



*County of
Hanover, Virginia*

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2012



Hanover: People, Tradition, and Spirit

This document was prepared by the Department of Finance and Management Services, County of Hanover, Virginia, Post Office Box 470, 7496 County Complex Road, Hanover, Virginia 23069-0470. For additional information, contact Kathleen T. Seay, CPA, CISA, Director of Finance and Management Services, at (804) 365-6015 or by e-mail at fms@co.hanover.va.us. For information about the County, including the WEB-based version of this and other financial documents, refer to the County's web page at www.co.hanover.va.us (financial documents under Department of Finance and Management Services home page).



COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION

BOARD OF SUPERVISORS

G. E. "Ed" VIA III, CHAIRMAN
ASHLAND DISTRICT

W. CANOVA PETERSON, VICE-CHAIRMAN
MECHANICSVILLE DISTRICT

SEAN M. DAVIS
HENRY DISTRICT

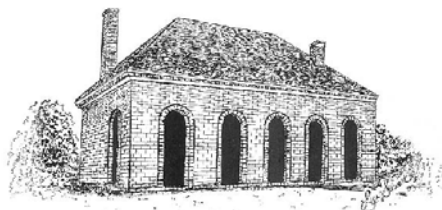
WAYNE T. HAZZARD
SOUTH ANNA DISTRICT

ANGELA KELLY-WIECEK
CHICKAHOMINY DISTRICT

AUBREY M. STANLEY
BEAVERDAM DISTRICT

ELTON J. WADE, SR.
COLD HARBOR DISTRICT

CECIL R. HARRIS, JR.
COUNTY ADMINISTRATOR



HANOVER COURTHOUSE

HANOVER COUNTY

ESTABLISHED IN 1720

FINANCE AND MANAGEMENT SERVICES DEPARTMENT

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November 26, 2012

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

Honorable Members of the Board of Supervisors and Residents 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, 2012. 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 U.S. generally accepted accounting (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 Auditor of Public Accounts of the Commonwealth of Virginia (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 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 and regulations and County policies, safeguard the County's assets, and compile sufficient reliable information for the preparation of the County's 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 and Management Services with any comments or questions concerning this report.

The County's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The independent auditors planned and performed the audit to provide reasonable assurance about whether the financial statements of the County for the fiscal year ended June 30, 2012, 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 forming and expressing unqualified opinions that the County's financial statements as of and for the fiscal year ended June 30, 2012 are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report on the basic financial statements 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 federal requirements that could have a direct and material effect on each of its major federal programs and on internal control over compliance in accordance with the U.S. Office of Management and Budget Circular A-133. The independent auditors' report on the Single Audit for the County is 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 the independent auditors' report on the financial statements.

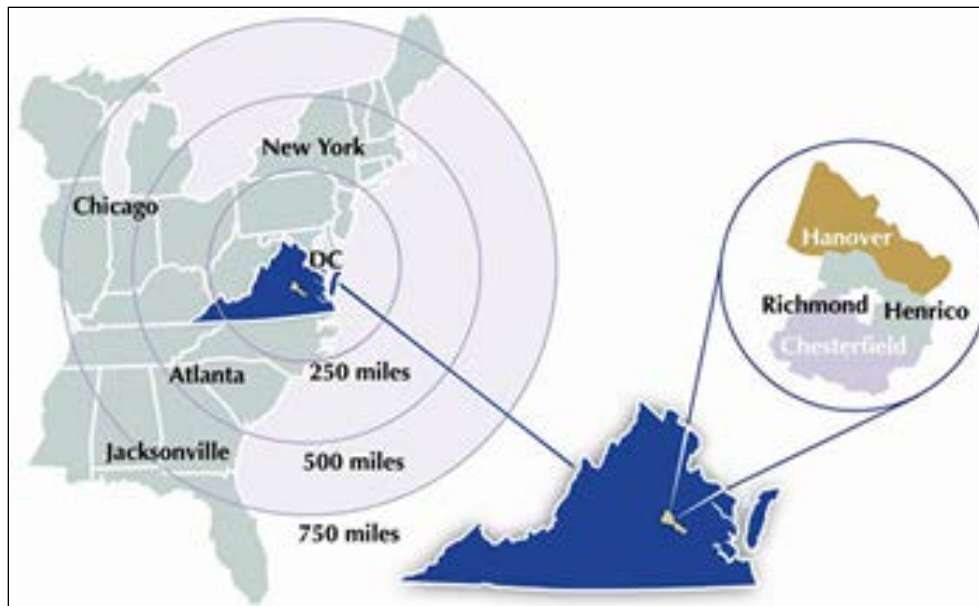
Profile of the County

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 in central 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, each elected from the County's 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, Hanover County is a 90-minute drive south of the nation's capital, Washington D.C., and 15 minutes north of the Commonwealth's capital, Richmond. Hanover County is more than 470 square miles in area, and is strategically located in the northern Greater Richmond Region, which also includes the City of Richmond and the counties of Chesterfield and Henrico. 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 offers an

appealing blend of both historic houses and the latest new home developments, a nationally recognized suburban school system, and a resilient economy 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 and Management Services, Internal Audit, Assessor, Public Information, General Services and Information Technology constitute the general government administration of the County. The elected and appointed officials, 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 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 and supervised living services. Hanover is served by the Regional Health District of Hanover, Goochland, New Kent, and Charles City. Also included within human services expenditures is tax relief provided under the Tax Relief for the Elderly and Disabled Program and expenditures for services 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, 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 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 20,600 water and 18,800 wastewater customers.

The County provides education through its public school system administered by the Hanover County School Board (School Board) and promotes industry through the Economic Development Authority of Hanover County, Virginia (the EDA). In accordance with GASB pronouncements, these agencies have been classified as discretely presented component units in the accompanying financial statements because 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 school 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 on behalf of qualifying enterprises wishing to utilize that form of financing, as well as to finance County facilities. Those bonds do not constitute a debt or pledge of the faith and credit of the County or the EDA, but represent limited obligations of the EDA payable solely from the revenue and receipts derived from the projects funded with the proceeds.

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.

The County's adopted budget policy also requires Board of Supervisors approval of any budget transfer between departments 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 governmental 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

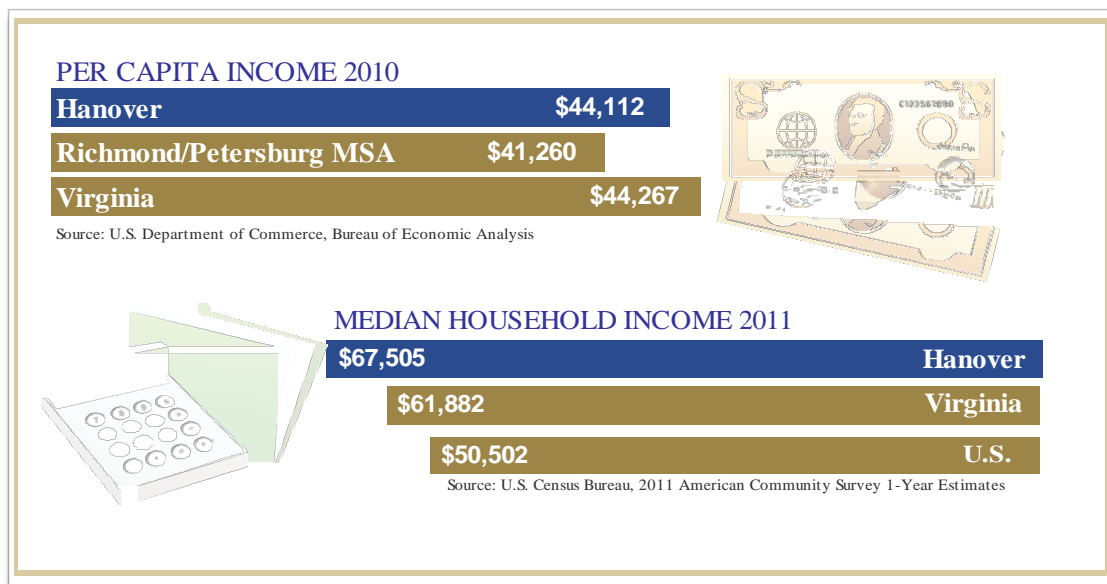
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy:

Based on its strategic location in the northern Greater Richmond region of the mid-Atlantic and its suburban/rural character, the County is an attractive location for businesses relocating or expanding and for developers interested in the opportunities in the area's residential and commercial 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 Richmond metropolitan area.

During fiscal year 2012, the County continued to feel the effects of the sluggish national economy, which it first started to feel in the fall of 2008. However, based on the County's experience during the last four fiscal years, recent economic indicators and favorable demographics, Hanover County has consistently experienced, and expects to continue to experience a buffered impact, due to the financial strength and diversification of the County's economy, its low reliance on federal jobs or procurement, and the County's close proximity to the Richmond Metropolitan Statistical Area's (MSA) economic base.

For example, as the following chart illustrates, based on the most recent estimates available, Hanover enjoys a high per capita income and a median household income higher than the national and State averages. Comparatively, Hanover's per capita income of \$44,112 is 6.9% above the Richmond/Petersburg MSA per capita income of \$41,260 and only 0.4% below the Commonwealth's, while its median (mid-point) household income (shown below) is 9.2% above the Commonwealth's and 33.7% above the national average. In addition, the U.S. Census Bureau's estimate of Hanover's mean (average) household income of \$81,647 in 2011 is just 2.8% below the Commonwealth's \$84,041 and 16.9% higher than the United States' of \$69,821. Per the Virginia Employment Commission, Hanover also has a low reliance on federal jobs, with only 154 federal employees resident within the County.

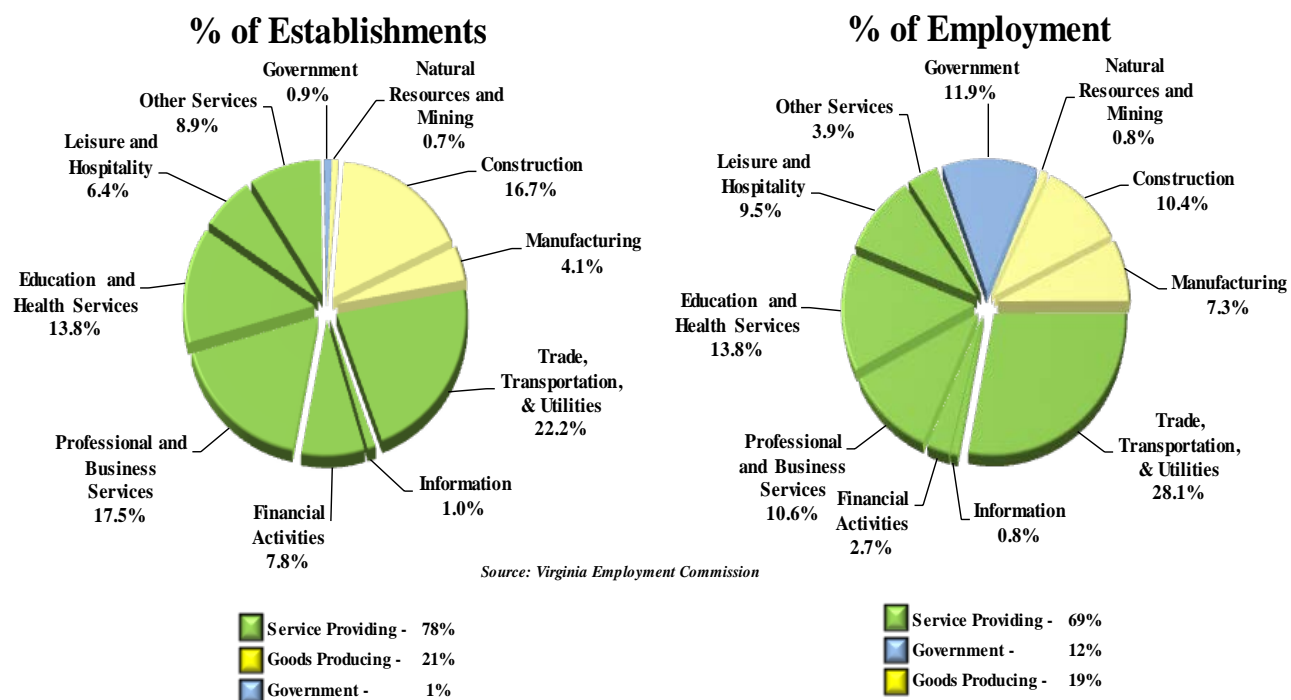


The County also continues to attract and maintain diverse sectors of employment. Historically, the County's major employment sectors have been in services, retail and wholesale trade, and construction. The County has benefited from the general stability each of these sectors has maintained in terms of each sector's percentage of total employment.. As illustrated in the chart immediately below, this has contributed to consistently low levels of unemployment in the County over a long period, in comparison to the State and the nation, while the subsequent chart illustrates Hanover's percentage of business establishments by industry sector for the first quarter of calendar year 2012.

	Hanover County	Virginia	United States
2007	2.5%	3.1%	4.6%
2008	3.5%	4.0%	5.8%
2009	6.6%	6.9%	9.3%
2010	6.5%	6.9%	9.6%
2011	5.8%	6.2%	8.9%

Source: Virginia Employment Commission,
Local Area Unemployment Statistics

Percentage of Business Establishments by Industry Sector - First Quarter Avg. 2012



As shown in the following chart, another factor illustrating the resiliency of the County's economic base is the level of retail sales maintained in the County over a five year period on a per capita basis, with three of the five years reflecting annual growth. Between 2002 and 2011, overall taxable sales increased 45.4% and per capita taxable sales increased 32.0%, with the recession's impact factored in.

	Hanover		
	County Taxable	% Increase	Per Capita
	Sales (\$000)	(Decrease)	Taxable Sales
2007	\$ 1,677,157	10.0%	\$ 16,933
2008	1,605,944	-4.2%	16,106
2009	1,438,741	-10.4%	14,380
2010	1,459,792	1.5%	14,539
2011	1,487,657	1.9%	14,755

Source: Commonwealth of Virginia, Department of Taxation

Although the impact of the recession is clearly seen in the above numbers for calendar years 2008 and 2009, the County's 2010 taxable sales showed a 1.5% increase, and on a fiscal year basis, 2011 and 2012 sales tax revenues increased 5.8% and 4.0%, respectively.

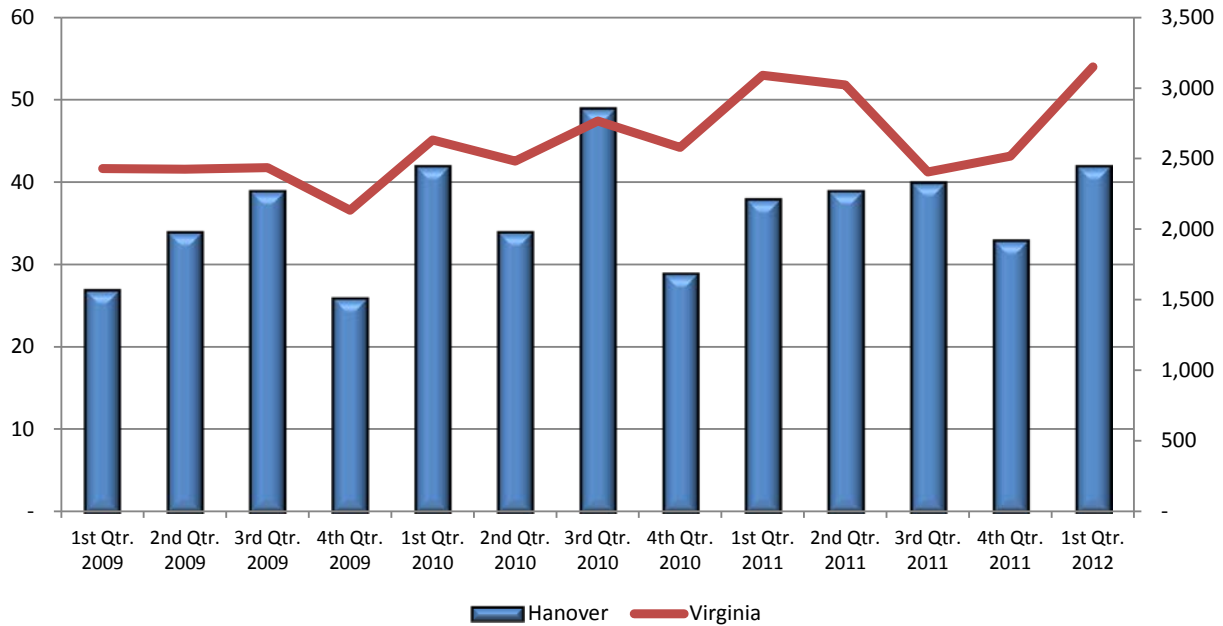
To foster employment growth and good jobs for its citizens, Hanover County continues to place a strong focus on economic development opportunities as it has for many years. As part of that effort, in fiscal year 2012, the County Economic Development Department continued to conduct a local business outreach program, *Business First Hanover*, which is aimed at supporting local companies and ensures that they are provided every opportunity to grow right here in Hanover County. As part of the local business outreach effort, the *Business First* team conducted face-to-face interviews with business owners and CEO's representing nearly 100 Hanover companies across a variety of sectors including manufacturing, wholesale trade, transportation and warehousing. The average firm interviewed had 50 employees, but employment ranged from one to several hundred. The majority of Hanover business leaders are positive about the overall business climate, with nearly three-quarters rating it "excellent" or "good". The recession still lingers, however, as a full 55% feel the business climate is worse today than it was five years ago. Looking forward, nearly 90% of interviewed businesses are optimistic that the business climate will improve over the next five years.

This year's interviews revealed many growth opportunities for Hanover businesses with 36% of them planning local expansions in the upcoming 18 months. These 30 businesses may potentially require an estimated 295,000 square feet of additional real estate. Most of the companies interviewed are using more than 90% of their facility's space, but only 40% reported using a similar percentage of equipment capacity. A full 70% indicated that there is room for expansion in their current facility, suggesting that Hanover businesses have the capacity to quickly expand to meet the increased demand as the economy grows. Hanover County is pleased that its *Business First Hanover* outreach has generated positive feedback and helped foster productive relationships with many local business owners.

To further illustrate the steady creation of new business and employment opportunities within the County during the recession, the following chart shows the creation of new start-up firms in Hanover on a quarterly basis both before and during the recession. (Source: Business First Hanover 2011-2012)

New Startup Firms

(Source: VEC Community Profile)



Note: The following criteria were used to define new startup firms:

- 1.) Setup and liability date both occurred during 1st Quarter (January, February, March) 2012
- 2.) Establishment had no predecessor UI Account Number
- 3.) Private Ownership
- 4.) Average employment is less than 250
- 5.) For multi-unit establishments, the parent company must also meet the above criteria.

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2012.

Prospect activity rose slightly from last year, but interestingly, even with fewer leads than the pre-recession years, community visits by prospects were up. While recent outreach marketing was fairly concentrated on international companies, domestic businesses are beginning to react to some pent up demand for products and services, so we saw more domestic activity in prospect visits this year.

The big news this year came from our existing business network with significant expansions by Morooka USA as they partnered with Morooka Japan to manufacture and assemble their popular rubber track carriers in Hanover. Additionally, Target Marketing, a promotional specialty company, expanded by purchasing a new building in Lakeridge Business Park. Remedi Pharmaceutical is in the process of opening up a new pharmaceutical dispensing operation in Northridge. Leasing activity has been very solid in Airpark, Lakeridge and Northlake. Mechanicsville has seen activity in retail leasing, and the Clocktower Building is under new ownership and has been renovated to serve new companies moving into the area.

Also, as further discussed under *Economic Factors and Next Year's Budgets and Rates* in the accompanying *Management's Discussion and Analysis*, rather than the significant housing market declines felt by much of the nation, the County's 2012 real property tax base remained only 4.8% lower than the prior year's level, and initial assessment data currently forecast a comparatively modest 2.0% overall decline in the 2013 assessment, which gives rise to 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, is the most significant factor in preventing the double digit appreciation and

declines felt in other parts of the State, and most prominently in Northern Virginia. As a result of the County's continual focus on timely revenue forecasting, conservative and cautious budgeting practices and proactive management of expenditures, the decline did not have any impact on the General Fund's unassigned fund balance at the end of fiscal year 2012, is not expected to have any significant impact on the General Fund's unassigned fund balance or service levels in fiscal year 2013, and will be factored into the County's fiscal year 2014 budget.

Despite the downturn in the nation's economy in recent years and the resulting impacts on local government revenues, management believes that Hanover County remains strong, resilient and flexible, as demonstrated by the following factors:

- The County's commitment to remaining a low tax locality is reflected in its real property tax rate, which has remained at \$0.81 cents per \$100 of assessed value for the 2012 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.
- Hanover's long-term facility requirements were substantially met with the 2005 referendum projects. Accordingly, the County is in a positive position of having reduced capital financing and cash funding needs in the five-year plan, which has provided for enhanced flexibility in financial planning. Recent capacity from new schools and additions combined with flat enrollment growth has resulted in no new schools being anticipated within the next 10 years. In addition, the replacement program for seven fire and emergency medical services stations was recently completed in fiscal 2011, finishing all seven major station projects.
- The County is well insulated from any potential downturn in federal spending, having only 154 federal employees resident within the County, no planned closures of County post offices, and with a low reliance by County businesses on federal procurement.

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. The Department of Public Utilities is currently working on a project to extend water and sewer service to the Route 33 corridor. These improvements are expected to be completed by 2013.

