

COUNTY OF HANOVER  
Notes to Financial Statements  
June 30, 2007

**I. Summary of significant accounting policies**

**A. Reporting entity**

The County of Hanover (the County) was established by an act of the Virginia General Assembly in 1720. It is a political subdivision of the Commonwealth of Virginia operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and six other board members elected from seven magisterial districts. The Board has responsibility for appointing the County Administrator. The County has taxing powers subject to statewide restrictions and tax limits. The accompanying financial statements present the County (the *primary government*) and its *component units*, entities for which the County is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the County. The County and its component units are together referred to herein as the *reporting entity*.

**Discretely Presented Component Units**

- **School Board:** The County provides education through its own school system administered by the Hanover County School Board (the School Board). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate, but financially dependent. The Board of Supervisors administers the School Board's appropriation of funds at the category level, approves transfers between categories, authorizes school debt issuances and appoints School Board members. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The School Board does not issue separate financial statements.
- **Economic Development Authority:** The Economic Development Authority (the EDA) was created to foster and stimulate economic development in the County. Included in the discretely presented component unit EDA are the activities of economic development services. The County appoints the seven board members of the EDA. By statute, the EDA has the power to cause the issuance of tax-exempt industrial revenue bonds to qualifying enterprises wishing to utilize that form of financing. The County is involved in the day-to-day operations of the EDA, the determination of its operating budget and annual service fee rates and the approval of private activity prospective bond issues. Financial statements of the EDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The EDA does not issue separate financial statements.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government (the County) 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.

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 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, net of estimated uncollectible amounts, in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider, including time requirements, if any, has been met. Agency funds are custodial in nature and do not involve the measurement of results of operations. In agency fund financial statements, assets equal liabilities, and are reported using the accrual basis of accounting.

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

Other local taxes, licenses, certain charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available and are recorded as revenues when cash is received.

The County reports three major governmental funds. The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund. The *County Improvements Fund* accounts for the resources to be used for the acquisition or construction of major governmental capital facilities and equipment. The *School 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

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

Additionally, the County reports the following fund 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 include the *Bell Creek 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 and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the County's internal service funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the utilities system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **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

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investments – restricted represents unspent bond proceeds from construction projects and related compliance with debt covenant restrictions.

Certain proceeds of revenue and general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted cash, cash equivalents and investments 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 noncurrent portion of interfund loans). Any residual balances outstanding between the County's governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable and property tax receivables are shown net of an allowance for uncollectibles. Accounts receivable utilize percentage of receivable methods based upon aged receivable balances in determining allowances for uncollectibles. The property tax receivable allowance is calculated based upon criteria established by the Virginia Auditor of Public Accounts.

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute. The real estate in the County is assessed each year as of January 1 on the estimated market value of the property. On January 1, the real estate taxes become an enforceable lien on the property. For real estate assessed on January 1, payment is due in two equal installments on June 5 and December 5. The real estate taxes reported as revenue are the second installment (December 5) of the levy on assessed value at January 1, 2006, and the first installment (June 5) of the levy on assessed value at January 1, 2007.

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 (the place where the vehicle is usually kept) in the County.

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

The 1998 Virginia General Assembly enacted legislation providing property tax relief to citizens. The Personal Property Tax Relief Act (PPTRA) was intended to be phased in over five years on the first \$20,000 of value for motor vehicles not used for business purposes. In 2005 the General Assembly capped PPTRA relief at \$950 million statewide beginning with the 2006 tax year. Hanover receives a lump sum amount of \$15,002,000 in four payments annually. County 2006 tax bills, payable in fiscal year 2007, included a sixty-one percent reduction on qualifying vehicles and the 2007 tax bills will include a fifty-nine percent reduction. All PPTRA payments received from the Commonwealth of Virginia are classified as noncategorical State aid in the General Fund.

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**3. Inventories**

All County inventories are valued at cost using the first-in/ first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventory of the County's discretely presented School Board Component Unit is accounted for using the purchases method.

**4. Restricted assets**

Governmental activities include unexpended bond proceeds and accumulated interest of \$6,896,677 classified as restricted cash, cash equivalents and investments on the balance sheet because it is maintained in a separate bank account, and its use is limited by applicable bond covenants. Governmental activities also include \$770,022 classified as restricted cash, cash equivalents and investments for required debt services reserves, which is also reported as reserved fund balance. Business-type activities include restricted cash, cash equivalents and investments of \$4,889,637, of which \$3,417,775 is for reserves required by water and sewer revenue bond agreements, and \$1,471,862 is for construction in accordance with an airport revenue bond agreement.

**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 asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	25-35
Vehicles, trucks, fire trucks	5-15
Office equipment	5
Computer equipment	5

**6. Compensated absences**

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

**7. Long-term obligations**

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

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In the governmental funds financial statements, newly issued long-term debt and other new long-term obligations, including bond premiums, discounts and issuance costs are reported in the statement of revenues, expenditures and changes in fund balances during the current period. The face amount of general long-term debt issued is reported as other financing sources, while premiums received on debt issuances are reported as separate other financing sources, and discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Net Assets / Fund equity**

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute.

In the fund financial statements, County funds report reservations of fund balance for amounts that are not available for appropriation. Designations of fund balance represent tentative management plans which are subject to change.

