

County of Hanover, Virginia Management's Discussion and Analysis

As management of the County, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-11 of this report.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2007 by \$285.6 million (*net assets*). Of this amount, \$66.1 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$27.6 million, of which the governmental activities increased by \$18.7 million and business-type activities increased by \$8.9 million.
- As of the close of fiscal year 2007, the County's governmental funds reported combined ending fund balances of \$59.1 million, an increase of \$12.5 million from prior year. Of the \$59.1 million total, 82.5% (\$48.8 million) is available for spending at the County's discretion (unreserved fund balance).
- Undesignated fund balance for the General Fund was \$22.5 million, or 12.3% of total General Fund revenues, representing an increase of \$1.2 million. This exceeds the County's undesignated fund balance policy minimum of 10% of total General Fund revenues.
- The County's total debt increased by \$10.2 million (5.8%) during fiscal year 2007. The net increase was a result of the issuance of \$35.5 million of general obligation bonds in October 2006, of which \$21.1 million was new debt, less principal payments of \$11.1 million and debt refunding of \$14.4 million. The new debt was approved in the November 2005 referendum to fund capital projects for public safety, parks and library, and schools. The remaining balance of \$14.4 million was issued to refund the County's Series 1997 general obligation bonds and advance refund the County's Series 2000 general obligation bonds.
- The County established a new enterprise fund (the Airport Fund) to account for the operating, capital and financing activities of the Hanover County Municipal Airport in fiscal year 2007. The financing activity includes the issuance of \$1.8 million of revenue bonds in March 2007 for the construction of hangars. The debt service will be funded solely by pledged hangar rental income collected by the airport's fixed base operator. As required by Governmental Accounting Standards Board Statement No. 34, the beginning net assets of governmental and business-type activities have also been restated to report the airport capital assets and liabilities within the Airport Fund, a business-type activity, as of the beginning of fiscal year 2007.

Overview of the Financial Statements

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

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

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other activities that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government administration; judicial administration; public safety; public works; human services; parks, recreation and cultural; community development; education; and interest on long-term debt. The business-type activities consist of public utilities and airport.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate school board and a legally separate economic development authority for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 34-35 of this report.

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

Governmental funds are used to account for essentially the same functions reported as governmental *activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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

The County maintains five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the County Improvements Fund and the School

Improvements Fund; all three of which are considered to be *major funds*. Data from the other two County funds, Comprehensive Services Fund and Community Services Fund, are combined into a single, aggregated presentation. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* elsewhere in this report. The County adopts an annual appropriated General Fund budget, for which a budgetary comparison statement has been provided to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 36-39 of this report.

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

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 40-42 of this report.

Fiduciary funds are used to account for resources received and held in a fiduciary capacity for the benefit of individuals, private organizations, or other governments. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. However, the County is responsible for ensuring fund assets are used for their intended purpose. A separate statement of fiduciary net assets can be found on page 43 of this report, while a statement of changes in assets and liabilities for fiduciary funds is provided on page 92.

Notes to the financial statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-71 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on page 73 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the pension-related required supplementary information. Combining and individual fund statements and schedules can be found starting on page 75 of this report.

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

Government-wide Financial Analysis

As noted earlier, over time, changes in net assets may serve as a useful indicator of a County's financial position. Of interest, the County's assets exceeded liabilities by \$285.6 million at the close of fiscal year 2007. By far the largest portion of the County's net assets (\$206.5 million, 72.3% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, like water and wastewater services, schools, libraries, law enforcement, and fire and emergency medical services. Consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the County's investment in capital assets is of a permanent nature, as assets acquired are generally not sold or otherwise disposed of during their useful life).

An additional portion of the County's net assets (\$13.0 million, 4.6% of total) represents resources that are subject to external restrictions on how they may be used, including amounts restricted for road building, stormwater management, school construction, grant programs and debt service. The remaining balance of unrestricted net assets (\$66.1 million, 23.1% of total) may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of fiscal year 2007, the County is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. As noted previously, the County's net assets increased by \$27.6 million during fiscal year 2007. The \$18.7 million increase in net assets of governmental activities is the result of a combination of an 11.7% growth in general property tax revenue; an education surplus of \$2.8 million; cash investment in capital assets; and strong debt principal retirement practices. Of the \$2.8 million education surplus, \$1.2 million was earmarked as a funding source for the fiscal year 2008 School Improvements Fund budget and an additional \$1.2 million was reserved for future capital improvements. The \$8.9 million increase in net assets of business-type activities includes \$5.6 million of donated capital assets accepted into the public utility system. The remaining utility fund net assets increase resulted from non-operating capacity fees, which help to offset cost of existing capital.

