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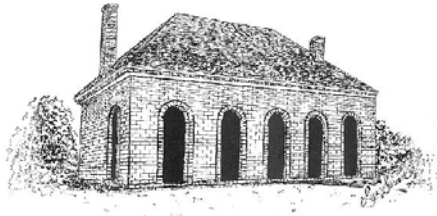
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HANOVER COUNTY

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November 3, 2009

The Honorable Members of the Board of Supervisors
Citizens of the County
County of Hanover, Virginia

Honorable Members of the Board of Supervisors and Citizens of the County of Hanover:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of Hanover County (the County) for the fiscal year ended June 30, 2009. The *Code of Virginia* requires that local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) where applicable, and the Virginia Auditor of Public Accounts (APA).

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and fairness of presentation of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed to ensure compliance with applicable laws, regulations and County policies, safeguard the County's assets, and compile sufficient reliable information for the preparation of the County financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and accurate in all material respects, and presents fairly the financial position and results of operations of the various funds and component units of the County.

This report is intended to provide informative and relevant financial information for the citizens of the County, the Board of Supervisors (the Board), investors, creditors and other concerned readers. All are encouraged to contact the Department of Finance with any comments or questions concerning this report.

The County's financial statements have been audited by Cherry, Bekaert and Holland, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2009, are fairly presented, in all material respects, in conformity with GAAP. The auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's compliance with the financial and administrative requirements applicable to each of the County's major federal programs. These reports are available in the Compliance Section of this report.

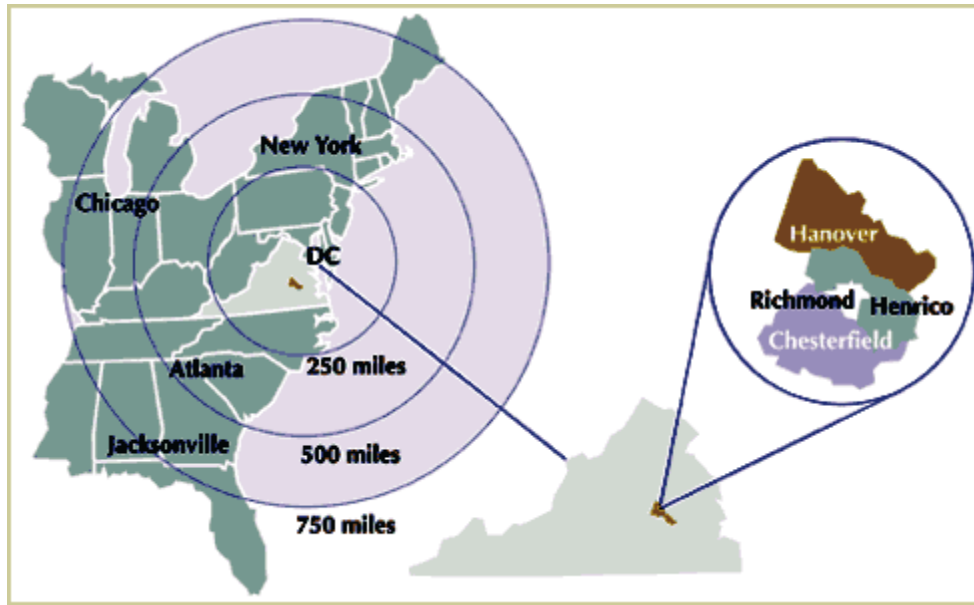
GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Profile of the County

The County was formed on November 26, 1720, by the Virginia General Assembly in "An Act for dividing New Kent County." It is named for King George I of England, who, at the time he came to the throne, was Elector of Hanover in Germany. Two of the County's native sons, Patrick Henry and Henry Clay, distinguished themselves as orators, patriots and statesmen in the early history of this Country. Prior to English colonization in the seventeenth century, the Pamunkey Indians populated this area. The northern boundary, the Pamunkey River, carries their name and they maintain a reservation on the lower part of the river in neighboring King William County. The Town of Ashland is located within Hanover County and was incorporated in 1858.

