

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

As management of the County, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2009. We encourage readers to consider this discussion and analysis in conjunction with our letter of transmittal in the Introductory Section of this report, and the County's financial statements which follow this discussion and analysis.

### Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2009 by \$318.5 million (*net assets*). Of this amount, \$69.1 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$9.4 million, of which the governmental activities increased by \$3.6 million and business-type activities increased by \$5.8 million.
- As of the close of fiscal year 2009, the County's governmental funds reported combined ending fund balances of \$46.1 million, a decrease of \$8.8 million from prior year. Of the \$46.1 million total, 78.4% (\$36.2 million) is available for spending at the County's discretion (*unreserved fund balance*).
- Undesignated fund balance for the General Fund was \$24.5 million, or 12.3% of total General Fund revenues, representing an increase of \$0.4 million for fiscal year 2009. This exceeds the County's undesignated fund balance policy minimum of 10% of total General Fund revenues.
- The County's total debt increased by \$6.5 million (3.4%) during fiscal year 2009. The net increase was primarily the result of the issuance of \$21.7 million of general obligation bonds in February 2009 offset by principal payments of \$15.2 million. The new debt was approved with the November 2005 referendum to fund capital projects for public safety, parks and library, and schools.

### Overview of the Financial Statements

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

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

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are

reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County which are principally supported by taxes, intergovernmental revenues, and other non-exchange transactions (*governmental activities*) from other activities which are intended to recover all or a significant portion of their costs primarily through user fees charged to external parties (*business-type activities*). The governmental activities of the County include general government administration; judicial administration; public safety; public works; human services; parks, recreation and cultural; community development; education; and interest on long-term debt, as well as the County's self-insurance and fleet management activities. The business-type activities consist of public utilities and the airport.

The government-wide financial statements (Exhibits 1 and 2) include not only the County itself (known as the *primary government*), but also a legally separate school board and a legally separate economic development authority for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

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

With the exception of *internal service fund* activity, (described under *Proprietary Funds which follows*), **Governmental Funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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

The County maintains five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the County Improvements Fund and the School Improvements Fund; all three of which are considered to be *major funds*. Data from the other two County funds, the Comprehensive Services Fund and the Community Services Fund, are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* at Exhibits 16 and 17 of this report. The County adopts an annual appropriated General Fund budget, for which a budgetary comparison statement has been provided to demonstrate compliance with this budget. The governmental fund financial statements can be found at Exhibits 3 through 6 of this report.

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

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found at Exhibits 7 through 9 of this report.

**Fiduciary funds** are used to account for resources received and held in a fiduciary capacity for the benefit of individuals, private organizations, or other governments. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. However, the County is responsible for ensuring that fiduciary fund assets are used for their intended purposes. The County's fiduciary funds consist of an employee benefit trust fund, the Retiree Medical Benefits Trust Fund, and Agency Funds. The Retiree Medical Benefits Trust Fund is used to account for the receipt and disbursement of employer contributions and assets held in trust to provide healthcare benefits to retirees, and agency funds are used to report resources held in a purely custodial capacity for individuals, private organizations or other governments. The fiduciary fund financial statements can be found at Exhibits 10 and 11 of this report, while individual fund data for the agency funds can be found in the form of combining statements at Exhibits 23 and 24 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligations to provide pension and other postemployment benefits to its current and future retirees. This required supplementary information can be found at Exhibit 12 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds and agency funds, and individual fund statements and schedules are presented immediately following the required supplementary information, at Exhibits 13 through 32 of this report.

This report also contains a statistical section that supplements the basic financial statements by presenting detailed trend information, to assist the users to assess the economic condition of the County. We encourage our readers to review the statistical section, to better understand the County's operations, services and financial condition.

Finally, this report contains a compliance section, including the County's Schedule of Expenditures of Federal Awards and related notes, and the independent auditors' required reports on compliance and internal control.

