

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2005

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 also 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 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.

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, approving transfers between categories, authorizing school debt issuances and appointing School Board members. Financial statements of the School Board are included in the discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplemental 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 industrial development services. The County appoints the seven members of the EDA. By statute, the EDA has the power to cause the issuance of tax-exempt industrial revenue bonds to those 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. On July 28, 2004, the authority’s name was changed from the Industrial Development Authority of Hanover County. Financial statements of the Authority are included in the discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplemental information section. The Authority 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 changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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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. Taxes and other items not properly included among program revenues are reported instead 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 financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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 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 have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 intergovernmental revenues to be available if they are collected within 31 days of the end 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. Revenues from intergovernmental reimbursement grants are recorded when earned. 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.

Franchise taxes, licenses, 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.

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 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 has one major proprietary fund. The *Public Utilities Fund* accounts for the activities and operations of wastewater treatment and water distribution.

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Additionally, the County reports the following fund types:

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 Agency Funds. Agency funds are custodial in nature (assets and liabilities), and do not involve measurement of operations. Agency funds consist of Community Development Authority, 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, internal services funds, 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 fund and of the County's internal service funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on 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.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Cash equivalents are carried at fair value, based on quoted market prices at year end. Cash, cash equivalents and investments include cash on hand, checking and savings accounts, certificates of deposit, U.S. government agency securities, banker's acceptances, repurchase agreements, commercial paper, corporate notes, local bonds, state bonds, money market accounts, mortgage-backed securities and mutual funds. Cash equivalents are purchased on a competitive basis when possible and in instruments authorized by the Code of Virginia. Cash, cash equivalents and investments restricted represents unspent bond proceeds from construction projects and related compliance with debt covenant restrictions.

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Certain proceeds of revenue and general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and cash equivalents on the balance sheet because their use is limited by applicable bond covenants.

2. Receivables and payables

Activity 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 non-current portion of interfund loans). Any residual balances outstanding between the County activities 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 allowance for uncollectibles. The property tax receivable allowance is calculated based upon criteria established by the State 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 December 5 and is classified delinquent on August 1 of the next fiscal year. The real estate taxes reported as revenue are the second installment (December 5) of the levy on assessed value at January 1, 2004, and the first installment (June 5) of the levy on assessed value at January 1, 2005.

The County levies personal property taxes on motor vehicles, boats, mobile homes, aircraft and tangible business property. Personal property taxes in the County are based on the estimated fair market value as of January 1, with payment due the following December 5. 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 in the County. For financial disclosure purposes, taxes are classified delinquent if not received by August 1 of the next fiscal year.

The 1998 Virginia General Assembly enacted legislation providing property tax relief to citizens. The Personal Property Tax Relief Act (PPTRA) was being phased in over five years on the first \$20,000 of value for motor vehicles not used for business purposes. The State froze tax relief at the 70% level for 2002 tax bills. County 2004 tax bills, payable in fiscal year 2005, continued to include a 70% reduction on qualifying vehicles. The Commonwealth reimburses the County for the reduction following County receipt of the reduced tax. Commonwealth reimburses the County for full tax on qualifying vehicles valued \$1,000 and less. All PPTRA payments received from the Commonwealth of Virginia are classified as non-categorical state aid in the General Fund.

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3. Inventories

All 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.

4. Restricted Assets

Governmental activities include unexpended bond proceeds of \$10,975,656 classified as restricted cash on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable bond covenants. In addition, governmental activities include \$770,022 restricted cash for required debt services reserves, also reported as reserved fund balance. Business-type activities include restricted cash of \$6,780,740 for reserves required by revenue bond agreements.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets and similar items, 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 assets' 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

6. Compensated absences

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

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as

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other financing sources. Premiums received on debt issuances are reported as other financing sources while 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 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 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 that are subject to change.