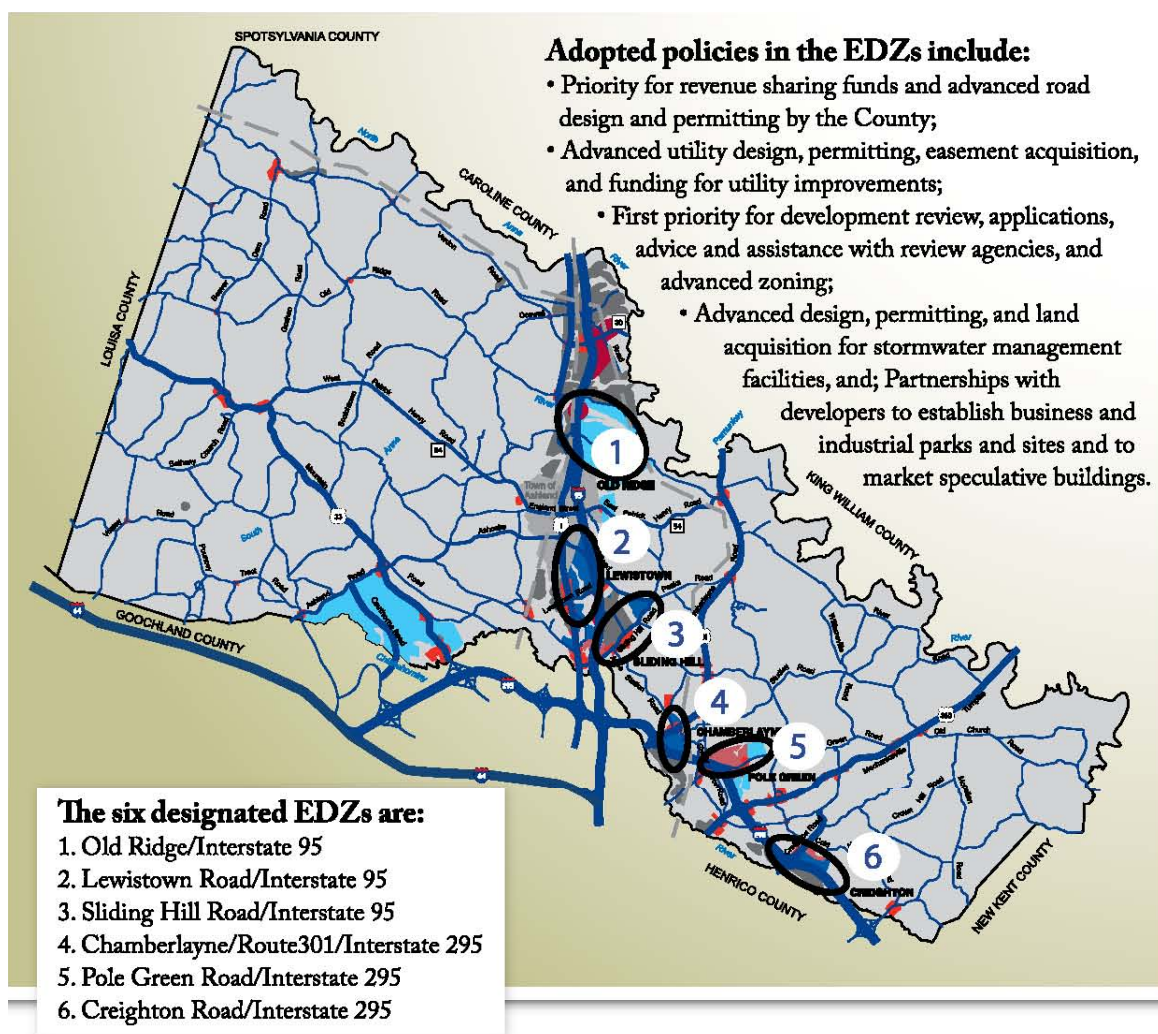


In addition to the initiatives just described, the County's Dominion Resources Innovation Center (formerly known as the Dominion Resources Greentech Incubator) launched a rebranding process to build broader awareness of and interest in the facility. The strategic framework for this rebranding initiative is the reengineering and redesign of the corporate identity from a green tech incubator to a start-up and early stage business acceleration program. Implementation tactics to attract a broader array of potential tenants

include a redesigned logo, new website, and high-profile business plan competition supported by a major public relations initiative. (Website for the Dominion Resources Innovation Center: www.dominnovation.com)

The Dominion Resources Innovation Center was successful in attracting three new companies in fiscal year 2012, and graduating one of its original tenants, Marz Industries following the award of a Center for Innovative Technology (CIT) grant for their innovation. EnviroDock, LLC remains a tenant and continues in its efforts to develop portable docking stations for the truck industry to cool and heat the cabs and reduce engine idling.

Hanover's 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 following map provides more information and a visual representation of the locations of the six EDZs within the County.



In addition, 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.

Barricade Building Products, a division of Specialty Coating & Laminating, LLC of Doswell, Virginia, completed the acquisition of Berry Plastics' housewrap division. The company expects to add 15-20 new jobs and anticipates that the building products division will expand significantly in the future with the addition of new products for their customers.

Orbit Logistics, a family-owned company which provides order fulfillment, warehousing services, third party logistics and value added solutions has been in business in the Richmond area since 1985. In January, 2011, Orbit Logistics consolidated 70,000 square feet of operations from three different buildings into one space in Hanover County. Their move to Hanover County encompassed 114,000 square feet off Route 1 in the former Best Products distribution center. In February 2012, Orbit Logistics finished their second expansion within a 3 month period, adding an additional 30,000 square feet and five employees.

East Penn Manufacturing Co., Inc., a privately-held company, operates one of the largest single-site lead-acid battery manufacturing facilities in the world. In early March 2012, the company completed a 13,500 square foot addition. This enhanced capabilities for its retail, commercial, and motive power service departments, and will create ten additional jobs in the future.

In April 2012, Virginia Crane (aka, Foley Material Handling Co.), a large manufacturer of industrial cranes, announced a significant expansion of their facility in Hanover County. Phase 1 of the project will include a 13,000 square foot expansion that accommodates the production of a new, larger crane product. An additional 20,000 square foot expansion is planned in Phase 2 that will add office and additional machine shop space. When both Phase 1 and Phase 2 are completed, Virginia Crane's footprint will be expanded to nearly 110,000 square feet. The company also purchased the adjacent property, formerly occupied by Stafford Equipment, and will move vehicle maintenance, hoist repair the parts department and mill operations. The total investment value of these expansion projects will approximate \$2 million in construction and new equipment and include plans to hire an additional 15 employees.

Additional information can be found at <http://www.hanovervirginia.com/news-events>.

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 2013 capital budget for County, School and Public Utility projects is \$11.6 million, including \$2.0 million of school projects to be funded by Virginia Public School Authority debt. 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 2013 Five-Year CIP includes 74% 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.

- **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:

Hanover County Board of Supervisors adopted the County's Overall Strategic Plan in order to clearly illustrate the strategic focus areas of what the County does and how it can best perform in serving its citizens and businesses. This plan helps frame quality of life attributes and the role of local government in helping facilitate potential for citizens and business to attain a high quality of life.

The County had a citizens survey done by an independent contractor in 2011 and Hanover ranked very high in virtually all areas of resident satisfaction. Of the 34 services for which comparisons were available, in 33 cases Hanover was above the national benchmark comparison. On eight questions, the percentage of respondents feeling the best about the County was the highest in the nation. Additionally, on 15 questions, Hanover ranked first in the Southeast on responses of "good" or "excellent".

Hanover also was once again recognized as one of America's "100 Best Communities for Young People". America's Promise Alliance and ING Foundation stated that Hanover "exemplifies an outstanding community for youth through its graduation and education initiatives, cross-sector collaboration and activities that promote healthy living."

The final projects associated with the 2005 Bond Referendum were completed with the opening of the Taylor Park complex.

A world-class education system is one of the County's top priorities, and the following list highlights a few of Hanover Schools' achievements of which all citizens of Hanover are most proud:

Academic Excellence

- Based on the 2011 Virginia Standards of Learning assessments, 100% of Hanover schools earned full accreditation from the Virginia Department of Education. Hanover has achieved this for 10 consecutive years.
- The average elementary student-to-classroom teacher ratio is 21.5:1.
- The rigorous International Baccalaureate (IB) Diploma Program is in place in all four high schools.
- Hanover high schools are among only two percent of American high schools which offer AP (Advanced Placement), IB (International Baccalaureate) and dual enrollment options to their students.

- Junior Reserve Officer Training Corps (JROTC) programs are in place in our high schools.
- 99.6% of Core Academic classes are taught by teachers meeting the federal definition of Highly Qualified.
- A total of 90 Hanover teachers have earned National Board Certification since the inception of the program.
- A Graduate Warranty Program assures that students are prepared for post-secondary education or entry-level employment.

Awards/Accomplishments

- Hanover County Public Schools is accredited by the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS CASI) and AdvancED.
- Hanover schools have won 10 National Blue Ribbon School of Excellence Awards.
- In 2011, seven Hanover schools received the Governor's Award for Educational Excellence; six Hanover schools received the Board of Education Competence to Excellence Award; and three Hanover schools received the Board of Education Excellence Award.
- Hanover County was named one of the Top 100 Communities in America for Music Education.
- Forbes Magazine ranked HCPS among the top 50 school districts in the nation comparing student achievement vs. cost per pupil.
- Hanover received the SchoolMatch "What Parents Want" designation for six consecutive years. This recognition is reserved for those school districts in the nation that demonstrate high levels of student achievement and maintain emphasis on small class size.
- Hanover was the first Virginia school district to receive the U.S. Senate Productivity and Quality Award for Continuing Excellence.
- Hanover ranks first among Virginia's 132 school systems for the percentage of its budget invested toward classroom instruction.

Awards and Acknowledgements

Hanover County continued to be recognized for excellent management during fiscal year 2012. 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, 2011. 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.

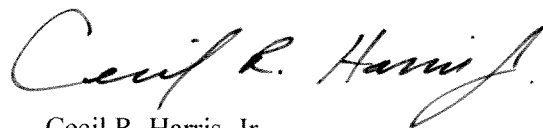
In addition, the County received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2012. The County has received this prestigious award each fiscal year since 1990. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Also in fiscal year 2012, the Virginia Association of Counties again named Hanover County as one of the 10 recipients of the Go Green Award. The Go Green Initiative is a partnership between the VACo and the Virginia Municipal League recognizing local governments that have implemented practical actions that improve energy efficiency and reduce carbon emissions. VACo also presented an Achievement Award to the Sheriff's Office for its Motorist Assistance program, a program that also was honored by the National Association of Counties (NACo).

The County utilizes its website www.hanovercounty.gov 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's current and five year financial plan, new initiatives, capital improvements program 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 2012 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 and Management Services. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report, especially Karyn Tancredi, Accounting Division Director, as well as Donna Neely and Craig Eastman, for their equally key contributions. Credit also must be given to the Board for their unfailing support for maintaining the highest standards of professionalism in the oversight of the County's finances.

Respectfully submitted,



Cecil R. Harris, Jr.
County Administrator



Kathleen T. Seay, CPA, CISA
Director of Finance and Management Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Hanover
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

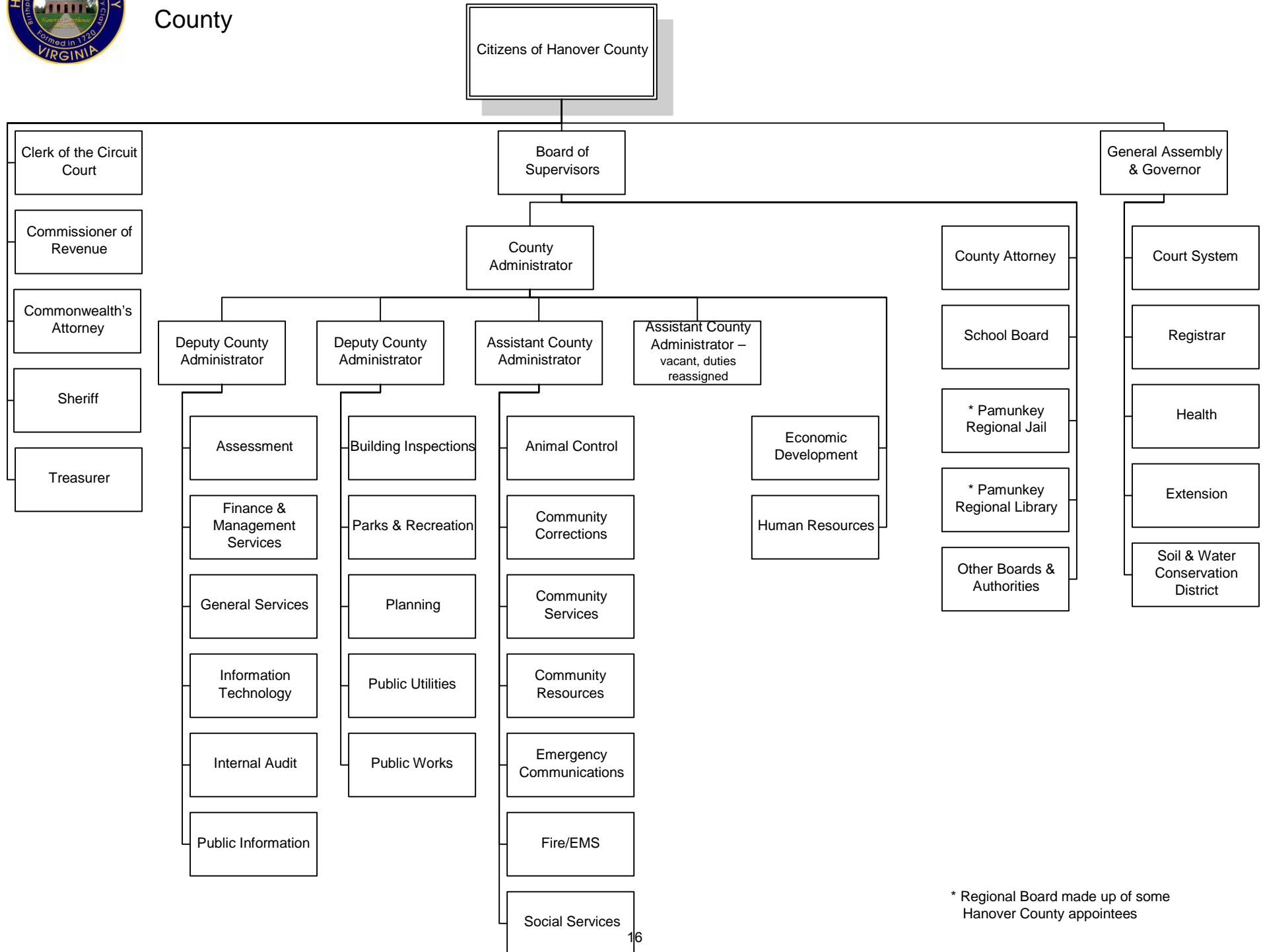
Jeffrey R. Emer

Executive Director



Hanover County

Organizational Chart



* Regional Board made up of some Hanover County appointees

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

Board of Supervisors

G. E. Via, III, Chairman
W. Canova Peterson, IV, Vice-Chairman
Sean M. Davis
Wayne T. Hazzard
Angela Kelly-Wiecek
Aubrey M. Stanley
Elton J. Wade, Sr.

Ashland District
Mechanicsville District
Henry District
South Anna District
Chickahominy District
Beaverdam District
Cold Harbor District

Constitutional Officers

T. Scott Harris
M. Scott Miller
Trip Chalkley
Col. David Hines
Frank D. Hargrove, Jr.

Commissioner of Revenue
Treasurer
Commonwealth's Attorney
Sheriff
Clerk of the Circuit Court

County Administrative Officials

Cecil R. Harris, Jr.
Sterling E. Rives, III
Joseph P. Casey
Frank W. Harksen, Jr.
James P. Taylor
Kathleen T. Seay

County Administrator
County Attorney
Deputy County Administrator
Deputy County Administrator
Assistant County Administrator
Director of Finance & Management Services

School Board

Ann F. H. Gladstone, Chairman
Glenn T. Millican, Jr., Vice Chairman
Henry (Hank) C. Lowry, Jr.
Robert L. Wood
Earl J. Hunter, Jr.
John F. Axselle, III
Robert L. Hundley, Jr.

South Anna District
Mechanicsville District
Ashland District
Cold Harbor District
Henry District
Beaverdam District
Chickahominy District

School Administrative Officials

Dr. Jamelle S. Wilson
Dr. Michael E. Thornton
Dr. Daryl H. Chesley
Charla S. Cordle
Terry S. Stone

Superintendent of Schools
Asst. Superintendent for Business and Operations
Asst. Superintendent of Instructional Leadership
Asst. Superintendent of Human Resources
Director of Financial Operations



FINANCIAL SECTION



KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 22 through 33, and the Schedules of Funding Progress on page 87, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules, listed in the Financial Section as Other Supplementary Information in the table of contents, and the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, listed in the Compliance Section in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory Section and Statistical Section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

November 26, 2012

County of Hanover, Virginia Management's Discussion and Analysis (Unaudited)

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, 2012. We encourage readers to consider this discussion and analysis in conjunction with our letter of transmittal in the Introductory Section of this report, and the County's basic financial statements which follow this discussion and analysis.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2012 by \$335.9 million (*net assets*). Of this amount, \$73.2 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets decreased by \$2.8 million, of which the governmental activities decreased by \$2.9 million and business-type activities increased by \$0.1 million.
- As of the close of fiscal year 2012, the County's governmental funds reported combined ending fund balances of \$59.3 million, a decrease of \$6.7 million from prior year. Of the \$59.3 million total, 92.0% (\$54.5 million) is available for spending at the County's discretion (sum of *committed*, *assigned* and *unassigned fund balances*), while *unspendable* and *restricted fund balances* were 8.0% or \$4.8 million of the total.
- The General Fund's unassigned fund balance remained at 12.6% of total General Fund revenues, but decreased \$0.6 million to \$23.9 million at June 30, 2012. This balance continues to exceed the County's unassigned fund balance policy minimum of 10% of total General Fund revenues. In addition, the General Fund's assigned fund balance increased \$1.0 million to \$20.6 million at June 30, 2012. The \$1.0 million increase is the net of increases and decreases to amounts assigned for various purposes, including decreases of \$76,000, \$1.8 million, and \$400,000 in amounts assigned to education, the subsequent five-year financial plan and all other County services, respectively, and increases of \$899,000, \$747,000 and \$1.6 million in amounts assigned to fund capital projects, public safety, and the subsequent year's budget, respectively.
- The County's total debt decreased by \$9.1 million (4.4%) to \$195.9 million during fiscal year 2012. The key components of the current year activities were the issuance of \$5.8 million of debt on behalf of the School Board, and principal payments of \$14.9 million on existing debt.

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 and sick leave).

Both of the government-wide financial statements distinguish functions of the County which are principally supported by taxes, intergovernmental revenues, and other non-exchange transactions (*governmental activities*) from other activities which are intended to recover all or a significant portion of their costs primarily through user fees charged to external parties (*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, as well as the County's self-insurance activities. The business-type activities consist of public utilities and the airport.

The government-wide financial statements (Exhibits 1 and 2) 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.

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.

With the exception of *internal service fund* activity, (described under *Proprietary Funds which follows*), **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*.

During fiscal year 2012, the County maintained 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, the Comprehensive Services Fund and the Community Services Fund, are combined into a single, aggregated column on the governmental funds statement of revenues, expenditures, and changes in fund balances. The assets, liabilities and fund balances of these two funds

were reclassified to the General Fund on June 30, 2012, and are therefore included in the General Fund balances at June 30, 2012. Accordingly, separate balance sheets for the two funds are no longer maintained, and are not presented in the accompanying financial statements. Individual fund data for each of these *nonmajor* governmental funds is provided in the form of *combining statements* at Exhibit 17 of this report. The governmental fund financial statements can be found at Exhibits 3 through 6 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 fund and its airport fund (a nonmajor 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 healthcare and other postemployment benefit self-insurance activities. Because 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. Individual fund data for the internal service fund is provided elsewhere in this report. The proprietary fund financial statements can be found at Exhibits 7 through 9 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 that fiduciary fund assets are used for their intended purposes. The County's fiduciary funds consist of an employee benefit trust fund, the Retiree Medical Benefits Trust Fund, and Agency Funds. The Retiree Medical Benefits Trust Fund is used to account for the receipt and disbursement of employer contributions and assets held in trust to provide healthcare benefits to retirees, and agency funds are used to report resources held in a purely custodial capacity for individuals, private organizations or other governments. The fiduciary fund financial statements can be found at Exhibits 10 and 11 of this report, while individual fund data for the agency funds can be found in the form of combining statements at Exhibits 23 and 24 of this report.

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.

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 obligations to provide pension and other postemployment benefits to its current and future retirees. This required supplementary information can be found at Exhibit 12 of 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. This required supplementary information can be found at Exhibit 13 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and agency funds, and individual fund statements and schedules are presented immediately following the required supplementary information, at Exhibits 13 through 32 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.

Finally, this report contains a compliance section, including the County's Schedule of Expenditures of Federal Awards and related notes, and the independent auditors' required reports on compliance and internal control.