**II. Reconciliation of government-wide and fund financial statements**

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

The governmental funds balance sheet includes a reconciliation between *total fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

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Bonds payable, net	\$ 141,593,792
Accrued bond interest	330,824
Capital leases payable	3,602,672
Compensated absences (excludes internal services)	4,473,135
Liability for landfill closure	2,663,298
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets - governmental activities	\$ 152,663,721

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

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

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estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

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Capital outlay	\$ 7,706,846
Depreciation expense (excludes internal services)	(5,870,179)
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	\$ 1,836,667

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Another element of that reconciliation states that "The net effect of various transactions involving capital assets is to increase net assets." This difference consists of the following:

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Donations of capital assets increase net assets in the statement of activities, but are not recognized in the governmental funds because they do not provide current financial resources.	\$ 354,941
Adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	\$ 354,941

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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 (excludes internal services)	\$ (416,073)
Landfill closure and postclosure costs	42,245
Accrued interest	(223,556)
Amortization of bond premiums	118,178
Amortization of deferred amount on refunding	(40,043)
Net adjustment to decrease the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	\$ (519,249)

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### III. Stewardship, compliance, and accountability

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before December 1 of each year, all agencies of the County submit requests for appropriations to the County Administrator so that a budget may be prepared. No later than the fourth Wednesday in February, the proposed budget is presented to the County's Board for review. The Board holds a public hearing and a final budget must be prepared and adopted no later than June 30.

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The Appropriations Resolution adopted by the Board of Supervisors places legal restrictions on expenditures at the fund level. For purposes of good administrative control, the Board has supplemented its established legal level of control (the fund level) with administrative policies which establish thresholds and procedures for making adjustments to the adopted budget. The Board of Supervisors must be notified of and approve transfers of \$25,000 or more between department budget categories of personnel, operating, and capital, and for any transfers that increase the County's total appropriated budget. The County Administrator is authorized to make transfers within department budget categories of personnel, operating, and capital, and to transfer amounts up to \$25,000 between departmental budget categories. The School Board is authorized to transfer budgeted amounts within the school component unit funds. However, any transfer or supplemental appropriation that increases the School's total appropriated budget requires subsequent Board of Supervisors approval.

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

**IV. Detailed notes on all funds**

**A. Deposits and investments**

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 Financial 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, 2007, the reporting entity deposits and investments held by the Treasurer, including \$2,703,503 for Fiduciary Funds, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Cash on hand	\$ 5,037	N/A
Cash deposits	3,264,366	N/A
Demand and time deposits	1,016,676	N/A
State Treasurer's local government investment pool	2,538	AAAm
Bankers acceptances	723,272	A-1+
Money market mutual funds	15,900,014	AAAm
Commercial paper	20,163,183	A-1+
Corporate notes and bonds	2,908,015	AAAm
U.S. Government and agency bonds	62,677,847	AAA,N/A
Total deposits and investments	<u>\$ 106,660,948</u>	

Deposits: All cash of the County is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia (the Act) or covered by Federal depository insurance. The Act requires any public depository that receives or

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

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

The County's Policy establishes limitations on the holding of non-U.S Government obligations by type of instrument. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each 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, notes and other evidences of indebtedness	25% maximum

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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.

The County's Policy also limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except that proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to precede or coincide with the expected need of funds, which has resulted in the creation of multiple portfolios. During fiscal year 2007, the County modified its investment strategies by adding a second long term investment portfolio, allowing investments to be

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managed in three portfolios of differing maturities. In prior fiscal years, the County reported the effective duration for its short term and its long term investment portfolio. As the County's investments are now managed in three portfolios, the investment types in each portfolio are presented below using the segmented time distribution reporting method, by maturity in years.

As of June 30, 2007, the County's deposits and investments and maturities are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	More than 3
Cash on hand	\$ 5,037	5,037	-	-
Cash deposits	3,264,366	3,264,366	-	-
Demand and time deposits	1,016,676	1,016,676	-	-
State Treasurer's local government investment pool	2,538	2,538	-	-
Bankers acceptances	723,272	723,272	-	-
Money market mutual funds	15,900,014	15,900,014	-	-
Commercial paper	20,163,183	7,736,985	12,426,198	-
Corporate notes and bonds	2,908,015	-	2,908,015	-
U.S. Government and agency bonds	62,677,847	45,022,456	12,834,889	4,820,502
<b>Total deposits and investments</b>	<b>\$ 106,660,948</b>	<b>73,671,344</b>	<b>28,169,102</b>	<b>4,820,502</b>

**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 Ratings. Furthermore, the Policy requires maturity may not exceed 270 days and the issuing corporation, or its guarantor must have a net worth of at least \$50 million and the issuer's net income must average \$3 million for the five previous years.

Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

The County's rated debt investments as of June 30, 2007 were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization. The credit quality ratings presented on page 52 are determined using the S&P rating scale. Deposits and investments not exposed to credit quality risk, as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, are designated as not applicable (N/A) in the credit rating column. Thirty-nine percent of the \$62,677,847 of U.S. Government and Agency securities were rated AAA, while the remaining sixty-one percent are not considered to be exposed to credit quality risk.

**Concentration of Credit Risk:** The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than five percent 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, 2007, investments in the following issuers exceeded five percent of the portfolio: Federal Home Loan Bank (14%), Federal Home Loan Mortgage Corporation (18%), and Federal National Mortgage Association (19%).

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**Custodial Credit Risk – Deposits:** For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. The County's deposits at June 30, 2007 were fully insured under the Virginia Security for Public Deposits Act, and are therefore not considered to be subject to custodial credit risk.

**Custodial Credit Risk – Investments:** For investments, custodial risk is the risk that, in the event of the failure of the counterparty, the reporting entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's Policy requires that all investment securities purchased for the County be held by the County or by the County's designated custodian. If held by a custodian, the securities must be in the County's or in the custodian's nominee name and identifiable on the custodian's books as belonging to the County and the custodian must be a third party, not a counter party to the investment transaction. As of June 30, 2007, all of the County's investments were held by the trust department of the County's custodial bank in the County's name.