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance -- 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:

Bonds payable	\$ 124,905,617
Accrued bond interest	116,342
Capital leases payable	5,218,579
Compensated absences (excludes internal services)	3,828,021
Liability for landfill closure	2,745,960
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<hr style="width: 100%;"/> <u>\$ 136,814,519</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes 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:

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Capital outlay	3,651,890
Depreciation expense (excludes internal services)	<u>(8,427,990)</u>
Net adjustment to increase <i>net changes in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net</i> <i>assets</i> to governmental activities	<u>\$ (4,776,100)</u>

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets." The details of this difference are as follows:

In the statement of activities, only the <i>loss</i> on the sale of capital assets is reported. However, in the Governmental Funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	\$ (55,266)
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Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>1,720,745</u>
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Net adjustments to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 1,665,479</u>
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Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:

Issuance of general obligation bonds	\$17,097,408
Principal repayments	<u>(1,448,913)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 15,648,495</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:

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Compensated absences (less internal services)	\$ (576,279)
Change in landfill closure liability	(191,836)
Accrued interest	<u>13,537</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (754,578)</u>

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's 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 for review. The Board holds a public hearing and a final budget must be prepared and adopted no later than June 30.

The Appropriations Resolution adopted by the Board of Supervisors places legal restrictions on expenditures at the fund level. The Board has adopted policies establishing thresholds for authorizing adjustments to the adopted budget. Board of Supervisors approval is needed for transfers of \$25,000 or more between department budget categories of personnel, operating, and capital, and any transfers increasing the County's total appropriated budget. The County Administrator is authorized to transfer within department budget categories of personnel, operating, capital, and for amounts up to \$25,000 between departmental budget categories. The School Board is authorized to transfer budgeted amounts within the school funds, with any transfer that increases total appropriated budget requiring subsequent Board of Supervisors approval.

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2005, there were no occurrences of expenditures exceeding appropriations at the fund level (the legal level of budgetary control).

C. Deficit fund equity

There were two funds at the governmental reporting level that had unrestricted deficit net asset balances as of June 30, 2005. The Internal Services, Fleet Management \$59,489 unrestricted fund balance deficit will be recovered through control of future rate adjustments. The Internal Services, Self-Insurance \$203,689 fund balance deficit will also be recovered through control of future rate adjustments and employer contributions. In addition, \$210,000 of General Fund balance was designated to make an additional contribution next fiscal year to the Self-Insurance Fund to eliminate the deficit ending fund balance.

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IV. Detailed notes on all funds

A. Deposits and investments

To increase returns and minimize fees, the County follows the practice of pooling cash and investments of all funds held with the County Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Amounts below exclude funds the Treasurer holds and invests on behalf of the Pamunkey Regional Jail Authority, as they are reported separately in the Authority's Comprehensive Annual Report. Cash and investments are summarized by Primary Government and Component Units in the Statement of Net Assets as Cash, Cash Equivalents and Investments. As of June 30, 2005, the assets held by the Treasurer including \$3,806,780 for Fiduciary Funds were as follows:

<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Cash on Hand	\$ 4,812	N/A
Cash Deposits	(2,043,371)	N/A
Demand and Time Deposits	229,425	N/A
State Treasurer's Local Government Investment Pool	2,311	AAAm
Money Market Mutual Funds	29,462,997	AAAm
Commercial Paper	8,071,003	A-1+
US Government and Agency Bonds	<u>40,932,179</u>	AAA, A-1+
Total deposits and investments	\$ <u>76,668,348</u>	

Deposits: The Primary Government bank balance of deposits with banks and savings institutions at year end was \$809,386, while the carrying value was (\$2,043,371) because of reconciling items such as outstanding checks and deposits in transit. 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 or covered by federal depository insurance. 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.

Investments: In accordance with the Code of Virginia and other applicable law, including regulations, the County's Investment policy (Policy) permits investments in obligations of the United States or agencies thereof, 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 and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

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

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Negotiable Certificates of Deposits/Bank Notes	100% maximum
Repurchase Agreements	50% maximum
Corporate Notes	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	35% maximum
State Bonds, Notes and Other Evidences of Indebtedness	25% maximum
County, Town, City, District, Authority or other public body Bonds, Note and Other Evidences of Indebtedness	25% maximum

The County's 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.

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to proceed or coincide with expectation need of funds, which has resulted in the creation of short and long term portfolios. Furthermore, the County's Policy limits the investment of operating funds to investments with a stated maturity of no more than 5 years from the date of purchase. 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. As of June 30, 2005, the effective duration of the County's short term portfolio was 0.17 years. The short term portfolio included money market mutual funds, commercial paper, and US government and agency bonds totaling \$43,192,570. The effective duration of the County's long term portfolio was 1.7 years. The long term portfolio included money market mutual funds and US government and agency bonds totaling \$17,659,184.