Financial Analysis of the County as a Whole

Statement of Net Assets

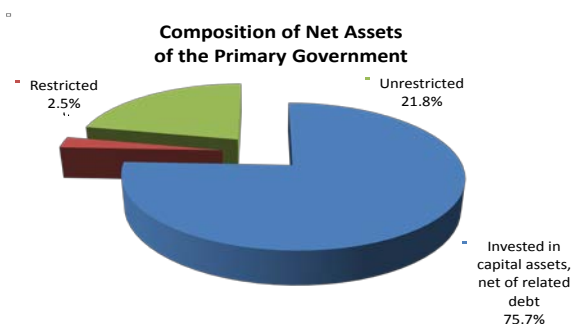
Table 1 summarizes the Statements of Net Assets for the primary government as of June 30, 2012 and 2011:

Table 1	County of Hanover, Virginia Summary of Net Assets (\$ in millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 127.5	136.4	23.3	26.1	150.8	162.5
Capital assets	238.3	243.7	211.5	211.4	449.8	455.1
Total assets	365.8	380.1	234.8	237.5	600.6	617.6
Long-term liabilities outstanding	173.8	180.5	32.1	35.0	205.9	215.5
Other liabilities	56.8	61.5	1.9	1.9	58.7	63.4
Total liabilities	230.6	242.0	34.0	36.9	264.6	278.9
Net assets:						
Invested in capital assets, net of related debt	74.1	81.2	180.3	188.0	254.4	269.2
Restricted	5.0	5.6	3.4	3.5	8.4	9.1
Unrestricted	56.1	51.3	17.1	9.1	73.2	60.4
Total net assets	\$ 135.2	138.1	200.8	200.6	336.0	338.7

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 \$336.0 million at the close of fiscal year 2012, representing a decrease of \$2.7 million from the net assets at June 30, 2011.

As the following graph shows, by far the largest portion of the County's net assets (\$254.4 million, 75.7% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and intangibles); 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 net assets are *not* available for future spending, as capital assets are generally not sold or otherwise disposed of during their useful life.

As also shown, an additional portion of the County's net assets (\$8.4 million, 2.5% of total) represents resources that are subject to external restrictions on how they may be used, including amounts restricted for capital projects, grant programs, debt covenants and postemployment healthcare benefits. The remaining balance of unrestricted net assets (\$73.2 million, 21.8% of total) may be used to meet the County's ongoing obligations to citizens and creditors.



Statement of Activities

Table 2 summarizes the Statements of Activities of the primary government for the fiscal years ended June 30, 2012 and 2011:

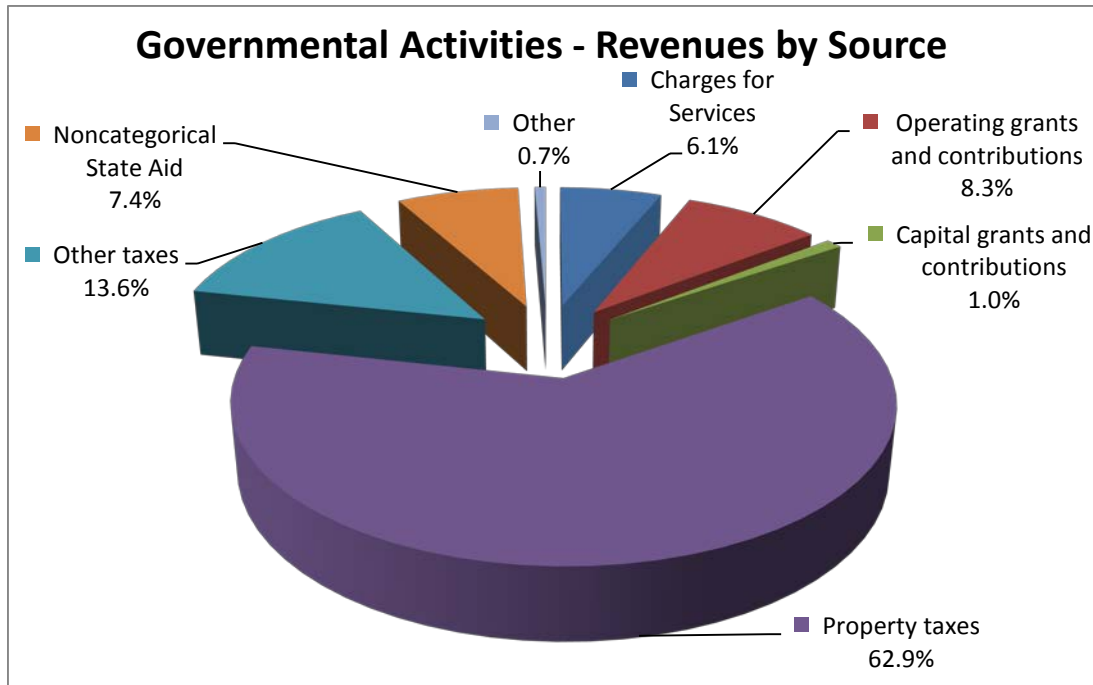
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 12.3	13.9	21.9	22.1	34.2	36.0
Operating grants and contributions	16.7	17.1	-	-	16.7	17.1
Capital grants and contributions	2.0	2.5	4.9	5.3	6.9	7.8
General revenues:						
Property taxes	126.3	129.6	-	-	126.3	129.6
Other taxes	27.4	26.8	-	-	27.4	26.8
Noncategorical State aid	14.7	14.7	-	-	14.7	14.7
Grants and contributions	1.2	1.2	-	-	1.2	1.2
Other	0.3	0.4	0.1	0.1	0.4	0.5
Total revenues	200.9	206.2	26.9	27.5	227.8	233.7
Expenses:						
General government	14.3	13.7	-	-	14.3	13.7
Judicial administration	4.3	4.4	-	-	4.3	4.4
Public safety	49.0	48.0	-	-	49.0	48.0
Public works	11.5	9.9	-	-	11.5	9.9
Human services	22.9	24.2	-	-	22.9	24.2
Parks, recreation and cultural	6.5	6.4	-	-	6.5	6.4
Community development	4.6	5.3	-	-	4.6	5.3
Education	89.0	86.8	-	-	89.0	86.8
Interest on long-term debt *	1.5	1.5	-	-	1.5	1.5
Public utilities	-	-	26.2	24.9	26.2	24.9
Airport	-	-	0.8	0.7	0.8	0.7
Total expenses	203.6	200.2	27.0	25.6	230.6	225.8
Increase in net assets before transfers	(2.7)	6.0	(0.1)	1.9	(2.8)	7.9
Transfers	(0.2)	(0.2)	0.2	0.2	-	-
Increase in net assets	(2.9)	5.8	0.1	2.1	(2.8)	7.9
Net assets - beginning of year	138.1	132.3	200.6	198.5	338.7	330.8
Net assets - end of year	\$ 135.2	138.1	200.7	200.6	335.9	338.7

* For business-type activities, interest on long-term debt is included in the functional expense category.

Governmental Activities: As reflected in Table 2, the decrease in net assets attributable to the County's governmental activities totaled \$2.9 million for fiscal year 2012. Generally, net asset changes are the result of the difference between revenues and expenses. Fiscal year 2012 revenues of \$200.9 million represent a decrease of \$5.3 million, or 2.6% in comparison to the prior year, while expenses of \$203.6 million represent an increase of \$3.4 million, or 1.7% compared to the prior year.

The following chart illustrates the County's fiscal year 2012 governmental revenues by source as a percentage of total governmental revenues:

(See chart on next page)



Taxes are the largest source of County revenues, totaling \$153.7 million for fiscal year 2012, a decrease of \$2.7 million, or 1.7%, in comparison to fiscal year 2011, primarily due to general property taxes, which fell by \$3.3 million, or 2.5%, largely attributable to lower real property taxes resulting from lower assessed values. This decrease was partially offset by an increase in sales tax revenue of \$0.64 million, or 4.0%. General property taxes totaled \$126.3 million for fiscal year 2012, and represent 82.2% of total taxes and 62.9% of all revenues.

Also in fiscal year 2012, \$31.0 million, or 15.4% of total revenues, consisted of program revenues, including \$12.3 million in charges for services, \$16.7 million of operating grants and contributions, and \$2.0 million of capital grants and contributions. General revenues, including \$14.7 million of noncategorical state aid, unrestricted grants and contributions, and unrestricted investment earnings accounted for the remaining revenues.

As shown in Table 2 (previous page) and Table 3 (following page), the total expenses of all the County's governmental activities for fiscal year 2012 were \$203.6 million, which represents an increase of \$3.4 million, or 1.6% higher than fiscal year 2011, primarily attributable to increased education expenses of \$2.2 million, or 2.5%, due primarily to fiscal year 2012's 'first in four years' salary increase of 2.25%, and an increase of \$1.0 million in public safety expenses, also due to the salary increase. As the following chart indicates, education continues to be the County's largest program and highest priority, with education expenses totaling \$89.0 million in fiscal year 2012. Public safety is also a high County priority and the County's second largest expense, totaling \$49.0 million in fiscal year 2012.

(See chart 3 on next page)

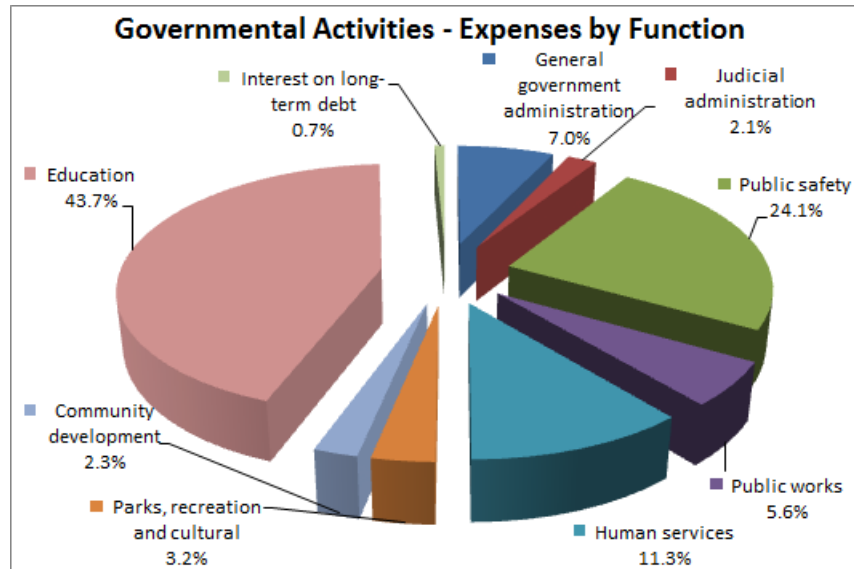


Table 3 presents the total cost of the County's governmental activities by function, as well as the net cost of each function (total cost less fees generated by each function and program-specific intergovernmental aid) for the fiscal year ended June 30, 2012 and 2011:

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General government	\$ 14.3	\$ 13.7	\$ 11.5	\$ 10.8
Judicial administration	4.3	4.4	1.8	1.8
Public safety	49.0	48.0	40.7	38.8
Public works	11.5	9.9	9.3	6.9
Human services	22.9	24.2	10.3	10.6
Parks, recreation and cultural	6.5	6.4	5.6	5.6
Community development	4.6	5.3	3.6	4.5
Education	89.0	86.8	88.3	86.2
Interest on long-term debt	1.5	1.5	1.5	1.5
Total	\$ 203.6	\$ 200.2	\$ 172.6	\$ 166.7

A portion of the \$203.6 million cost of the County's governmental activities was paid by those who directly benefited from the programs (i.e., charges for services of \$12.3 million), and other governments and organizations that subsidized certain programs (i.e., operating and capital grants and contributions of \$18.7 million). These combined program revenues of \$31.0 million reduced the total fiscal year 2012 cost of services from \$203.6 million to the net cost of services of \$172.6 million. The net cost of services was covered by the County's general revenues, consisting primarily of taxes and state aid.

As of June 30, 2011, the County reassigned its Fleet Management activities from an Internal Service Fund to the General Fund for operating efficiency purposes. The increase in Public Works total and net cost of services noted in Table 3 is primarily attributable to this reclassification.

Business-type Activities: Table 2 also summarizes the business-type activities. The County's business-type activities consist of its Public Utilities water and wastewater treatment services and its airport activities. The increase in the net assets attributable to the County's business-type activities totaled \$116,034 for fiscal year 2012, consisting of a \$171,762 increase attributable to Public Utilities water and wastewater treatment activities, and a decrease of \$55,728 attributable to Airport activities.

Public Utilities revenues totaled \$26.4 million, of which \$21.7 million, or 82.1%, was generated from charges for services and user fees, up from 82.0% last year, due primarily to lower capital contributions in fiscal year 2012. Nonoperating capacity fee revenue decreased to \$3.2 million from \$3.6 million last year, due to completion of projects. Public Utilities expenses totaled \$26.2 million in fiscal year 2012, compared to \$24.9 million for fiscal year 2011, an increase of \$1.3 million, or 5.2%. This increase was primarily due to an increase in contractual services, other charges and depreciation expense on water and wastewater infrastructure projects completed in fiscal year 2011.

Airport operating revenues totaled \$185,000 in fiscal year 2012, compared to \$178,000 last year, primarily due to increased rental revenue on existing airport facilities. The Airport's nonoperating revenues totaled \$326,000 in fiscal year 2012, compared to \$622,000 in fiscal year 2011, primarily due to fluctuating Federal Airport Improvement Program grant revenue and related revenue from the Commonwealth, which vary with supported capital project activity. Airport nonoperating expenses were \$79,000 and \$82,000 in fiscal years 2012 and 2011, respectively.

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 addition, the County's *fund balance classifications* are useful to identify the extent to which the County's fund balances are constrained and how binding those constraints are.

As of the end of fiscal year 2012, the County's governmental funds reported combined ending fund balances of \$59.3 million (Exhibit 3), as compared to \$66.0 million at June 30, 2011, a decrease of \$6.7 million. Of the \$59.3 million fiscal year 2012 fund balance, \$170,000 is classified as *nonspendable* because it is invested in inventories and therefore is not in spendable form, \$4.6 million (7.70%) is classified as *restricted* to indicate that it can only be spent for specific purposes as stipulated by external resource providers (for example, through debt covenants, grant agreements, or by laws or regulations of other governments), \$0.5 million is classified as *committed* to indicate that it has been set aside for specific purposes by resolution of the County's Board of Supervisors, \$30.1 million is *assigned* to indicate that County administration has identified specific purposes for the use of those funds, and the remaining \$23.9 million is *unassigned*. Unassigned fund balances are technically available for any purpose, but are maintained at targeted levels in accordance with sound financial management practices.

The General Fund is the primary operating fund of the County (Exhibits 3 through 6). The General Fund's fund balance decreased \$1.7 million (3.5%) during fiscal year 2012, to \$45.6 million, of which \$0.2 million is nonspendable, \$0.5 million is restricted, \$0.5 million is committed, \$20.4 million is assigned and \$23.9 million is unassigned. As one measure of the General Fund's liquidity, it is useful to compare the total of the County's committed, assigned and unassigned fund balances to total fund revenues. At the end of fiscal year 2012, the General Fund's committed, assigned and unassigned fund balances of \$45.0 million represents 23.7% of total General Fund revenues of \$189.9 million. In addition General Fund's unassigned fund balance totaled \$23.9 million, down from \$24.6 million at the end of

fiscal year 2011, which represents 12.6% of total General Fund revenues in both years, and continues to exceed the 10% minimum set by the County's fund balance policy. The \$1.7 million fiscal year 2012 decrease in the General Fund's fund balance resulted from General Fund revenues of \$189.9 million less expenditures of \$181.3 million and other financing uses of \$10.3 million, and was primarily the result of revenue shortfalls as shown on Exhibit 6 to the financial statements.

The fund balance in the County Improvements Fund (Exhibit 4) decreased by \$5.0 million to \$10.2 million during fiscal year 2012 primarily due to the completion of capital projects during the fiscal year, for which bond proceeds authorized in the 2005 referendum were received in the prior fiscal year.

The fund balance in the School Improvements Fund (Exhibit 4) increased by \$0.7 million to \$3.5 million during fiscal year 2012, primarily as a result of bond proceeds received in fiscal year 2012, for School capital projects to be completed in fiscal year 2013.

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, as their basis of accounting is the same, but in more detail. Factors relating to the financial position and results of operations of the County's Public Utilities System and Airport have been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

General Fund budget amendments resulted in an increase of \$2.1 million or 1.0% between the originally-adopted fiscal year 2012 budget appropriation for expenditures and transfers out and the final budget, with \$1.8 million of the increase resulting from reappropriation of fiscal year 2011 budget commitments for completion of ongoing projects in fiscal year 2012. Significant reappropriations included:

- \$142,000 for Public Safety vehicles and equipment;
- \$109,000 for Parks maintenance equipment;
- \$97,000 for Information Technology maintenance service contracts;
- \$95,000 for electrical rate increases;
- 78,000 for community development projects;
- \$63,000 for ongoing historical renovation projects;
- \$48,000 for fuel program implementation.

The remaining \$300,000 in budget amendments was funded by various revenue sources or unassigned fund balance. Significant amendments included:

- \$85,500 for Emergency Communications funded by a Virginia Department of Emergency Management Interoperability Grant;
- \$65,000 for public safety training and response equipment, funded by asset forfeiture funds;
- \$66,000 for a land use and land cover development project, funded by recycling revenues.

Capital Assets and Debt Administration

Capital assets: The County's investment in capital assets as of June 30, 2012, totals \$449.8 million, net of accumulated depreciation. This represents a decrease of \$5.4 million, or 1.2% over fiscal year 2011. Capital assets, net of accumulated depreciation, are illustrated in the following table:

	(\$ in millions)			
	Governmental	Business-type	Totals at June 30	
	Activities	Activities	2012	2011
Land	\$ 8.8	11.1	19.9	19.7
Intangible assets	0.8	-	0.8	0.7
Buildings	165.7	57.6	223.3	228.7
Improvements other than buildings	6.3	133.0	139.3	141.2
Machinery and equipment	39.4	2.5	41.9	26.5
Infrastructure	15.8	-	15.8	15.0
Construction in progress	1.5	7.3	8.8	23.4
Total	\$ 238.3	211.5	449.8	455.2

Major capital asset activity during fiscal year 2012 included the following:

- Communications system upgrades totaling \$17.2 million, funded primarily through the 2005 bond referendum.
- The completion costs of the Black Creek fire station totaling \$2.0 million, funded primarily through the 2005 bond referendum.
- Improvements to Poor Farm Park totaling \$1.3 million, funded primarily through the 2005 bond referendum.
- The costs of fire apparatus, ambulance and landfill equipment replacement, and technology and stormwater infrastructure assets totaling \$2.3 million, funded through general revenues.
- Courts building improvements totaling \$0.2 million, funded by a Federal stimulus grant.
- The costs of completed and in-progress water and wastewater infrastructure projects reported in the Public Utilities Fund totaling \$11.3 million, funded by water and sewer user fees and capacity fees.
- Developers' contributions of water and wastewater lines totaled \$1.2 million, and developers' conveyance or purchase of drainage, stormwater and access easements totaled \$0.1 million.
- The costs of school facility improvements and equipment acquisition by the School Component Unit totaled \$12.1 million, funded primarily by the issuance of the County's 2011B General Obligation School Bonds, sold to the Virginia Public School Authority (VPSA).

Additional information on the County's capital assets and capital commitments can be found in notes IV.C and V.C to the financial statements.

Long-term debt: In the Commonwealth of Virginia, there is no State statute that limits the amount of general obligation debt a County may issue. However, with limited exceptions as described under General Obligation Bonds in Note IV.E to the accompanying financial statements, general obligation bonded indebtedness must be approved by voter referendum prior to issuance. In addition, the County's Board of Supervisors and revenue bond covenants have established limits and coverage requirements with respect to long-term debt, and the County is in compliance with all debt policy limits and debt coverage

requirements at June 30, 2012. The following table illustrates the County's outstanding debt at June 30, 2012:

	(\$ in millions)		
	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 156.7	-	156.7
Revenue bonds	-	20.9	20.9
Support agreement	6.7	9.2	15.9
Capital lease obligations	2.4	-	2.4
Total	\$ 165.8	30.1	195.9

Additional information on the County's long-term debt can be found under *Financial Highlights* on the first page of this Management's Discussion and Analysis, and in Note IV.E to the financial statements.

Economic Factors and Next Year's Budgets and Rates

During fiscal year 2012 and into 2013, Hanover County's residents have continued to experience a welcome, though modest recovery from the effects of the national recession, while Hanover County government revenues continue, as expected, to lag behind this trend, primarily due to lower real property assessed valuations. Throughout fiscal year 2012, the County's unemployment rate continued to show modest but steady improvement over the prior year. In July 2012, the County's unemployment rate was 5.5%, which was 0.3% improved (lower) than the same month a year ago, and which continues to compare favorably to the State's average unemployment rate of 5.9% and the national average rate of 8.3%. For the four quarters ended June 30, 2012, the Federal Housing Finance Agency's purchase-only house price index, calculated using home sales price information from Fannie Mae- and Freddie Mac-acquired mortgages rose 2.02% for Virginia, compared to a 5.0% decline in the previous fiscal year. By a measure of total combined assessed value of residential and commercial real estate, Hanover is the median of its regional triple AAA rated peers, experiencing a decline in its total assessed value of 1.69% in fiscal year 2011, compared to declines of 0.98% and 3.96% reported by neighboring triple AAA rated counties. Hanover has shared in the decline experienced by its neighboring triple AAA rated counties in total real estate assessed valuations in fiscal year 2012 and expects to again in 2013, with declines of 3.87% and 3.0%, respectively. Sales tax revenues have offset a portion of this decline, with actual and expected increases of 3.9% and 3.0% in fiscal years 2012 and 2013, respectively. Personal property tax revenues are not expected to offset a significant portion of the decline in real property tax revenues, with personal property tax in fiscal year 2013 expected to increase only 0.15% over fiscal year 2012 actual revenues. State and Federal revenues are budgeted to decline by \$1.2 million, or 3.9% in fiscal year 2013, but with a corresponding drop in related program expenditures. With these factors in mind, net of the use of \$11.9 million of prior year fund balance, the County's adopted fiscal year 2013 General Fund budget was set at \$196.6 million, a decrease of \$6.5 million or 3.2% in comparison to the fiscal year 2012 figure of \$203.0 million. The County closely monitors and forecasts its revenues on a continual basis, and incorporates any significant changes in its current and subsequent fiscal year's budget plans in order to mitigate their impact and maintain the County's sound financial condition.

