (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial values of the County and School Board non-professional employee group pension assets are equal to the modified market value of those assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County and School Board non-professional employee group unfunded actuarial accrued liabilities are being amortized as a level percentage of their respective projected payrolls on open bases. The remaining amortization period at June 30, 2007 was 20 years.

- d. **Funded Status and Funding Progress** – The following schedule presents information about the funded status of the County and School Board non-professional employee groups as of June 30, 2008, the date of the most recent actuarial valuations for both groups:

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded ALL (UALL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Primary Government						
Virginia Retirement System - County employee group						
6/30/2008	\$ 117,271,164	\$ 130,477,444	\$ 13,206,280	89.9%	\$ 53,105,207	24.9%
Component Unit - School Board						
Virginia Retirement System - non-professional employee group						
6/30/2008	\$ 15,163,247	\$ 15,340,091	\$ 176,844	98.8%	\$ 6,538,543	2.7%

The schedules of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of the County and School Board non-professional employee group's respective plan assets are increasing or decreasing over time relative to their respective actuarial accrued liabilities for benefits.

G. Postemployment healthcare plan and Other Postemployment Benefits (OPEB) Trust

In addition to the pension benefits described in note V-F, the County provides for optional participation by eligible retirees and their eligible spouses and dependents, in the medical and prescription drug healthcare benefit program available to employees. Pursuant to Code of Virginia Section 15.2-1544 et seq. the County has established the Hanover County, Virginia Retiree Medical Benefits Plan (Plan), an agent multiple-employer defined benefit healthcare plan, and the Hanover County, Virginia Retiree Medical Benefits Trust Agreement (Trust). The Plan covers only eligible retirees of the reporting entity, the Pamunkey Regional Library and the Pamunkey Regional Jail Authority, hereinafter referred to as Affiliates. The Trust provides the funding mechanism for the postemployment healthcare benefits established by the Plan. The Code of Virginia assigns the authority to administer the Plan, and to establish and amend the benefit provisions of the Plan, to the Hanover County Board of Supervisors (Board). The Plan provides for biennial reviews of benefit provisions based on actuarial analysis, but does not require any automatic or ad hoc benefit increases, although the Board may amend or terminate the Plan at any time. The Trust's accumulated assets may legally be used to pay all plan benefits provided to any of the plan's members or beneficiaries. The Trust is considered part of the County of Hanover's financial reporting entity and is included in the County's financial statements as an Other Postemployment Benefits Trust Fund. Accordingly, audited financial statements are not separately available.

a. Summary of significant accounting policies

Basis of accounting – The Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions to the Trust are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of investments – All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2009. Securities without an established market are reported at estimated fair value.

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Plan description, contribution and funding information

Membership - The Plan covers all employees of the reporting entity and its Affiliates (Employers) who retire and meet certain eligibility requirements. At July 1, 2007, the date of the initial biennial actuarial valuation, membership in the Plan consisted of the following:

	Primary Government and Affiliates	School Component Unit	Total
Retirees and beneficiaries receiving benefits	28	120	148
Terminated employees entitled to, but not yet receiving, benefits	-	-	-
Active employees	1,261	2,635	3,896
Total number of plan members	1,289	2,755	4,044
Number of participating employers	4	1	5

Plan description - The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to Hanover County employees at date of separation. In addition, participants must meet the Virginia Retirement System (VRS) retirement age and service retirement requirements, and, if hired after September 30, 2007, must have five years of service with an Employer, or retire pursuant to the disability requirements of Social Security or the VRS. The amount of monthly subsidy provided by the Plan is based on years of service and, as of June 30, 2009, ranged from \$108 per month for employees with 10 but less than 15 years of service to \$216 per month for 20 or more years of service. The subsidy for a retiree's spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of \$251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility.

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan. Depending upon the health care plan selected, the net retiree premium amounts range from \$400 to \$708 per month, and for those electing retiree and spouse coverage, from \$663 to \$2,125 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

Contributions - The Code of Virginia permits the County Board of Supervisors to make appropriations to fund the Trust, and to enter into agreement with its School Component Unit and its Affiliates to participate in and contribute to the Trust. Contributions to the Trust are irrevocable; however, continued participation in the Plan is voluntary, and any Employer may individually terminate future participation in the Plan.