**B. Receivables**

Receivables and allowances for uncollectible receivables of the primary government and School Component Unit, excluding fiduciary funds, at June 30, 2007, are as follows:

	Primary Government						Total Primary Government	School Component Unit
	General Fund	County Improvements Fund	Other Governmental Funds	Public Utilities	Airport Fund	Internal Services Funds		
Receivables:								
Interest	\$ 460,804	-	-	11,212	6,061	-	478,077	-
Taxes	50,345,920	-	-	-	-	-	50,345,920	-
Accounts	2,621,879	-	974,968	3,938,870	33,861	8,569	7,578,147	201,264
Commonwealth of Virginia	4,260,343	120,720	590,648	-	264,651	-	5,236,362	2,870,552
Federal government	464,764	-	65,191	-	70,289	-	600,244	1,301,362
Gross receivables	58,153,710	120,720	1,630,807	3,950,082	374,862	8,569	64,238,750	4,373,178
Allowance for uncollectibles	(2,587,910)	-	(252,255)	(136,134)	-	-	(2,976,299)	-
Net total receivables	\$ 55,565,800	120,720	1,378,552	3,813,948	374,862	8,569	61,262,451	4,373,178

The governmental funds financial statements report *deferred revenue* in connection with prepaid taxes and receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The government-wide financial statements report *unearned revenue* in connection with assets which have not yet been earned, including prepaid taxes and taxes receivable that were levied to finance expenditures of the next fiscal year. Accordingly, the second installment of the 2007 real property tax levy, due on December 5, 2007, is reported as unearned revenue at June 30, 2007 in the government-wide financial statements, and as deferred revenue in the governmental fund financial statements. At June 30, 2007, the various components of *deferred revenue* and *unearned revenue* were as follows:

	Unavailable - Deferred Revenue	Unearned Revenue
	Governmental Funds Financial Statements	Government - wide Financial Statements
Property tax levies not yet due	\$ 46,043,881	\$ 46,043,881
Past due taxes (net of allowance for uncollectibles)	2,768,000	-
EMS transport fees	388,273	-
Total deferred/unearned revenue - primary government	\$ 49,200,154	\$ 46,043,881

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**C. Capital assets**

Capital asset activity for the primary government for the year ended June 30, 2007 was as follows:

<u>Primary Government</u>	Balance July 1	Increases	Decreases	Balance June 30
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,748,438	852,638	-	8,601,076
Construction in progress	859,710	4,584,144	(2,021,366)	3,422,488
Total capital assets, not being depreciated	<u>8,608,148</u>	<u>5,436,782</u>	<u>(2,021,366)</u>	<u>12,023,564</u>
Capital assets, being depreciated:				
Buildings	189,527,552	23,756,486	(37,022)	213,247,016
Improvements other than buildings	6,504,280	104,376	(11,328)	6,597,328
Machinery and equipment	31,642,223	3,264,709	(2,242,783)	32,664,149
Infrastructure	23,497,512	841,427	(40,837)	24,298,102
Total capital assets, being depreciated	<u>251,171,567</u>	<u>27,966,998</u>	<u>(2,331,970)</u>	<u>276,806,595</u>
Less accumulated depreciation for:				
Buildings	(41,437,059)	(11,482,501)	37,022	(52,882,538)
Improvements other than buildings	(2,815,527)	(553,424)	11,328	(3,357,623)
Machinery and equipment	(19,999,441)	(3,186,823)	2,242,783	(20,943,481)
Infrastructure	(9,802,527)	(999,788)	40,837	(10,761,478)
Total accumulated depreciation	<u>(74,054,554)</u>	<u>(16,222,536)</u>	<u>2,331,970</u>	<u>(87,945,120)</u>
Total capital assets, being depreciated, net	<u>177,117,013</u>	<u>11,744,462</u>	<u>-</u>	<u>188,861,475</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 185,725,161</u>	<u>17,181,244</u>	<u>(2,021,366)</u>	<u>200,885,039</u>
<b>Business-type activities:</b>				
<b>Public Utilities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,051,674	1,930,000	-	5,981,674
Construction in progress	8,703,170	5,990,729	(10,273,582)	4,420,317
Total capital assets, not being depreciated	<u>12,754,844</u>	<u>7,920,729</u>	<u>(10,273,582)</u>	<u>10,401,991</u>
Capital assets, being depreciated:				
Buildings	75,530,017	2,598,101	-	78,128,118
Improvements other than buildings	143,128,803	11,268,512	-	154,397,315
Machinery and equipment	5,816,870	109,110	(41,591)	5,884,389
Total capital assets, being depreciated	<u>224,475,690</u>	<u>13,975,723</u>	<u>(41,591)</u>	<u>238,409,822</u>
Less accumulated depreciation for:				
Buildings	(17,237,632)	(1,564,349)	-	(18,801,981)
Improvements other than buildings	(46,614,680)	(4,921,167)	-	(51,535,847)
Machinery and equipment	(4,498,938)	(257,786)	41,591	(4,715,133)
Total accumulated depreciation	<u>(68,351,250)</u>	<u>(6,743,302)</u>	<u>41,591</u>	<u>(75,052,961)</u>
Total capital assets, being depreciated, net	<u>156,124,440</u>	<u>7,232,421</u>	<u>-</u>	<u>163,356,861</u>
<b>Public Utilities capital assets, net</b>	<u>\$ 168,879,284</u>	<u>15,153,150</u>	<u>(10,273,582)</u>	<u>173,758,852</u>

COUNTY OF HANOVER  
Notes to Financial Statements  
June 30, 2007

<b>Airport Fund:</b>	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	\$ 3,932,827	-	-	3,932,827
Construction in progress	204,187	1,177,126	-	1,381,313
Total capital assets, not being depreciated	4,137,014	1,177,126	-	5,314,140
Capital assets, being depreciated:				
Buildings	157,191	349,374	-	506,565
Improvements other than buildings	7,590,834	-	-	7,590,834
Machinery and equipment	27,041	-	-	27,041
Total capital assets, being depreciated	7,775,066	349,374	-	8,124,440
Less accumulated depreciation for:				
Buildings	(41,080)	(3,929)	-	(45,009)
Improvements other than buildings	(2,213,084)	(273,977)	-	(2,487,061)
Machinery and equipment	(22,668)	(459)	-	(23,127)
Total accumulated depreciation	(2,276,832)	(278,365)	-	(2,555,197)
Total capital assets, being depreciated, net	5,498,234	71,009	-	5,569,243
<b>Airport capital assets, net</b>	<b>\$ 9,635,248</b>	<b>1,248,135</b>	<b>-</b>	<b>10,883,383</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 178,514,532</b>	<b>16,401,285</b>	<b>(10,273,582)</b>	<b>184,642,235</b>
<b>Total capital assets, net - Primary government</b>	<b>\$ 364,239,693</b>	<b>33,582,529</b>	<b>(12,294,948)</b>	<b>385,527,274</b>

