

Hanover County, Virginia

2nd Quarter Financial Report

December 31, 2010

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Office of Finance and Management Services

February 9, 2011

Kathleen T. Seay, Director

Attached for your review are compara-
tive interim financial reports for the
County's General Fund.

These reports cover the periods July 1
through December 31, 2010 and 2009,
respectively.

This report has been prepared by the
County's Department of Finance and
Management Services from unaudited
records and is for management pur-
poses only. Input was provided from
various departments and related enti-
ties throughout the County to help de-
velop General Fund projections.

The purpose of this report is to provide
key financial management information
in a format that is clear and concise.

The County's audited Comprehensive
Annual Financial Reports, Budget Docu-
ments and Financial and Budget Policies



and Regulations are available on the Depart-
ment's web-site, at

[http://www.co.hanover.va.us/finance/
default.htm](http://www.co.hanover.va.us/finance/default.htm). For additional information,
contact Kathleen T. Seay, Director of Finance
and Management Services at (804) 365-6015
or by e-mail at ktseay@co.hanover.va.us.

HANOVER COUNTY'S "TRIPLE AAA" BOND RATINGS REAFFIRMED BY ALL THREE MAJOR RATING AGENCIES

Despite the recession, in
April, 2010, Hanover
County became one of
only 36 counties nation-
wide to achieve "triple
AAA" ratings from all
three major municipal

bond rating agencies,
and is the smallest in the
U.S. by population to
have done so. These rat-
ings were reaffirmed on
January 12, 2011 by all
three rating agencies.



Revenues by Source	Actual Revenues as of Dec 31, (6 months)				Budgeted Revenues (12 months)				Actual Revenues (12 months)				FY 2011 (12 months) Projected Revenue Over/(Under) Budget
	In Dollars		% of Budgeted Revenues		FY 2010		FY 2011		FY 2010		FY 2011		
	(FY 2010)	2010 (FY 2011)	(FY 2010)	(FY 2011)	FY 2010	FY 2011	Audited Revenues	Projected Revenues	Audited Revenues	Projected Revenues	FY 2010 Audited Revenues	FY 2011 Projected Revenues	
Real property taxes	49,891,846	49,661,129	48.6%	50.2%	102,591,000	99,000,000	99,803,064	98,800,000	97.3%	99.8%	97.3%	99.8%	(200,000)
Personal property taxes	2,669,571	4,205,753	11.7%	18.8%	22,856,000	22,348,875	21,912,506	23,410,000	95.9%	104.7%	95.9%	104.7%	1,061,125
Other property taxes	3,973,108	3,713,220	46.7%	40.5%	8,516,000	9,169,000	10,444,904	9,602,000	122.7%	104.7%	122.7%	104.7%	433,000
Local sales and use taxes	5,035,178	5,355,842	31.3%	35.4%	16,110,653	15,112,000	15,118,688	16,093,000	93.8%	106.5%	93.8%	106.5%	981,000
Telecommunication sales and use tax	1,841,670	1,789,455	32.0%	32.7%	5,761,000	5,474,000	5,374,649	5,474,000	93.3%	100.0%	93.3%	100.0%	-
Other local taxes	2,245,441	2,230,802	38.3%	38.9%	5,856,198	5,730,000	5,584,000	5,605,000	95.4%	97.8%	95.4%	97.8%	(125,000)
Permits, licenses and charges for service	2,212,193	2,199,149	36.9%	41.9%	5,997,294	5,252,553	4,832,534	5,098,553	80.6%	97.1%	80.6%	97.1%	(154,000)
Revenue from use of money & property	286,960	396,062	20.2%	26.2%	1,421,703	1,509,000	716,708	759,000	50.4%	50.3%	50.4%	50.3%	(750,000)
Recovered costs and other	2,081,811	2,416,468	57.5%	48.7%	3,618,814	4,958,265	4,834,796	4,970,400	133.6%	100.2%	133.6%	100.2%	12,135
State aid	15,548,039	15,442,370	66.6%	69.3%	23,353,645	22,282,437	22,430,991	22,175,941	96.0%	99.5%	96.0%	99.5%	(106,496)
Federal aid	1,252,737	1,606,019	26.5%	38.3%	4,723,001	4,193,907	3,483,080	3,798,335	73.7%	90.6%	73.7%	90.6%	(395,572)
Prior year's balance	5,600,678	5,898,483	100.0%	100.0%	5,600,678	5,898,483	5,600,678	5,898,483	100.0%	100.0%	100.0%	100.0%	-
Total revenues	92,639,232	94,914,751	44.9%	47.2%	206,405,986	200,928,520	200,136,598	201,684,712	97.0%	100.4%	97.0%	100.4%	756,192