The County recognizes the value of properly illustrating year-end assignments of fund balance. Accordingly, at June 30, 2012, the County has assigned \$6.0 million of fund balance in its General Fund to fund a portion of the fiscal year 2012 adopted General Fund budget. In this manner, the County is able to utilize and reinvest all or portions of positive budget-to-actual variances at the end of the current fiscal

year as a source of funding for the succeeding fiscal year's budget, while also meeting the County's fund balance policy and assigning amounts as deemed necessary to meet future needs. Accordingly, the County has assigned an additional \$14.6 million to meet other specifically identified future needs, including \$7.4 million to fund future school budgets, \$1.4 million for public safety, \$3.6 million to fund a portion of the County's subsequent five-year financial plans, \$1.2 million to fund capital projects, and \$1.1 million to fund other specific purposes. In fiscal year 2010 and prior years, by formal resolution, the Board of Supervisors also committed another \$0.5 million for economic development, which remains on hand at the end of fiscal year 2012 to fund those additional future needs. All commitments and assignments of fund balance are illustrated in Note V.B to the accompanying financial statements.

All County general property tax rates remained unchanged for calendar year 2012. In fiscal year 2013, Public Utilities' water and sewer user fees increased by 1.0% each.

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 financial condition and operations. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Director of Finance and Management Services, County of Hanover, P.O. Box 470, Hanover, VA 23069.



BASIC FINANCIAL STATEMENTS

COUNTY OF HANOVER, VIRGINIA

Exhibit 1

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
ASSETS					
Current Assets:					
Pooled cash, cash equivalents and investments	\$ 65,728,498	15,359,968	81,088,466	18,161,369	220,541
Receivables (net of allowance for uncollectibles)	59,783,898	4,457,050	64,240,948	4,337,715	-
Support agreement receivable	-	-	-	-	2,035,000
Inventories	170,004	-	170,004	139,723	-
Total current assets	125,682,400	19,817,018	145,499,418	22,638,807	2,255,541
Noncurrent Assets:					
Pooled cash, cash equivalents and investments - restricted	1,623,385	3,400,179	5,023,564	-	-
Support agreement receivable	-	-	-	-	13,265,000
Prepaid postemployment healthcare benefits	246,776	-	246,776	-	-
Capital assets (net of accumulated depreciation):					
Land	8,826,159	11,117,120	19,943,279	7,400,682	-
Intangible assets	807,474	-	807,474	-	-
Buildings	165,606,742	57,609,057	223,215,799	90,047,446	-
Improvements other than buildings	6,314,189	133,009,539	139,323,728	1,924,259	-
Machinery and equipment	39,409,525	2,499,455	41,908,980	8,853,928	-
Infrastructure	15,836,727	-	15,836,727	-	-
Construction in progress	1,473,014	7,299,235	8,772,249	425,151	-
Total capital assets, net	238,273,830	211,534,406	449,808,236	108,651,466	-
Total noncurrent assets	240,143,991	214,934,585	455,078,576	108,651,466	13,265,000
Total assets	365,826,391	234,751,603	600,577,994	131,290,273	15,520,541
LIABILITIES					
Current Liabilities:					
Accounts payable	2,991,674	959,604	3,951,278	3,314,282	19
Incurring but not reported self-insurance claims	1,780,000	-	1,780,000	-	-
Accrued liabilities	2,994,708	410,954	3,405,662	14,017,620	-
Accrued bond interest	403,499	321,587	725,086	2,360,246	-
Unearned revenue	48,685,904	-	48,685,904	113,219	-
Contractual obligations	-	165,042	165,042	-	-
Current portion of bonds payable	13,200,927	992,366	14,193,293	-	2,035,000
Current portion of capital lease obligations	99,476	-	99,476	-	-
Current portion of compensated absences	4,338,122	420,652	4,758,774	1,530,371	-
Current portion of liability for landfill closure and postclosure costs	74,887	-	74,887	-	-
Current portion of support agreement	705,000	1,330,000	2,035,000	-	-
Total current liabilities	75,274,197	4,600,205	79,874,402	21,335,738	2,035,019
Noncurrent Liabilities:					
Bonds payable	143,541,500	19,951,453	163,492,953	-	13,265,000
Capital lease obligations	2,256,096	-	2,256,096	-	-
Compensated absences	1,436,133	145,409	1,581,542	3,178,172	-
Deposits	-	453,710	453,710	-	-
Capacity fee credits	-	997,428	997,428	-	-
Liability for landfill closure and postclosure costs	2,140,483	-	2,140,483	-	-
Support agreement	5,976,332	7,842,282	13,818,614	-	-
Total noncurrent liabilities	155,350,544	29,390,282	184,740,826	3,178,172	13,265,000
Total liabilities	230,624,741	33,990,487	264,615,228	24,513,910	15,300,019
NET ASSETS					
Invested in capital assets, net of related debt	74,105,915	180,255,835	254,361,750	108,651,466	-
Restricted for:					
Grant programs	978,135	-	978,135	-	-
Capital projects	3,817,420	-	3,817,420	-	-
Debt covenants	11,969	3,400,179	3,412,148	-	-
Postemployment healthcare benefits	246,776	-	246,776	-	-
Unrestricted (deficit)	56,041,435	17,105,102	73,146,537	(1,875,103)	220,522
Total net assets	\$ 135,201,650	200,761,116	335,962,766	106,776,363	220,522

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA

Exhibit 2

Statement of Activities

For the Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
Primary government:									
Governmental activities:									
General governmental administration	\$ 14,324,220	2,015,327	844,626	-	(11,464,267)	-	(11,464,267)	-	-
Judicial administration	4,338,334	1,121,848	1,411,740	-	(1,804,746)	-	(1,804,746)	-	-
Public safety	49,003,762	3,077,467	5,089,518	87,643	(40,749,134)	-	(40,749,134)	-	-
Public works	11,407,634	1,260,824	14,771	768,336	(9,363,703)	-	(9,363,703)	-	-
Human services	22,925,913	3,332,257	9,313,287	-	(10,280,369)	-	(10,280,369)	-	-
Parks, recreation and cultural	6,531,096	498,989	-	427,482	(5,604,625)	-	(5,604,625)	-	-
Community development	4,625,376	1,005,930	22,509	-	(3,596,937)	-	(3,596,937)	-	-
Education	88,976,562	-	-	710,003	(88,266,559)	-	(88,266,559)	-	-
Interest on long-term debt	1,494,308	-	-	-	(1,494,308)	-	(1,494,308)	-	-
Total governmental activities	203,627,205	12,312,642	16,696,451	1,993,464	(172,624,648)	-	(172,624,648)	-	-
Business-type activities:									
Public Utilities	26,264,524	21,715,203	-	4,610,333	-	61,012	61,012	-	-
Airport	759,169	184,550	-	326,002	-	(248,617)	(248,617)	-	-
Total business-type activities	27,023,693	21,899,753	-	4,936,335	-	(187,605)	(187,605)	-	-
Total primary government	\$ 230,650,898	34,212,395	16,696,451	6,929,799	(172,624,648)	(187,605)	(172,812,253)	-	-
Component Units:									
School Board	\$ 178,979,006	7,360,670	90,276,215	-	-	-	-	(81,342,121)	-
Economic Development Authority	276,687	178,765	-	-	-	-	-	-	(97,922)
Total component units	\$ 179,255,693	7,539,435	90,276,215	-	-	-	-	(81,342,121)	(97,922)
General revenues:									
Taxes:									
General property taxes					126,263,780	-	126,263,780	-	-
Sales taxes					16,607,323	-	16,607,323	-	-
Utility taxes					6,869,415	-	6,869,415	-	-
Recordation taxes					1,695,512	-	1,695,512	-	-
Other					2,190,557	-	2,190,557	-	-
Noncategorical State aid					14,746,150	-	14,746,150	-	-
Grants and contributions not restricted to specific programs					1,215,096	-	1,215,096	-	-
Payment from Hanover County					-	-	-	82,820,738	-
Unrestricted investment earnings					314,846	110,750	425,596	9,474	-
Transfers					(192,889)	192,889	-	-	-
Total general revenues and transfers					169,709,790	303,639	170,013,429	82,830,212	-
Change in net assets					(2,914,858)	116,034	(2,798,824)	1,488,091	(97,922)
Net assets - beginning					138,116,508	200,645,082	338,761,590	105,288,272	318,444
Net assets - ending					\$ 135,201,650	200,761,116	335,962,766	106,776,363	220,522

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA

Exhibit 3

Governmental Funds

Balance Sheet

June 30, 2012

	Capital Funds			Total
	General	County Improvements	School Improvements	Governmental Funds
ASSETS				
Pooled cash, cash equivalents and investments	\$ 44,075,340	10,017,546	2,428,697	56,521,583
Receivables (net of allowances for uncollectibles)	59,421,601	107,295	-	59,528,896
Inventories	170,004	-	-	170,004
Pooled cash, cash equivalents and investments - restricted	11,969	295,835	1,315,581	1,623,385
Total assets	<u>\$ 103,678,914</u>	<u>10,420,676</u>	<u>3,744,278</u>	<u>117,843,868</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,454,979	241,705	287,687	2,984,371
Accrued liabilities	2,982,209	-	-	2,982,209
Deferred revenue	52,608,870	-	-	52,608,870
Total liabilities	<u>58,046,058</u>	<u>241,705</u>	<u>287,687</u>	<u>58,575,450</u>
Fund Balances:				
Nonspendable	170,004	-	-	170,004
Restricted	467,104	4,113,255	-	4,580,359
Committed	500,000	-	-	500,000
Assigned	20,567,906	6,065,716	3,456,591	30,090,213
Unassigned	23,927,842	-	-	23,927,842
Total fund balances	<u>45,632,856</u>	<u>10,178,971</u>	<u>3,456,591</u>	<u>59,268,418</u>
Total liabilities and fund balances	<u>\$ 103,678,914</u>	<u>10,420,676</u>	<u>3,744,278</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 238,273,830
Receivables on the statement of net assets that do not provide current financial resources are not reported in the funds.	5,649,377
Prepaid postemployment healthcare benefits represent irrevocable payments made to the Retiree Medical Benefits Trust for retiree healthcare benefits in advance of total actuarial requirements to date. The advance payments are reported in the statement of net assets as a noncurrent asset, but as expenditures in the funds when made.	246,776
The Self-Insurance Fund is an Internal Service Fund used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the Self-Insurance Fund are included in governmental activities in the statement of net assets.	5,935,704
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(174,172,455)
Net assets of governmental activities	<u>\$ 135,201,650</u>

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA

Exhibit 4

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

	General	County Improvements	School Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Revenue from local sources:					
General property taxes	\$ 126,110,780	-	-	-	126,110,780
Other local taxes	27,362,807	-	-	-	27,362,807
Permits, privilege fees and regulatory licenses	1,555,734	-	-	-	1,555,734
Fines and forfeitures	1,123,148	-	-	-	1,123,148
Revenues from use of money and property	687,178	2,858	2,591	37,770	730,397
Charges for services	3,145,603	596,818	707,412	2,933,370	7,383,203
Miscellaneous	664,062	5,433	-	51,393	720,888
Recovered costs	3,589,583	72,260	-	237,244	3,899,087
Revenue from the Commonwealth	22,324,936	246,376	-	5,318,300	27,889,612
Revenue from the Federal government	3,339,682	520,812	-	461,904	4,322,398
Total revenues	189,903,513	1,444,557	710,003	9,039,981	201,098,054
EXPENDITURES					
General governmental administration	13,226,986	851,634	-	-	14,078,620
Judicial administration	4,319,406	46,110	-	-	4,365,516
Public safety	45,123,575	5,361,554	-	-	50,485,129
Public works	9,388,362	1,550,556	-	-	10,938,918
Human services	7,509,173	19,429	-	15,731,045	23,259,647
Parks, recreation and cultural	5,983,856	902,478	-	-	6,886,334
Community development	4,659,812	-	-	-	4,659,812
Education	86,899,750	-	8,261,318	-	95,161,068
Debt service:					
Principal retirement	2,201,996	-	-	-	2,201,996
Interest and fiscal charges	2,001,749	-	35,649	-	2,037,398
Total expenditures	181,314,665	8,731,761	8,296,967	15,731,045	214,074,438
Excess (deficiency) of revenues over (under) expenditures	8,588,848	(7,287,204)	(7,586,964)	(6,691,064)	(12,976,384)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	2,333,000	1,810,000	5,918,563	10,061,563
Transfers out	(10,254,452)	-	-	-	(10,254,452)
Issuance of general obligation bonds	-	-	5,855,000	-	5,855,000
Premium on general obligation bonds issued	-	-	616,989	-	616,989
Total other financing sources (uses)	(10,254,452)	2,333,000	8,281,989	5,918,563	6,279,100
Net change in fund balance	(1,665,604)	(4,954,204)	695,025	(772,501)	(6,697,284)
Fund balances - beginning	47,298,460	15,133,175	2,761,566	772,501	65,965,702
Fund balances - ending	\$ 45,632,856	10,178,971	3,456,591	-	59,268,418

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA**Exhibit 5**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balance - total governmental funds	\$ (6,697,284)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$7,641,249) exceeded depreciation (\$7,488,828) in the current period.	152,421
Tenancy in Common (see note IV. C.) - Under Virginia law, the County has a tenancy in common for School Board Component Unit capital assets for which the County is obligated to repay outstanding "on-behalf" bonds. Under the tenancy in common, the County reports the net book value of School Component Unit capital assets in the amount of the outstanding principal balance of "on-behalf" bonds at year end, net of unspent bond proceeds. This amount is the decrease in the net book value of School Board Component Unit capital assets reported by the County for the fiscal year, which resulted primarily from a decrease in school construction activity during the fiscal year, and results in a decrease in net assets reported by the County (primary government) on the statement of activities.	(5,622,429)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (e.g., tax receivable accrual).	(192,819)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (including payments to the School Board Component Unit for that purpose) consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which debt proceeds, including premiums (\$6,471,989), exceeded the sum of principal payments (\$2,270,608) and payments of \$10,502,253 to the School Component Unit for debt principal reduction.	6,300,872
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.	267,490
Internal service funds are used by management to charge the costs of fleet management and self-insurance to individual funds. The change in internal service fund net assets, net of the reassignment of the Fleet Management Fund's net assets to the General Fund, is reported with governmental activities.	2,876,891
Change in net assets of governmental activities	<u>\$ (2,914,858)</u>

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA**Exhibit 6**

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
General property taxes	\$ 128,148,000	128,148,000	126,110,780	(2,037,220)
Other local taxes	28,404,000	28,404,000	27,362,807	(1,041,193)
Permits, privilege fees and regulatory licenses	1,522,000	1,522,000	1,555,734	33,734
Fines and forfeitures	1,269,100	1,269,100	1,123,148	(145,952)
Revenues from use of money and property	709,000	709,000	687,178	(21,822)
Charges for services	3,532,288	3,534,648	3,145,603	(389,045)
Miscellaneous	863,000	564,268	664,062	99,794
Recovered costs	3,198,825	3,385,147	3,589,583	204,436
Revenue from the Commonwealth	22,376,576	22,618,092	22,324,936	(293,156)
Revenue from the Federal government	3,677,630	3,907,835	3,339,682	(568,153)
Total revenues	193,700,419	194,062,090	189,903,513	(4,158,577)
EXPENDITURES				
General governmental administration	13,330,395	14,057,783	13,226,986	830,797
Judicial administration	4,447,514	4,560,061	4,319,406	240,655
Public safety	45,766,085	46,767,525	45,123,575	1,643,950
Public works	9,673,568	10,565,302	9,388,362	1,176,940
Human services	8,726,572	8,797,042	7,509,173	1,287,869
Parks, recreation and cultural	5,908,499	6,096,508	5,983,856	112,652
Community development	4,886,389	5,006,432	4,659,812	346,620
Education	92,610,611	92,610,611	86,899,750	5,710,861
Debt service:				
Principal retirement	2,270,609	2,270,609	2,201,996	68,613
Interest and fiscal charges	3,495,472	2,406,495	2,001,749	404,746
Total debt service	5,766,081	4,677,104	4,203,745	473,359
Total expenditures	191,115,714	193,138,368	181,314,665	11,823,703
Excess of revenues over expenditures	2,584,705	923,722	8,588,848	7,665,126
OTHER FINANCING USES				
Transfers out	11,616,551	11,707,551	10,254,452	1,453,099
Total other financing uses	11,616,551	11,707,551	10,254,452	1,453,099
Net change in fund balance	(9,031,846)	(10,783,829)	(1,665,604)	9,118,225
Fund balances - beginning	9,031,846	47,298,460	47,298,460	-
Fund balances - ending	\$ -	36,514,631	45,632,856	9,118,225

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA
Proprietary Funds
Statement of Net Assets
June 30, 2012

Exhibit 7

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Airport	Total	
ASSETS				
Current Assets:				
Pooled cash, cash equivalents and investments	\$ 14,781,787	578,181	15,359,968	9,206,915
Receivables (net of allowances for uncollectibles)	4,080,119	376,931	4,457,050	-
Total current assets	18,861,906	955,112	19,817,018	9,206,915
Noncurrent Assets:				
Pooled cash, cash equivalents and investments - restricted	3,400,179	-	3,400,179	-
Capital assets:				
Land	6,354,137	4,762,983	11,117,120	-
Buildings and system	83,224,039	3,669,137	86,893,176	-
Improvements other than buildings	208,342,711	8,090,789	216,433,500	-
Machinery and equipment	8,830,979	37,481	8,868,460	-
Construction in progress	7,255,569	43,666	7,299,235	-
Less accumulated depreciation	(114,652,537)	(4,424,548)	(119,077,085)	-
Total capital assets (net of accumulated depreciation)	199,354,898	12,179,508	211,534,406	-
Total noncurrent assets	202,755,077	12,179,508	214,934,585	-
Total assets	221,616,983	13,134,620	234,751,603	9,206,915
LIABILITIES				
Current Liabilities:				
Accounts payable	952,942	6,662	959,604	7,309
Incurred but not reported self-insurance claims	-	-	-	1,780,000
Accrued liabilities	407,146	3,808	410,954	12,499
Accrued bond interest	282,679	38,908	321,587	-
Unearned revenue	-	-	-	1,471,403
Contractual obligations	165,042	-	165,042	-
Current portion of bonds payable	925,365	67,001	992,366	-
Current portion of compensated absences	416,460	4,192	420,652	-
Current portion of support agreement	1,330,000	-	1,330,000	-
Total current liabilities	4,479,634	120,571	4,600,205	3,271,211
Noncurrent Liabilities:				
Bonds payable	18,486,637	1,464,816	19,951,453	-
Compensated absences	140,172	5,237	145,409	-
Deposits	453,710	-	453,710	-
Capacity fee credits	997,428	-	997,428	-
Support agreement	7,842,282	-	7,842,282	-
Total noncurrent liabilities	27,920,229	1,470,053	29,390,282	-
Total liabilities	32,399,863	1,590,624	33,990,487	3,271,211
NET ASSETS				
Invested in capital assets, net of related debt	169,608,144	10,647,691	180,255,835	-
Restricted for debt covenants	3,400,179	-	3,400,179	-
Unrestricted	16,208,797	896,305	17,105,102	5,935,704
Total net assets	\$ 189,217,120	11,543,996	200,761,116	5,935,704

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA
Exhibit 8
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal
	Public Utilities	Airport	Total	Service Fund
OPERATING REVENUES				
Revenue from use of money and property	\$ -	184,550	184,550	-
Charges for services	21,347,221	-	21,347,221	31,129,558
Capacity fees	208,718	-	208,718	-
Recovered cost	-	-	-	57,118
Miscellaneous	159,264	-	159,264	-
Total operating revenues	21,715,203	184,550	21,899,753	31,186,676
OPERATING EXPENSES				
Personal services	4,541,630	76,443	4,618,073	22,485
Fringe benefits	1,832,558	23,557	1,856,115	1,999
Health care claims and benefits	-	-	-	28,534,817
Contractual services	2,266,089	37,500	2,303,589	48,195
Internal services	1,504,434	-	1,504,434	-
Other charges	6,313,435	144,404	6,457,839	32,030
Depreciation	8,772,490	398,629	9,171,119	-
Total operating expenses	25,230,636	680,533	25,911,169	28,639,526
Operating income (loss)	(3,515,433)	(495,983)	(4,011,416)	2,547,150
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues:				
Revenue from the Commonwealth	-	13,325	13,325	-
Revenue from the Federal government	174,479	312,677	487,156	243,078
Capacity fees - nonoperating	3,223,531	-	3,223,531	-
Interest income	110,750	-	110,750	86,663
Total nonoperating revenues	3,508,760	326,002	3,834,762	329,741
Nonoperating expenses:				
Interest expense and fiscal charges:				
Senior debt	1,028,784	78,636	1,107,420	-
Subordinate debt and fiscal charges	5,104	-	5,104	-
Interest expense and fiscal charges	1,033,888	78,636	1,112,524	-
Net nonoperating revenues (expenses)	2,474,872	247,366	2,722,238	329,741
Income (loss) before capital contributions and transfers	(1,040,561)	(248,617)	(1,289,178)	2,876,891
Capital contributions	1,212,323	-	1,212,323	-
Transfers in	-	192,889	192,889	-
Change in net assets	171,762	(55,728)	116,034	2,876,891
Total net assets - beginning	189,045,358	11,599,724	200,645,082	3,058,813
Total net assets - ending	\$ 189,217,120	11,543,996	200,761,116	5,935,704