The following tables summarize the County's Statement of Net Assets and Statement of Activities:

Summary of Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 119,149,317	99,563,970	32,187,833	29,835,728	151,337,150	129,399,698
Capital assets	200,885,039	185,725,161	184,642,235	178,514,532	385,527,274	364,239,693
Total assets	<u>320,034,356</u>	<u>285,289,131</u>	<u>216,830,068</u>	<u>208,350,260</u>	<u>536,864,424</u>	<u>493,639,391</u>
Long-term liabilities outstanding	152,458,301	141,816,730	42,205,475	42,413,551	194,663,776	184,230,281
Other liabilities	54,408,138	49,011,191	2,191,625	2,379,120	56,599,763	51,390,311
Total liabilities	<u>206,866,439</u>	<u>190,827,921</u>	<u>44,397,100</u>	<u>44,792,671</u>	<u>251,263,539</u>	<u>235,620,592</u>
Net assets (as restated):						
Invested in capital assets, net of related debt	61,976,094	57,948,370	144,494,562	145,855,364	206,470,656	203,803,735
Restricted	9,599,544	7,058,772	3,445,443	3,716,918	13,044,987	10,775,690
Unrestricted	41,592,279	29,454,068	24,492,963	13,985,307	66,085,242	43,439,375
Total net assets	<u>\$ 113,167,917</u>	<u>94,461,210</u>	<u>172,432,968</u>	<u>163,557,589</u>	<u>285,600,885</u>	<u>258,018,799</u>

Certain amounts for FY 2006 have been restated for comparability to FY 2007 amounts

Summary of Activities

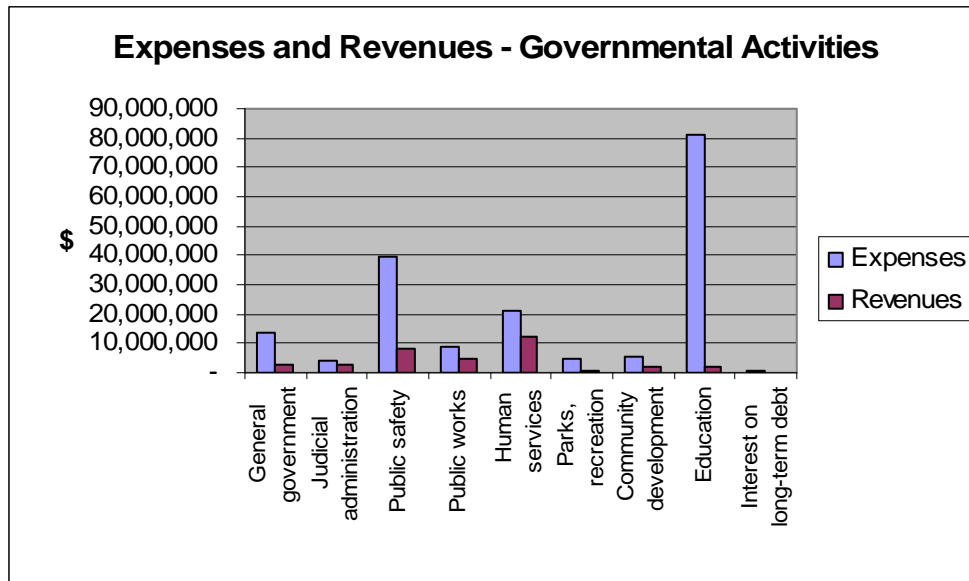
	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 13,833,301	14,696,970	19,618,120	19,226,205	33,451,421	33,923,175
Operating grants and contributions	15,408,252	14,310,471	-	75,300	15,408,252	14,385,771
Capital grants and contributions	5,902,858	7,205,048	10,776,808	8,495,258	16,679,666	15,700,306
General revenues:						
Property taxes	117,152,314	104,905,885	-	-	117,152,314	104,905,885
Other taxes	27,952,788	28,190,135	-	-	27,952,788	28,190,135
Noncategorical State aid	14,895,053	15,674,963	-	-	14,895,053	15,674,963
Grants and contributions	849,714	1,144,348	-	-	849,714	1,144,348
Other	1,790,177	1,430,959	1,015,229	588,383	2,805,406	2,019,342
Total revenues	<u>197,784,457</u>	<u>187,558,779</u>	<u>31,410,157</u>	<u>28,385,146</u>	<u>229,194,614</u>	<u>215,943,926</u>
Expenses:						
General government	13,312,730	12,118,463	-	-	13,312,730	12,118,463
Judicial administration	3,930,945	3,978,959	-	-	3,930,945	3,978,959
Public safety	39,333,719	35,956,589	-	-	39,333,719	35,956,589
Public works	8,741,705	9,570,693	-	-	8,741,705	9,570,693
Human services	21,269,844	19,849,312	-	-	21,269,844	19,849,312
Parks, recreation and cultural	4,732,962	5,260,603	-	-	4,732,962	5,260,603
Community development	5,306,364	4,878,481	-	-	5,306,364	4,878,481
Education	81,203,331	83,003,947	-	-	81,203,331	83,003,947
Interest on long-term debt	627,078	314,867	-	-	627,078	314,867
Public utilities	-	-	22,688,647	21,848,595	22,688,647	21,848,595
Airport	-	-	465,203	-	465,203	-
Total expenses	<u>178,458,678</u>	<u>174,931,914</u>	<u>23,153,850</u>	<u>21,848,595</u>	<u>201,612,528</u>	<u>196,780,509</u>
Increase in net assets before transfers	19,325,779	12,626,865	8,256,307	6,536,551	27,582,086	19,163,416
Transfers	(619,072)	-	619,072	-	-	-
Increase in net assets	18,706,707	12,626,865	8,875,379	6,536,551	27,582,086	19,163,416
Net assets - beginning of year (as restated)	94,461,210	81,834,345	163,557,589	157,021,038	258,018,799	238,855,383
Net assets - end of year	<u>\$ 113,167,917</u>	<u>94,461,210</u>	<u>172,432,968</u>	<u>163,557,589</u>	<u>285,600,885</u>	<u>258,018,799</u>