Capital assets activity for the School Component Unit for the year ended June 30, 2007 was as follows:

**School Component Unit activities:**

Capital assets, not being depreciated:				
Land	\$ 7,400,682	-	-	7,400,682
Construction in progress	20,210,488	19,441,268	(20,724,236)	18,927,520
Total capital assets, not being depreciated	27,611,170	19,441,268	(20,724,236)	26,328,202
Capital assets, being depreciated:				
Buildings	74,973,126	20,724,236	(23,171,346)	72,526,016
Improvements other than buildings	3,439,373	-	-	3,439,373
Machinery and equipment	17,291,982	2,022,842	(784,101)	18,530,723
Total capital assets, being depreciated	95,704,481	22,747,078	(23,955,447)	94,496,112
Less accumulated depreciation for:				
Buildings	(22,788,338)	(5,802,542)	10,312,537	(18,278,343)
Improvements other than buildings	(736,484)	(172,656)	-	(909,140)
Machinery and equipment	(8,868,296)	(1,432,875)	781,646	(9,519,525)
Total accumulated depreciation	(32,393,118)	(7,408,073)	11,094,183	(28,707,008)
Total capital assets, being depreciated, net	63,311,363	15,339,005	(12,861,264)	65,789,104
<b>School Component Unit capital assets, net</b>	<b>\$ 90,922,533</b>	<b>34,780,273</b>	<b>(33,585,500)</b>	<b>92,117,306</b>

Capital assets reported in the County's Airport Fund in the preceding schedules were reported as governmental activities capital assets in the prior fiscal year. In addition, the balances of the County's beginning equity in its School Component Unit capital assets, reported under the County's *Tenancy in Common* with the School Component Unit (described on the following page) have been reclassified for comparability to fiscal year 2007 reporting classifications.

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

**Primary government:**

Governmental activities:

General governmental administration	\$ 1,092,499
Judicial administration	206,963
Public safety	2,807,532
Public works	1,356,699
Human services	112,926
Parks, recreation and cultural	288,211
Community development	5,349
Depreciation of capital assets held by the internal service funds is charged to various functions based on their usage of the assets	39,820
Total depreciation expense - governmental activities	5,909,999

Business-type activities:

Public Utilities	6,743,302
Airport	278,365
Total depreciation expense - business-type activities	7,021,667

**Total depreciation expense - primary government** \$ 12,931,666

**School Component Unit** \$ 7,408,073

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

*Tenancy in Common* – State legislation passed in 2002 granted the County a tenancy in common with the School Board when the County incurs a financial obligation for school property which is payable over more than one fiscal year. For financial reporting purposes, School property financed by County guaranteed debt is shown under the County in the amount of outstanding capital-related debt. The preceding schedules of capital asset activity include the following amounts, the effect of which is to increase the net book value of School Component Unit capital assets reported by the County by \$12,858,809 under the Tenancy in Common during fiscal year 2007.

	Primary Government - Governmental Activity	School Component Unit	Total Reporting Entity
Buildings	\$ 23,171,346	(23,171,346)	-
Accumulated depreciation for buildings	(10,312,537)	10,312,537	-
Buildings, net	\$ 12,858,809	(12,858,809)	-

Also see Tenancy in Common on page 38 for disclosure of the impact of the Tenancy in Common on the County's fiscal year 2007 change in net assets of governmental activities. At June 30, 2007, School Component Unit capital assets financed by outstanding County guaranteed debt with a net book value of \$126,434,285 were reported under the primary government as tenant in common with the School Board.

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**D. Interfund receivables, payables, and transfers**

The composition of interfund balances at June 30, 2007, is as follows:

<u>Due To</u> General Fund	<u>Due From</u> Other Governmental Fund, Community Services	<u>Amount</u> \$ 27,000
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This amount represents a temporary advance from the General Fund to the Community Services Fund. Transfers are used to provide funding for operating and capital costs. Interfund transfers for the year ended June 30, 2007 are as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	13,589,531
County Improvements Fund	3,911,342	-
School Improvements Fund	2,507,000	-
Other Governmental Funds	6,552,117	-
Airport Fund	619,072	-
<b>Total primary government</b>	<b>\$ 13,589,531</b>	<b>13,589,531</b>

**E. Noncurrent liabilities**

The following is a summary of changes in the government-wide noncurrent liabilities of the primary government and the School Component Unit for the year ended June 30, 2007:

<u>Primary Government</u>	<u>Balance</u> July 1	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> June 30	<u>Due Within</u> One Year
<b>Governmental activities:</b>					
General obligation bonds payable:					
Principal amount of bonds payable	\$ 128,814,792	35,510,000	24,409,060	139,915,732	11,603,261
Premium	1,685,136	631,660	118,178	2,198,618	84,257
Deferred amount on refunding	-	(560,601)	(40,043)	(520,558)	(40,043)
Total bonds payable	130,499,928	35,581,059	24,487,195	141,593,792	11,647,475
Capital lease obligations	4,427,857	-	825,185	3,602,672	863,504
Compensated absences	4,182,447	3,811,722	3,395,630	4,598,539	3,523,227
Liability for landfill closure	2,705,543	-	42,245	2,663,298	76,304
Total governmental activities	141,815,775	39,392,781	28,750,255	152,458,301	16,110,510
<b>Business-type activities:</b>					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	41,051,727	-	1,892,782	39,158,945	2,109,173
Premium	573,340	-	28,499	544,841	28,498
Deferred amount on refunding	(1,044,313)	-	(54,964)	(989,349)	(54,964)
Total bonds payable	40,580,754	-	1,866,317	38,714,437	2,082,707
Compensated absences	448,437	368,982	352,813	464,606	365,528
Deposits	146,599	86,291	87,592	145,298	-
Refundable developer capacity fees	158,950	-	158,950	-	-
Capacity fee credits	-	144,508	-	144,508	-
Contractual obligations	1,078,811	-	140,889	937,922	144,915
Total Public Utilities	42,413,551	599,781	2,606,561	40,406,771	2,593,150
Airport Fund:					
Taxable airport revenue bond payable	-	1,795,000	-	1,795,000	26,396
Compensated absences	956	4,538	1,790	3,704	1,207
Total Airport Fund	956	1,799,538	1,790	1,798,704	27,603
Total business-type activities	42,414,507	2,399,319	2,608,351	42,205,475	2,620,753
<b>Total noncurrent liabilities - Primary government</b>	<b>\$ 184,230,282</b>	<b>41,792,100</b>	<b>31,358,606</b>	<b>194,663,776</b>	<b>18,731,263</b>
<b>School Component Unit</b>					
Compensated absences	\$ 3,810,120	2,249,659	2,105,462	3,954,317	2,185,145
Early retirement program	1,526,824	-	143,544	1,383,280	155,028
<b>Total noncurrent liabilities - School Component Unit</b>	<b>\$ 5,336,944</b>	<b>2,249,659</b>	<b>2,249,006</b>	<b>5,337,597</b>	<b>2,340,173</b>

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Internal service funds primarily serve governmental funds. Their noncurrent liabilities are included in the preceding governmental activities totals, including \$125,404 of compensated absences at year-end. Capital lease obligations, compensated absences and the liability for landfill closure reported as governmental activities liabilities of the primary government are liquidated by the General Fund.

Liability for landfill closure

State and federal laws and regulations required the County to place a final cover on its landfill site when it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The landfill closed December 31, 2002 and a permanent cap was completed in 2003 over the 35-acre site. The \$2,663,298 reported as landfill closure and post closure care liability at June 30, 2007 represents the remaining estimated cost of post closure care. These amounts are based on what it would cost to perform all closure and post closure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

General obligation bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds (including Virginia Public School Authority (VPSA) bonds and State Literary Fund loans) have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

On October 12, 2006, the primary government issued \$25,115,000 of Series 2006A General Obligation Public Improvement and Refunding Bonds (Series 2006A Bonds), and \$10,395,000 of Series 2006B General Obligation Public Improvement Refunding Bonds (Series 2006B Bonds), with average interest rates of 4.08 percent and 3.90 percent, respectively. The Series 2006A Bonds were issued to finance certain capital improvements for Schools, public safety, and parks and libraries, and to refund existing bonds. Of the total issued, \$21,150,000 is new general obligation debt for the purposes just described, and \$3,965,000 was issued to current refund the County's \$3,950,000 outstanding principal balance of Series 1997 General Obligation Public Improvement Bonds, with an average interest rate of 5.275 percent. The net proceeds of \$4,084,725 were used to purchase U.S. Government securities which were deposited in an irrevocable escrow account to redeem the Series 1997 bonds November 15, 2006. The reacquisition price exceeded the net carrying amount of the refunded bonds by \$28,102, which was expensed currently.

The Series 2006B Bonds, totaling \$10,395,000, were issued to advance refund \$10,000,000 of outstanding Series 2000 bonds, with an average interest rate of 5.07 percent. The net proceeds of \$10,512,201 were used to purchase U.S. Government securities which were deposited in an irrevocable escrow account to provide for the resources to redeem the Series 2000 bonds on July 15, 2009. The reacquisition price exceeded the net carrying amount of the refunded bonds by \$560,601, and this amount is being amortized over the remaining life of the refunded bonds.

The County completed the current and advance bond refundings described above to reduce its total debt service payments over the next 14 years by approximately \$931,266 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$761,915.

Revenue bonds

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

County debt and related interest to maturity

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

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Purpose	Interest Rates (%)	Date Issued	Original Issue	Principal Outstanding
<b>Governmental activities:</b>				
General obligation bonds:				
County:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	\$ 7,440,000	\$ 7,440,000
Series 2006A Refunding	3.50 - 4.00	10-12-06	3,965,000	3,965,000
Total general obligation bonds - County				<u>11,405,000</u>
Schools:				
Series 1999 Public Improvement	4.00 - 5.625	01-15-99	10,000,000	6,500,000
Series 2000 Public Improvement	4.50 - 5.375	10-01-00	19,000,000	3,000,000
Series 2002 Public Improvement	2.00 - 4.875	06-01-02	20,000,000	15,000,000
Series 2002B Public Improvement	3.00 - 4.60	12-01-02	21,500,000	18,250,000
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	13,710,000
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	10,395,000
VPSA Series 1990B	6.40 - 7.10	08-30-90	6,040,000	1,415,000
VPSA Series 1991	4.85 - 6.60	07-31-91	2,069,507	588,136
VPSA Series 1992A	5.10 - 8.10	12-17-92	6,230,000	1,490,000
VPSA Series 1993A	4.475 - 5.00	11-18-93	3,620,000	525,000
VPSA Series 1994A Refunding	6.35 - 7.19	01-03-94	32,075,000	5,725,000
VPSA Series 1994A	6.10 - 6.30	05-05-94	4,900,000	1,760,000
VPSA Series 1994B	6.10 - 6.60	11-22-94	5,385,000	2,145,000
VPSA Series 1995A	5.20 - 5.75	12-21-95	1,580,000	700,000
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	2,870,000
VPSA Series 1997A	4.35 - 5.35	11-20-97	3,220,000	1,760,000
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	3,640,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	2,934,858
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	15,295,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	6,645,000
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	6,643,738
State Literary Fund loans	3.00	1988	1,969,350	98,500
State Literary Fund loans	3.00	1988	580,000	58,000
State Literary Fund loans	4.00	1997	5,000,000	2,750,000
State Literary Fund loans	4.00	1998	3,725,000	2,235,000
State Literary Fund loans	4.00	1999	1,275,000	828,750
State Literary Fund loans	3.00	2002	2,065,000	1,548,750
Total general obligation bonds - Schools				<u>128,510,732</u>
Total governmental activities - general obligation bonds				<u>139,915,732</u>
<b>Business-type activities:</b>				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	3.00	06-14-02	920,400	736,320
Series 2002B	3.75	10-25-02	977,031	887,625
Series 2003A Refunding	3.72	04-10-03	10,000,000	7,280,000
Series 2004	3.28	03-30-04	9,600,000	7,680,000
Series 2005A Refunding	3.10 - 4.64	01-31-05	14,065,000	13,575,000
Series 2006	3.63 - 4.98	05-08-06	9,000,000	9,000,000
Total Public Utilities				<u>39,158,945</u>
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,795,000
Total Airport Fund				<u>1,795,000</u>
Total Business-type activities				<u>40,953,945</u>
<b>Total bond indebtedness - Primary government</b>				<u>\$ 180,869,677</u>