The County currently employs the traditional board form of County government with a county administrator. Policies governing the administration of the County are set by a seven-member Board of Supervisors elected from seven magisterial districts. This body also has responsibility for appointing the county administrator. The County has taxing powers subject to statewide restrictions and tax limits.

Located in central Virginia 15 miles north of the City of Richmond, the County's 471 square miles lies in the Commonwealth's Piedmont and Coastal regions. Hanover is bordered by the Counties of Caroline, King William, New Kent, Henrico, Goochland, Spotsylvania and Louisa and by the Pamunkey, North Anna and Chickahominy Rivers. The South Anna River is also located in the County. Home of the internationally renowned Hanover tomato, the County also offers both historic houses and the latest new home developments with a balance between residential, commercial, industrial and agricultural tax bases.



The offices of the Board of Supervisors, County Administrator, County Attorney, Commissioner of the Revenue, Treasurer, Registrar, and the departments of Human Resources, Finance, Internal Audit, Assessor, Public Information, Purchasing, General Services, and Information Technology constitute the general government administration of the County. The officers, along with the staff of the various departments, implement the laws and policies of the County by developing and executing the procedures that are necessary in order to provide general support services to residents of the County.

The Court system is made up of the Circuit Court, General District Court, Magistrate, Juvenile and Domestic Relations Court, Clerk of the Circuit Court, Court Services, and Commonwealth's Attorney. The public safety operations of the County include the Sheriff, Pamunkey Regional Jail, Juvenile Court Services Unit, Community Corrections, Emergency Communications, Fire and Emergency Medical Services, Animal Control and Building Inspections.

Public Works administers capital projects of the County, maintains the stormwater management program, administers the State-sponsored erosion and sediment control law, and oversees solid waste management, the Cannery, the County Airport and the recycling service district operations. Facilities Management provides property management of all County-owned, nonschool related properties.

The Department of Social Services determines eligibility for public assistance programs, which are mandated by federal and state law. The Community Services Board provides mental health, mental retardation, and substance abuse services. In addition, it provides adult services, group home services, and supervised living services. Hanover is served by the Regional Health District of Hanover, Goochland, New Kent, and Charles City. Other human services expenditures include the Tax Relief for the Elderly and Disabled Program and services as required by the Comprehensive Services Act.

Parks and Recreation provides and promotes leisure services such as park activities, educational and hobby programs, senior citizen activities, youth programs, adult athletic leagues, bus tours, special events, and other activities for County residents in addition to maintenance of the County's grounds. The Pamunkey Regional Library provides public library service to the County through six branch libraries, the bookmobile and remote access to the library collection through the library's web site.

The Planning Department is responsible for the Comprehensive Plan; demographics; and the acceptance, review, and disposition of all land use and subdivision applications. The Geographic Information System Office is responsible for developing, maintaining, and distributing geographic related data sets and applications. The services of the Economic Development Department are designed to attract, retain, generate, and facilitate expansion of high quality business and industry resulting in a stable and diverse local economy and an improved standard of living for the residents of the County.

The County's Department of Public Utilities operates and maintains public water and sanitary sewer systems in the "Suburban Service Area" (the crescent-shaped area north of the Chickahominy River, generally between Route 1 and Creighton Road and includes the Town of Ashland), the Doswell area, the Route 33 area, and the Hanover Courthouse area. The County provides utility service to approximately 19,900 water and 18,200 wastewater customers.

The County provides education through its school system administered by the Hanover County School Board (School Board) and promotes industry through the Economic Development Authority (the EDA). These agencies have been classified as discretely presented component units in the accompanying financial statements because, under GASB pronouncements, they are legally separate entities for which the County is financially accountable. The School Board administers the County's schools and administers its own appropriations within the categories defined by the *Code of Virginia*, but is fiscally dependent upon the County because the Board of Supervisors approves the budget, levies the necessary taxes to finance operations and issues debt to finance capital projects. The Board of Supervisors also approves transfers between education funds, and appoints School Board members. The EDA has the power to issue tax-exempt industrial development revenue bonds to qualifying enterprises wishing to utilize that form of financing. Those bonds represent limited obligations of the EDA and are to be repaid solely from the revenue and receipts derived from the projects funded with the proceeds. The debt outstanding does not constitute a debt or pledge of the faith and credit of the County or the EDA.