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA
Exhibit 9

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Airport	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 21,700,718	184,550	21,885,268	-
Receipts from interfund services provided	-	-	-	31,199,941
Payments to suppliers and service providers	(12,294,987)	(204,674)	(12,499,661)	(75,060)
Payments to employees	(4,382,166)	(98,611)	(4,480,777)	(24,484)
Claims and benefits paid	-	-	-	(28,715,751)
Net cash provided (used) by operating activities	5,023,565	(118,735)	4,904,830	2,384,646
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds - operating	-	124,405	124,405	-
Intergovernmental revenue received	-	-	-	243,078
Net cash provided by noncapital financing activities	-	124,405	124,405	243,078
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers from other funds - capital	-	68,484	68,484	-
Intergovernmental revenue received - capital grants	174,480	525,847	700,327	-
Capacity fees received	3,048,283	-	3,048,283	-
Acquisition and construction of capital assets	(7,719,113)	(237,172)	(7,956,285)	-
Payments on long-term contractual obligations	(161,017)	-	(161,017)	-
Principal payments on revenue bonds and support agreement debt	(2,246,830)	(63,723)	(2,310,553)	-
Interest payments on revenue bonds	(1,189,007)	(80,255)	(1,269,262)	-
Net cash provided (used) by capital and related financing activities	(8,093,204)	213,181	(7,880,023)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	110,750	-	110,750	86,663
Net cash provided by investing activities	110,750	-	110,750	86,663
Net increase (decrease) in cash and cash equivalents	(2,958,889)	218,851	(2,740,038)	2,714,387
Pooled cash, cash equivalents and investments at beginning of year	21,140,855	359,330	21,500,185	6,492,528
Pooled cash, cash equivalents and investments at end of year	\$ 18,181,966	578,181	18,760,147	9,206,915
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (3,515,433)	(495,983)	(4,011,416)	2,547,150
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	8,772,490	398,629	9,171,119	-
(Increase) decrease in:				
Receivables	(77,093)	-	(77,093)	69,066
Increase (decrease) in:				
Customer deposits	62,610	-	62,610	-
Accounts payable	(378,473)	(22,769)	(401,242)	7,309
Incurred but not reported self-insurance claims	-	-	-	(250,000)
Accrued liabilities	194,220	83	194,303	(2,144)
Unearned revenue	-	-	-	13,265
Compensated absences	(34,756)	1,305	(33,451)	-
Total adjustments	8,538,998	377,248	8,916,246	(162,504)
Net cash provided (used) by operating activities	\$ 5,023,565	(118,735)	4,904,830	2,384,646
Noncash investing, capital, and financing activities:				
Capital contributions	\$ 1,212,323	-	1,212,323	-
Capitalized interest	\$ 103,359	-	103,359	-

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA**Exhibit 10**

Statement of Fiduciary Net Assets

June 30, 2012

	Retiree Medical Benefits Trust	Agency Funds
ASSETS		
Pooled cash, cash equivalents and investments	\$ -	\$ 1,876,913
Receivables	3,669	510,046
Investments, at fair value (mutual funds):		
Money market	1,150	-
Domestic equity	1,463,977	-
International equity	444,334	-
Fixed income	1,159,456	-
Other	203,002	-
Total assets	<u>\$ 3,275,588</u>	<u>\$ 2,386,959</u>
LIABILITIES		
Accounts payable	\$ -	\$ 1,020,542
Accrued liabilities	-	681,104
Deposits	-	685,313
Total liabilities	<u>\$ -</u>	<u>\$ 2,386,959</u>
NET ASSETS		
Held in trust for other postemployment benefits	<u>\$ 3,275,588</u>	

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER, VIRGINIA**Exhibit 11****Retiree Medical Benefits Trust Fund
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2012**

	Retiree Medical Benefits Trust
ADDITIONS	
Contributions	
Employer	\$ 695,992
Plan member	1,058,262
Total contributions	<u>1,754,254</u>
Investment earnings	<u>(2,415)</u>
Total additions	<u>1,751,839</u>
DEDUCTIONS	
Benefits	<u>1,754,254</u>
Net decrease in plan net assets	(2,415)
Net assets held in trust for other postemployment benefits	
Beginning	3,278,003
Ending	<u>\$ 3,275,588</u>

The accompanying notes to the financial statements are an integral part of the financial statements.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

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 (the Commonwealth or State) operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and six other board members, each elected from the County's 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 public 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 through appropriations. 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 of Hanover County, Virginia (the EDA) was established by ordinance of the Hanover County Board of Supervisors pursuant to the Industrial Development and Revenue Bond Act (Chapter 33, Title 15.1, Code of Virginia of 1950, as amended) so that such authorities may acquire, own, lease and dispose of properties to the end that such authorities may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate in or remain in the Commonwealth. 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 representing each of the seven magisterial districts of the County. 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 prospective private activity 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 activities) report information about the primary government (the County) and its component units, exclusive of fiduciary activities. For the most part, the effect of interfund activity has been removed

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

from these financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not properly classified as program revenues, including all taxes, are reported 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, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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, have been met. Employer contributions to the Retiree Medical Benefits Trust fiduciary fund (including cash contributions and actuarially estimated employer premium subsidies), and plan member contributions are recognized in the period in which the contributions and subsidies are due. Benefits are recognized when due and payable in accordance with the terms of the plan. 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 are not intergovernmental revenues. They are subsequently remitted to the County and are recognized consistent with the State's recognition policy. Accordingly, 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 items associated with the current fiscal period, including other local taxes, licenses, certain charges for services, interest associated with the current fiscal period and direct Federal interest subsidies on bonded indebtedness for which applications have been timely submitted are all considered to be susceptible to accrual and so are recognized as revenues of the current fiscal period.

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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 School Component Unit, except those financed by County obligations, which are reported by the primary government up to the amount of outstanding obligation.

The County also reports two nonmajor *special revenue funds* in its governmental funds financial statements, which account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. The County's nonmajor special revenue funds consist of the *Comprehensive Services Fund* and the *Community Services Fund*, which are reported in the aggregate as *Other Governmental Funds*.

The County has two proprietary funds. The *Public Utilities Fund*, a major fund, accounts for the activities and operations of the County's 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 categories:

Internal service fund account for self-insurance activities of the County related to employee health insurance.

Fiduciary funds consist of the *Retiree Medical Benefits Trust Fund* and *Agency Funds*. The agency funds include the *Bell Creek Community Development Authority Fund*, the *Lewistown Community Development Authority Fund*, and the *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 (GASB). 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, and internal charges, respectively. The Public Utilities Fund 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

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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.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The County and its component units follow the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted cash and investments held by outside custodians in order to comply with the provisions of bond indentures, and the investments of the Retiree Medical Benefits Trust (Trust) held by the Trust's Finance Board. Investments are reported at fair value, based on quoted market prices at year end. As of June 30, 2012, the pooled cash and investments have been allocated between the County and the respective component units and Trust based upon their respective ownership percentages. Investment earnings are allocated to the participating funds and component units based upon their respective average monthly equity balances in the pooled account. Cash, cash equivalents and investments – restricted, represent unspent bond proceeds for capital projects and, when applicable, accumulated interest thereon, as well as amounts set aside for bond debt service or to comply with other debt covenants. For purposes of the statements of cash flows, the amounts reported as cash and cash equivalents for the proprietary fund types represent amounts maintained in the reporting entity's investment pool, as they are considered to be demand deposits for the purpose of complying with U.S. generally accepted accounting principles (GAAP).

2. Receivables and payables

Activities 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."

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 consistent with criteria established by the Auditor of Public Accounts of the Commonwealth of Virginia (APA), which uses historical collection data, specific account analysis and management's judgement.

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 October 5. The real estate taxes reported as revenue are the second installment (October 5) of the levy on assessed value at January 1, 2011, and the first installment (June 5) of the levy on assessed value at January 1, 2012.

The County levies personal property taxes on motor vehicles, boats, mobile homes, aircraft and tangible business property. Personal property tax levies are based on the estimated fair market value as of January 1, with payment due on February 5 of the following year. 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.

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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 total of \$15,002,000 in four payments annually. County 2011 tax bills, payable in fiscal year 2012, included a sixty-four percent reduction on the first \$20,000 in value for qualifying vehicles. PPTRA payments received from the Commonwealth of Virginia are classified as noncategorical State aid in the General Fund.

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. Inventories of the County's discretely presented School Board Component Unit are valued at cost using the first in-first out (FIFO) method.

4. *Restricted assets*

In accordance with applicable bond covenants, governmental and business-type activities report restricted cash, cash equivalents and investments at June 30, 2012 of \$5,023,564, which consists of \$11,969, maintained in the General Fund as a debt service reserve, and unexpended bond proceeds and accumulated interest of \$1,611,416 restricted for capital projects in the School and County Improvements Funds. Business-type activities report restricted cash, cash equivalents and investments of \$3,400,179 maintained as reserves required by water and sewer revenue bond covenants.

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure, and intangible capital assets, which consist of drainage, stormwater and access easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The County defines tangible capital assets as items with an initial, individual cost of more than \$5,000 and an estimated useful life of at least five years, and intangible capital assets as easements with an initial cost or estimated fair market value of more than \$25,000. As there are no factors which limit their useful lives, all County intangible assets are considered to have indefinite useful lives. Tangible capital assets are recorded at actual or estimated historical cost if purchased or constructed. Donated capital assets, whether tangible or intangible, are recorded at estimated fair market value at the date of donation. Purchased intangible capital assets are recorded at the purchase price or at estimated fair market value at the date acquired. 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 or purchased. 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. Interest cost of \$103,359 was capitalized during the year-ended June 30, 2012.

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. Land and intangible assets with

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indefinite useful lives are not depreciated or amortized. The estimated useful lives of capital assets are as follows:

<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. A liability for unused vacation pay and compensatory time 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 those amounts is reported in governmental funds only to the extent the liability has matured: for example, as a result of employee resignations or retirements. Sick leave is accrued under the vesting method which estimates the expected eligibility of all employees to receive termination payments.

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.

In the governmental funds financial statements, proceeds from long-term debt 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 and other 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 balances*

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 fiduciary fund financial statements, net assets of the Retiree Medical Benefits Trust Fund are held by the trust for payment of retiree health benefits, and are reported as net assets held in trust for other postemployment benefits.

Fund balances in governmental funds are classified as follows:

Nonspendable fund balance – Consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. This classification includes inventories, prepaid amounts, assets held for resale, and long-term receivables.

Restricted fund balance – Consists of amounts for which constraints are imposed on their use; either externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or by law through constitutional provisions or enabling legislation.

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Committed fund balance – Consists of amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Supervisors, the County's highest level of decision-making authority, and adopted by a formal policy or resolution, the highest levels of formal action approved by the Board of Supervisors. The committing action must be taken prior to year-end although the exact dollar amount may be determined in a subsequent period. Committed amounts cannot be used for any other purpose unless the commitment is changed by similar action of the Board of Supervisors.

Assigned fund balance – Consists of amounts which the County intends to use for specific purposes, but which are neither restricted nor committed as previously defined. The County's Fund Balance Policy adopted by the Board of Supervisors delegates the authority to assign fund balances for specific purposes to the County Administrator. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County. For all other governmental funds, any positive residual fund balances that are neither nonspendable, restricted or committed are considered to be assigned for the purposes of the respective funds. Therefore, with the exception of the General Fund, assigned fund balance is the residual fund balance classification for all governmental funds with positive balances.

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Under GASB Statement No. 54, positive unassigned fund balances are only reported in the General Fund. However, in governmental funds other than the General Fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed, or assigned to that purpose, and a negative residual amount for that purpose may result (for example, if capital project fund expenditures are made prior to receipt of bond proceeds). If that occurs, any negative residual is offset to the extent of any other assigned amounts in that fund, and any remaining negative residual amount is classified as a negative unassigned fund balance in the applicable governmental fund.

Resources, whether restricted or unrestricted, are available for use only when appropriated by the Board of Supervisors in accordance with the adopted budget. In determining the classification of ending fund balances, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available and have been appropriated for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. When amounts in any of the three unrestricted fund balance classifications are available and have been appropriated for use, expenditures are made from committed amounts first, followed by assigned amounts, and then by unassigned amounts.

The Board of Supervisors has adopted a minimum fund balance policy that states that the General Fund's unassigned fund balance shall be at least equal to ten percent of its total revenues.

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."

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The details of the net adjustment to reduce total fund balances – total governmental funds to arrive at net assets – governmental activities are as follows:

Bonds payable, net	\$ 156,742,427
Accrued bond interest	403,499
Capital lease obligations	2,355,572
Support agreement payable	6,681,332
Compensated absences (excludes internal services)	5,774,255
Liability for landfill closure and postclosure costs	<u>2,215,370</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets - governmental activities	 <u><u>\$ 174,172,455</u></u>

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

Capital outlay	\$ 7,641,249
Depreciation expense (excludes internal services)	<u>(7,488,828)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	 <u><u>\$ 152,421</u></u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences (excludes internal services)	\$ (105,250)
Liability for landfill closure and postclosure costs	30,729
Other postemployment benefit (OPEB) costs	(132,467)
Accrued interest	48,257
Amortization of bond premiums	609,540
Amortization of deferred amount on refunding	<u>(183,319)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	 <u><u>\$ 267,490</u></u>

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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 of Supervisors for review. The Board holds informational budget sessions, workshops, and a public hearing to obtain detailed information on budgetary issues and citizen input, and a final budget is legally adopted through passage of a Budget Appropriation Resolution no later than June 30. The Budget Appropriation Resolution establishes budgetary appropriation amounts at the fund level.

To address changes to the fiscal plan, the Board has adopted a budget policy which establishes thresholds for making adjustments to the adopted budget. The budget policy effectively establishes a *legal level of budgetary control*, the lowest level at which County administration may not reallocate resources without Board approval, at the department level, with a \$25,000 limitation placed on transfers between departments. 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 the \$25,000 limit. 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 component unit funds. However, any transfer or supplemental appropriation that increases the School's total appropriated budget requires subsequent Board of Supervisors' approval.

IV. Detailed notes on all funds

A. Deposits and investments

As of June 30, 2012, the reporting entity's pooled cash and investments, including \$1,876,913 held on behalf of agency funds, and amounts separately invested by the Retiree Medical Benefits Trust's Finance Board, were as follows:

Investment Type	Fair Value	Credit Quality Rating				
		AAA/AAAm	AA	A	N/R	N/A
Pooled Investments:						
Cash on hand	\$ 3,400	-	-	-	-	3,400
Cash deposits	17,386,822	-	-	-	-	17,386,822
Demand and time deposits	6,235,833	-	2,272,651	2,786,323	-	1,176,859
Money market mutual funds (AAAm ratings)	29,511,758	29,511,758	-	-	-	-
U.S. government and agency bonds	40,560,867	-	40,560,867	-	-	-
Corporate notes and bonds	6,981,202	713,285	5,917,497	350,420	-	-
Commercial paper	4,341,043	-	-	4,341,043	-	-
Municipal bonds	1,349,928	-	1,349,928	-	-	-
Total pooled deposits and investments	\$ 106,370,853	30,225,043	50,100,943	7,477,786	-	18,567,081

Retiree Medical Benefits Trust:	Fair Value	Fund Credit Quality Rating		
		AAAm	N/R	N/A
Mutual funds:				
Money market	\$ 1,150	1,150	-	-
Domestic equity	1,463,977	-	-	1,463,977
International equity	444,334	-	-	444,334
Fixed income	1,159,456	-	877,682	281,774
Other	203,002	-	-	203,002
Total trust investments	\$ 3,271,919	1,150	877,682	2,393,087

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Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 *et seq.* of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon the choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Pooled Investments: In accordance with Section 2.2-4500 of the Code of Virginia (Code) and other applicable law and regulations, the County’s pooled investment policy (County Policy) permits investments in obligations of the United States or agencies thereof; held directly, by collateralized repurchase agreements, or in mutual funds registered under the Investment Company Act of 1940, whose portfolios are restricted to U.S. Government 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, bankers 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 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 type of security is as follows:

	<u>Maximum</u>
Money market mutual funds	75%
Repurchase agreements	50%
Negotiable certificates of deposits/bank notes	25%
Corporate notes	25%
Bankers' acceptances	25%
Commercial paper	25%
State bonds, notes and other evidences of indebtedness	20%
County, town, city, district, authority or other public body bonds, notes and other evidences of indebtedness	20%

The County 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.

Retiree Medical Benefits Trust (Trust) Investments: The primary goal of the Trust is to meet the reporting entity’s current and long-term retiree health care benefit obligations while minimizing required employer contributions. The Trust’s investment policy (Trust Policy) objectives include maintenance of a moderate risk profile and a prudent degree of investment diversification, while optimizing long-term investment returns commensurate with minimizing volatility and the risk of loss over established time horizons. In addition to the investments permitted under Section 2.2-4000 of the Code as applicable to the County’s pooled investments, the Code also authorizes the Trust to

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purchase other investments, including domestic and international stocks, REITS and corporate bonds that meet the prudent person standard set forth in the Code. To meet this standard, the Trust (Trust Policy) restricts investment in stocks and REITs to readily-marketable securities that are actively traded on a major exchange; restricts fixed-income investments to high-quality U.S. Treasury and agency, municipal or corporate fixed-income investments; prohibits the investment of Trust assets in hedge funds, derivatives, options or futures for the purpose of portfolio leveraging; and prohibits other enumerated investment types and transactions. In addition to these constraints on the Trust investment portfolio, the Trust Policy also requires periodic comparison of investment performance to appropriate benchmarks, and periodic review of asset allocations, investment manager performance and investment guidelines.

The Code vests authority to administer the Trust investment policy in the Trust's Finance Board, which has established asset allocations in two broad classes called investment assets and liquidity assets. The liquidity assets will be invested in accordance with the provisions of Virginia Code Section 2.2-4500 *et seq.* applicable to liquid assets. These funds will be used to pay for benefits and expenses of the Trust. The investment assets will be invested in longer-term securities or mutual funds in accordance with targets for each asset class, with the objective to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate. The target asset classes and asset weightings are as follows:

Trust Asset Class	Fair Value	Trust Asset Weightings		
		Range	Target	Actual
Liquidity assets:				
Cash equivalent	\$ 1,150	0 - 100%	100%	100%
Investment assets:				
Domestic equity	1,463,977	26 - 46%	36%	45%
International equity	444,334	13 - 33%	23%	14%
REITs	109,447	0 - 12%	6%	3%
Inflation hedged	93,555	0 - 10%	0%	3%
Fixed income	1,159,456	20 - 60%	35%	35%
Total investment assets	3,270,769		100%	100%
Total trust investments	\$ 3,271,919			

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, both the reporting entity's pooled investment portfolio and the Trust manage maturity of fixed-income accounts to precede or coincide with the expected need of funds, which has resulted in the creation of three pooled investment portfolios of differing maturities and the classification of Trust investments into liquidity and investment assets, as described above. The County Policy also limits the investment of operating funds to investments with a state maturity of no more than five years from the date of purchase, except proceeds from the sale of bonds, which must be invested in compliance with the specific requirements of bond covenants, and may be invested in securities with longer maturities. The Trust Policy has established a fixed-income investment objective based on a five-year rolling market cycle investment horizon, to minimize principle fluctuations and limit the potential for and duration of fixed-income investment losses over that investment horizon due to interest rate fluctuations. The Trust Policy also encourages active fixed-income investment management and requires quarterly reporting of fixed-income investment performance to the Trust's Finance Board. The deposit and fixed income investment types in the pooled investment portfolio and the Trust portfolio are presented below using the segmented time distribution reporting method, by maturity in years.

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As of June 30, 2012, deposits and fixed income investments are summarized at fair value and maturity as follows:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	More than 3
Pooled Investments:				
Cash on hand	\$ 3,400	3,400	-	-
Cash deposits	17,386,822	17,386,822	-	-
Demand and time deposits	6,235,833	3,963,182	2,272,651	-
Money market mutual funds	29,511,758	29,511,758	-	-
U.S. Government and agency bonds	40,560,867	6,037,514	32,800,573	1,722,780
Corporate notes and bonds	6,981,202	630,915	6,350,287	-
Commercial paper	4,341,043	4,341,043	-	-
Municipal bonds	1,349,928	-	662,214	687,714
Total pooled deposits and investments	<u>\$ 106,370,853</u>	<u>61,874,634</u>	<u>42,085,725</u>	<u>2,410,494</u>

Retiree Medical Benefits Trust:	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 5	More than 5
Money market mutual fund	\$ 1,150	1,150	-	-
Fixed Income	1,159,456	-	219,104	940,352
Total trust deposits and investments	<u>\$ 1,160,606</u>	<u>1,150</u>	<u>219,104</u>	<u>940,352</u>

Credit Risk: As required by State statute, the County 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 nationally recognized statistical rating organizations, and that its maturity may not exceed 270 days and the issuing corporation.