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Principal and interest to maturity for the County's governmental activity general obligation bonds business-type activity revenue bonds outstanding at June 30, 2007, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities				Total	
	General Obligation Bonds		Water and Sewer Revenue Bonds		Taxable Airport Revenue Bond		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2008	\$ 11,603,261	6,199,710	2,109,173	1,532,981	26,396	70,922	13,738,830	7,803,613
2009	11,490,647	5,674,714	2,120,617	1,454,930	54,820	89,158	13,666,084	7,218,802
2010	11,223,702	5,108,745	2,162,116	1,375,383	57,640	86,337	13,443,458	6,570,465
2011	10,365,632	4,595,561	2,193,672	1,297,719	60,605	83,372	12,619,909	5,976,652
2012	9,367,705	4,146,854	2,220,286	1,217,851	63,723	80,254	11,651,714	5,444,959
2013-2017	42,899,273	14,695,533	11,737,868	4,786,710	371,293	348,592	55,008,434	19,830,835
2018-2022	31,360,510	5,987,500	8,383,447	2,711,651	477,145	242,741	40,221,102	8,941,892
2023-2027	11,605,002	1,044,033	5,476,766	1,182,727	613,173	106,713	17,694,941	2,333,473
2028-2032	-	-	2,755,000	356,938	70,205	1,783	2,825,205	358,721
Totals	\$ 139,915,732	47,452,650	39,158,945	15,916,890	1,795,000	1,109,872	180,869,677	64,479,412

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.

In November, 2005 the County's voters authorized the issuance of general obligation bonds in the amount of \$95,075,000. Of the total authorized, the County has issued \$21,150,000 and has additional construction commitments totaling \$30,929,554 for authorized projects as of June 30, 2007, as disclosed on page 65. The County plans to issue the remaining bonds in future fiscal years to finance these commitments and complete the authorized capital projects.

The County has overlapping debt with the Town of Ashland, Virginia of \$1,165,000, of which the share applicable to the County approximates \$937,921. The County's applicable share is for water and sewer bonds for which the County assumed ownership January 1, 1996, under an annexation agreement. The County has a contractual obligation to reimburse the Town for water and sewer line debt in accordance with the agreement. The bonds expire on August 1, 2012.

Conduit debt obligations

The County's Economic Development Authority Component Unit (EDA) is empowered by the Commonwealth of Virginia to issue Industrial Revenue Bonds (IRBs) on behalf of businesses relocating to or expanding their operations within the County. Neither the EDA nor the County guarantees the repayment of principal or interest to the bondholders, and the debt is not a pledge of the faith and credit of the EDA or the County. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2007, the principal amounts outstanding on these IRBs total \$209.2 million.

Defeasance of debt

During fiscal year 2007 and in prior years, the County defeased certain outstanding bonds by placing the proceeds of newly issued bonds in irrevocable escrow funds to provide for all future debt service payments on the old bonds. Accordingly, the escrow fund assets and the liabilities for the defeased bonds are not included in the accompanying financial statements. During fiscal 2007, the County defeased \$10,000,000 of Series 2000 general obligation bonds, as described on page 60. At June 30, 2007, the County had general obligation bonds that are outstanding but considered defeased totaling \$15,725,000.

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Capital leases

The County has financed the acquisition of office facilities, computer equipment, and a communications system by entering into capital lease agreements. The balance of capital assets, net of accumulated depreciation, the minimum lease payments, and the present value of the minimum lease payments as of June 30, 2007, are as follows:

Asset Class	Primary Government - Governmental Activities
Land	\$ 384,847
Building	11,429,888
Machinery and equipment	2,329,857
Total assets, at cost	14,144,592
Accumulated depreciation	(5,812,384)
Total assets, net	\$ 8,332,208

  

Fiscal Year	Minimum Lease Payments
2008	\$ 979,385
2009	989,173
2010	1,000,335
2011	635,618
2012	277,649
2013	10,562
Total minimum lease payments	3,892,722
Portion representing interest	(290,050)
Present value of minimum lease payments	\$ 3,602,672

**V. Other information**

**A. Risk management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries insurance through commercial carriers or through the Virginia Municipal Liability Pool. The County carries commercial insurance for all risks of loss including property, theft, auto liability, general liability and construction 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 2007. All claims are paid in full at the time of damage. In addition, the County provides various surety bond coverages as required under regulations, generally at industry-recommended levels.

The County is a participating member in the Virginia Municipal Group Self Insurance Association and the School Board is a participating member in the School Systems of Virginia Self Insurance Program. Both of these not-for-profit entities provide workers' compensation coverage in compliance with the Virginia Workers' Compensation code.