## Financial Analysis of the County as a Whole

### Statement of Net Assets

Table 1 summarizes the Statements of Net Assets for the primary government as of June 30, 2009 and 2008:

| County of Hanover, Virginia                     |              |       |               |       |                    |       |
|-------------------------------------------------|--------------|-------|---------------|-------|--------------------|-------|
| Summary of Net Assets                           |              |       |               |       |                    |       |
| (\$ in millions)                                |              |       |               |       |                    |       |
| Table 1                                         | Governmental |       | Business-type |       | Total              |       |
|                                                 | Activities   |       | Activities    |       | Primary Government |       |
|                                                 | 2009         | 2008  | 2009          | 2008  | 2009               | 2008  |
| Current and other assets                        | \$ 116.1     | 122.5 | 37.7          | 39.8  | 153.8              | 162.3 |
| Capital assets                                  | 231.7        | 211.2 | 201.2         | 194.7 | 432.9              | 405.9 |
| Total assets                                    | 347.8        | 333.7 | 238.9         | 234.5 | 586.7              | 568.2 |
| Long-term liabilities outstanding               | 163.7        | 155.0 | 38.6          | 40.8  | 202.3              | 195.8 |
| Other liabilities                               | 63.2         | 61.4  | 2.7           | 1.9   | 65.9               | 63.3  |
| Total liabilities                               | 226.9        | 216.4 | 41.3          | 42.7  | 268.2              | 259.1 |
| Net assets:                                     |              |       |               |       |                    |       |
| Invested in capital assets, net of related debt | 75.9         | 65.0  | 163.3         | 154.6 | 239.2              | 219.6 |
| Restricted                                      | 6.8          | 10.8  | 3.4           | 3.4   | 10.2               | 14.2  |
| Unrestricted                                    | 38.2         | 41.5  | 30.9          | 33.8  | 69.1               | 75.3  |
| Total net assets                                | \$ 120.9     | 117.3 | 197.6         | 191.8 | 318.5              | 309.1 |

Over time, changes in net assets may serve as a useful indicator of a County's financial position. Of interest, the County's assets exceeded liabilities by \$318.5 million at the close of fiscal year 2009. By far the largest portion of the County's net assets (\$239.2 million, 75.1% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, like water and wastewater services, schools, libraries, law enforcement, and fire and emergency medical services. Consequently, these assets are *not* available for future spending. Although the County's net assets invested in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the County's investment in capital assets is of a long-term nature, as assets acquired are generally not sold or otherwise disposed of during their useful life).

An additional portion of the County's net assets (\$10.2 million, 3.2% of total) represents resources that are subject to external restrictions on how they may be used, including amounts restricted for capital projects, grant programs, debt covenants and postemployment healthcare benefits. The remaining balance of unrestricted net assets (\$69.1 million, 21.7% of total) may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of fiscal year 2009, the County is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. As noted previously, the County's net assets increased by \$9.4 million during fiscal year 2009. The \$3.6 million increase in the net assets of governmental activities resulted primarily from a combination of a \$7.4 million (5.7%) growth in general property tax revenue; with reductions in education and general government expenses offset by \$2.1 million (11.6%) reduction in sales tax revenue and \$1.9 million (19.4%) reduction in capital grants revenues.

The \$5.8 million increase in net assets of business-type activities includes \$5.4 million of donated capital assets accepted by the public utility system and \$1.1 million in intergovernmental revenues for airport capital projects, as well as \$1.1 million in interest income which helps to offset the \$3.2 million operating

loss. The remaining increase in utility fund net assets resulted primarily from the receipt of \$3.1 million of additional nonoperating capacity fees, which helps to offset the cost of existing utility capital improvements and interest payments on associated long-term debt.