The annual budget serves as the foundation of the County's financial planning and control. All agencies of the County generally submit requests for appropriation to the County Administrator on or before December 1 each year. The County Administrator uses these requests as the starting point for developing a proposed budget. The County Administrator then presents the proposed budget to the Board. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the County's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., Sheriff's office) with the budget appropriation resolution adopted by the Board of Supervisors placing legal restrictions on expenditures at the fund level.

To address changes to the fiscal plan, the Board of Supervisors has also adopted a budget policy which establishes thresholds for making adjustments to the adopted budget. The budget policy generally authorizes the County Administrator to transfer amounts as needed within a department's budget, and to transfer amounts between departments and between capital projects up to a limit of \$25,000. The Board of Supervisors must approve all other transfers and all requests for supplemental appropriations. The School Board is authorized to transfer budgeted amounts within the school funds, with any transfer that increases total revenues requiring subsequent Board of Supervisors approval. Budget-to-actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented at Exhibit 6 as part of the basic financial statements. A more detailed General Fund budget-to-actual comparison by department is presented at Exhibit 13, and budget-to-actual comparisons for other governmental funds with appropriated annual budgets are presented in the Supplementary Information subsection of this report.

Factors Affecting Financial Condition

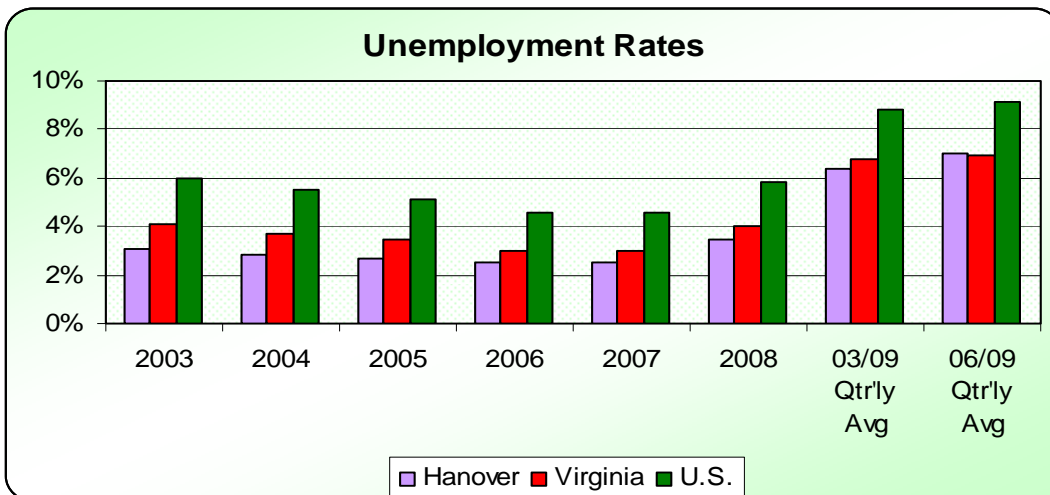
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy:

Based on its proximity to Richmond and its rural character, the County has been an attractive location for businesses relocating or expanding and for real estate developers interested in the opportunities in residential markets. The County is primarily served by Interstates 95 and 295, with Interstate 95 connecting the County to the metropolitan Richmond area to the south and providing the passage to Washington, D.C. to the north. Interstate 295 connects the eastern and western portions of the County together and represents the northern “loop” around the metropolitan Richmond area.

The County started to feel the first effects of the national recession in the fall of 2008. However, based on the last three national recessions, Hanover County has consistently experienced, and expects to continue to experience a shorter duration and a buffered impact, due to the financial strength of Virginia’s economy, the proximity to the Richmond economic base, and the stabilizing influence of the Federal government’s presence in the Northern Virginia region. During fiscal year 2009, as the national economy experienced a decrease in consumer confidence and job losses, the County experienced similar, but more moderate challenges.