Certain amounts for FY 2006 have been restated for comparability to FY 2007 amounts.

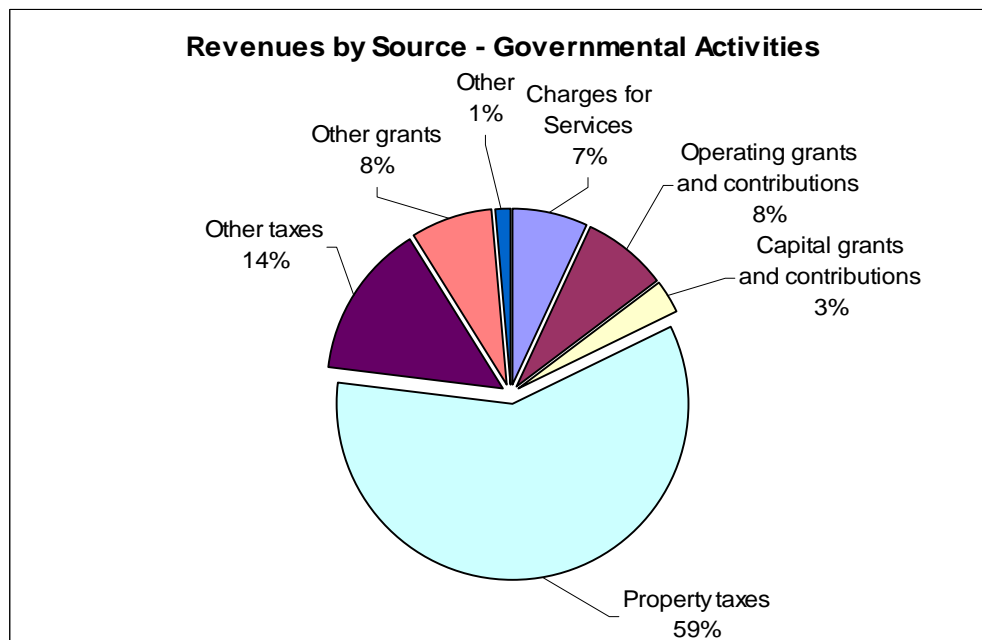
As noted previously, the increase in net assets attributable to the County's **governmental activities** totaled \$18.7 million for fiscal year 2007. Generally, net asset changes are the result of the difference between revenues and expenses. Fiscal year 2007 revenues of \$197.2 million represent an increase of \$9.6 million or 5.1% over the prior year, while expenses of \$178.5 million represent an increase of \$3.5 million or 2.0% compared to the prior year. A summary of key elements follows:

- General property taxes collections were \$117.2 million, representing an increase of \$12.2 million or 11.7%. The increase was primarily due to the continued growth in the tax base from new residential and commercial construction of 2.8%, reassessment of existing real property at 13.6%, net of a five cent real property tax reduction all for the 2007 tax year. The personal property tax revenue grew \$4.1 million or 22.0% primarily due to the elimination of an annual vehicle license decal fee and the changes to the "no car tax" program administered by the State. To offset the loss of decal revenue and the fixed State car tax relief, which previously grew with eligible vehicle value growth, the personal property assessment method was changed net of a seven cent tax rate reduction. The decal revenue was previously recognized in motor vehicle licenses and personal property tax relief from the State is recognized as non-categorical State Aid. The State remittance for personal property tax decreased by \$129,000 or 0.9% to \$15.0 million and will remain at this amount indefinitely.
- Charges for services decreased by \$864,000 to \$13.8 million. This 5.9% decrease is primarily the result of the January 1, 2007, implementation of the State's new telecommunications use tax which replaced the County's charges for service revenues of consumer utility tax for telecommunications, E911 tax and cable television. Fiscal year 2007 included \$2.0 million of State telecommunications use tax collections recognized as utility tax revenue. Operating grants and contributions totaled \$15.4 million, an increase of \$1.1 million or 7.7%. State grants and contribution revenue for fiscal year 2007 increased by \$428,000 for the Comprehensive Services Fund and \$216,000 for the Community Services Fund. An additional \$455,000 was received in Sheriff's Office federal grants.
- Capital grants and contributions totaled \$5.9 million as compared to \$7.2 million in fiscal year 2006. The \$5.9 million includes \$2.1 million of proffer collections and \$1.7 million of recovered revenue from developers for capital road projects. Capital grants and developer contribution collections vary by year based upon the construction activity of County and School capital projects.
- Expenses for general governmental administration increased \$1.2 million or 9.9%. Included in this increase was bond issuance expense of \$100,000, funding for new training programs, technology enhancements, vehicle purchases, and a new senior system engineer position in information technology.
- Expenses for public safety increased \$3.4 million or 9.4%. Public safety is a priority of the Board of Supervisors and this increase included seventeen new Fire/EMS positions, eight Sheriff's Office positions, and two Emergency Communications positions. Twelve of the seventeen new Fire/EMS positions were funded at 90% with a federal SAFER grant award in fiscal year 2007. The grant will provide partial funding for these positions for four years
- Expenses for human services increased \$1.4 million or 7.2%. This increase includes a \$755,000 increase in mandated expenses in the Comprehensive Services Fund offset by a \$428,000 increase in State funding and an increase in expenses in the Community Services Fund of \$468,000. The Community Services Fund provides mental health and mental retardation services to the citizens of the County.
- Expenses for education of \$81.2 million decreased by \$1.8 million, or 2.2% from the prior year. The decrease was the result of expenditure savings throughout the system in an effort to realize a year-end operating surplus that will be utilized to fund future capital improvement projects.

The following graph illustrates the County's fiscal year 2007 expenses and program revenues for each functional area comprising its governmental activities. Education expense represents the County's payment to its School Component Unit on the accrual basis.



The following graph illustrates the County's fiscal year 2007 governmental revenues by source as a percentage of the total.



The increase in the net assets attributable to the County's **business-type activities** totaled \$8.9 million for fiscal year 2007. Similar to changes in net assets attributable to governmental activities, changes in business-type activity net assets also result from the difference between revenues and expenses. However, unlike governmental activities, which rely primarily on general tax revenues to finance operations, business-type activities are financed to a significant extent by fees charged for goods and

services provided. The County's business-type activities consist of its water and waste-water treatment services, provided by its Public Utility Fund and airport operating and capital activities included in the Airport Fund.