Corporate notes must have a rating of at least “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service. The final maturity shall not exceed a period of 5 years from the time of purchase. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service. Negotiable Certificates of Deposit and Bank Deposit Notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service.

The County’s rated pooled debt investments as of June 30, 2012 were rated by Standard & Poor’s and/or an equivalent nationally recognized statistical rating organization. Deposits and investments not exposed to credit quality risk, as defined by GAAP, are designated as not applicable (N/A) in the credit rating column, and those that are not rated are designated as N/R.

The Trust Policy requires that the overall credit quality of the Trust’s fixed income investments must be at least A. The Trust Policy also permits the Trust to purchase fixed income investments with credit quality ratings of Baa3 or BBB by at least two credit rating agencies (Fitch, Moody’s or S&P), up to a maximum of 20 percent of the total market value of fixed-income investments. If a security is downgraded below investment grade as defined by two of these credit rating agencies, the investment manager must notify the Finance Board and a plan of action regarding the security must be adopted.

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Concentration of Credit Risk: The County Policy establishes limitations on the pooled investment portfolio composition by issuer in order to control concentration of credit risk. No more than five percent of the pooled investment portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
LGIP	100% maximum
Money market mutual funds	50% maximum
Each Federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

As of June 30, 2012, investments in the following issuers exceeded five percent of the pooled investments: Federal Home Loan Mortgage Corporation (10%) and Federal National Mortgage Association (9%).

The Trust Policy also establishes guidelines for Trust portfolio holdings. Fixed income securities of any one issuer with the exception of the U.S. government and its agencies may not exceed five percent of the total bond portfolio at the time of purchase. The Trust Policy also limits equity holdings of any one issuer to five percent of the total market value of the stock portfolio, requires that no more than twenty-five percent of the total market value of the stock portfolio may be invested in any one industry category, and establishes standards and limits on any non-U.S. equity allocation. The Trust may also invest in mutual funds that are compliant with the Investment Company Act of 1940, with investment objectives and policies consistent, to the extent practical, with the standards and limitations for equity and fixed-income investments contained in the Trust Policy.

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, 2012 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 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 counterparty to the investment transaction. As of June 30, 2012, all of the County's pooled investments were held by the trust department of the County's custodial bank in the County's name. Additionally, all Trust investments were held by the trust department of the Trust's custodial bank in the Trust's name as of June 30, 2012.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government and School Component Unit, excluding fiduciary funds, at June 30, 2012, are as follows:

	Primary Government						School Component Unit	
	General Fund	County Improvements Fund	Other Governmental Funds	Public Utilities	Airport Fund	Internal Services Funds		Total Primary Government
Receivables:								
Interest	\$ 179,301	-	-	-	-	-	179,301	-
Taxes	53,575,271	-	-	-	-	-	53,575,271	-
Accounts	2,070,697	37	-	4,394,793	-	-	6,465,527	239,373
Commonwealth of Virginia	5,418,652	48,653	-	-	12,316	-	5,479,621	2,935,366
Federal government	452,643	58,605	-	-	364,615	-	875,863	1,162,976
Gross receivables	61,696,564	107,295	-	4,394,793	376,931	-	66,575,583	4,337,715
Allowance for uncollectibles	(2,019,961)	-	-	(314,674)	-	-	(2,334,635)	-
Net total receivables	\$ 59,676,603	107,295	-	4,080,119	376,931	-	64,240,948	4,337,715

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 2011 real property tax levy, due on October 5, 2012, is reported as unearned revenue at June 30, 2012 in the government-wide financial statements, and as deferred revenue in the governmental fund financial statements. At June 30, 2012, the various components of the primary government's *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	\$ 47,214,501	\$ 47,214,501
Past due taxes (net of allowance for uncollectibles)	5,256,000	-
EMS transport fees	138,369	-
Unearned health insurance premiums - Self Insurance Fund	-	1,471,403
Total deferred/unearned revenue - primary government	<u>\$ 52,608,870</u>	<u>\$ 48,685,904</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

C. Capital assets

Capital asset activity for the primary government for the year ended June 30, 2012 was as follows:

Primary Government

Governmental activities:

Capital assets, not being depreciated:

	Balance July 1	Increases	Decreases	Balance June 30
Land	\$ 8,826,159	-	-	8,826,159
Intangible assets	701,904	105,570	-	807,474
Construction in progress	19,918,679	7,868,602	(26,314,267)	1,473,014
Total capital assets, not being depreciated	29,446,742	7,974,172	(26,314,267)	11,106,647

Capital assets, being depreciated:

Buildings	239,407,408	4,234,491	(3,674,469)	239,967,430
Improvements other than buildings	10,770,605	1,400,399	-	12,171,004
Machinery and equipment	52,335,517	19,540,938	(1,888,572)	69,987,883
Infrastructure	29,904,336	840,837	-	30,745,173
Total capital assets, being depreciated	332,417,866	26,016,665	(5,563,041)	352,871,490

Less accumulated depreciation for:

Buildings	(70,661,266)	(3,699,422)	-	(74,360,688)
Improvements other than buildings	(4,392,900)	(1,463,915)	-	(5,856,815)
Machinery and equipment	(28,195,946)	(4,235,663)	1,853,251	(30,578,358)
Infrastructure	(14,887,425)	(21,021)	-	(14,908,446)
Total accumulated depreciation	(118,137,537)	(9,420,021)	1,853,251	(125,704,307)
Total capital assets, being depreciated, net	214,280,329	16,596,644	(3,709,790)	227,167,183

Governmental activities capital assets, net

\$ 243,727,071	24,570,816	(30,024,057)	238,273,830
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Business-type activities:

Public Utilities:

Capital assets, not being depreciated:

Land	\$ 6,354,137	-	-	6,354,137
Construction in progress	3,348,056	7,627,098	(3,719,585)	7,255,569
Total capital assets, not being depreciated	9,702,193	7,627,098	(3,719,585)	13,609,706

Capital assets, being depreciated:

Buildings	83,164,409	59,630	-	83,224,039
Improvements other than buildings	203,853,386	4,489,325	-	208,342,711
Machinery and equipment	8,318,855	578,328	(66,204)	8,830,979
Total capital assets, being depreciated	295,336,650	5,127,283	(66,204)	300,397,729

Less accumulated depreciation for:

Buildings	(26,466,474)	(2,243,683)	-	(28,710,157)
Improvements other than buildings	(73,575,802)	(6,014,577)	-	(79,590,379)
Machinery and equipment	(5,903,975)	(514,230)	66,204	(6,352,001)
Total accumulated depreciation	(105,946,251)	(8,772,490)	66,204	(114,652,537)
Total capital assets, being depreciated, net	189,390,399	(3,645,207)	-	185,745,192

Public Utilities capital assets, net

\$ 199,092,592	3,981,891	(3,719,585)	199,354,898
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COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

	Balance July 1	Increases	Decreases	Balance June 30
Airport Fund:				
Capital assets, not being depreciated:				
Land	\$ 4,491,692	271,291		4,762,983
Construction in progress	85,483	367,014	(408,831)	43,666
Total capital assets, not being depreciated	4,577,175	638,305	(408,831)	4,806,649
Capital assets, being depreciated:				
Buildings	3,669,137	-	-	3,669,137
Improvements other than buildings	8,090,789	-	-	8,090,789
Machinery and equipment	29,783	7,698	-	37,481
Total capital assets, being depreciated	11,789,709	7,698	-	11,797,407
Less accumulated depreciation for:				
Buildings	(455,883)	(118,079)	-	(573,962)
Improvements other than buildings	(3,555,966)	(277,616)	-	(3,833,582)
Machinery and equipment	(14,070)	(2,934)	-	(17,004)
Total accumulated depreciation	(4,025,919)	(398,629)	-	(4,424,548)
Total capital assets, being depreciated, net	7,763,790	(390,931)	-	7,372,859
Airport capital assets, net	\$ 12,340,965	247,374	(408,831)	12,179,508
Business-type activities capital assets, net	\$ 211,433,557	4,229,265	(4,128,416)	211,534,406
Total capital assets, net - Primary government	\$ 455,160,628	28,800,081	(34,152,473)	449,808,236
Capital assets activity for the School Board Component Unit for the year ended June 30, 2012 was as follows:				
School Board Component Unit activities:				
Capital assets, not being depreciated:				
Land	\$ 7,400,682	-	-	7,400,682
Construction in progress	5,863,927	8,604,149	(14,042,925)	425,151
Total capital assets, not being depreciated	13,264,609	8,604,149	(14,042,925)	7,825,833
Capital assets, being depreciated:				
Buildings	117,627,762	13,341,505	-	130,969,267
Improvements other than buildings	3,740,272	-	-	3,740,272
Machinery and equipment	22,393,738	2,382,442	(790,787)	23,985,393
Total capital assets, being depreciated	143,761,772	15,723,947	(790,787)	158,694,932
Less accumulated depreciation for:				
Buildings	(34,681,582)	(6,240,239)	-	(40,921,821)
Improvements other than buildings	(1,628,313)	(187,700)	-	(1,816,013)
Machinery and equipment	(14,058,256)	(1,862,496)	789,287	(15,131,465)
Total accumulated depreciation	(50,368,151)	(8,290,435)	789,287	(57,869,299)
Total capital assets, being depreciated, net	93,393,621	7,433,512	(1,500)	100,825,633
School Board Component Unit capital assets, net	\$ 106,658,230	16,037,661	(14,044,425)	108,651,466

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

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

Primary government:

Governmental activities:

General governmental administration	\$ 914,622
Judicial administration	174,396
Public safety	4,263,846
Public works	1,250,193
Human services	202,789
Parks, recreation and cultural	657,513
Community development	25,469
Education	5,791,622
Total depreciation expense - governmental activities	<u>13,280,450</u>

Business-type activities:

Public Utilities	8,772,490
Airport	398,629
Total depreciation expense - business-type activities	<u>9,171,119</u>

Total depreciation expense - primary government \$ 22,451,569

School Board Component Unit \$ 4,430,006

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 for which the County is financially obligated is reported by the County in the amount of outstanding obligations. At June 30, 2012, the County had outstanding financial obligations related to the construction of school buildings totaling \$117,685,931. Accordingly, school buildings with a net book value of that amount are reported in the governmental activities of the Primary Government at June 30, 2012. During fiscal year 2012, the County's financial obligations related to school buildings decreased by a net amount of \$5,622,429, and, accordingly, the net book value of school buildings reported by the Primary Government decreased, and the net book value of buildings reported by the School Board Component Unit increased by the same amount. Depreciation expense on school buildings is allocated to the Primary Government and the School Board Component Unit in proportion to the relative cost of the buildings reported by each entity. Accordingly, depreciation of School Board Component Unit capital assets totaled \$10,221,628 in fiscal year 2012, of which \$5,791,622 is reported by the Primary Government and \$4,430,006 is reported by the School Component Unit.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

D. Interfund transfers

The primary purpose of interfund transfers is to provide funding for operations, including those of the Hanover Community Services Board and the Comprehensive Services Fund (other governmental funds, below), and capital projects. Interfund transfers for the year ended June 30, 2012 are as follows:

Primary Government	Transfers In	Transfers Out
General Fund	\$ -	10,254,452
County Improvements Fund	2,333,000	-
School Improvements Fund	1,810,000	-
Other Governmental Funds	5,918,563	-
Airport Fund	192,889	-
Total primary government	\$ 10,254,452	10,254,452

E. Noncurrent liabilities

The following is a summary of changes in the government-wide noncurrent liabilities of the primary government and the School Board Component Unit for the year ended June 30, 2012:

Primary Government	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
Principal amount of bonds payable	\$ 157,458,770	5,855,000	11,805,485	151,508,285	12,469,768
Premium	6,841,023	616,989	609,540	6,848,472	547,840
Deferred amount on refunding	(1,797,649)	-	(183,319)	(1,614,330)	183,319
Total bonds payable	162,502,144	6,471,989	12,231,706	156,742,427	13,200,927
Capital lease obligations	2,712,424	-	356,852	2,355,572	99,476
Compensated absences	5,669,003	4,430,918	4,325,666	5,774,255	4,338,122
Liability for landfill closure	2,246,099	-	30,729	2,215,370	74,887
Support Agreement	7,314,184	-	632,852	6,681,332	705,000
Total governmental activities	180,443,854	10,902,907	17,577,805	173,768,956	18,418,412
Business-type activities:					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	20,631,015	-	906,830	19,724,185	951,831
Premium	430,845	-	28,499	402,346	28,498
Deferred amount on refunding	(769,493)	-	(54,964)	(714,529)	(54,964)
Total bonds payable	20,292,367	-	880,365	19,412,002	925,365
Compensated absences	591,388	407,708	442,464	556,632	416,460
Deposits	391,100	277,182	214,572	453,710	-
Capacity fee credits	1,172,675	-	175,247	997,428	-
Contractual obligations	326,059	-	161,017	165,042	165,042
Support Agreement	10,562,075	-	1,389,793	9,172,282	1,330,000
Total Public Utilities	33,335,664	684,890	3,263,458	30,757,096	2,836,867
Airport Fund:					
VRA airport revenue bond payable	1,595,540	-	63,723	1,531,817	67,001
Compensated absences	8,124	4,917	3,612	9,429	4,192
Total Airport Fund	1,603,664	4,917	67,335	1,541,246	71,193
Total business-type activities	34,939,328	689,807	3,330,793	32,298,342	2,908,060
Total noncurrent liabilities - Primary government	\$ 215,383,182	11,592,714	20,908,598	206,067,298	21,326,472
School Board Component Unit					
Compensated absences	\$ 4,661,866	1,561,877	1,515,200	4,708,543	1,530,371
Total noncurrent liabilities-School Board Component Unit	\$ 4,661,866	1,561,877	1,515,200	4,708,543	1,530,371

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

Capital lease obligations, support agreements, 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 \$2,215,370 reported as landfill closure and post closure care liability at June 30, 2012 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 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Capacity fee credits

Public Utilities provides water and sewer capacity fee credits where a property owner extending the public system is required to oversize lines or other facilities for the convenience of the County. Capacity fee credits are limited to the difference in pipe material cost only based on current material costs or other public bids for similar work. Capacity fee credits are deducted from respective water and sewer capacity fees which would otherwise be due for the connection of units in the area of the property owner's property served by the extension as identified by the utility service agreement for the extension.

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) 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 26, 2011, the County sold Virginia Public School Authority (VPSA) General Obligation School Bonds, Series 2011B, issued through the VPSA Subsidy Program, in the aggregate principal amount of \$5,855,000. The proceeds of the Bonds were used for a financing of a portion of the costs of various facility and mechanical improvements including without limitation new roofs, HVAC system upgrades, new lighting, wireless infrastructure and parking improvements at numerous schools in the County. The bonds mature on July 15th in each of the years 2012 through 2031, and have an effective interest rate of 3.2 percent.

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.

The County has pledged the sum of its future Public Utilities Fund Operating Income or Loss, prior to depreciation expense, and its Public Utilities Fund Nonoperating Revenues (together "Net Available Revenues") in the approximate amount of \$27,597,852 as of June 30, 2012, to secure the total remaining debt service requirements of the then-outstanding Public Utilities Water and Sewer Revenue Bonds (Bonds), which have financed various Public Utilities improvements. Based on an estimate of the average Net Available Revenues over the ten year period ended June 30, 2012 of approximately \$10.4 million annually, it is estimated that approximately 13 percent of future Utility Net Available Revenues are pledged through fiscal 2032, and will expire in that fiscal year with the

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

final maturity of the current Bonds. However, future water and sewer revenue bonds which may be issued to finance future utility improvements will likely contain similar pledges, and future annual Net Available Revenues may differ significantly from the average used in this estimate. During fiscal year 2012, pledged Net Available Revenues totaled \$8,507,242, and the water and sewer revenue bond debt service requirement was \$3,441,735.

The County has also pledged future lease rental income from the airport's fixed base operator (FBO), or successor FBOs, in the approximate amount of \$2,231,646 as of June 30, 2012, to secure the then-remaining debt service requirements on the Airport VRA Series 2007 revenue bond (Bond), which financed airport improvements completed in fiscal 2008. This pledge obligates substantially all future FBO rental income through July 1, 2027, and will expire on that date with the final maturity of the Bond. During fiscal year 2012, pledged rental receipts totaled \$162,050, and the debt service requirement was \$143,977.

County General Obligation Bonds and Revenue Bonds

Outstanding general obligation bonds and revenue bonds as of June 30, 2012 are comprised of the following issues:

(See schedule on following page)

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

Purpose	Interest Rates (%)	Date Issued	Original Issue	Principal Outstanding
Governmental activities:				
General obligation bonds:				
County:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	\$ 7,440,000	\$ 5,545,000
Series 2006A Refunding	4.00 - 5.00	10-12-06	3,965,000	1,950,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	10,765,000	9,385,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	5,655,000	5,020,000
Series 2010B Public Improvement	4.73 - 6.02	01-14-10	7,850,000	7,850,000
Series 2011A Public Improvement	2.00 - 5.25	01-20-11	11,452,000	11,268,768
Total general obligation bonds - County				41,018,768
Schools:				
Series 2002B Public Improvement	3.00 - 4.60	12-01-02	21,500,000	-
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	9,960,000
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	8,085,000
Series 2009 Public Improvement	2.00 - 5.00	02-18-09	9,450,000	7,115,000
Series 2009 Refunding	2.00 - 5.00	02-18-09	22,375,000	21,290,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	6,585,000	5,850,000
Series 2010B Public Improvement	4.73 - 6.02	01-14-10	6,275,000	6,275,000
Series 2011A Public Improvement	2.00 - 5.25	01-20-11	1,048,000	1,031,232
Series 2011A Refunding	2.00 - 5.25	01-20-11	5,340,000	4,325,000
VPSA Series 1991	4.85 - 6.60	07-31-91	2,069,507	-
VPSA Series 1992A	5.10 - 8.10	12-17-92	6,230,000	190,000
VPSA Series 1993A	4.475 - 5.00	11-18-93	3,620,000	40,000
VPSA Series 1994A Refunding	6.35 - 7.19	01-03-94	32,075,000	-
VPSA Series 1994A	6.10 - 6.30	05-05-94	4,900,000	505,000
VPSA Series 1994B	6.10 - 6.60	11-22-94	5,385,000	795,000
VPSA Series 1995A	5.20 - 5.75	12-21-95	1,580,000	300,000
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	1,445,000
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	2,240,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	1,865,306
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	11,270,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	4,973,229
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	4,895,000
VPSA Series 2007	4.10 - 5.10	11-08-07	13,838,206	11,224,750
VPSA Series 2009A Refunding	4.35 - 5.35	11-20-07	3,220,000	960,000
VPSA Series 2011B	2.05 - 5.05	11-09-11	5,855,000	5,855,000
Total general obligation bonds - Schools				110,489,517
Total governmental activities - general obligation bonds				151,508,285
Business-type activities:				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	0.00	06-14-02	920,400	506,220
Series 2005A Refunding	3.10 - 4.64	01-31-05	14,065,000	10,800,000
Series 2006	3.63 - 4.98	05-08-06	9,000,000	7,925,000
Series 2007	0.00	07-19-07	616,206	492,965
Total Public Utilities				19,724,185
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,531,817
Total Airport Fund				1,531,817
Total Business-type activities				21,256,002
Total bond indebtedness - Primary government				\$ 172,764,287

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

Principal and interest to maturity for the County's governmental activities general obligation bonds and business-type activities revenue bonds outstanding at June 30, 2012, 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	
2013	\$	12,469,768	6,636,066	951,831	829,335	67,001	76,976	13,488,600	7,542,377
2014		12,532,349	6,141,956	986,831	791,650	70,448	73,529	13,589,628	7,007,135
2015		11,811,509	5,628,725	1,021,831	752,775	74,072	69,905	12,907,412	6,451,405
2016		11,542,200	5,129,474	1,071,831	709,167	77,883	66,094	12,691,914	5,904,735
2017		11,448,637	4,641,877	1,111,831	665,680	81,889	62,088	12,642,357	5,369,645
2018-2022		49,360,502	16,054,111	6,299,155	2,591,818	477,145	242,741	56,136,802	18,888,670
2023-2027		31,507,342	6,633,499	5,495,075	1,176,305	613,174	106,712	37,615,591	7,916,516
2028-2032		10,835,978	1,093,656	2,785,800	356,938	70,205	1,783	13,691,983	1,452,377
		-	-	-	-	-	-	-	-
Totals	\$	151,508,285	51,959,364	19,724,185	7,873,668	1,531,817	699,828	172,764,287	60,532,860

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 (VPSA) bonds, must be approved by a voting majority of the qualified County voters. Revenue bonds, State Literary Fund loans and VPSA bonds 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 \$94,068,206, and does not plan to issue the remainder. The final issuance of the 2005 bond referendum debt was the Series 2011A Bonds issued in January 2011 and described above. The County completed all authorized capital projects in fiscal year 2012.

The County has overlapping debt with the Town of Ashland, Virginia of \$205,000, of which the share applicable to the County approximates \$165,042. 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. Principal and interest on the IRBs are paid entirely by the businesses. 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, 2012, the principal amounts outstanding on these IRBs totaled \$174.8 million.