The County’s sales tax decreased 11.6% from fiscal year 2008 to fiscal year 2009. Personal property values dropped significantly in the fall of 2008 as sport utility vehicles were revalued and Hanover’s citizens deferred the purchase of new vehicles, or purchased less expensive vehicles. However, Hanover continues to have a high per capita income and a median household income higher than the national average. The County continues to attract and maintain diverse sectors of employment. Historically, the County’s major employment sectors have been in services, retail and wholesale trade, and construction. The County has benefited from the stability each of these sectors has maintained in terms of each sector’s percentage of total employment. This characteristic has contributed to the continuation of Hanover’s lowest unemployment rate in the Richmond region at 3.5% for calendar year 2008. The County has also experienced job losses starting in the summer of 2008 and continuing through June 2009, but has experienced improvements in the unemployment rate in July and August 2009.



The County has not experienced the housing market declines felt by much of the nation, which is reflected in the stability of the County's real estate tax revenue, which represents approximately 50% of the County's general fund revenues. Hanover's long-term focus and demonstrated commitment to planned growth, which spans over three decades, was the most significant factor in preventing the double digit appreciation and declines felt throughout the State, and most prominently in Northern Virginia. Hanover's foreclosure rates are typically, and remain, the lowest in the Richmond regional area, averaging just 0.11% of all properties during the first nine months of 2009.

As a result of Hanover's diversified revenue base and strong long-term financial planning focus, the County's General Fund revenues continued to increase by 1.3% overall in fiscal year 2009. As the County began to experience decreases in sales tax, personal property tax and planning and permit fees during the year, internal teams were formed to gather timely financial data and to closely monitor targeted economic indicators, in order to provide revised revenue forecasts and expenditure plans, based on the County's new fiscal reality. As a result, fiscal year 2009's revenue shortfalls to budget were significantly more than offset through capital reductions, frozen positions and reduced operating targets. These measures resulted in overall general fund expenditure and transfer savings totaling 7.1% of budget, which more than offset the 4.1% shortfall in budgeted revenue. Accordingly, \$2.1 million of fund balance over the County's 12.3% undesignated fund balance goal was realized during the year, and has been set aside in a new fund balance designated for budget stabilization during periods of economic downturn. This designation is intended to provide for additional flexibility if needed in immediate subsequent years' budgets, to avoid impacting the County's strong fund balance position.

While in midst of the national recession, the County's long-term financial planning and the strength of its management team was recognized when the County received a second AAA bond rating, from Standard & Poor's, in February 2009. In addition, the County maintained its strong bond ratings of AAA from Fitch Rating Services, and Aa1 from Moody's.

General fund revenues increased \$2.5 million primarily due to a \$6.9 million (5.4%) increase in general property tax collections from fiscal year 2008. Real property values continued to increase, although at a lower level than prior years, with a real property assessment growth of 0.7% for 2009. The real property values are budgeted to increase by 2.0% in 2010. While sales tax revenues decreased at 11.6% in fiscal year 2009, slight growth of 1.8% is projected in fiscal year 2010. The real property tax rate was \$0.81 cents per \$100 of assessed value for the 2009 tax year. Hanover continues to have the lowest tax rate in the region combined with an overall positive economic environment, which has enabled the County to continue to thrive economically. Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 5.9% last year. Tax collections remained strong in 2008-09. The County collected 96.0% of the tax levy within the fiscal year.
- The County continues to see consistent average sales prices of existing homes, with an average sales price of \$292,200, compared to \$292,900 in the prior year. The average overall assessed value of a house in the County is \$278,200, compared to \$274,300 in the prior year.
- The population growth rate was 0.9%, with a total estimated population of 103,025 at June, 2009.

To internally assess our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows the County with the 16th lowest level of fiscal stress in the State, which is down slightly from a ranking of 14th lowest in the previous year. The County's median adjusted gross income of \$47,188 is the 11th highest, which is consistent with the prior year. A component of the fiscal stress index is a locality's tax rate compared to State-wide averages, with low tax rate jurisdictions assigned a lower stress as they would appear to have

the greater capacity to raise their taxes. The County's commitment to remain a low tax locality does impact our budgetary process as the services sought by many residents in the County are similar to services offered by higher taxing localities. The preceding economic highlights are not only strong indicators of fiscal health, but also indicative of the traditionally strong indicators that the County has maintained or improved over many years.