Like all business-type activities, the County's Public Utility Fund attempts to recover as much of the operating expenses it incurs to meet service demands as possible through user charges. Nevertheless, Public Utility operating revenues were less than its operating expenses for fiscal year 2007, resulting in a net loss of \$1.5 million, primarily due to the recognition of depreciation expense on capital assets. Even with the operating loss, business-type activity net assets increased by \$7.7 million during fiscal year 2007, primarily due to non-operating capacity fees received of \$3.9 million and \$5.6 million of donated assets. A summary of relevant fiscal year 2007 financial results follows:

- The Department of Public Utilities implemented user fee increases of 6% for water and 5% for wastewater in fiscal year 2007. The methodology of the 2005 rate study aligns the cost for provision of water and sewer services to the appropriate user fee (charges for services) and calculates the value of a connection to the system (capacity fees) based upon the cost of current and future infrastructure.
- Charges for services totaled \$19.2 million, which were \$400,000 (1.9%) higher than fiscal year 2006. This increase was primarily due to the user fee increases and record demand for water during a seasonal drought, offset by lower than anticipated customer growth.
- Capacity fees totaled \$4.1 million, which were \$952,000 (18.8%) lower than fiscal year 2006. Residential building activity in the Suburban Service Area continues to be low, and commercial connections have moderated compared to the prior year's higher than anticipated commercial activity.
- Donated capital assets totaled \$5.6 million, and resulted from the construction of water and sewer lines by developers as part of residential and commercial development.
- Expenses totaled \$22.7 million, which were \$800,000 (3.8%) higher than fiscal year 2006. The moderate increase in expenses was primarily due to the net effect of the general inflation rate, increased depreciation expense, interest expense, and lower costs for water purchased from the City of Richmond and Henrico County.

The Airport Fund recognizes operating and capital expenses of the Hanover County Municipal Airport. The airport is a 210-acre facility located within the County's major industrial park near the intersection of I-95 and I-295. It is a general aviation reliever airport for the Richmond International Airport. The airport facilities are currently leased to a fixed base operator under a Lease and Management Agreement. In March 2007 a taxable airport revenue bond, Series 2007, was issued in the amount of \$1,795,000. The bond proceeds will be used to construct and equip five new hangars at the airport. The fixed base operator will lease the hangars and remit sufficient revenues to the County to pay the annual debt service. In addition to the revenues and debt service expense, this fund also recognizes the operating cost of one airport manager position, depreciation expense, and grant revenues received for airport capital improvement projects. The Airport Fund recognized an operating loss of \$407,000 due to the recognition of depreciation expense on capital assets and a positive change in net assets of \$1.2 million for fiscal year 2007. The increase in net assets was primarily the result of intergovernmental revenues received in the amount of \$970,000 for funding capital projects.

Financial Analysis of the County's Funds

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

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

As of the end of fiscal year 2007, the County's governmental funds reported combined ending fund balances of \$59.1 million, an increase of \$12.5 million in comparison with fiscal year 2006. Of the \$59.1 million, 82.5% (\$48.8 million) constitutes unreserved fund balance, which is available for spending at the County's discretion. The unreserved fund balance includes \$25.3 million designated as described in footnote V. B. on page 64. Fund balance of \$10.4 million is *reserved* to indicate that it is not available for new spending because it has already been committed to (1) liquidate contracts and purchase orders of the prior fiscal year for which funding has been received (\$9.6 million including grant programs), and (2) provide required debt reserves (\$770,000), and a portion has been reserved for inventory (\$10,400).

The General Fund is the primary operating fund of the County. The fund balance of the County's General Fund increased \$6.7 million during fiscal year 2007. At the end of fiscal year 2007, unreserved fund balance of the General Fund was \$35.1 million, while total fund balance reached \$36.2 million. As a measure of the General Fund's liquidity, it may be useful to compare fund balances to total fund revenues. Unreserved fund balance represents 19.2% of total General Fund revenues, while the total General Fund balance represents 19.8% of that same amount. Of General Fund unreserved fund balances, the \$22.5 million undesignated portion represents 12.3% of total General Fund revenues, and exceeds the 10% minimum per fund balance policy.

The fund balance in the County Improvements Fund increased \$9.3 million during fiscal year 2007. The unreserved fund balance is \$11.7 million and reserved fund balance \$7.8 million. The details of the unreserved, designated fund balance of \$11.3 million are described in footnote V.B. on page 64. The undesignated fund balance of \$392,591 is an increase of \$301,000 and is primarily the result of interest earnings on the debt construction account for the general obligation bonds that were issued in October 2006.