Revenue Comments

- **Reason for fluctuation in FY11 total projected revenues in comparison to FY10** —The estimated increase in anticipated revenue for FY11 is due primarily to offsetting increases in Personal Property and Sales Tax and decreases in Real Property Taxes and Investment Income.
- **Real property tax revenue**— 2011 Real Property assessments were budgeted to decline, so when the final net change in assessment came in, the FY11 revenue impact was not as high. The effect of the decline will be fully realized in FY12 for the second half property bills.
- **Personal property tax revenue**—Personal Property rebounded from the double-digit dip realized in FY10 and exceeded the FY11 budgeted figure. This two-year swing (down in FY10 and up in FY11) returned the depreciation values to their historic trend. This is good news, in that, while growth has not picked back up to match recent historic trends, the smoothing effect on depreciation is a positive indicator of stabilization in the automobile values going into next year.
- **Other property tax revenue**—The majority of the increase in “Other property taxes” is due to the collection of delinquent taxes on real and personal property.
- **Sales tax revenue**—The FY11 Budget was adopted during a period of 18 month declines in Sales Tax (compared with the same month a year prior). FY11 actual, Sales Tax has shown positive growth in the last 8 out of 9 months. This encouraging shift in this revenue source has resulted in a higher return than was budgeted.
- **Permits**—Permits, licenses and charges for service includes an estimated \$184,000 related to new development at Covenant Woods.
- **Prior year's balance**— represents the reinvestment of prior year's accumulated surplus into the current fiscal year; primarily to continue previously approved projects.

FY 11 General Fund Expenditure Projection

Expenditures by function ⁽¹⁾	Actual Expenditures as of Dec 31, (6 months)				Actual Expenditures (12 months)				FY 2011 (12 months) Projected Expenditures Over/(Under) Budget (519,668) (166,587) (585,811) (87,834) (844,865) (133,523) (517,584) (130,000) (70,400) (4,025,889) 4,025,889 2,699,509	
	In Dollars		% of Budgeted Expenditures		In Dollars		% of Budgeted Expenditures			
	2009 (FY 2010)	2010 (FY 2011)	2009 (FY 2010)	2010 (FY 2011)	FY 2010 Audited Expenditures	FY 2011 Projected Expenditures	FY 2010 Audited Expenditures	FY 2011 Projected Expenditures		
	5,857,074	7,043,086	41.4%	52.5%	Budgeted Expenditures (12 months)					
General government admin	2,268,474	2,098,724	48.3%	46.5%	4,700,818	4,512,609	4,424,703	4,346,022	94.1%	96.3%
Judicial administration	22,303,050	21,819,846	47.9%	47.7%	46,537,298	45,790,968	43,154,447	45,205,157	93.5%	98.7%
Public safety	3,933,896	3,619,987	45.7%	44.0%	8,615,975	8,221,063	7,422,549	8,133,229	86.1%	98.9%
Human Services	7,333,945	7,835,851	44.6%	49.1%	16,439,957	15,955,280	14,822,759	15,110,415	90.2%	94.7%
Parks, recreation and cultural	3,276,576	3,076,770	50.7%	49.9%	6,460,493	6,167,736	6,076,577	6,034,213	94.1%	97.8%
Community development	3,114,288	2,849,291	42.8%	46.6%	7,282,010	6,105,732	5,907,016	5,588,148	81.1%	91.5%
Debt service	1,996,221	2,177,798	66.2%	58.2%	3,017,608	3,741,919	3,017,608	3,611,919	100.0%	96.5%
Nondepartmental	-	100,108	0.0%	6.2%	316,536	1,610,297	-	1,539,897	0.0%	95.6%
Capital projects	2,802,800	1,998,800	73.1%	100.0%	3,833,800	1,998,800	3,063,778	1,998,800	79.9%	100.0%
Education expenditures	49,353,487	44,351,457	51.9%	47.5%	95,062,617	93,417,000	89,229,786	89,391,111	93.9%	95.7%
Add - Proposed use of prior-year balance:	-	-	-	-	-	-	-	-	-	-
Funding of Schools budgets	-	-	-	-	-	-	-	-	-	-
Funding of County budget	-	-	-	-	-	-	-	-	-	-
Expenditures by function⁽¹⁾	102,239,811	96,970,717	49.5%	48.3%	206,405,986	200,928,520	194,752,736	200,571,756	94.4%	99.8%
Revenues over (under) expenditures⁽¹⁾	(9,600,579)	(2,055,966)					5,383,862	1,112,956		Projected Net Return ----->