Credit Risk: As required by state statute, the 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 Investor's Service. Furthermore, the Policy requires maturity may not exceed 270 days and the issuing corporation, or its guarantor has a net worth of at least \$50 million and the net income has averaged \$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 Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

The County's rated debt investments as of June 30, 2005, were rated by Standard & Poor's and/or an equivalent national rating organization. The ratings presented above are using the S&P rating scale. 96% of the \$40,932,179 of U.S. Government Agency Securities were rated AAA, while the remaining 4% are rated A-1+.

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Concentration of Credit Risk: The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the 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, 2005, investments in the following issuers exceeded five percent of the portfolio: FHLMA notes (24%) and FNMA notes (23%).

B. Receivables

Receivables as of year end for the County's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities				Subtotal	Business Activities	Total
	General	County Improvement	School Improvement	Non-major and Other Funds		Public Utilities	
Receivables							
Interest	\$ 182,787	-	-	-	182,787	10,453	193,240
Taxes	41,036,771	-	-	-	41,036,771	-	41,036,771
Accounts	1,282,994	-	-	960,442	2,243,436	3,309,180	5,552,616
Intergovernmental	4,458,824	483,135	-	228,197	5,170,156	-	5,170,156
Gross Receivables	46,961,376	483,135	-	1,188,639	48,633,150	3,319,633	51,952,783
Less Allowance for							
Uncollectibles	(1,506,630)	-	-	(168,520)	(1,675,150)	(116,434)	(1,791,584)
Net total receivables	\$ 45,454,746	483,135	-	1,020,119	46,958,000	3,203,199	50,161,199

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Property taxes	\$40,293,874	37,833,874
EMS transport fees	278,216	-
Grant draw downs prior to meeting all eligibility requirements	6,000	6,000
Total deferred/unearned revenue for County funds	<u>\$40,578,090</u>	<u>37,839,874</u>

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C. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,697,427	-	(526,762)	12,170,665
Construction in progress	35,060,522	1,984,974	(28,933,900)	8,111,596
Total capital assets, not being depreciated	<u>47,757,949</u>	<u>1,984,974</u>	<u>(29,460,662)</u>	<u>20,282,261</u>
Capital assets, being depreciated:				
Buildings	140,167,533	26,091,817	-	166,259,350
Improvements other than buildings	13,758,621	91,293	-	13,849,914
Machinery and equipment	28,215,648	3,391,774	(1,709,589)	29,897,833
Infrastructure	20,322,503	1,906,745	-	22,229,248
Total capital assets, being depreciated	<u>202,464,305</u>	<u>31,481,629</u>	<u>(1,709,589)</u>	<u>232,236,345</u>
Less accumulated depreciation for:				
Buildings	(34,632,030)	(1,946,085)	-	(36,578,115)
Improvements other than buildings	(3,608,896)	(857,103)	-	(4,465,999)
Machinery and equipment	(18,245,684)	(2,472,640)	1,709,589	(19,008,735)
Infrastructure	(7,887,082)	(1,000,924)	-	(8,888,006)
Total accumulated depreciation	<u>(64,373,692)</u>	<u>(6,276,752)</u>	<u>1,709,589</u>	<u>(68,940,855)</u>
Total capital assets, being depreciated, net	<u>138,090,613</u>	<u>25,204,877</u>	<u>-</u>	<u>163,295,490</u>
Governmental activities capital assets, net	<u>\$ 185,848,562</u>	<u>27,189,851</u>	<u>(29,460,662)</u>	<u>183,577,751</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,959,854	37,500	-	3,997,354
Construction in progress	46,068,021	8,046,463	(49,644,534)	4,469,950
Total capital assets, not being depreciated	<u>50,027,875</u>	<u>8,083,963</u>	<u>(49,644,534)</u>	<u>8,467,304</u>
Capital assets, being depreciated:				
Buildings and system	36,846,692	38,285,806	-	75,132,498
Improvements other than buildings	120,381,210	14,033,364	-	134,414,574
Machinery and equipment	4,532,462	756,070	(93,320)	5,195,212
Total capital assets, being depreciated	<u>161,760,364</u>	<u>53,075,240</u>	<u>(93,320)</u>	<u>214,742,284</u>
Less accumulated depreciation for:				
Buildings	(13,486,990)	(1,729,189)	-	(15,216,179)
Improvements other than buildings	(39,087,856)	(3,559,156)	-	(42,647,012)
Machinery and equipment	(3,867,540)	(289,732)	93,320	(4,063,952)
Total accumulated depreciation	<u>(56,442,386)</u>	<u>(5,578,077)</u>	<u>93,320</u>	<u>(61,927,143)</u>
Total capital assets, being depreciated, net	<u>105,317,978</u>	<u>47,497,163</u>	<u>-</u>	<u>152,815,141</u>
Business-type activities capital assets, net	<u>\$ 155,345,853</u>	<u>55,581,126</u>	<u>(49,644,534)</u>	<u>161,282,445</u>