The fund balance of the School Improvements Fund decreased \$3.8 million during fiscal year 2007, primarily due to a reduction in outstanding encumbrances as of June 30th by \$2.7 million from prior year. Encumbrance balances vary due to the timing of expenditures for multi-year capital projects. The unreserved fund balance is \$1.4 million and reserved fund balance \$1.4 million. The undesignated fund balance of \$7,000 is a small decrease of \$21,000.

Proprietary funds: The County's proprietary funds financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, but in more detail. Public Utilities Fund total net assets increased \$7.7 million, or 5.0% during fiscal year 2007. The majority of the increase (72.7%), totaling \$5.6 million, consisted of capital assets contributed by developers of residential and commercial water and wastewater construction projects. Restricted net assets decreased by \$302,000 and unrestricted net assets increased \$10.3 million. The Airport Fund net assets increased by \$1.2 million for fiscal year 2007. A summary of proprietary operations for the year was previously provided in the discussion of business-type activities.

Budgetary Highlights

General Fund budget amendments resulted in an increase of \$2.6 million between the original budget and the final budget, with \$1.8 million of the increase resulting from reappropriation of fiscal year 2006 year-end encumbered and unencumbered fund balance amounts for completion of ongoing projects in fiscal year 2007. Significant reappropriations included:

- \$182,000 for Sheriff's Office, primarily grant funding for equipment;
- \$181,000 for Clerk of Circuit Court unused grant funding for labor and supplies for microfilming initiative;
- \$148,000 for the Planning Department, primarily for encumbered professional services related to the Comprehensive Plan update.

The remaining \$800,000 in budget amendments was funded by various revenue sources. Significant amendments included:

- \$224,000 for Fire/EMS Department, to recognize the award of the SAFER grant to partially fund twelve firefighter positions;
- \$130,000 for Parks and Recreation Department to recognize additional program revenue from increased participation;
- \$150,000 for Reserve for Revenue increase to recognize grants, donations, and insurance recoveries received by various departments in excess of the original appropriation of \$160,000.

The County Improvements Fund budget amendments resulted in an increase of \$25.3 million between original and final budget, with \$14.7 million resulting from reappropriation of encumbered and unencumbered balances. Road capital projects made up \$8.6 million of the reappropriated balances. Other budget amendments included:

- \$6.5 million increase for the North Lakeridge road project that was funded with \$6.0 million of recovered cost from the developer and \$500,000 of state funding;
- \$4.2 million increase to recognize the Series 2006 debt proceeds and subsequent refunding of the Series 1997 general obligation bonds;
- \$3.2 million reduction in the budget to move the airport capital projects to the new airport fund;
- \$2.3 million increase for various road projects funded with \$1.4 million of recovered cost from the developers and \$941,000 of State funding.

The School Improvements Fund budget amendments resulted in an increase of \$19.7 million between original and final budget, including \$9.0 million in reappropriation of encumbered and unencumbered balances. The Kersey Creek Elementary School project, including road improvements, reappropriations totaled \$4.4 million and \$2.2 million was for mechanical and roof improvements. A budget amendment for \$10.0 million was authorized to recognize the Series 2006 debt proceeds and subsequent refunding of the Series 2000 general obligation bonds.

Capital Asset and Debt Administration

Capital assets: The County’s investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$385.5 million, net of accumulated depreciation. This represents an increase of \$21.3 million or 5.8% over fiscal year 2006. The investment in capital assets includes land, buildings, improvements, infrastructure (primarily stormwater drainage basins), machinery and equipment and construction in progress. State law grants the County a *tenancy in common* with the School Component Unit for School capital assets for which the County incurs an obligation payable over more than one fiscal year, under which the County reported net capital assets of \$126.4 million at year-end. Major capital asset events during fiscal year 2007 included the following:

- Governmental activities construction in progress includes the reduction of \$13.2 million for Kersey Creek Elementary School that was completed in fiscal year 2007. The final project was capitalized at \$18.8 million. This reduction was offset by the addition of \$10.7 million for Laurel Meadow Elementary School that is under construction in fiscal year 2007.
- Business-type activity capital assets increased \$15.8 million (net of accumulated depreciation), of which \$4.9 million was in the Public Utility Fund and primarily consisted of completed and in-progress water infrastructure projects, and \$10.7 million consists of Airport Fund capital assets, of which \$9.6 million was reclassified from governmental activities capital assets upon establishment of the Airport Fund in fiscal year 2007, and \$1.1 million represents airport construction activity.