Economic development update:

The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports growth of existing and new businesses. This plan outlines the County's four major economic development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, the utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to the County's development regulations. The Board completed a Comprehensive Plan update in 2007, which added significant new business designations to the area west of Route 33 to Hylas and northeast of Ashland, along Interstate 95.

Six Economic Development Zones (EDZs) give priority consideration for development of infrastructure and fast track permitting to support new and expanding industrial and office projects in the County. Selection of the EDZs was based on several factors: Comprehensive Plan designation, site location, cost to serve the site with infrastructure, the amount of product currently available for sale, and the level of private sector activity occurring in the area. The County's commercial tax base continues to grow through a combination of existing business expansions and new business attraction.

The County's four newest business parks have over 600 acres of zoned property and over one million square feet of office and commercial space that are now generating revenue for the County and creating high-quality employment opportunities for residents. Owens & Minor, a Fortune 500 company, is located at the Atlee Station office park and employs approximately 500 people. Owens & Minor purchased an additional 50 acres surrounding its corporate offices for future expansion. Bass Pro Shops opened a 158,000 square foot retail store at Winding Brook in September 2008. Country Vintner, a distributor of wine, opened its 130,000 square foot headquarters and distribution center in Northlake, in July 2008. The latest addition to Hanover's business community is Hanover Foils, which recently leased the 80,000 square-foot former Philip Morris research facility in the Ashland Business Park. The Atlee/Elmont interchange area contains over 350 acres planned for retail, hotel, commercial, and industrial development. Bell Creek Business Park continues to expand with the addition of medical office space and a proposed nursing home facility. Rutland, a mixed use community, witnessed the opening of a full-service Kroger and other supporting retail uses, and the office component is just beginning to come on line. Commercial and industrial development has accounted for 33 percent of the total value of building permits issued in Hanover between 2003 and September, 2009.

Long-term financial planning:

The County has long been recognized as formulating detailed public plans for its long-term financial planning. Planning enables the County to appropriately analyze issues and initiatives, receive public comment during public hearings, and formulate desired service level plans and phase-in funding to attain desired goals over the long term. Primarily, these long-term financial plans include the Five-Year Capital Improvements Program and Five-Year Financial Plan:

- Capital Improvements Program (CIP): The CIP is the County's plan for investing in facilities, equipment, and vehicles over the next five years, and includes those items with a unit cost greater than \$50,000. The fiscal year 2010 capital budget for County and School projects, including Public Utilities, is \$22.5 million. This budget includes \$7.5 million of projects approved in the 2005

referendum. The County's budget policies recommend the use of "pay-as-you-go" CIP funding of 10% or more, to recognize the need to balance the use of debt with the use of other resources for funding. The fiscal year 2010 County and School Five-Year CIP includes 41% of "pay-as-you-go" funding (from non-debt sources). The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan.

- **Bond Referendum:** A referendum for \$95.1 million was included on the November 2005 ballot in the form of three questions; one each for funding schools, public safety and parks and library projects. The referendum approval ratings were some of the highest in the State, ranging from 79.2% for schools to 73.2% for parks and library projects. Hanover voter turnout was the fifth highest in the State and demonstrated strong support of the CIP. Of the \$95.1 million of debt that was approved by the voters, \$35.0 million was issued through June 30, 2008 with \$20.2 million issued in February 2009. The next installment of \$27.0 million is scheduled for January 2010 with the final installment scheduled for issuance in fiscal year 2011.
- **Five-Year Financial Plan:** The County's Five-Year Financial Plan represents the County's effort to quantify the fiscal impacts of future needs, matched with a projection of General Fund resources available to meet those needs. Each year this plan is adopted by the Board of Supervisors, thereby indicating to the public the County's expected tax rates, operating costs, capital improvements, debt service requirements, school allocations and service level plans. The plan is illustrated with detailed assumptions in the overview section of the budget document. Generally, the plan seeks to maintain or enhance all current budgetary objectives and Board-adopted initiatives.