Support Agreement

On March 23, 2011 the EDA issued Revenue and Refunding Bonds, Series 2011 (EDA Bonds) in the amount of \$17,260,000, of which \$2,205,000 consisted of new debt for the acquisition and build-out of a building to be used by the Community Services Board, the Social Services Department, and the Registrar's Office and \$15,046,000 was used to refund existing County general obligation school bonds and water and sewer revenue bonds. On March 1, 2011, the County and the EDA entered into a Support Agreement which obligates the County to make support payments on behalf of the EDA on a periodic basis in an amount equal to the debt service on the bonds. The EDA Bonds are limited

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obligations of the EDA, payable solely from payments made by the County, pursuant to the Support Agreement. Neither the EDA Bonds nor the Support Agreement are general obligation debt of the County, and payments made pursuant to the Support Agreement are subject to annual appropriation by the Board of Supervisors. Support payments of \$2,500,717 were paid by the County during the fiscal year ended June 30, 2012.

The Support Agreement annual debt service requirements to maturity as of June 30, 2012 are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 705,000	216,213	1,330,000	273,550	2,035,000	489,763
2014	700,000	202,113	1,310,000	246,950	2,010,000	449,063
2015	690,000	181,113	1,305,000	207,650	1,995,000	388,763
2016	690,000	160,413	1,305,000	161,500	1,995,000	321,913
2017	680,000	139,713	1,305,000	112,750	1,985,000	252,463
2018-2022	1,825,000	421,788	2,165,000	135,500	3,990,000	557,288
2023-2027	675,000	212,200	130,000	7,800	805,000	220,000
2028-2032	485,000	49,250	-	-	485,000	49,250
Totals	\$ 6,450,000	1,582,803	8,850,000	1,145,700	15,300,000	2,728,503

Capital leases

The County has financed the acquisition of office facilities and a communications system by entering into capital lease agreements. The balance of capital assets, net of accumulated depreciation, the future minimum lease payments, and the present value of the minimum lease payments as of June 30, 2012, are as follows:

(See schedule on following page)

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Asset Class	Primary Government - Governmental Activities
Land	\$ 384,847
Buildings	13,804,580
Machinery and equipment	1,967,033
Total assets, at cost	16,156,460
Accumulated depreciation	(6,979,471)
Total assets, net	<u>\$ 9,176,989</u>

Fiscal Year	Future Minimum Lease Payments
2013	\$ 187,295
2014	174,973
2015	173,088
2016	175,148
2017	176,604
2018-2022	867,906
2023-2027	871,274
2028-2031	697,600
Total minimum lease payments	3,323,888
Less: Portion representing interest	(968,316)
Present value of minimum lease payments	<u>\$ 2,355,572</u>

Defeasance of debt

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. At June 30, 2012, the County had general obligation bonds that were outstanding but considered defeased totaling \$960,000.

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 2012. 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.

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The County is a participating member in the Virginia Municipal League Insurance Program 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.

The County and School Board have 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-time 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. Net asset balances in the Self Insurance Fund are used as a reserve to offset rate increases and to fund losses in future years. The County's benefits consultant has actuarially determined an estimated liability for combined County and School Board healthcare claims that have been incurred but not reported (IBNR) at fiscal year-end, substantially all of which is expected to be liquidated within the following fiscal year, and which is reported in the Self Insurance Fund. Changes in balances of combined health insurance claim liabilities and IBNR during the past three years are as follows:

Fiscal Year		Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Claim and Benefit Payments	Payable (Receivable) End of Year	Incurred but not reported
2011	\$	-	25,522,957	25,592,023	(69,066)	2,030,000
2012		(69,066)	28,853,883	28,784,817	-	1,780,000

B. Fund Balance Classifications

The accompanying financial statements display nonspendable, restricted, committed and assigned fund balance classifications in the aggregate using GASB Statement No. 54 criteria. Specific purpose information for these fund balance classifications follows:

	Primary Government				Total Governmental Funds	School Board Component Unit	Economic Development Authority
	General Fund	County Improvements Fund	School Improvements Fund	Other Governmental Funds			
Fund Balances							
Nonspendable:							
Inventory	\$ 170,004	-	-	-	170,004	139,723	-
Restricted for:							
Debt Service Reserve	11,969	-	-	-	11,969	-	-
Public safety	53,858	-	-	-	53,858	-	-
Judicial Administration	359,248	-	-	-	359,248	-	-
Public works	40,029	-	-	-	40,029	-	-
Health and human services	2,000	-	-	-	2,000	-	-
Education	-	-	-	-	-	523,000	-
Capital improvements	-	4,113,255	-	-	4,113,255	-	-
Committed to:							
Economic development	500,000	-	-	-	500,000	-	-
Assigned to:							
Education	7,385,382	-	-	-	7,385,382	4,530,963	-
Public safety	1,356,390	-	-	-	1,356,390	-	-
Other services	1,060,428	-	-	-	1,060,428	-	-
Funding of subsequent fiscal year's adopted budget	5,987,562	-	-	-	5,987,562	-	80,000
Funding of subsequent five-year financial plans	3,579,390	-	-	-	3,579,390	-	-
Capital improvements	1,198,754	6,065,716	3,456,591	-	10,721,061	-	-
Unassigned Fund Balance	23,927,842	-	-	-	23,927,842	-	140,522
Total fund balances	\$ 45,632,856	10,178,971	3,456,591	-	59,268,418	5,193,686	220,522

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Amounts restricted for public safety, judicial administration, public works and health and human services are determined based on requirements of grant agreements.

C. Commitments and contingent liabilities

Other commitments

At June 30, 2012, the primary government had commitments for capital projects totaling \$7,672,074 as follows:

	Primary Government				Total Primary Government
	County Improvements Fund	School Improvements Fund	Public Utilities Fund	Airport Fund	
Total capital commitments	\$ 3,162,138	849,299	3,583,121	77,516	7,672,074

These commitments will be funded by existing resources within the respective funds and by future bond issues and appropriations.

Encumbrances

Encumbrance accounting, under which purchase orders for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in governmental funds. In accordance with the County's adopted Budget Policy, encumbered funds are reappropriated annually by the Board of Supervisors in the succeeding year's budget resolution. Encumbrances represent the estimated amount of expenditures that will ultimately result if open purchase orders are paid. Encumbrances outstanding at the end of the fiscal year are disclosed below, in accordance with GAAP. However, encumbered amounts are already included within the restricted, committed or assigned fund balances, as appropriate, and are not in addition thereto.

	Primary Government - Governmental Funds				Schools Component Unit
	General Fund	County Improvements Fund	School Improvements Fund	Other Governmental Funds	
Encumbrances outstanding at fiscal year-end	\$ 1,501,911	425,679	849,299	-	2,776,889
					1,004,652

Contingent liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the 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 grantors cannot be determined at this time, although the County expects such amounts, if any, would not have a material effect on the financial position of the County.

The reporting entity is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial position of the government.

D. Joint ventures

- **Capital Region Airport Commission:** The Capital Region Airport Commission (Airport Commission) was established in 1975 by an Act of the Virginia General Assembly. The Airport Commission owns and operates Richmond International Airport (Airport). The

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Airport Commission is governed by 14 Commissioners, with four members each being appointed by the City of Richmond, County of Henrico and County of Chesterfield governing bodies and two members being appointed by the County of Hanover governing body. The Airport Commission generates its revenues from service charges to users of the Airport facilities to recover the costs of maintaining, repairing and operating the Airport. Virginia law requires that the Airport 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 Airport Commission's budget contains estimated expenditures that exceed estimated revenues, the governing bodies are required to fund the deficit in proportion to their pro rata financial basis in the Airport 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, with Hanover County's pro rata share approximating 10.8%. If 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 Airport Commission can be obtained from the Chief Financial Officer, 1 Richard E. Byrd Terminal Drive, Suite A, Richmond International Airport, Richmond, VA 23250-2400.

- **Greater Richmond Convention Center Authority:** The Greater Richmond Convention Center Authority (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 for the purpose of acquiring, constructing, equipping, maintaining, and operating a regional convention center facility. In August 1996, each locality designated future revenue from the transient occupancy tax for expansion of the convention center. The GRCCA has issued \$158,415,000 in Hotel Tax Revenue Bonds, which are secured by an eight percent transient occupancy tax imposed and collected by the localities. The County made an expenditure of \$709,471 for transient occupancy tax to the GRCCA during fiscal year 2012. Complete financial statements for the GRCCA can be obtained from Chesterfield County, Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

- **Dominion Resources GreenTech Incubator:** The Dominion Resources GreenTech Incubator (DRGI), a Virginia non-profit, non-stock corporation, was created on September 9, 2009, under authority granted by the Virginia General Assembly to the Virginia Biotechnology Research Partnership Authority, pursuant to an Agreement between Hanover County, the Town of Ashland, their respective economic development authorities, the Virginia Biotechnology Research Partnership Authority (Authority) and the Virginia Biosciences Development Center, Inc. (Participants). The DRGI's governing structure consists of a Board of Directors of up to seven members, including the executive director of the Authority, a representative designated by each of Hanover County and the Town of Ashland, and up to four additional representatives as initially determined by the Authority, selected from a representative of the lead corporate sponsor, a representative of the other sponsors, and other outside directors.

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The DRGI was created to encourage new business formation primarily in the areas of clean, “green” and energy conservation technologies within Hanover County, by incubating member companies via the provision of affordable facilities, assistance with strategic business planning, access to business advisory boards, introduction to potential sources of investment capital, and other benefits. Under the Agreement and subject to annual appropriation, beginning in fiscal year 2010, Hanover County and its EDA have agreed to provide \$80,000, prorated annually for each of the DRGI’s first five years to cover start-up costs, and have also agreed to contribute amounts necessary to cover the costs of materials and labor for tenant improvements in the space leased by DRGI. The Participants are committed to ensuring the long-term financial viability of DRGI, without the requirement for major cash subsidies after the first five years of operation. During fiscal year 2012, the Hanover County EDA contributed \$80,000. Neither the County nor its EDA have any ongoing financial interest in DRGI. Annual audited financial statements are available from DRGI.

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (Library) is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed for specific terms of office by the Boards of Supervisors of the counties to which it provides library services, including the Counties of Hanover, Goochland, King William, and King and Queen. Management and accountability for fiscal matters rest with the Library’s Board, of which Hanover County appoints four of the ten members. The Library receives contributions from the participating counties, but invests its own funds and formulates and approves its own budget. Hanover County does not bear any direct or indirect liabilities for the operation of the Library, and has no equity interest in it. In fiscal year 2012, Hanover County contributed a total of \$2,672,482 to the Library’s operations. 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 (Jail Authority) is a political subdivision of the Commonwealth of Virginia. The participating jurisdictions of the Jail Authority are the Counties of Caroline and Hanover and the Town of Ashland. The Jail Authority is governed by a five-member board comprised of two members each from the Counties of Caroline and Hanover and one from the Town of Ashland. Management and accountability for fiscal matters rest with the Jail Authority. The County serves as fiscal agent for the Jail Authority; 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 the Jail Authority and has no equity interest in it.

The purpose of the Jail Authority is to maintain and operate a regional jail facility to meet the needs of the participating jurisdictions for 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 Authority. The County typically provides a majority of the inmates to the facility, and made per diem contributions totaling \$4,788,442 in fiscal year 2012. Complete financial statements for the Jail Authority can be obtained from the Jail Superintendent’s office at P.O. Box 510, Hanover, Virginia 23069.

- **Middle Peninsula Juvenile Detention Commission:** The Middle Peninsula Juvenile Detention Commission (Detention Commission) is a political subdivision of the

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Commonwealth of Virginia and is governed by a separate board. The Detention Commission was created by resolutions adopted in 1993 by its member jurisdictions, which include the Counties of Caroline, Charles City, Essex, Gloucester, Hanover, James City, King George, King and Queen, King William, Lancaster, Matthews, Middlesex, New Kent, Northumberland, Richmond, Westmoreland, and York, and the Cities of Poquoson and Williamsburg. Each member jurisdiction appoints one member to the Detention Commission. The County of Hanover does not bear any direct or indirect liabilities for the operation of this organization, and has no equity interest in it.

The Detention Commission was created to enhance the protection of the region's citizens by the maintenance and operation of a juvenile detention facility (the Merrimac 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 Detention Commission for each day a juvenile from the County is held at the Center or in another detention facility secured by the Detention Commission. If the sum of all per diem rates paid during the fiscal year is below \$2,500, the County shall pay the Detention Commission the amount equal to the difference. During fiscal year 2012, the County's per diem payments to the Detention Commission totaled \$397,038. Complete financial statements for the Detention Commission can be obtained from the fiscal agent's office at James City County, Department of Financial and Management Services, P.O. Box 8784, Williamsburg, Virginia 23187.

- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (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, Hopewell, 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. Seventeen subdivisions in the County participate in the Waste Authority's curbside recycling program. Except for contribution requirements and direct payments for special projects, no participant has any ongoing financial interest in the Waste Authority. The County's fiscal year 2012 payments to the Waste Authority totaled \$270,318. Complete financial statements can be obtained from the Waste Authority at 2100 West Laburnum Avenue, Suite 105, Richmond, Virginia 23227.
- **Greater Richmond Partnership:** The Greater Richmond Partnership, Inc. (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. During fiscal year 2012, the County made payments to the GRP totaling \$370,000. Complete financial statements can be obtained from GRP's office at Riverfront Plaza, 901 East Byrd Street, Suite 801, Richmond, Virginia 23219.
- **Richmond Metropolitan Convention and Visitors Bureau:** The Richmond Metropolitan Convention and Visitors Bureau (RMCVB) serves the Counties of Chesterfield, Hanover,

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New Kent 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, and made fiscal year 2012 contributions to RMCVB totaling \$147,530. Complete financial statements can be obtained from the RMCVB's office at 401 North 3rd Street, Richmond, Virginia 23219.

- **Richmond Regional Planning District Commission:** The Richmond Regional Planning District Commission (RRPDC) is a regional planning agency serving the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan, the City of Richmond and the Town of Ashland. The primary functions of the RRPDC are to promote regional cooperation; coordinate the activities and policies of member local governments; resolve service delivery problems involving more than one government within the region and provide planning assistance to local governments. In accordance with its Charter, the RRPDC promotes the orderly physical, social and economic development of the region through planning and encouraging local governments to plan for the future. The County paid member dues to the RRPDC totaling \$55,737 in fiscal year 2012. Complete financial statements can be obtained from the RRPDC at 9211 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235.

F. Defined benefit pension plan – Virginia Retirement System

Agent Multiple-Employer Plan - The County and School Board non-professional employees participate in an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System (VRS) for County employees and School Board non-professional employees. The VRS requires periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. The required employer contributions for County employees and for School Board non-professional employees are established annually by the VRS, by separate actuarial valuations specific to each group.

Cost-Sharing Multiple-Employer Plan - The School Board contributes to a cost-sharing multiple-employer defined benefit pension plan administered by VRS for the School Board professional employee group. VRS establishes a separate annual contribution requirement for the School Board's professional employees who participate in the VRS statewide teacher cost-sharing pool.

- a. ***VRS Plan Description*** – All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

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- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

The Hanover Board of Supervisors elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees through June 30, 2012. The Hanover Board of Supervisors also elected to provide the higher retirement multiplier (1.85%) to all eligible employees in hazardous duty positions as described in the Code of Virginia (the Code), Section 51.1-138, and to provide the health insurance credit program as provided in Section 51.1-140-2 of the Code to all eligible current and future County retirees.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 (CAFR) that includes financial statements and required supplementary information VRS. A copy of the report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

- b. **VRS Funding Policy** - Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer, which the County and School Board have done. In addition, the County and School Board are required to contribute

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the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees.

Agent Multiple-Employer Plan - The contribution rates for the County employee group and for the School Board's non-professional employee group for the fiscal year ended June 30, 2012, were 8.82% and 6.74%, respectively, of their annual covered payrolls.

Cost-Sharing Multiple-Employer Plan - The contribution rate for the School Board's professional employee group was 6.33% of covered payroll for the fiscal year ended June 30, 2012. For its professional group, the School Board's contributions to the teacher cost-sharing pool for the fiscal years ending 2012, 2011, and 2010 were \$10,706,699, \$8,340,187, and \$12,823,970, respectively, equal to the required contributions for each year.

- c. **Agent Multiple-Employer Plan Annual Pension Cost** – The following schedule shows the annual pension costs and the amounts contributed to the VRS for the current and preceding two fiscal years for the County employees and the School Board non-professional employee group:

Funds	Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
County employees					
Governmental	2012	\$ 4,465,714	\$ 4,465,714	100%	\$ -
Enterprise	2012	383,646	383,646	100%	-
Governmental	2011	4,420,928	4,420,928	100%	-
Enterprise	2011	379,766	379,766	100%	-
Governmental	2010	4,039,915	4,039,915	100%	-
Enterprise	2010	354,701	354,701	100%	-
School Board - non-professional employee group					
Governmental	2012	\$ 462,263	\$ 462,263	100%	\$ -
Governmental	2011	460,352	460,352	100%	-
Governmental	2010	498,106	498,106	100%	-

For the fiscal year ended June 30, 2012, the County's annual pension cost of \$4,849,360 was equal to the required and actual contributions, and the School Board's non-professional group's annual pension cost of \$462,263 was also equal to the required and actual contribution. The fiscal year 2012 required contributions were determined as part of the previous actuarial valuations for each group performed as of June 30, 2009 using the entry age actuarial cost method. The actuarial assumptions for each group at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial values of the County employee group's pension assets and the School Board non-professional employee group's pension assets are equal to the modified market values of those assets. This method uses techniques that smooth the effects of short-term

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volatility in the market value of assets over a five-year period. The County's and the School Board's non-professional employee group unfunded actuarial accrued liabilities are being amortized as a level percentage of their respective projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued liability (UAAL) was 20 years.

- d. Agent Multiple-Employer Plan Funded Status and Funding Progress** – The following schedule presents information about the funded status of the County's employee group and the School Board's non-professional employee group as of June 30, 2011, the date of the most recent actuarial valuations for both groups:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
<u>Primary Government</u>						
Virginia Retirement System - County employee group						
6/30/2011	\$ 137,947,416	\$ 176,392,248	\$ 38,444,832	78.2%	\$ 53,425,123	72.0%
<u>Component Unit - School Board</u>						
Virginia Retirement System - non-professional employee group						
6/30/2011	\$ 17,604,376	\$ 20,349,135	\$ 2,744,759	86.5%	\$ 6,822,801	40.2%

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

G. Postemployment healthcare plan and Other Postemployment Benefits (OPEB) Trust

In addition to the pension benefits described in note V-F, the County provides for optional participation by eligible retirees and their eligible spouses and dependents, in the medical and prescription drug healthcare benefit program available to employees. Pursuant to Code of Virginia Section 15.2-1544 *et seq.* the County has established the Hanover County, Virginia, Retiree Medical Benefits Plan (Plan), an agent multiple-employer defined benefit healthcare plan, and the Hanover County, Virginia, Retiree Medical Benefits Trust Agreement (Trust) which are administered as one plan. The Plan covers only eligible retirees of the reporting entity, the Pamunkey Regional Library and the Pamunkey Regional Jail Authority, hereinafter referred to as Affiliates. The Trust provides the funding mechanism for the postemployment healthcare benefits established by the Plan. The Code of Virginia assigns the authority to administer the Plan, and to establish and amend the benefit provisions of the Plan, to the Hanover County Board of Supervisors (Board). The Plan provides for biennial reviews of benefit provisions based on actuarial analysis, but does not require any automatic or ad hoc benefit increases, although the Board may amend or terminate the Plan at any time. The Trust's accumulated assets may legally be used to pay all plan benefits provided to any of the plan's members or beneficiaries. The Trust is considered part of the County of Hanover's financial reporting entity and is included in the County's financial statements as an Other Postemployment Benefits Trust Fund. Accordingly, audited financial statements are not separately available.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

a. Summary of significant accounting policies

Basis of accounting – The Trust’s financial statements are prepared using the accrual basis of accounting. Employer contributions to the Trust (including cash contributions and actuarially estimated employer premium subsidies) are recognized when due and the employer has made a formal commitment to provide the contributions. Plan member contributions are recognized in the period in which the contributions and subsidies are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of investments – All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2012. Securities without an established market are reported at estimated fair value.

Plan description, contribution and funding information

Membership - The Plan covers all employees of the reporting entity and its Affiliates (Employers) who retire and meet certain eligibility requirements. At July 1, 2012, the date of the most recent biennial actuarial valuation, membership in the Plan consisted of the following:

	Primary Government and Affiliates	School Board Component Unit	Total
Retirees and beneficiaries receiving benefits	39	122	161
Terminated employees entitled to but not yet receiving benefits	-	-	-
Active employees	1,188	2,684	3,872
Total number of plan members	1,227	2,806	4,033
<hr/>			
Number of participating employers	4	1	5

Plan description - The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to Hanover County employees at date of separation. In addition, participants must meet the Virginia Retirement System (VRS) retirement age and service retirement requirements, and, if hired after September 30, 2007, must have five years of service with an Employer, or retire pursuant to the disability requirements of Social Security or the VRS. The amount of monthly subsidy provided by the Plan is based on years of service and, as of June 30, 2012, ranged from \$100 per month for employees with 10 but less than 15 years of service to \$200 per month for 20 or more years of service. The subsidy for a retiree’s spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of \$251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility.

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan. Depending upon the health care plan selected, the net retiree premium amounts range from \$404 to \$875 per month, and

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

for those electing retiree and family coverage, from \$1,039 to \$2,625 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

Contributions - The Code of Virginia permits the County Board of Supervisors to make appropriations to fund the Trust, and to enter into agreement with its School Component Unit and its Affiliates to participate in and contribute to the Trust. Contributions to the Trust are irrevocable; however, continued participation in the Plan is voluntary, and any Employer may individually terminate future participation in the Plan.