Additional information on the County’s capital assets can be found in note IV. C. on pages 56-58 of this report. Capital assets net of accumulated depreciation are illustrated in the following table:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	2007 <u>Total</u>	2006 <u>Total</u>
Land	\$ 8,601,076	9,914,501	18,515,577	16,719,489
Buildings and systems	160,364,478	59,787,693	220,152,171	186,489,154
Improvements other than buildings	3,239,705	108,143,363	111,383,068	105,580,626
Machinery and equipment	11,720,668	995,048	12,715,716	12,965,087
Infrastructure	13,536,624	-	13,536,624	13,694,985
Construction in progress	<u>3,422,488</u>	<u>5,801,630</u>	<u>9,224,118</u>	<u>28,790,352</u>
Total	<u>\$ 200,885,039</u>	<u>184,642,235</u>	<u>385,527,274</u>	<u>364,239,693</u>

Long-term debt: At the end of fiscal year 2007, the County had total bonded debt outstanding of \$185.7 million. Of this amount, \$141.6 million comprises debt backed by the full faith and credit of the County. The remainder of the County’s debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds, obligations under capital leases). The County’s total debt increased during fiscal year 2007 by \$10.2 million (5.8%). The net increase was primarily a result of \$21.1 million issued for County and School capital projects that were approved on the November 2005 referendum, less principal payments. The County is in compliance with all debt policy requirements as illustrated on pages 122 and 124 in the Statistical Section of this report.

In the Commonwealth of Virginia, there is no State statute that limits the amount of general obligation debt a County may issue. Additional information on the County's long-term debt can be found in note IV. E. on pages 59-63 and in note V. G. on pages 70-71 of this report. The following table illustrates the County's outstanding debt at June 30, 2007:

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 141,593,792	-	141,593,792
Revenue bonds	-	40,509,437	40,509,437
Capital lease obligations	3,602,672	-	3,602,672
Total	<u>\$ 145,196,464</u>	<u>40,509,437</u>	<u>185,705,901</u>

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the County in August 2007 was 2.6%, which is the same rate as a year ago. This rate compares favorably to the State's average unemployment rate of 3.1% and the national average rate of 4.6% for the same period.

The County recognizes the value of properly illustrating year-end commitments. Accordingly, the County has designated \$6.0 million of its unreserved General Fund balance at June 30, 2007 to fund a portion of the fiscal year 2008 General Fund budget, including \$2.3 million for one-time capital funding. Additionally, the County increased the Reserve for Capital Improvements by \$2.4 million and created a \$500,000 reserve for other post-employment benefits liability as of June 30, 2007. In this manner, the County is able to utilize all or portions of surpluses at the end of the current fiscal year as a source of funding in a subsequent year, while also meeting the County's fund balance policy and maintaining desired reserves for future needs.

In April 2007, the Board of Supervisors approved changes to the retiree health insurance program. The changes included establishing a minimum years of Hanover County service to be eligible to participate, retiree and spouse subsidies based upon the retiree's years of service, a maximum subsidy for dependents, a 3% growth rate for subsidies, and grandfathering criteria for current employees as of September 30, 2007. The changes were effective October 1, 2007. The County has had a preliminary GASB45 actuarial valuation performed and estimates an annual required contribution of approximately \$1.4 million based upon the October 1, 2007, program. As indicated previously, \$500,000 was reserved as of June 30, 2007, for the other post-employment benefits liability. Currently, the County has initiated an updated actuarial valuation and is reviewing trust options.

Also in April 2007, the Board of Supervisors approved a five cent decrease in the real property rate to offset a 13.6% growth in reassessment. The net effect of the rate reduction and the reassessment was a growth of 7.0%. A personal property tax rate reduction was also approved at that time for aircraft from \$1.00 per \$100 of assessed value to 50 cents. The reduction created a more competitive rate compared to the region and is projected to be revenue neutral due to an anticipated increase in the fleet. All other calendar year 2007 County general property tax rates remained at the same rates that existed for calendar year 2006. In fiscal year 2008, public utilities user fee increases include a 6.0% rate increase for water, a 5.0% increase for sewer, and a 4.0% rate increase for capacity fees.

Requests for Information

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