COUNTY OF HANOVER
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General governmental administration	\$916,154
Judicial administration	235,622
Public safety	2,304,775
Public works	1,507,586
Health and welfare	71,287
Parks, recreation and cultural	239,131
Community development	22,550
Education	3,130,885
Capital assets held by the internal service funds are charged to various functions based on their usage of the assets	<u>36,017</u>
Total depreciation expense - governmental activities	<u><u>\$8,464,007</u></u>

Business-type activities:	
Total depreciation expense business-type activities, (Public utilities)	\$5,578,077

Discretely presented component units

Activity for the School Board for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
School Component Unit activities:				
Capital assets, not being depreciated:				
Land	\$ 4,243,867	526,762	-	4,770,629
Construction in progress	<u>13,519,245</u>	<u>10,327,307</u>	<u>(21,523,565)</u>	<u>2,322,987</u>
Total capital assets, not being depreciated	<u>17,763,112</u>	<u>10,854,069</u>	<u>(21,523,565)</u>	<u>7,093,616</u>
Capital assets, being depreciated:				
Buildings	70,390,957	17,996,966	-	88,387,923
Improvements other than buildings	3,212,067	213,435	-	3,425,502
Machinery and equipment	<u>14,869,752</u>	<u>1,784,531</u>	<u>(556,675)</u>	<u>16,097,608</u>
Total capital assets, being depreciated	<u>88,472,776</u>	<u>19,994,932</u>	<u>(556,675)</u>	<u>107,911,033</u>
Less accumulated depreciation for:				
Buildings	(16,466,753)	(4,685,774)	-	(21,152,527)
Improvements other than buildings	(397,895)	(165,933)	-	(563,828)
Machinery and equipment	<u>(7,498,217)</u>	<u>(1,286,435)</u>	<u>515,572</u>	<u>(8,269,080)</u>
Total accumulated depreciation	<u>(24,362,865)</u>	<u>(6,138,142)</u>	<u>515,572</u>	<u>(29,985,435)</u>
Total capital assets, being depreciated, net	<u>64,109,911</u>	<u>13,856,790</u>	<u>(41,103)</u>	<u>77,925,598</u>
School activities capital assets, net	<u>\$ 81,873,023</u>	<u>24,710,859</u>	<u>(21,564,668)</u>	<u>85,019,214</u>

Total depreciation expense – School component unit activities \$3,616,895

COUNTY OF HANOVER
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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, the value of school assets financed by County guaranteed debt are shown under the County up to the amount of outstanding debt.

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds		
General	Special Revenue, Community Services	\$180,000

At year end, the General Fund made a temporary \$180,000 advance to the Community Services Fund that will be repaid in the next fiscal year.

	Transfers In				<u>Total</u>
	<u>County Improvements</u>	<u>School Improvements</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Fleet Management</u>	
General Fund Transfers Out:					
Governmental Funds	\$ 2,143,147	1,750,000	5,579,282		9,472,429
Internal Service Funds				55,000	55,000

Transfers are used to provide funding for operating and capital costs.

E. Leases

Operating Leases

The County leases building and office facilities and other equipment under various operating lease agreements. Most operating leases are subject to annual appropriation of funds. Total costs for such leases for the year ended June 30, 2005, were:

Governmental Activities	\$574,690
Business-Type Activities	22,756
School Activities	<u>323,886</u>
	<u>\$921,332</u>

Obligations under noncancellable operating leases are not significant.