## Statement of Activities

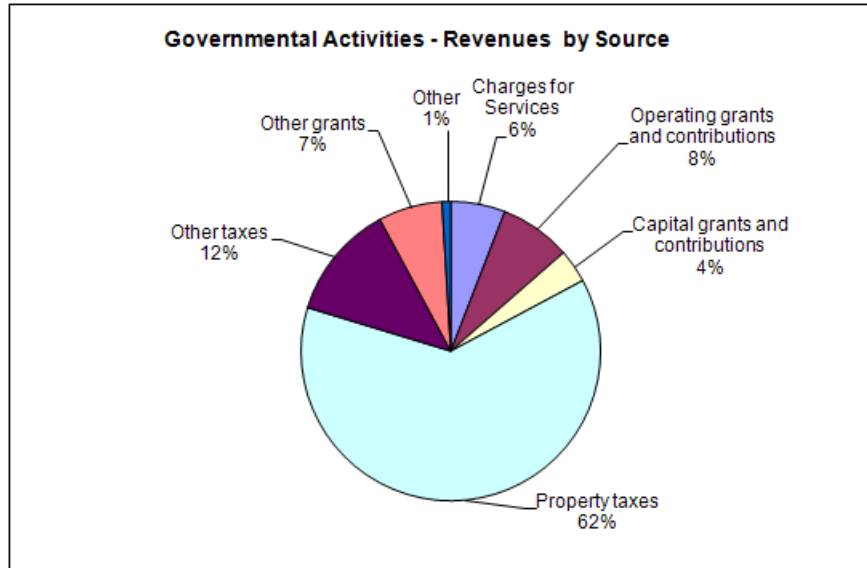
Table 2 summarizes the Statements of Activities of the primary government for the fiscal years ended June 30, 2009 and 2008:

|                                         | <b>Governmental Activities</b> |               | <b>Business-type Activities</b> |              | <b>Total Primary Government</b> |              |
|-----------------------------------------|--------------------------------|---------------|---------------------------------|--------------|---------------------------------|--------------|
|                                         | <b>2009</b>                    | <b>2008</b>   | <b>2009</b>                     | <b>2008</b>  | <b>2009</b>                     | <b>2008</b>  |
| <b>Revenues:</b>                        |                                |               |                                 |              |                                 |              |
| <b>Program revenues:</b>                |                                |               |                                 |              |                                 |              |
| Charges for services                    | \$ 12.7                        | 12.8          | 21.3                            | 21.4         | 34.0                            | 34.2         |
| Operating grants and contributions      | 16.7                           | 16.6          | -                               | -            | 16.7                            | 16.6         |
| Capital grants and contributions        | 7.8                            | 9.7           | 9.8                             | 20.8         | 17.6                            | 30.5         |
| <b>General revenues:</b>                |                                |               |                                 |              |                                 |              |
| Property taxes                          | 135.8                          | 128.4         | -                               | -            | 135.8                           | 128.4        |
| Other taxes                             | 27.1                           | 30.0          | -                               | -            | 27.1                            | 30.0         |
| Noncategorical State aid                | 15.0                           | 15.4          | -                               | -            | 15.0                            | 15.4         |
| Grants and contributions                | 1.2                            | 1.1           | -                               | -            | 1.2                             | 1.1          |
| Other                                   | 1.1                            | 1.9           | 1.1                             | 1.3          | 2.2                             | 3.2          |
| <b>Total revenues</b>                   | <b>217.4</b>                   | <b>215.9</b>  | <b>32.2</b>                     | <b>43.5</b>  | <b>249.6</b>                    | <b>259.4</b> |
| <b>Expenses:</b>                        |                                |               |                                 |              |                                 |              |
| General government                      | 14.1                           | 14.7          | -                               | -            | 14.1                            | 14.7         |
| Judicial administration                 | 4.8                            | 4.4           | -                               | -            | 4.8                             | 4.4          |
| Public safety                           | 46.1                           | 43.5          | -                               | -            | 46.1                            | 43.5         |
| Public works                            | 16.1                           | 12.4          | -                               | -            | 16.1                            | 12.4         |
| Human services                          | 24.2                           | 23.1          | -                               | -            | 24.2                            | 23.1         |
| Parks, recreation and cultural          | 8.4                            | 6.4           | -                               | -            | 8.4                             | 6.4          |
| Community development                   | 6.0                            | 5.6           | -                               | -            | 6.0                             | 5.6          |
| Education                               | 93.0                           | 101.0         | -                               | -            | 93.0                            | 101.0        |
| Interest on long-term debt *            | 0.8                            | 0.5           | -                               | -            | 0.8                             | 0.5          |
| Public utilities                        | -                              | -             | 25.3                            | 23.8         | 25.3                            | 23.8         |
| Airport                                 | -                              | -             | 1.4                             | 0.6          | 1.4                             | 0.6          |
| <b>Total expenses</b>                   | <b>213.5</b>                   | <b>211.6</b>  | <b>26.7</b>                     | <b>24.4</b>  | <b>240.2</b>                    | <b>236.0</b> |
| Increase in net assets before transfers | 3.9                            | 4.3           | 5.5                             | 19.1         | 9.4                             | 23.4         |
| <b>Transfers</b>                        | <b>( 0.3)</b>                  | <b>( 0.2)</b> | <b>0.3</b>                      | <b>0.2</b>   | <b>-</b>                        | <b>-</b>     |
| Increase in net assets                  | 3.6                            | 4.1           | 5.8                             | 19.3         | 9.4                             | 23.4         |
| Net assets - beginning of year          | 117.3                          | 113.2         | 191.8                           | 172.5        | 309.1                           | 285.7        |
| <b>Net assets - end of year</b>         | <b>\$ 120.9</b>                | <b>117.3</b>  | <b>197.6</b>                    | <b>191.8</b> | <b>318.5</b>                    | <b>309.1</b> |