Expenditure Comments

- Projected Net Return**—The Projected Net Return shown above of \$1.1M consists of the positive revenue variance of \$756,000 and the positive expenditure variance of \$357,000. The positive expenditure variance of \$357,000 is net of the proposed use of \$6.7 million of prior-year balance for the proposed budgets, including \$4.0 for Schools and \$2.7M for the County. The Net Return will be reinvested as described in the following comment.
 - Use of Projected Net Return**—Of the projected net return of \$1.2M, \$175,000 is needed to maintain the 12.6% undesignated fund balance, and \$938,000 will replenish the reserve for revenue stabilization.
 - County Savings**—County’s savings include \$1.7 million in salary and benefit savings due to vacancies, and \$1.3 million in across-the-board operating savings.
 - School Savings**—The School’s return of \$4.0 million resulted from State Fiscal Stabilization (“Stimulus”) funds which were available on a one-time basis in FY 2011, and which were used as a first source of FY 2011 funding in the School Fund. In addition to the \$4.0 million Schools return, it is projected that the Schools Operating Fund will have another \$2.5 million in prior-year fund balance available at June 30, 2011 to fund future School needs.
 - Human Services Savings**—Human Services savings are offset in part by a \$500,000 budget shortfall in State and Federal revenues, with the remaining savings consisting primarily of cost savings projected by the Community Services Board.
 - Public Safety Savings**—Public Safety savings result primarily from projected savings from vacancies and operating savings in the Sheriff and Fire Departments, and from projected savings from the Pamunkey Regional Jail.
 - Debt Service Savings**—Debt service savings result from the delay due to market conditions in issuing the final installment of bonds to finance the final 2005 referendum projects for schools, public safety and parks and recreation facilities.
 - Nondepartmental Savings**—Nondepartmental savings consist of savings from the reserve for contingencies that will not be needed in fiscal 2011.
- Note (1)**—The expenditures shown above include encumbrances, reappropriations, and use of prior-year fund balance. The Projected Net Return is calculated net of the use of prior-year balance for future County and Schools budgets.

General Fund - Budget Highlights

Projected Change in Undesignated Fund Balance

Projected Net Return	1,112,956		
Allocated to Reserve for Revenue Stabilization	(938,096)		
Projected Net Change in Undesignated Fund Balance	174,861	% of revenue	June 30,
Beginning Fund Balance July 1, 2010	24,494,204	12.6%	2010
Projected Ending Fund Balance June 30, 2011	24,669,065	12.6%	2011

See additional comments on the next page.

Budget Comments

- The County’s conservative budgeting practices and cost reduction initiatives are structured to generate positive budget variances. Positive budget variances from one year are applied to fund a portion of the next year’s budget. Thus, positive budget variances are used in lieu of taxes in the coming year, and therefore help to keep Hanover’s tax rates low and stable from year to year.
- As of December 31, 2010, it is projected that positive budget variances from FY11 will be sufficient to fund approximately \$6.7 million in the proposed future County and School budgets.
- FY11’s projected budget variance will be made possible by the County’s focus on conservative spending and savings realized from vacant positions.
- The County’s undesignated fund balance is projected to remain substantially unchanged at June 30, 2011 in comparison to the prior year-end’s level (a projected increase of only \$175,000), and will remain at 12.6% of revenues. Fund balance reserves are discussed on the following page.

Reserve for Contingencies

Beginning FY11 Budget	\$ 980,400
Renovate Community Resources conference room	(5,000)
Document imaging software	(5,000)
Balance, December 31, 2010	\$ 970,400

The reserve for contingencies is budgeted to cover unexpected needs. As of the end of the 2nd Quarter, \$10,000 has been used from the reserve.