COUNTY OF HANOVER
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Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of office facilities, computer equipment, and communications system. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases for Governmental activities are as follows:

Land	\$ 384,847
Building	11,429,888
Machinery and Equipment	2,329,857
Less: Accumulated Depreciation	<u>(4,974,315)</u>
Total	<u>\$9,170,277</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30, 2005</u>	<u>Total Minimum Lease Payments</u>
2006	\$ 951,724
2007	969,353
2008	979,385
2009	989,173
2010	1,000,335
2011-2013	<u>923,829</u>
Total minimum lease payments	5,813,799
Less amount representing imputed interest	<u>(595,220)</u>
Present value of net minimum capital lease payments	<u>\$ 5,218,579</u>

In total, the paydown of principal over the next five years and ten years as a percentage of total outstanding capital lease obligations is equal to 82.9% and 100.0%, respectively.

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F. Long-term debt

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 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. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date Issued</u>	<u>Interest Rates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Governmental activities – County:				
General obligation bonds	1997	4.70 - 6.50%	\$ 7,940,000	<u>\$ 4,740,000</u>
Total governmental activities – County				<u>4,740,000</u>
Governmental activities – School:				
General obligation bonds	1999	4.00 - 5.625	10,000,000	7,500,000
General obligation bonds	2000	4.50 - 5.375	19,000,000	15,000,000
General obligation bonds	2002	4.39	20,000,000	17,000,000
General obligation bonds	2002	3.97	21,500,000	20,500,000
VPSA Bonds	1990	6.40 - 7.10	6,040,000	2,065,000
VPSA Bonds	1991	4.85 - 6.60	2,069,507	805,861
VPSA Bonds	1992	5.10 - 8.10	6,230,000	2,105,000
VPSA Bonds	1993	4.47 - 5.00	3,620,000	855,000
VPSA Refunding Bonds	1994	6.35 - 7.19	32,075,000	9,270,000
VPSA Bonds	1994	6.10 - 6.30	4,900,000	2,265,000
VPSA Bonds	1994	6.10 - 6.60	5,385,000	2,685,000
VPSA Bonds	1995	5.20 - 5.75	1,580,000	860,000
VPSA Bonds	1997	5.20 - 5.75	7,495,000	3,440,000
VPSA Bonds	1997	5.14	3,220,000	2,080,000
VPSA Bonds	1999	5.76	5,630,000	4,205,000
VPSA Bonds	1999	5.66	4,384,934	3,352,848
VPSA Bonds	2005	3.96	16,105,000	16,105,000
State Literary Fund loans	1985	3.00	1,480,000	74,000
State Literary Fund loans	1985	3.00	500,000	25,000
State Literary Fund loans	1988	3.00	1,969,350	295,500
State Literary Fund loans	1988	3.00	270,000	54,000
State Literary Fund loans	1988	3.00	310,000	62,000
State Literary Fund loans	1997	4.00	5,000,000	3,250,000
State Literary Fund loans	1998	4.00	3,725,000	2,607,500
State Literary Fund loans	1999	4.00	1,275,000	956,250
State Literary Fund loans	2002	4.00	2,065,000	<u>1,755,250</u>
Total governmental activities – School				119,173,209
Unamortized premium				<u>992,408</u>
				<u>\$ 120,165,617</u>
Total governmental activities				<u>\$124,905,617</u>

COUNTY OF HANOVER
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The paydown of principal over the next five and ten years as a percentage of total outstanding principal is equal to 38.4% and 68.2% respectively. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 9,061,075	5,606,009
2007	9,785,140	5,394,988
2008	9,793,131	4,905,113
2009	9,598,632	4,407,706
2010	9,329,704	3,920,276
2011-2015	36,883,597	13,848,026
2016-2020	29,125,430	5,951,431
2021-2025	9,531,500	1,070,615
2026	<u>805,000</u>	<u>17,509</u>
Total	<u>\$123,913,209</u>	<u>45,121,673</u>

Revenue bonds

The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Currently, all outstanding revenue bonds have been issued on behalf of the public utilities function. Revenue bonds currently outstanding are as follows:

	<u>Date Issued</u>	<u>Interest Rates</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Water and Sewer Revenue Bonds	1996	3.65 – 5.25%	\$18,000,000	\$ 415,000
VRA Water and Sewer Revenue Bonds	2002	0.00	884,768	828,360
VRA Water and Sewer Revenue Bonds	2002	3.75	452,684	959,808
Water and Sewer Revenue Bonds	2003	3.72	10,000,000	8,640,000
Water and Sewer Revenue Bonds	2004	3.72	9,600,000	8,960,000
Water and Sewer Revenue Bonds	2005	3.99	14,065,000	<u>14,065,000</u>
				33,868,168
Deferred Loss WS Revenue Bond	1996			(1,099,277)
Unamortized premium				<u>442,492</u>
Total primary government				<u>\$33,211,383</u>