\* For business-type activities, interest on long-term debt is included in the functional expense category.

**Governmental Activities:** As reflected in Table 2, the increase in net assets attributable to the County's governmental activities totaled \$3.6 million for fiscal year 2009. Generally, net asset changes are the result of the difference between revenues and expenses. Fiscal year 2009 revenues of \$217.4 million represent an increase of \$1.5 million or 0.7% over the prior year, while expenses of \$213.5 million represent an increase of \$1.9 million or 0.9% compared to the prior year.

The following chart illustrates the County's fiscal year 2009 governmental revenues by source as a percentage of total governmental revenues:



Taxes are the largest source of County revenues, totaling \$162.8 million for fiscal year 2009, an increase of \$4.5 million, or 2.8%, over fiscal year 2008, primarily due to general property taxes, which grew by \$7.4 million, or 5.7%, which were partially offset by reductions in sales taxes of \$2.1 million, or 11.6%, and in other taxes of \$0.8 million, or 6.9%. General property taxes totaled \$135.8 million for fiscal year 2009, and represent 83.4% of total taxes and over 62% of all revenues combined.

Also in fiscal year 2009, \$37.3 million, or 17.1% of total revenues, were generated from program revenues, consisting of \$12.7 million in charges for services, \$16.7 million of operating grants and contributions, and \$7.8 million of capital grants and contributions. General revenues, including \$15.0 million of noncategorical state aid, unrestricted grants and contributions, and unrestricted investment earnings accounted for the remaining revenues.

As shown in Table 2, the total expenses of all the County's governmental activities for fiscal year 2009 were \$213.5 million, which represents an increase of \$1.9 million, or 0.9% over fiscal year 2008. As the following chart indicates, education continues to be the County's largest program and highest priority, with education expenses totaling \$93.0 million in fiscal year 2009. Public safety is also a high County priority and the County's second largest expense, totaling \$46.1 million in fiscal year 2009. Public safety expenses increased \$2.6 million, or 5.9% over fiscal year 2008, primarily due to compensation and benefit adjustments and funding for additional sworn officers and firefighters/emergency medical technicians.