General Fund Reserves and Designations

RESERVE FOR REVENUE STABILIZATION

	Actuals		Projected
	FY09	FY10	FY11
Beginning balance	\$ -	2,066,529	3,725,246
Additions	2,066,529	2,658,717	938,096
Use:			
In subsequent year budget	-	(1,000,000)	(1,575,000)
Ending Balance	\$ 2,066,529	\$ 3,725,246	\$ 3,088,342

To help preserve essential services to County residents during the recession, since 2009, any amounts over our 12.6% undesignated fund balance target generated by position vacancies and operating savings have been placed in a Reserve for Revenue Stabilization During Periods of Economic Downturn. This reserve provides a source of funds to mitigate future revenue declines, to fund future year budgets in accordance with the five-year plan, and then to fund one-time needs that have been placed on hold during the recession.

As of the 2nd Quarter projection, the County currently anticipates that \$1.6M of the Reserve for Revenue Stabilization will be used to fund a portion of the FY 2012 budget.

County General Fund Balance Designations and Reserves

	Actual	Projected
	6/30/2010	6/30/2011
Designated for:		
Economic Development	\$ 500,000	\$ 500,000
Funding of budgets	4,343,776	6,725,398
Funding of future school needs	2,000,000	2,000,000
Reappropriate unencumbered balances	1,018,929	1,000,000
Reserve for revenue stabilization	3,725,246	3,088,342
Total Designations	11,587,951	13,313,740
Reserved for:		
Encumbrances	812,191	800,000
Inventory	54,826	55,000
Grant programs	400,627	400,000
Debt service	199,106	199,000
Total Reserves	1,466,750	1,454,000
Total Designations and Reserves	\$ 13,054,701	\$ 14,767,740

The table at left shows the General Fund's fund balance reserves and designations at June 30, 2010, from the County's audited financial report, and current projections for June 30, 2011. Actual reserves and designations will be determined at fiscal year-end.

Fund balance designations indicate management's plans, while fund balance reserves indicate legal restrictions on the use of funds and amounts that are unspendable.

The Reserve for Future School Needs is designated to fund a portion of future Schools budgets.

General Fund Balance Sheet

	December 31,	
	2009 (FY 2010)	2010 (FY 2011)
Assets		
Cash and cash equivalents	\$ 18,693,073	\$ 27,838,179
Receivables - net of allowance for uncollectibles:		
Taxes receivable	27,774,166	27,390,264
Landfill use and other receivables	84,903	134,146
Due from other governments	3,056,694	3,166,268
Inventory	21,288	65,401
Total assets	49,630,124	58,594,258
Liabilities and Fund Equity		
Liabilities:		
Accounts payable and accrued liabilities	938,440	576,898
Deferred revenue - property taxes	30,976,141	30,765,070
Total liabilities	31,914,581	31,341,968
Fund Equity:		
Fund balances:		
Reserved or designated for specific purposes	8,422,600	13,054,701
Unreserved	24,494,200	24,491,851
Revenues	87,038,554	89,016,268
Expenditures	(102,239,811)	(99,310,530)
Total fund equity	17,715,543	27,252,290
Total liabilities and fund equity	\$ 49,630,124	\$ 58,594,258

Balance Sheet Comments

- The County's receivable balances are consistent with prior year amounts as of December 31.
- Cash balances are higher, primarily due to reimbursements received on completed referendum projects during 2010.
- Additional information on the County's debt and Debt Policy compliance is shown below.

Key Indicators - Debt Policy Compliance

General obligation debt - principal outstanding at February 9, 2011 \$162,947,770

Debt Policy Compliance (after Feb GO Bond Sale)	Policy Limit	Actual at 2/9/11
Debt to assessed value	< 2.5%	1.0%
Debt per capita	<\$2,017	\$1,569
Debt service to General Gov't'l Exp	<10%	6.9%
Debt per per-capita income	\$5,000	\$3,898
Debt payoff in 5 years	>25%	37%
Debt payoff in 10 years	>50%	70%

\$12.6 million (net of refunded bonds of \$5.6 million) of general obligation bonds were issued in February, 2011, to complete the financing of the 2005 Referendum projects. The chart at left shows that the County remains in compliance with all debt policies after issuance of the final referendum bonds.

Self-Insurance Fund Update

As of December 31, fiscal year 2011 claims and fees are 13.4% over prior year-to-date amounts, and are currently projected to exceed premiums by approximately \$295,000 for the fiscal year, which will be funded by prior-year balance in the Self-Insurance Fund.