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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 \$150,000 for individual claims paid during the contract year and an aggregate plan stop loss of 125% of expected claims. All County and School Board full and benefited part-time employees are eligible to participate. Premiums are paid for participating employees to the self insurance fund, which is reported in the County's financial statements as an internal service fund. An administrator selected by the County processes all claims, and is reimbursed based on actual claims processed. Fund balances are used as a reserve to offset rate increases and to fund losses in future years. The claims administrator actuarially determines an estimated liability for healthcare claims incurred but not reported (IBNR) at fiscal year end, which is reported in the self insurance fund. 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
2005	\$ 447,233	14,872,372	15,256,026	63,579	1,170,000
2006	63,579	16,516,533	16,580,112	-	1,554,000
2007	-	18,434,370	18,434,370	-	1,737,000

**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:

	Primary Government				School Component Unit
	General Fund	Capital Improvements Fund	School Improvements Fund	Total Primary Government	
Designated for:					
Capital Improvements - County	\$ 3,700,000	11,279,384	-	14,979,384	-
Capital Improvements - Schools	1,200,000	-	1,373,200	2,573,200	-
Economic Development	500,000	-	-	500,000	-
Funding of subsequent fiscal year's budget	5,994,000	-	-	5,994,000	-
Reappropriation of unencumbered balances	774,077	-	-	774,077	893,007
GASB 45 - Postemployment health benefits	500,000	-	-	500,000	-
Total designated for specific purposes	\$ 12,668,077	11,279,384	1,373,200	25,320,661	893,007

**C. Commitments and contingent liabilities**

Operating leases

The County leases building and office facilities and other equipment under various operating lease agreements, substantially all of which are subject to annual appropriation of funds. Total costs for such leases for the year ended June 30, 2007, were:

Governmental activities	\$ 648,788
Business-type activities	30,631
Total primary government	679,419
School component unit	241,726
Total reporting entity	\$ 921,145

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Other commitments

At June 30, 2007, the primary government had commitments for capital projects totaling \$44,542,903. Funding for the commitments will be provided by existing resources in the applicable funds, current and future bond proceeds, and State and Federal grants, as follows:

	Primary Government				Total Primary Government
	County Improvements Fund	School Improvements Fund	Public Utilities Fund	Airport Fund	
Total capital commitments at June 30, 2007	\$ 31,550,700	9,358,515	1,198,335	2,435,353	44,542,903
Financed by use of:					
Fund balance reserved for encumbrances	7,012,998	1,428,961	-	-	8,441,959
Unrestricted net assets	-	-	1,198,335	161,946	1,360,281
Unexpended airport revenue bond proceeds	-	-	-	1,259,134	1,259,134
Authorized but unissued general obligation bonds	23,000,000	7,929,554	-	-	30,929,554
State grants	789,826	-	-	748,276	1,538,102
Federal grants	747,876	-	-	265,997	1,013,873
Total financing sources	\$ 31,550,700	9,358,515	1,198,335	2,435,353	44,542,903

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 that resolution of these matters will not have a material adverse effect on the financial condition of the government.

**D. 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 receives and invests its own funds and formulates and approves its own budget. The County of Hanover does not bear any direct or indirect liabilities 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 for fiscal matters rest with the Jail Board. The County serves as fiscal agent for the Jail Board; however, the board formulates and approves its own budget. The County of Hanover does not bear any direct or indirect liabilities for the operation of this organization.

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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 which regulates usage of the Jail and establishes payment terms applicable to participating jurisdictions. Under the Service Agreement, the County is obligated to commit all of its prisoners to the Jail at a per diem rate to be determined annually by the Jail. 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: Counties of Caroline, Charles City, Essex, Gloucester, Hanover, James City, King George, King and Queen, King William, Lancaster, Matthews, Middlesex, New Kent, Northumberland, Westmoreland, and York and the Cities of Poquoson, Richmond and Williamsburg. Each member jurisdiction appoints one member to the Commission. The County of Hanover does not bear any direct or indirect liabilities for the operation of this organization.

The Commission was created to enhance the protection of the region's citizens by the maintenance and operation of a juvenile detention facility (the Center) to serve the member jurisdictions. The member jurisdictions have entered into a Service Agreement which is a long-term contract governing the parties' respective obligations. Under the Service Agreement, the County is obligated to pay a per diem rate to be determined annually by the Commission for each day a juvenile from the County is held at the Center or in another detention facility secured by the Commission. If the sum of all per diem rates paid during the fiscal year is below \$2,500, the County shall pay the Commission the amount equal to the difference. 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, Title 15.2 of the Code of Virginia. The political subdivisions participating in the incorporation of the GRCCA are the City of Richmond and the Counties of Chesterfield, Hanover and Henrico. The GRCCA is governed by a five member commission comprised of the chief administrative officer of each of the four incorporating political subdivisions and the President/CEO of the Retail Merchants Association of Greater Richmond.

The GRCCA was created to acquire, finance, expand, renovate, construct, lease, operate and maintain the facility and grounds of a visitors and convention center or centers including the facility and grounds currently known as the Richmond Centre. Beginning in August 1996, each locality has designated revenue from the transient occupancy tax for expansion of the convention center. Project financing took place in February 2000, and the expanded Richmond Centre opened in 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

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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 of the population of each locality to the combined total population of all participating 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 been required to fund any deficit. Complete financial statements for the Commission can be obtained from the Director's office at Richmond International Airport, Box A-3, Richmond, Virginia 23231.

- **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 at 2100 West Laburnum Avenue, 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 3<sup>rd</sup> Street, Richmond, Virginia 23219.

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**E. 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 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, or downloaded from the System's web site at <http://www.varetire.org/pdf/2006annurept.pdf>.