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,816,441	1,350,519
2007	1,892,781	1,176,518
2008	1,909,173	1,109,917
2009	1,915,617	1,039,221
2010	1,947,116	967,682
2011-2015	10,105,125	3,764,354
2016-2020	8,932,082	1,883,391
2021-2025	5,239,833	588,909
2026	<u>110,000</u>	<u>2,324</u>
Total	<u>\$33,868,168</u>	<u>11,882,835</u>

COUNTY OF HANOVER
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Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due within <u>One Year</u>
General Governmental activities:					
Bonds payable					
Bonds payable – County	\$ 5,135,000	-	395,000	4,740,000	395,000
Bonds payable – School	111,941,403	16,105,000	8,873,194	119,173,209	8,666,075
Premium	-	992,408	-	992,408	47,258
Total bonds payable	<u>117,076,403</u>	<u>17,097,408</u>	<u>9,268,194</u>	<u>124,905,617</u>	<u>9,108,333</u>
Capital leases	6,272,492	-	1,053,913	5,218,579	790,722
Compensated absences	3,354,701	3,653,724	3,058,218	3,950,207	3,378,295
Landfill closure costs	2,554,124	191,836	-	2,745,960	101,304
Governmental activity long-term liabilities	<u>\$ 129,257,720</u>	<u>20,942,968</u>	<u>13,380,325</u>	<u>136,820,363</u>	<u>13,378,654</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 36,205,779	14,100,632	16,438,243	33,868,168	1,816,411
Premium	-	442,492	-	442,492	21,071
Discount	(291,123)	-	(291,123)	-	-
Deferred Amortization	-	(1,099,277)	-	(1,099,277)	54,964
Total bonds payable	<u>35,914,656</u>	<u>13,443,847</u>	<u>16,147,120</u>	<u>33,211,383</u>	<u>1,892,446</u>
Contractual obligations	1,952,325	-	732,625	1,219,700	140,889
Refundable developer capacity fees	249,068	-	27,985	221,083	-
Compensated absences	414,038	339,389	304,777	448,650	34,613
Deposits	147,827	113,878	79,882	181,823	-
Business-type activity long-term liabilities	<u>\$ 38,677,914</u>	<u>13,897,114</u>	<u>17,292,389</u>	<u>35,282,639</u>	<u>2,067,948</u>
Component Unit Activities:					
Compensated absences	\$ 3,553,327	2,202,542	1,968,142	3,787,727	2,097,973
Early retirement program	1,782,801	-	123,066	1,659,735	132,911
Component unit activities long-term liabilities	<u>\$ 5,336,128</u>	<u>2,202,542</u>	<u>2,091,208</u>	<u>5,447,462</u>	<u>2,230,884</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$122,186 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are primarily liquidated by the General Fund.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops 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 Fall 2003 over the 35-acre site. The \$2,745,960 reported as landfill closure and postclosure care liability at June 30, 2005 represents the remaining estimated cost of postclosure care. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual

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costs may be higher due to inflation, changes in technology, or changes in regulations. The General Fund is responsible for landfill closure costs.

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

The County has overlapping debt with the Town of Ashland, Virginia of \$1,515,000, of which \$1,219,700 was for construction of water and sewer lines. The County has a contractual obligation to reimburse the Town for water and sewer line debt in accordance with the annexation agreement. The bonds expire on February 1, 2013.

The County's Public Utilities issued \$14,065,000 of revenue bonds that were combined with existing debt service reserves to establish an irrevocable trust to provide resources for all future debt service payments for \$15,070,000 of 1996 Water and Sewer Revenue Bonds. As a result, the refunded 1996 bonds are considered to be defeased, and the liability has been removed from the Utility Fund's statement of net assets. The reacquisition price exceeded the carrying value of the old debt by \$684,276. This amount is being netted against the new debt, and is amortized over the life of the new debt issued, which is shorter than the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments \$1,972,802 over the next 20 years, resulting in an economic gain (present value savings) of \$1,237,704.