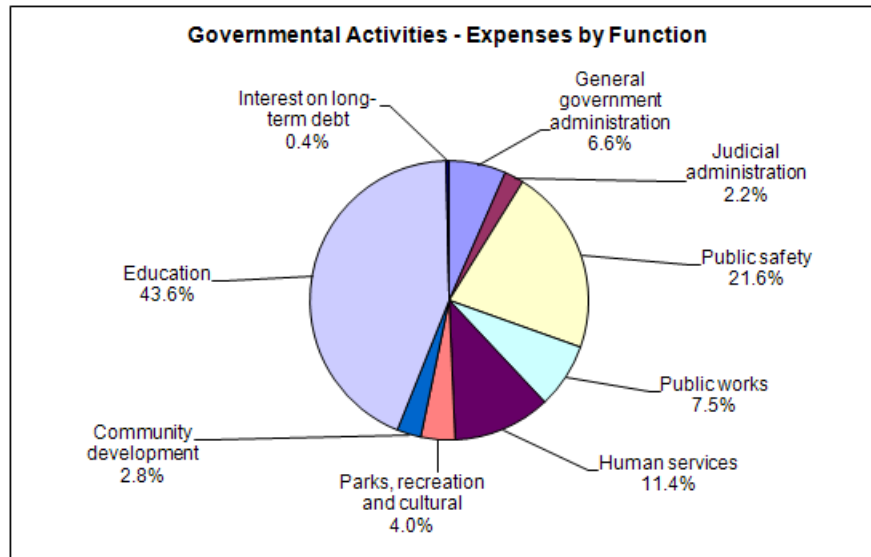


Table 3 presents the total cost of the County's governmental activities by function, as well as the net cost of each function (total cost less fees generated by each function and program-specific intergovernmental aid):

| Functions/Programs             | Total<br>Cost of Services |              | Net<br>Cost of Services |              |
|--------------------------------|---------------------------|--------------|-------------------------|--------------|
|                                | 2009                      | 2008         | 2009                    | 2008         |
| General government             | \$ 14.1                   | 14.7         | \$ 11.8                 | 12.4         |
| Judicial administration        | 4.8                       | 4.4          | 1.6                     | 1.6          |
| Public safety                  | 46.1                      | 43.5         | 37.6                    | 32.8         |
| Public works                   | 16.1                      | 12.4         | 8.2                     | 5.2          |
| Human services                 | 24.2                      | 23.1         | 11.2                    | 10.5         |
| Parks, recreation and cultural | 8.4                       | 6.4          | 7.9                     | 5.8          |
| Community development          | 6.0                       | 5.6          | 5.1                     | 4.6          |
| Education                      | 93.0                      | 101.0        | 92.0                    | 99.1         |
| Interest on long-term debt     | 0.8                       | 0.5          | 0.8                     | 0.5          |
| <b>Total</b>                   | <b>\$ 213.5</b>           | <b>211.6</b> | <b>\$ 176.2</b>         | <b>172.5</b> |

As Table 3 demonstrates, governmental activities generated revenue that helped offset the cost of these services, including charges for services paid by those who directly benefited from the programs, totaling \$12.7 million, and payments received in the form of operating and capital grants and contributions from other governments and organizations, totaling \$24.6 million. These combined program revenues of \$37.3 million reduced the total fiscal year 2009 cost of services from \$213.5 million to the net cost of services of \$176.2 million. The net cost of services was covered by the County's general revenues, consisting primarily of taxes and state aid.