Relevant financial policies:

The County also follows Board-adopted financial policies, including Accounting, Budget, Debt, Fund Balance, Investments and Deposits, Purchasing, Deferred Compensation 457(b) and 403(b) Plan Investment, Revenue, and Travel and Business Expense policies. These policies are periodically reviewed, with amendments approved by the Board as necessary. To add clarification and more detail, most policies have associated regulations which are approved by the County Administrator.

Major initiatives and accomplishments:

During fiscal year 2009, several of the November 2005 voter-approved referendum projects were substantially completed, including: the new Mechanicsville Library, which was opened to the public in the Spring of 2009; the Ashland and Farrington replacement fire stations, which held their opening ceremonies in September 2009, and the new Emergency Communications Center, which is scheduled for full occupancy in March 2010, following the installation and testing of the new communications system. Construction of the Lewistown Commerce Center CDA improvements continued throughout the year with the anchor retailer, Bass Pro Shops and the Islamorada Fish Company Restaurant, opening in September of 2008, and construction beginning in the spring of 2009 on the Country Inn and Suites, a 69-room hotel scheduled to open in 2010. The Economic Development Plan was updated in fiscal year 2009, which incorporated the Retail Business Strategies approved by the County Board of Supervisors in May 2008, to enhance retail business strategies in the County.

Hanover County Public Schools maintains an excellent reputation for offering a safe, caring and challenging education experience for its students. The system is ranked in the top five percent in Virginia for student achievement and has earned ten U.S. Department of Education Blue Ribbons for Excellence, including three No Child Left Behind (NCLB) Blue Ribbon Awards. The low dropout rate (less than 1 percent) reflects a commitment to the creation of intervention strategies for at-risk students. One hundred percent (100%) of Hanover schools are fully accredited based on the Virginia Standards of Learning assessments. The school district achieved adequate yearly progress as defined by the Federal No Child Left Behind Act and is among the first school districts in Virginia to receive Advanced district accreditation from the Southern Association of Colleges and Schools Council on Accreditation and School Improvement.

Awards and Acknowledgements

Fiscal 2009 was a year of significant recognition for Hanover County. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. The County has received this prestigious award each fiscal year since 1985. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR, which satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2009-2010. The County has received this prestigious award each fiscal year since 1990. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

In June, Hanover County was awarded two 2009 National Association of Counties (NACo) Achievement Awards. The awards were granted for its Customer Service Initiative that streamlined development processes and for its citizen-driven Curbside Recycling Service Districts. The latter program also received an Achievement Award from the Virginia Association of Counties (VACo). Among the other departments recognized by various state and local organizations were Community Resources, Community Services, Emergency Communications, Fire/EMS, Internal Audit, Public Utilities and Public Works.

And finally, for the second time in three years, Mechanicsville, a growing Hanover community, was ranked by Money Magazine as being one of the Top 100 "Best Places to Live." Mechanicsville ranked higher than any other locality in Virginia. The list highlighted towns with populations between 8,500 and 50,000 where "jobs are available, crime is low, schools are top-notch and housing is affordable."

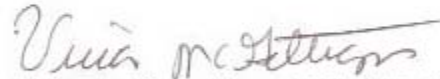
The County utilizes its website www.co.hanover.va.us for a variety of purposes, which include presentation of the audit report and budget document. The budget document serves as the best source of information for County accomplishments, new initiatives and changes in service levels. In addition, the website provides many other topics of interest to County residents and service providers, and provides an excellent forum to recognize outstanding employees and their accomplishments. While many of those accomplishments could also be highlighted in this report, the remainder of this report will focus on the County's fiscal year 2009 results of operations and on an analysis of the financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report, especially Craig Eastman, Accounting Division Director. Credit also must be given to the Board for their unfailing support for maintaining the highest standards of professionalism in the management of the County's finances.

Respectfully submitted,



Cecil R. Harris, Jr.
County Administrator



Vivian A. McGettigan, MBA, CPA, CPFO
Director of Finance