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 commercial insurance. The County carries commercial insurance for all risks of loss including property, theft, auto liability, general liability and construction 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 2005. All claims are paid in full at the time of damage. In addition, the County provides various surety bond coverage as required under regulations and at industry-recommended desired levels.

The County is a participating member in the Virginia Municipal Group Self Insurance Association and the School Board is a participating member in the School Systems of Virginia Self Insurance Program. Both of these non-profit entities provide workers' compensation coverage in compliance with the Virginia Workers' Compensation code.

The County has 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 \$100,000 for individual claims paid during the contract year. 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. Fund balances are used as a reserve and are used to offset rate increases and to fund losses in future years. The claims administrator also actuarially determines an amount for claims incurred but not reported (IBNR) at

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fiscal year end. The IBNR liability is included in the financial statements. Changes in balances of health insurance claim liabilities during the past three years are as follows:

Fiscal Year	Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Employee/ Employer Payments	Payable (Receivable) End of Year	Incurred but not reported
2003	\$ 104,844	\$ 11,463,136	\$ 11,336,802	\$ 231,178	\$ 1,236,100
2004	231,178	13,321,925	13,105,870	447,233	967,300
2005	447,233	14,872,372	15,256,026	63,579	1,170,000

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 is as follows:

	Governmental Funds				Subtotal	Component Unit
	General	County Improvements	School Improvements	Other Governmental	Governmental Funds	School
Designated for:						
Asset Foreiture						
Federal: Sheriff's Office	\$ 197,123	-	-	-	197,123	-
Federal: Com. Attorney's Office	194	-	-	-	194	-
State: Sheriff's Office	143,624	-	-	-	143,624	-
State: Com. Attorney's Office	15,152	-	-	-	15,152	-
Law Library	1	-	-	-	1	-
Health Self-Insurance	210,000	-	-	-	210,000	-
Proffers						
Road	-	2,138,466	-	-	2,138,466	-
Non-Road	-	841,999	344,053	-	1,186,052	-
Stormwater Management	-	1,985,003	-	-	1,985,003	-
Economic Development	500,000	-	-	-	500,000	-
Reappropriation of						
unencumbered balances	887,068	1,484,290	575,772	-	2,947,130	404,732
Funding of subsequent						
fiscal year's budget	3,901,000	-	-	-	3,901,000	155,396
Undisbursed grant funds	349,413	8,937	300,000	86,690	745,040	-
Total Designated for specific purposes	\$ 6,203,575	6,458,695	1,219,825	86,690	13,968,785	560,128

C. Commitments

The County has commitments for active construction projects and other purchases as of June 30, 2005. The following schedule illustrates these obligations by area, with the majority of commitments for construction:

Governmental-type activities	\$ 20,667,348
Business-type activities	4,991,097
School Board component unit	1,239,216

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D. Contingent liabilities

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

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (the "Library") is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed by the Board of Supervisors of the Counties of Hanover, Goochland, King William and King and Queen, for specific terms of office. The trustees cannot be removed without cause. The County appoints three of the seven trustees of the Library's Board. Further, designation of management and accountability for fiscal matters rest with the Library's Board. The Library provides library services for the Counties of Hanover, Goochland, King William and King and Queen. It applies, receives and invests its own funds and formulates and approves its own budget. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization. Complete financial statements for the Library can be obtained from the Director's office at P.O. Box 119, Hanover, Virginia 23069.

- **Pamunkey Regional Jail Authority:** The Pamunkey Regional Jail Authority (the "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. Further, designation of management and accountability of fiscal matters rests with the Jail Board. The County serves as fiscal agent for the Jail Board; however, the board formulates and approves its own budget. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization.

The purpose of the Jail is to maintain and operate a regional jail facility to meet the needs of the participating jurisdictions for additional jail facilities. The participating jurisdictions have entered into a Service Agreement which is a long-term contract regulating usage of the Jail and establishing 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. It is anticipated that the County will provide a majority of the prisoners to the facility. 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 (the "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. The member jurisdictions are as follows:

COUNTY OF HANOVER
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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. There are no direct or indirect liabilities borne by the County of Hanover for the operation of this organization.

The Commission was created to enhance the region for the protection of the 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. 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.