**Business-type Activities:** Table 2 also summarizes the business-type activities. Similar to changes in net assets attributable to governmental activities, changes in business-type activity net assets also result from the difference between revenues and expenses. However, unlike governmental activities, which rely primarily on general tax revenues to finance operations, business-type activities are financed to a

significant extent by fees charged to external parties for goods and services provided. The County's business-type activities consist of its Public Utilities water and wastewater treatment services and its airport activities. The increase in the net assets attributable to the County's business-type activities totaled \$5.8 million for fiscal year 2009, consisting of a \$5.6 million increase attributable to Public Utilities water and wastewater treatment activities, and \$0.2 million attributable to airport activities.

Public Utilities revenues totaled \$30.9 million, of which \$21.2 million, or 68.6%, was generated from charges for services and user fees (substantially the same as last year). Public Utilities expenses totaled \$25.3 million, compared to \$23.8 million for fiscal year 2008, an increase of \$1.5 million, or 6.3%, of which approximately half was due to an increase in contractual services for the purchase of wastewater services.

Airport revenues totaled \$1.3 million in fiscal year 2009, compared to \$0.9 million last year, primarily due to increased Federal revenue for airport capital projects. Similarly, airport expenses totaled \$1.4 million in fiscal year 2009, compared to \$0.6 million last year, primarily due to the expenditure of the additional Federal revenues in fiscal year 2009.

## Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of fiscal year 2009, the County's governmental funds reported combined ending fund balances of \$46.1 million (Exhibit 3), a decrease of \$8.8 million in comparison with fiscal year 2008. Of the \$46.1 million, 78.4% (\$36.2 million) constitutes unreserved fund balance, which is available for spending at the County's discretion. The unreserved fund balance includes \$11.3 million designated to meet needs in the general, capital projects and special revenue funds, as further described in footnote V. B. of the financial statements. Fund balance of \$10.0 million is *reserved* to indicate that it is not available for new spending because it has already been committed to (1) liquidate contracts and purchase orders of the prior fiscal year for which funding has been received (\$9.5 million, including grant programs), (2) provide required debt reserves (\$0.4 million), and (3) establish a reserve for inventory (\$0.01 million).

The General Fund is the primary operating fund of the County (Exhibits 3 through 6). The General Fund's fund balance decreased \$4.5 million during fiscal year 2009, or 12.1%, to \$32.9 million, of which \$32.2 million is unreserved, representing resources available for appropriation. The decrease in fund balance was primarily the result of lower than budgeted general property taxes, other local taxes, revenues from the Commonwealth of Virginia and the Federal government totaling \$8.5 million, which were more than offset by fiscal year 2009 expenditure reduction initiatives, resulting in combined General Fund expenditure and transfer savings totaling \$15.5 million in comparison to budget (Exhibit 6). \$4.2 million of the General Fund's fiscal 2009 ending fund balance has been designated as a source of funding of the fiscal year 2010 budget. Of interest, as one measure of the General Fund's liquidity, it is useful to compare fund balances to total fund revenues. The General Fund's unreserved fund balance represents 16.2% of total General Fund revenues, while its total fund balance represents 16.5% of that same amount. Of General Fund unreserved fund balances, the \$24.5 million undesignated portion represents 12.3% of total General Fund revenues, and exceeds the 10% minimum set by the County's fund balance policy. In

addition, \$2.1 million of the General Fund unreserved fund balance has been designated for revenue stabilization during periods of economic downturn.

The fund balance in the County Improvements Fund decreased by \$6.2 million during fiscal year 2009 as a result of various fiscal year 2009 capital project expenditures, for which the source of funding consisted of prior fiscal year-end fund balances designated for County capital improvements. The unreserved fund balance is \$3.6 million, which is designated as described in footnote V.B. of the financial statements. The reserved fund balance is \$8.5 million. The undesignated fund balance decreased to \$0 from \$104,079, and is primarily the result of the use of undesignated fund balance to fund capital projects during fiscal 2009, and will be reimbursed from the County's planned January 2010 general obligation bond sale.