- 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 2007 was 7.48% of annual covered payroll. Hanover County has elected to pay the employee's required 5% contribution. The School Board non-professional contribution rate for the fiscal year ended 2007 was 6.92% of annual covered payroll. The School Board's required contributions to the teacher cost-sharing pool for the fiscal years ending 2007, 2006, and 2005 were \$12,929,743, \$9,736,252, and \$8,706,944, respectively and are equal to the required contributions for each year.
- c. **Annual Pension Cost** – For the fiscal year 2007, the County's annual pension cost of \$3,564,341 was equal to the County's required and actual contributions. For 2007, the County School Board non-professional employees annual pension cost of \$441,506 was equal to the required and actual contributions. This actuarial valuation uses the assumptions and methods that were adopted as a result of the 2004 Experience Study. In particular, it uses an assumed investment rate of return of 7.5%; an assumed annual cost of living adjustment of 2.5%; salary increases that range between 3.75% and 5.60% depending on the member's service and classification (general employee or uniformed officer); and retirement, mortality, disability and termination rates that were also based on the 2004 Experience Study prepared for VRS. Liabilities were determined under the Entry Age Normal actuarial cost method.

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**d. Three-year trend information**

Funds	Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
<b>Primary government</b>					
Governmental	2007	\$ 3,273,320	\$ 3,273,320	100%	\$ -
Enterprise	2007	291,021	291,021	100	-
Governmental	2006	2,406,317	2,406,317	100	-
Enterprise	2006	222,596	222,596	100	-
Governmental	2005	2,184,926	2,184,926	100	-
Enterprise	2005	208,664	208,664	100	-
<b>School Component Unit - Nonprofessional Employees</b>					
Governmental	2007	\$ 441,506	\$ 441,506	100%	\$ -
Governmental	2007	238,058	238,058	100	-
Governmental	2007	225,141	225,141	100	-

**F. Restatement of beginning net assets – Airport activities**

During fiscal year 2007, the County issued its Taxable Airport Revenue Bond, Series 2007 (Airport Bond), in the principal amount of \$1,795,000, to finance airport improvements. The bond matures on January 1 and July 1 in each of the years 2008 through 2027, and has an effective interest rate of 5.08 percent. The Airport Bond is payable solely from and secured by a pledge of the rent received by the County from the airport's fixed base operator. The principal of and the interest on the Airport Bond does not constitute a pledge of the faith and credit of the County, and the faith and credit of the County is not pledged to the payment of the principal of or interest of the Airport Bond.

Governmental Accounting Standards Board Statement No. 34 (Statement) requires that activities financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity be reported as an enterprise fund. The Statement further requires that the cumulative effect of applying the provisions of the Statement, including the initial reporting of enterprise fund activities, be reported as a restatement of beginning fund net assets. Accordingly, in fiscal year 2007, the County has reclassified its airport activities, reported in previous years within the General Fund as governmental activities, as business-type activities within a new Airport Fund, a nonmajor enterprise fund. The cumulative effect of the reclassification of the airport activities on the government-wide Statement of Activities and on the new Airport (Enterprise) Fund, are summarized as follows:

	Government-wide Statement of Net Assets			Proprietary Fund Statement of Net Assets -
	Governmental Activities	Business-type Activities	Total	Airport (Enterprise) Fund
Net Assets at beginning of year, as previously reported	\$ 104,095,502	153,923,297	258,018,799	\$ -
Increase (decrease):				
Adjustment to initially adopt GASB 34 enterprise fund reporting requirement for airport activities in recognition of fiscal year 2007 debt issuance, secured by pledged airport rental revenues	(9,634,292)	9,634,292	-	9,634,292
Net Assets at beginning of year, as restated	<u>\$ 94,461,210</u>	<u>163,557,589</u>	<u>258,018,799</u>	<u>\$ 9,634,292</u>

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The preceding restatement of net assets at July 1, 2006 consisted solely of capital assets used in airport activities totaling \$9,635,248, net of a liability for compensated absences of \$956, respectively, neither of which is reported in the fund financial statements. Accordingly, the airport restatement had no impact on the beginning fund balance of the General Fund.

**G. Subsequent events**

**General obligation bond issuance**

On November 8, 2007, the County sold Virginia Public School Authority (VPSA) General Obligation School Bonds, Series 2007A and 2007B, issued through the VPSA Subsidy Program, in the aggregate principal amount of \$13,838,206. The proceeds of the Bonds will be used to partially finance the Laurel Meadow Elementary School and a new Trades School. The bonds mature on July 15<sup>th</sup> in each of the years 2008 through 2027, and have an effective interest rate of 4.0 percent.

**Lewistown Commerce Center Community Development Authority**

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

On June 28, 2007 the Authority authorized the issuance of the Lewistown Commerce Center Community Development Authority (Virginia), \$37,675,000 Revenue Bonds, Series 2007 (2007 Bonds). On October 23, 2007, the 2007 Bonds were issued in the total principal amount of \$37,675,000, in accordance with the provisions of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2007 Bonds were issued to finance (a) the acquisition of certain land and the construction of certain infrastructure improvements to benefit the District (b) the payment of initial administrative expenses estimated through March 1, 2010 (c) the payment of construction period interest through March 1, 2010 (d) the funding of a Debt Service Reserve Fund for the 2007 Bonds, and (e) certain costs of issuance. The principal of and the interest on the 2007 Bonds will not be deemed to constitute a pledge of the faith and credit of the Commonwealth of Virginia or any other political subdivision, including Hanover County. Neither the faith and credit of the Commonwealth nor the faith and credit of the Authority, any county, city, town or other subdivision of the Commonwealth, including Hanover County, are pledged to the payment of the principal of or interest on the 2007 bonds.

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

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that order. Under the Agreement, excess Incremental Tax Revenues, if any, may also be applied to debt service on the 2007 Bonds, or to the optional redemption or defeasance of the 2007 Bonds.

The County will function as an agent for the Authority by collecting and making the Payments to the Authority annually, and has agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures. Payments of Incremental Tax Revenues are scheduled to be made no later than February 1 of each year, beginning February 1, 2008. However, the Payments described above to the Authority are not deemed general obligations of Hanover County, but will be dependent upon appropriation and paid only to the extent the Special Real Property Tax, Incremental Tax Revenues, or Special Assessments have been received by the County. No special assessments were made during fiscal year 2007.