- **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 of Title 15.2, 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. Since August 1996, each locality has been designating revenue from the transient occupancy tax for expansion of the convention center. Project financing took place in February 2000, and the expanded Richmond Centre opened in late January 2003. Complete financial statements for the GRCCA can be obtained from the fiscal agent's office at Chesterfield County, P.O. Box 40, Chesterfield, Virginia 23832.

- **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 (the "Airport") facilities to recover the costs of maintaining, 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 financial basis in the Commission. The pro rata basis is to be determined by the percentage

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of population of each locality to the combined total population of all localities according to the most recent census. If, however, 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 had to fund any deficits. Complete financial statements for the Commission can be obtained from the Director's office at Richmond International Airport, Box A-3, Richmond, Virginia 23231.

- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (the "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 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. Complete financial statements can be obtained from the Authority's office at 2100 West Laburnum Ave, Suite 105, Richmond, Virginia 23227.
- **Greater Richmond Partnership:** The Greater Richmond Partnership, Inc. (the "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. 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 (the "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. Complete financial statements can be obtained from the Bureau's office at 401 North 3rd Street, Richmond, Virginia 23219.

F. Employee retirement systems and pension plans

Defined Benefits Pension Plan

- a. ***Plan Description*** – The Plan is an agent and cost-sharing multiple-employer defined benefit pension plan. 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 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full

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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% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters 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 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% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the County is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended June 2005 was 6% of annual covered payroll. The School Board non-professional contribution rate for the fiscal year ended 2005 was 4% of annual covered payroll. The School Board's required contributions to the teacher cost-sharing pool for the fiscal years ending 2005, 2004, and 2003 were \$8,706,944, \$6,364,999 and \$5,918,564, respectively and are equal to the required contributions for each year.
- c. *Annual Pension Cost*** – For the fiscal year 2005, County's annual pension cost of \$2,393,590 was equal to the County's required and actual contributions. For 2005, the County School Board non-professional employees annual pension cost of \$225,141 was equal to the required and actual contributions. This actuarial valuation uses the assumptions and methods that were adopted as a result of the 2000 Experience Study. In particular, it uses an assumed investment rate of return of 8%; an assumed annual cost of living adjustment of 3%; salary increases that range between 4.25% and 6.10 % depending on the member's service and classification (general employee or uniformed officer); and retirement, mortality and disability and termination rates that were also based on the 2000 Experience Study prepared for VRS. Liabilities were determined under the Entry Age Normal actuarial cost method. The actuarial value of the County and School Board Non-Professional assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Funded (unfunded) actuarial liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

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THREE-YEAR TREND INFORMATION

Hanover County

<u>Funds</u>	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost APC</u>	<u>Amount of APC Contributed</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Governmental	June 30, 2005	\$ 2,184,926	\$ 2,184,926	100.0 %	\$ -
Enterprise	June 30, 2005	208,664	208,664	100.0	-
Governmental	June 30, 2004	1,352,429	1,352,429	100.0	-
Enterprise	June 30, 2004	130,242	130,242	100.0	-
Governmental	June 30, 2003	1,283,371	1,283,371	100.0	-
Enterprise	June 30, 2003	119,229	119,229	100.0	-

Hanover School Board Non-Professional Employees

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost APC</u>	<u>Amount of APC Contributed</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 225,141	\$ 225,141	100.0 %	\$ -
June 30, 2004	77,709	77,709	100.0	-
June 30, 2003	68,409	68,409	100.0	-

G. Restatement of Beginning Fund Balances/Net Assets

For fiscal year 2005 the School Improvements Fund, previously shown within Discretely Presented Component Unit-School Board, has been reclassified to the primary government for consistency with debt issuance responsibility.

An additional liability was recognized for incurred but not reported (IBNR) claims for the internal service self insurance fund.

	<u>Statement of Activities</u>		<u>Fund Statements</u>	
	<u>Primary Governmental Activities</u>	<u>School Component Unit</u>	<u>Internal Service Funds, Self-Insurance</u>	<u>Internal Service Funds, Total</u>
Ending Net Assets Prior Year	\$89,364,992	76,575,441	1,010,232	1,060,639
School Improvements Fund	1,232,657	(1,232,657)	-	-
IBNR Claims	(967,300)	-	(967,300)	(967,300)
Beginning Net Assets As Restated	<u>\$89,630,349</u>	<u>75,342,784</u>	<u>42,932</u>	<u>93,339</u>