The unreserved fund balance of the School Improvements Fund increased \$1.8 million, to a deficit of \$0.3 million at June 30, 2009, due to reimbursement of prior year capital expenditures from the issuance of general obligation bonds during fiscal 2009. The remaining deficit in the School Improvements Fund unreserved fund balance of \$0.3 million will also be funded by proceeds from the next 2005 referendum bond issuance scheduled for January 2010.

**Proprietary funds:** The County's proprietary funds financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, but in more detail. Public Utilities' total net assets increased \$5.6 million, or 3.1% during fiscal year 2009. The majority of the increase was due to \$5.4 million of capital assets contributed by developers of residential and commercial water and wastewater construction projects. Public Utilities' net assets restricted for debt covenants increased by \$0.1 million, and its unrestricted net assets decreased \$3.6 million. The Airport Fund's net assets increased by \$0.2 million in fiscal year 2009.

## **General Fund Budgetary Highlights**

General Fund budget amendments resulted in an increase of \$2.5 million between the originally-adopted fiscal year 2009 budget and the final budget, with \$1.6 million of the increase resulting from reappropriation of fiscal year 2008 year-end encumbered and unencumbered fund balance amounts, for completion of ongoing projects in fiscal year 2009. Significant reappropriations included:

- \$69,500 for bond issuance costs of the February 2009 general obligation bond sale;
- \$145,000 for the Clerk of the Circuit Court, for document imaging and web access initiatives;
- \$81,000 for the Fire and Emergency Management Services SAFER grant program;
- \$400,000 for an economic development project, including \$200,000 of State source revenue;

The remaining \$0.9 million in budget amendments were funded by various revenue sources. Significant amendments included:

- \$267,000 transfer from the General Fund to the Self-Insurance Fund to cover increased health insurance costs;
- \$300,000 increase in tax relief for the elderly to recognize the impact of enhancements to the program approved by the Board of Supervisors in fiscal year 2008;
- \$200,000 transfer to the County Improvement Fund for improvements to Vaughn-Bradley Building funded by asset forfeiture funds.

## Capital Assets and Debt Administration

**Capital assets:** The County’s investment in governmental and business-type activity capital assets as of June 30, 2009, totals \$432.9 million, net of accumulated depreciation. This represents an increase of \$27.1 million, or 6.7% over fiscal year 2008. The investment in capital assets includes land, buildings, improvements, infrastructure (primarily stormwater drainage basins), machinery and equipment and construction in progress. State law grants the County a *tenancy in common* with the School Component Unit for School capital assets for which the County incurs an obligation payable over more than one fiscal year, under which the County reported net capital assets of \$132.4 million at year-end. Major capital asset activity during fiscal year 2009 included the following:

- Governmental activities capital assets increased \$20.5 million, net of accumulated depreciation. Buildings increased \$14.7 million, primarily as a result of the completion of the \$3.8 million Mechanicsville Library, the \$4.0 million Emergency Communications Building, and the \$5.4 million Ashland and Farrington fire stations.
- Business-type activity capital assets increased \$6.5 million, net of accumulated depreciation, which consisted of completed and in-progress water and wastewater infrastructure projects reported in the Public Utilities Fund.

Additional information on the County’s capital assets can be found in note IV. C. to the financial statements. Capital assets, net of accumulated depreciation, are illustrated in the following table:

|                                   | (\$ in millions) |               |                   |       |
|-----------------------------------|------------------|---------------|-------------------|-------|
|                                   | Governmental     | Business-type | Totals at June 30 |       |
|                                   | Activities       | Activities    | 2009              | 2008  |
| Land                              | \$ 8.8           | 10.3          | 19.1              | 18.8  |
| Buildings                         | 177.2            | 59.6          | 236.8             | 223.8 |
| Improvements other than buildings | 2.9              | 123.2         | 126.1             | 119.2 |
| Machinery and equipment           | 12.6             | 1.1           | 13.7              | 12.3  |
| Infrastructure                    | 15.5             | -             | 15.5              | 14.1  |
| Construction in progress          | 14.7             | 7.0           | 21.7              | 17.6  |
| Total                             | \$ 231.7         | 201.2         | 432.9             | 405.8 |