Funding policy - The Board of Supervisors has adopted a resolution under which the Employers will contribute funds to the Trust periodically, as determined appropriate based on periodic actuarial analysis of the future obligations of the Employers.

Annual OPEB cost - The Employers' OPEB cost (expense) under the Plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance

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with the parameters of the Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Information related to the reporting entity's annual OPEB cost, ARC, actual contributions, and changes to the net OPEB obligation (asset) for each of the two fiscal years in the period ended June 30, 2009 is as follows:

	2009	2008
ARC, for the fiscal year ended June 30	\$ 1,231,200	\$ 1,157,094
Interest on Net OPEB obligation (asset) from prior year	(16,556)	-
Actuarial adjustment	14,202	-
Annual OPEB cost	1,228,846	1,157,094
Employer contributions:		
To OPEB trust	(1,101,158)	(730,105)
Subsidies paid under Plan on behalf of retirees	(724,242)	(663,500)
Total Employer contributions	(1,825,400)	(1,393,605)
(Increase) decrease in the net OPEB obligation (asset), for the fiscal year ended June 30	(596,554)	(236,511)
Net OPEB obligation (asset), beginning of year	(236,511)	-
Net OPEB obligation (asset), end of year	\$ (833,065)	\$ (236,511)
Percentage of annual OPEB cost contributed:		
To OPEB trust	89.6%	63.1%
Subsidies paid under Plan on behalf of retirees	58.9%	57.3%
Total percentage contributed	148.5%	120.4%

Funded Status - The funded status of the Plan as July 1, 2007, the date of the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$ -	\$ 10,040,245	\$ 10,040,245	0.0%	\$ 156,195,205	6.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and

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assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 7.0 percent annual investment rate of return (net of administrative expenses), including an inflation assumption of 2.5% and an annual healthcare cost trend rate consisting of assumed growth in the retiree subsidies of 3.0 percent annually, until the maximum monthly subsidy of \$753 is reached. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

H. School Board early retirement plan

In fiscal year 1991, the Virginia General Assembly approved a one-time optional early retirement opportunity for Virginia Retirement System (VRS) members to take advantage of an early retirement program that provided enhanced VRS benefits to eligible School Board employees who had attained the age of 50 with 25 years of service as of September 1, 1991. The School Board adopted the plan for participants electing early retirement between April 1, 1991 and June 30, 1991. Under the terms of the Plan, five years of service credit was added to the retirees' earned VRS service credit, and retirees also received an additional VRS benefit of \$100 per month until age 62. The Plan was closed to new retirees as of June 30, 1991. The enhanced VRS benefits were funded by the assumption by the School Board of an early retirement liability payable to the VRS. As of July 1, 1994, the present value of the remaining liability, discounted at eight percent, totaled \$2,601,513. This liability was structured to be paid by annual payments, including principal and interest, of \$265,690, payable through 2014. As of June 30, 2009, the remaining principal amount owed was \$582,082, and is reported as the early retirement liability in the accompanying Statement of Net Assets.

I. Special assessments and tax increment commitment

• **Bell Creek Community Development Authority:**

The Bell Creek Community Development Authority (Authority) was created by an ordinance adopted by the Board of Supervisors on July 24, 2002. The creation of the Authority was a result of a petition filed with the Board of Supervisors by the owners of a majority of the land area within the Bell Creek Community Development Authority District (District). The District consists of approximately 325 acres of land within the County. The District encompasses a mixed-use development and is expected to provide commercial development with retail space including a shopping center known as *The Shoppes at Bell Creek*, a light industrial park, and a residential development on 167 acres known as *The Bluffs at Bell Creek*.

On September 25, 2002, the Board of Supervisors adopted an ordinance authorizing the levy of Special Assessments on abutting property within the boundaries of the District. On November 12, 2002, the Bell Creek Community Development Authority authorized the issuance of its \$12,135,000 Special Assessment Bonds, Series 2003A (the "2003A Bonds") and its \$3,845,000 Special Assessment Bonds, Series 2003B (the "2003B Bonds" and together with the 2003A Bonds, the "2003 Bonds"). On February 5, 2003, the 2003 Bonds were issued in the total principal amount of \$15,980,000, in accordance with the provision of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2003 Bonds were issued to finance the acquisition and construction of certain infrastructure improvements to benefit the District. Neither the faith and credit of the Authority, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the 2003 Bonds. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2009,

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the total 2003 Bonds outstanding were \$4,895,761. The Authority is obligated to make all debt service payments on the 2003 Bonds, in accordance with the debt service schedule published in their Limited Offering Memorandum dated January 22, 2003.