**Long-term debt:** At the end of fiscal year 2009, the County had total bonded debt outstanding of \$190.8 million. Of this amount, \$154.0 million comprises debt backed by the full faith and credit of the County. The remainder of the County’s debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). The County’s total debt increased during fiscal year 2009 by \$6.5 million (3.4%). The net increase was primarily the result of a \$20.2 million general obligation bond issuance in February 2009 for County and Schools capital projects of \$10.8 and \$9.4 million, respectively, issued at a premium of \$1.5 million, less fiscal year 2009 principal payments on outstanding debt. The County is in compliance with all debt policy and debt coverage requirements as illustrated on Tables 4 and 9 of the Statistical Section of this report.

In the Commonwealth of Virginia, there is no State statute that limits the amount of general obligation debt a County may issue. Additional information on the County’s long-term debt can be found in note IV. E. to the financial statements. The following table illustrates the County’s outstanding debt at June 30, 2009:

|                           | (\$ in millions)           |                             |       |
|---------------------------|----------------------------|-----------------------------|-------|
|                           | Governmental<br>Activities | Business-type<br>Activities | Total |
| General obligation bonds  | \$ 154.0                   | -                           | 154.0 |
| Revenue bonds             | -                          | 36.8                        | 36.8  |
| Capital lease obligations | 1.8                        | -                           | 1.8   |
| Total                     | \$ 155.8                   | 36.8                        | 192.6 |

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

The unemployment rate for the County in August, 2009 was 6.6%, which was 2.5% higher than a year ago. Unemployment increased significantly throughout the nation over the past year. The County’s rate continues to compare favorably to the State’s average unemployment rate of 6.5% and the national average rate of 9.6% for the same period. The County is not experiencing an overall devaluation of property values, although there are some pockets of lower values. Initial assessment data suggest an overall flat or slight decrease in property values for tax year 2010. Sales tax revenues which are included in other local revenues decreased 11.6% in fiscal year 2009 and are budgeted to increase 1.8% in fiscal year 2010 over fiscal year 2009 actual revenue. Fiscal year 2010’s personal property tax budget was lowered by \$4.2 million (15.5%) due to 2009 unprecedented depreciation of vehicles and lower new vehicle purchases in 2009. Fiscal year 2010 revenue estimates appear, in total, to be on target with budget.

The County recognizes the value of properly illustrating year-end commitments. Accordingly, at June 30, 2009, the County has designated \$4.2 million of unreserved fund balance in its General Fund to fund a portion of the fiscal year 2010 adopted General Fund budget. In this manner, the County is able to utilize all or portions of surpluses at the end of the current fiscal year as a source of funding in a subsequent year, while also meeting the County’s fund balance policy and maintaining desired reserves for future needs. Also as of June 30, 2009, the Board of Supervisors approved the creation of a temporary fund balance designation for revenue stabilization during the economic downturn. This designation is anticipated to be temporary as it was created to provide flexibility for the immediate subsequent budgets. All fund balance designations at June 30<sup>th</sup> are illustrated in footnote V. B. to the accompanying financial statements.

All County general property tax rates remained unchanged for calendar year 2009. In fiscal year 2009, Public Utilities' user fee increases included a 6.0% rate increase for water, a 5.0% increase for sewer.

The fiscal year 2010 budget includes the County's share of the State's reduction of \$50.0 million per year in aid to localities. The State allowed localities to elect from three options which included (1) reducing one State aid program, (2) reducing multiple State aid programs on a proportional basis, or (3) making a reimbursement to the State in aggregate for the County's share. The County chose to make the reimbursement of its share (\$367,520) for fiscal year 2010. The County's Five-Year Financial Plan includes the State's fiscal year 2010 reduction.

### **Requests for Information**

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