Pursuant to the terms of the Rate and Method of Apportionment of Special Assessments approved by the Board of Supervisors September 25, 2002 between the County and the Authority, the 2003 Bonds are payable by the Authority based on prepaid and annual Special Assessments imposed and collected by the County as agent for the Authority on taxable real property within the District. After collection, such Special Assessments are appropriated and paid (Payments) annually to the Authority for debt service payments. However, such Payments to the Authority are not deemed general obligations of Hanover County, but are appropriated and paid only to the extent the Special Assessments have been received by the County. The County has also agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures.

During fiscal 2009, special assessments on property within the District totaled \$580,000, and payments to the Authority of special assessments collected totaled \$617,932.

- **Lewistown Commerce Center Community Development Authority:**

The Lewistown Commerce Center Community Development Authority (Authority) was created by an ordinance adopted by the Board of Supervisors on October 25, 2006. The creation of the Authority was a result of a petition filed with the Board of Supervisors by the owners of 100% of the land area within the Lewistown Commerce Center Community Development Authority District (District). The District consists of approximately 186.5 acres of land within the County. The District is part of a business complex that is expected to provide commercial and retail spaces, recreation and tourism facilities and other amenities that are expected to be developed in phases by different entities. The overall development has been named *The Shops at Winding Brook* (hereinafter referred to as the Development).

On May 9, 2007, the Board of Supervisors adopted an ordinance authorizing the levy of Special Assessments on abutting property within the bounds of the District. On June 28, 2007 the Authority authorized the issuance of the Lewistown Commerce Center Community Development Authority (Virginia), \$37,675,000 Revenue Bonds, Series 2007 (2007 Bonds). On October 23, 2007, the 2007 Bonds were issued in the total principal amount of \$37,675,000, in accordance with the provisions of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2007 Bonds were issued to finance (a) the acquisition of certain land and the construction of certain infrastructure improvements to benefit the District (b) the payment of initial administrative expenses estimated through March 1, 2010 (c) the payment of construction period interest through March 1, 2010 (d) the funding of a Debt Service Reserve Fund for the 2007 Bonds, and (e) certain costs of issuance. The principal of and the interest on the 2007 Bonds are not deemed to constitute a pledge of the faith and credit of Hanover County, and neither the faith nor credit of the Authority, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the 2007 bonds. At June 30, 2009, the Authority's 2007 Bonds outstanding were \$36,675,000. The Authority is obligated to make all debt service payments on the 2007 Bonds, in accordance with the debt service schedule published in their Limited Offering Memorandum dated October 11, 2007.

Pursuant to the terms of a Special Assessment Agreement (Agreement) dated September 1, 2007 between the County, the Authority, and the Developers (identified in the Authority's Limited

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Offering Memorandum), the 2007 Bonds will be payable (Payments) from (1) a Special Real Property Tax, equal to \$0.10 per \$100 of the assessed or assessable value of taxable real and leasehold property, respectively, within the District, beginning with calendar year 2008, (2) Incremental Tax Revenues consisting of specified percentages of incremental real and personal property, hotel occupancy, and the County's portion of sales tax revenues collected beginning in 2007 over and above 2006 collections within the District, and (3) Special Assessments imposed and collected by the County, if necessary, at the request of the Authority pursuant to a Rate and Method agreement, on taxable real property within the District, in that order.

The County will function as an agent for the Authority by collecting and making the Payments to the Authority annually, and has agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures. However, the Payments described above to the Authority are not deemed general obligations of Hanover County, but will be dependent upon appropriation and paid only to the extent the Special Real Property Tax, Incremental Tax Revenues, or Special Assessments have been received by the County.

The 2009 Special Real Estate Property Tax levy totaled \$31,701, and is remitted to the Authority on a quarterly basis as collected. The fiscal 2009 incremental tax collections totaled \$302,364. Payments of Incremental Tax Revenues are scheduled to be made no later than February 1 of each year. No special assessments were made during fiscal year 2009.