Funding policy - The Board of Supervisors has adopted a resolution under which the Employers will contribute funds to the Trust periodically, as determined appropriate based on periodic actuarial analysis of the future obligations of the Employers.

Annual OPEB cost - The Employers' OPEB cost (expense) under the Plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the reporting entity's annual OPEB cost, the amount of employer contributions to the Plan, and changes in the reporting entity's net OPEB obligation (asset) for fiscal year 2012 and the reporting entity's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) for fiscal year 2012 and the two preceding fiscal years.

Fiscal Year Ended June 30:	2012		
ARC, for the fiscal year ended June 30, 2012	\$ 823,174		
Interest on Net OPEB asset from prior year	(26,547)		
Actuarial adjustment	31,832		
Annual OPEB cost	828,459		
Employer contributions:			
Cash contribution to OPEB trust	-		
Subsidies paid under Plan on behalf of retirees	(695,992)		
Total Employer contributions	(695,992)		
Decrease in the net OPEB asset, for the fiscal year ended June 30, 2011	132,467		
Net OPEB (asset), beginning of year	(379,243)		
Net OPEB (asset), end of year	\$ (246,776)		
 Fiscal Year Ended June 30	 2012	2011	2010
Annual OPEB cost	\$ 828,459	\$ 1,273,896	\$ 1,225,228
Percentage of annual OPEB cost contributed by Employer:			
Cash contributions to OPEB Trust	0.0%	0.0%	67.0%
Subsidies paid under Plan on behalf of retirees	84.0%	45.3%	52.8%
Total percentage contributed	84.0%	45.3%	119.8%
Net OPEB (asset) at end of fiscal year	\$ (246,776)	\$ (379,243)	\$ (1,075,719)

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

Funded Status and Funding Progress - The funded status of the Plan as July 1, 2012, the date of the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	\$ 3,380,679	\$ 9,077,222	\$ 5,696,543	37.2%	155,479,487	3.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 7.0 percent annual investment rate of return (net of administrative expenses), including an inflation assumption of 2.5% and no escalation in retiree subsidies. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

H. Special assessments and tax increment commitment

- **Bell Creek Community Development Authority:**

The Bell Creek Community Development Authority (Bell Creek CDA) was created by an ordinance adopted by the Board of Supervisors on July 24, 2002. The creation of the Bell Creek CDA was a result of a petition filed with the Board of Supervisors by the owners of a majority of the land area within the Bell Creek Community Development Authority District (District). The District consists of approximately 325 acres of land within the County. The District encompasses a mixed-use development and is expected to provide commercial development with retail space including a shopping center known as *The Shoppes at Bell Creek*, a light industrial park, and a residential development on 167 acres known as *The Bluffs at Bell Creek*.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

On September 25, 2002, the Board of Supervisors adopted an ordinance authorizing the levy of Special Assessments on abutting property within the boundaries of the District. On February 5, 2003, the Bell Creek Community Development Authority issued its \$12,135,000 Special Assessment Bonds, Series 2003A (the “2003A Bonds”) and its \$3,845,000 Special Assessment Bonds, Series 2003B (the “2003B Bonds” and together with the 2003A Bonds, the “2003 Bonds”), in accordance with the provision of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2003 Bonds were issued to finance the acquisition and construction of certain infrastructure improvements to benefit the District. Neither the faith and credit of the Bell Creek CDA, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the 2003 Bonds. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2012, the total 2003 Bonds outstanding were \$3,020,000. The Bell Creek CDA is obligated to make all debt service payments on the 2003 Bonds.

Pursuant to the terms of the Rate and Method of Apportionment of Special Assessments approved by the Board of Supervisors September 25, 2002 between the County and the Bell Creek CDA, the 2003 Bonds are payable by the Bell Creek CDA based on prepaid and annual Special Assessments imposed and collected by the County as agent for the Bell Creek CDA on taxable real property within the District. After collection, such Special Assessments are appropriated and paid (Payments) annually to the Bell Creek CDA for debt service payments. However, such Payments to the Bell Creek CDA are not deemed general obligations of Hanover County, but are appropriated and paid only to the extent the Special Assessments have been received by the County. The County has also agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures.

During fiscal year 2012, special assessments on property within the District totaled \$340,006, and payments to the Bell Creek CDA of special assessments collected totaled \$373,089.

- **Lewistown Commerce Center Community Development Authority:**

The Lewistown Commerce Center Community Development Authority (Lewistown CDA) was created by an ordinance adopted by the Board of Supervisors on October 25, 2006. The creation of the Lewistown CDA 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 planned 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).

By ordinances adopted by the Board of Supervisors on May 9, 2007 and March 23, 2011, the Board of Supervisors authorized the levy of Special Assessments on abutting property within the bounds of the District. On October 23, 2007 the Lewistown CDA issued the Lewistown Commerce Center Community Development Authority (Virginia), \$37,675,000 Revenue Bonds, Series 2007 (2007 Bonds) 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 the acquisition of certain land and the construction of certain infrastructure improvements to benefit the District, in accordance with a Development/Acquisition Agreement dated September 1, 2007 and amended March 23, 2011. Also in March 2011, pursuant to a revised Indenture of Trust, the 2007 Bonds were exchanged for Amended 2007 Bonds to extend their maturity, revise the schedule for sinking fund redemptions, and allow interest on the bonds to be paid by the bond's

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2012

debt service reserve fund through March 1, 2014, dependent upon the developer meeting agreed-upon construction milestones. At June 30, 2012, the Lewistown CDA's Amended 2007 Bonds outstanding totaled \$37,675,000. The Lewistown CDA is obligated to make all debt service payments on the Amended 2007 Bonds, in accordance with the revised Indenture of Trust. The principal of and the interest on the Amended 2007 Bonds are not deemed to constitute a pledge of the faith and credit of Hanover County, and neither the faith nor credit of the Lewistown CDA, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the Amended 2007 bonds.

Pursuant to the terms of an Amended Special Assessment Agreement (Agreement) dated March 23, 2011 between the County, the Lewistown CDA, and the Developers, the Amended 2007 Bonds are payable (Payments) from (1) a Special Real Property Tax, (2) Incremental Tax Revenues, and, if necessary, (3) Special Assessments imposed and collected by the County pursuant to an Amended Rate and Method Agreement on taxable real property within the District.

The County functions as an agent for the Lewistown CDA by collecting and making the Payments to the Lewistown CDA annually, and has agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures. However, the Payments described above to the Lewistown CDA are not deemed general obligations of Hanover County, but are 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.

During fiscal year 2012, Special Assessment Tax levy on property within the district totaled \$651,001. The 2012 Special Real Estate Property Tax (Valorem) levy was \$30,588. Incremental tax collections owed to the Lewistown CDA totaled \$382,429 and are payable semiannually by February 1 and May 1 of each year.

I. Reassignment of Comprehensive Services and Community Services Funds to General Fund

In fiscal year 2012 and prior years, the County reported its Comprehensive Services and Community Services activities as Nonmajor Governmental Funds. For operating efficiency, at June 30, 2012, the County reassigned these funds to the General Fund, and transferred their end-of-year assets, liabilities and fund balances to the General Fund at book value. Accordingly, all Comprehensive Services and Community Services assets, liabilities and fund balances are included in the County's General Fund as of June 30, 2012.



**REQUIRED
SUPPLEMENTARY INFORMATION
(Unaudited)**

COUNTY OF HANOVER, VIRGINIA**Exhibit 12**

Virginia Retirement System and Hanover County Retiree Medical Benefits Trust
Schedules of Funding Progress (Unaudited)
June 30, 2012

Virginia Retirement System

Primary Government:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ 137,947,416	\$ 176,392,248	\$ 38,444,832	78.2%	\$ 53,425,123	72.0%
6/30/2010	130,362,535	164,550,752	34,188,217	79.2%	54,117,586	63.2%
6/30/2009	125,028,726	143,483,901	18,455,175	87.1%	55,549,937	33.2%
6/30/2008	117,271,164	130,477,444	13,206,280	89.9%	53,105,207	24.9%
6/30/2007	102,542,483	111,205,671	8,663,188	92.2%	49,112,131	17.6%

Component Unit - School Board:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ 17,604,376	\$ 20,349,135	\$ 2,744,759	86.5%	\$ 6,822,801	40.2%
6/30/2010	16,764,772	18,981,992	2,217,220	88.3%	6,786,343	32.7%
6/30/2009	16,103,027	16,784,912	681,885	95.9%	6,998,093	9.7%
6/30/2008	15,163,247	15,340,091	176,844	98.8%	6,538,543	2.7%
6/30/2007	13,375,424	14,137,361	761,937	94.6%	6,372,884	12.0%

Hanover County Retiree Medical Benefits Trust

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	\$ 3,380,679	\$ 9,077,222	5,696,543	37.2%	\$ 155,479,487	3.7%
6/30/2011	3,278,003	12,046,156	8,768,153	27.2%	153,707,760	5.7%
6/30/2009	1,756,769	11,355,467	9,598,698	15.5%	166,583,838	5.8%

See accompanying independent auditors' report.



SUPPLEMENTARY INFORMATION

GENERAL FUND

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual

Presents budget to actual comparison schedule by department for the General Fund.

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 96,775,000	96,775,000	94,232,364	(2,542,636)
Public service corporation property taxes	4,115,000	4,115,000	4,306,198	191,198
Personal property taxes	21,926,000	21,926,000	22,546,002	620,002
Machinery and tools taxes	1,630,000	1,630,000	1,682,357	52,357
Merchants' capital taxes	845,000	845,000	888,573	43,573
Delinquent taxes	1,796,000	1,796,000	1,493,498	(302,502)
Penalties and interest	1,061,000	1,061,000	961,788	(99,212)
Total general property taxes	128,148,000	128,148,000	126,110,780	(2,037,220)
Other local taxes:				
Local sales and use taxes	17,048,000	17,048,000	16,607,323	(440,677)
Consumer utility taxes	1,850,000	1,850,000	1,787,974	(62,026)
Contractor license taxes	480,000	480,000	323,765	(156,235)
Franchise license taxes	645,000	645,000	680,698	35,698
Motor vehicle licenses	-	-	(10)	(10)
Lodging taxes	711,000	711,000	709,471	(1,529)
Bank stock tax	396,000	396,000	476,633	80,633
Taxes on recordation and wills	1,674,000	1,674,000	1,695,512	21,512
Communication sales tax	5,600,000	5,600,000	5,081,441	(518,559)
Total other local taxes	28,404,000	28,404,000	27,362,807	(1,041,193)
Permits, privilege fees and regulatory licenses:				
Public Safety				
Animal licenses	108,000	108,000	121,913	13,913
Building permits	415,000	415,000	434,195	19,195
Heating and air conditioning	172,000	172,000	178,836	6,836
Electrical permits	140,000	140,000	143,474	3,474
Plumbing permits	75,000	75,000	70,875	(4,125)
Septic tank permits	3,000	3,000	3,681	681
Inspection fees	150,000	150,000	143,800	(6,200)
Public Works				
Erosion and sediment inspections	152,000	152,000	172,034	20,034
Stormwater management	154,000	154,000	154,000	-
Human Services				
Well and septic inspection	3,000	3,000	2,300	(700)
Community Development				
Planning fees	150,000	150,000	130,626	(19,374)
Total permits, privilege fees and regulatory licenses	1,522,000	1,522,000	1,555,734	33,734
Fines and Forfeitures:				
Public Works				
Erosion and sediment fines	2,100	2,100	26,022	23,922
Judicial Administration				
Court fines and forfeitures	1,008,000	1,008,000	797,154	(210,846)
Courthouse maintenance fees	120,000	120,000	123,516	3,516
Court appointed attorney fees	29,000	29,000	30,727	1,727
Public Safety				
Criminal Justice Academy training fees	65,000	65,000	101,059	36,059
Security alarm fines	45,000	45,000	44,670	(330)
Total fines and forfeitures	1,269,100	1,269,100	1,123,148	(145,952)
Revenues from use of money and property:				
Revenue from use of money	400,000	400,000	314,846	(85,154)
Revenue from use of property	309,000	309,000	372,332	63,332
Total revenues from use of money and property	709,000	709,000	687,178	(21,822)
Charges for services:				
EMS cost recovery	2,200,000	2,200,000	1,971,717	(228,283)
Landfill fees	515,000	515,000	497,045	(17,955)
Recreation fees	600,000	600,000	498,989	(101,011)
Other	217,288	219,648	177,852	(41,796)
Total charges for services	3,532,288	3,534,648	3,145,603	(389,045)

Continued

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Miscellaneous:				
Refunds	\$ 155,000	175,638	323,645	148,007
Insurance recoveries	30,000	116,688	107,593	(9,095)
Gifts and donations	50,000	60,654	16,652	(44,002)
Other miscellaneous revenue	128,000	189,382	216,172	26,790
Reserve for revenue transfers	500,000	21,906	-	(21,906)
Total miscellaneous	863,000	564,268	664,062	99,794
Recovered costs:				
General Government Administration				
Pamunkey Regional Jail	404,000	404,000	404,000	-
Public Utilities Fund				
Cost allocation	1,107,250	1,107,250	1,107,250	-
Service assessment	397,000	397,000	397,000	-
Treasurer	85,000	142,059	97,867	(44,192)
General Services	156,400	156,400	81,280	(75,120)
Judicial Administration				
Clerk of Circuit Court	9,600	9,600	10,195	595
General District Court	15,000	15,000	7,765	(7,235)
Commonwealth Attorney	-	-	4,537	4,537
Public Safety				
Community Corrections	56,500	56,500	58,771	2,271
Sheriff	42,000	42,000	104,132	62,132
Emergency Communications	-	-	-	-
Animal Control	2,000	2,000	953	(1,047)
Fire	69,000	69,000	186,543	117,543
Human Services				
Social Services	25,660	25,660	27,917	2,257
Community Resources	5,000	5,000	5,000	-
Health Department	-	37,263	37,263	-
Public Works				
Solid Waste Management	309,713	375,713	436,969	61,256
Erosion and sediment charges	-	26,000	-	(26,000)
Community Development				
Contributions: Greater Richmond Convention Center	311,950	311,950	425,889	113,939
Planning	1,500	1,500	-	(1,500)
CDA	25,462	25,462	25,462	-
Economic Development	170,790	170,790	170,790	-
Total recovered costs	3,198,825	3,385,147	3,589,583	204,436
Total revenues from local sources	167,646,213	167,536,163	164,238,895	(3,297,268)
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Vehicle rental tax	133,000	133,000	170,699	37,699
Personal property taxes (state remittance)	15,002,000	15,002,000	15,002,745	745
Rolling Stock Tax	71,000	71,000	64,907	(6,093)
Total non-categorical aid	15,206,000	15,206,000	15,238,351	32,351
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	219,151	219,151	219,573	422
Treasurer	193,115	193,115	193,774	659
Registrar	50,000	50,000	51,202	1,202
Clerk of Circuit Court	506,053	506,053	506,153	100
Commonwealth's Attorney	806,954	806,954	758,583	(48,371)
Sheriff	3,215,187	3,215,187	3,223,164	7,977
Total shared expenses	4,990,460	4,990,460	4,952,449	(38,011)
Other categorical aid:				
Social Services	1,393,495	1,393,495	1,169,277	(224,218)
Other	1,286,621	1,528,137	1,457,060	(71,077)
State Reversion Clearing Account	(500,000)	(500,000)	(492,201)	7,799
Total other categorical aid	2,180,116	2,421,632	2,134,136	(287,496)
Total categorical aid	7,170,576	7,412,092	7,086,585	(325,507)
Total revenue from the Commonwealth	22,376,576	22,618,092	22,324,936	(293,156)

Continued

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenue from the Federal government:				
Categorical aid:				
Department of Interior	\$ 2,000	2,000	2,221	221
Build America Bonds (direct credit)	272,459	272,459	272,459	-
EEC Block Grant	-	55,141	55,141	-
FEMA Safer	384,816	391,416	425,653	34,237
Justice	29,600	80,814	65,715	(15,099)
FEMA snow removal	-	117,250	-	(117,250)
FEMA-Citywide Hurricane Isable, VDEM	-	-	29,087	29,087
Fire: VDEM Cert Grant	-	-	7,154	7,154
Sheriff: Local law enforcement block grant	-	-	5,764	5,764
Department of Transportation	-	-	147,014	147,014
Interoperable Emergency Communications	-	-	25,258	25,258
Health and Human Services	2,988,755	2,988,755	2,304,216	(684,539)
Total revenue from the Federal government	3,677,630	3,907,835	3,339,682	(568,153)
Total intergovernmental	26,054,206	26,525,927	25,664,618	(861,309)
Total revenues	193,700,419	194,062,090	189,903,513	(4,158,577)
EXPENDITURES				
General government administration:				
Legislative - Board of Supervisors	529,301	548,413	493,565	54,848
General and financial administration:				
County Administrator	1,225,769	1,229,205	1,213,950	15,255
Human Resources	834,613	836,762	741,522	95,240
County Attorney	1,173,864	1,229,599	1,215,331	14,268
Commissioner of the Revenue	1,286,925	1,356,900	1,283,750	73,150
Assessor	867,202	915,886	914,830	1,056
Treasurer	1,389,537	1,419,192	1,395,509	23,683
Finance	1,414,960	1,440,779	1,343,295	97,484
Management Services	266,380	269,894	228,167	41,727
Information Technology	3,974,761	4,375,037	3,965,772	409,265
General Services	-	-	-	-
Total general and financial administration	12,434,011	13,073,254	12,302,126	771,128
Board of elections - Registrar and Electoral Board	367,083	436,116	431,295	4,821
Total general government administration	13,330,395	14,057,783	13,226,986	830,797
Judicial administration:				
Courts:				
Circuit Court	77,795	100,436	83,655	16,781
General District Court	103,938	103,938	75,369	28,569
Magistrates	3,002	3,002	2,495	507
Juvenile and Domestic Relations District Court	22,398	22,398	18,210	4,188
Clerk of the Circuit Court	1,341,765	1,389,442	1,305,441	84,001
Court Services	1,342,382	1,382,285	1,291,399	90,886
Total courts	2,891,280	3,001,501	2,776,569	224,932
Commonwealth's Attorney	1,556,234	1,558,560	1,542,837	15,723
Total judicial administration	4,447,514	4,560,061	4,319,406	240,655
Public safety:				
Sheriff	19,446,935	19,795,351	18,439,552	1,355,799
Fire and rescue services:				
Fire and Emergency Management Services	14,176,315	14,596,263	14,578,579	17,684
Total fire and rescue services	14,176,315	14,596,263	14,578,579	17,684
Correction and Detention:				
Pamunkey Regional Jail	4,740,861	4,740,861	4,788,442	(47,581)
Juvenile Court Services	731,513	731,534	640,981	90,553
Community Corrections	456,635	472,749	474,771	(2,022)
Total correction and detention	5,929,009	5,945,144	5,904,194	40,950
Inspections - Building Inspections	1,386,964	1,381,969	1,300,974	80,995
Other protection:				
Emergency Communications	3,858,943	4,029,331	3,869,321	160,010
Animal Control	967,919	1,019,467	1,030,955	(11,488)
Total other protection	4,826,862	5,048,798	4,900,276	148,522
Total public safety	45,766,085	46,767,525	45,123,575	1,643,950

Continued

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Public works:				
Sanitation and waste removal:				
Public Works	\$ 1,843,506	2,224,134	1,963,200	260,934
Solid Waste Services	3,830,254	3,925,721	3,652,999	272,722
Recycling Service Districts	74,713	74,713	64,450	10,263
Total sanitation and waste removal	5,748,473	6,224,568	5,680,649	543,919
Maintenance of buildings, grounds and equipment:				
Facilities and Vehicle Management	3,925,095	4,340,734	3,707,713	633,021
Total maintenance of buildings, grounds and equip.	3,925,095	4,340,734	3,707,713	633,021
Total public works	9,673,568	10,565,302	9,388,362	1,176,940
Health and human services:				
Health	463,551	504,233	504,233	-
Human Services:				
Social Services	6,122,169	6,142,650	4,886,378	1,256,272
Community Resources	407,552	416,859	399,725	17,134
Tax Relief	1,733,300	1,733,300	1,718,837	14,463
Total human services	8,263,021	8,292,809	7,004,940	1,287,869
Total health and human services	8,726,572	8,797,042	7,509,173	1,287,869
Parks, recreation and cultural:				
Parks and Recreation	3,236,017	3,424,026	3,311,374	112,652
Pamunkey Regional Library	2,672,482	2,672,482	2,672,482	-
Total parks, recreation and cultural	5,908,499	6,096,508	5,983,856	112,652
Community development:				
Planning and community development:				
Planning	2,157,358	2,176,085	1,964,886	211,199
Economic development	1,426,769	1,443,478	1,346,984	96,494
Community support	1,121,002	1,187,154	1,166,742	20,412
Total planning and community development	4,705,129	4,806,717	4,478,612	328,105
Environmental mgmt. - Soil and Water Conservation District	95,545	95,545	95,545	-
Cooperative extension program - VPI Extension	85,715	104,170	85,655	18,515
Total community development	4,886,389	5,006,432	4,659,812	346,620
Education:				
School Fund	92,610,611	92,610,611	86,899,750	5,710,861
Total education	92,610,611	92,610,611	86,899,750	5,710,861
Total payments to component units	92,610,611	92,610,611	86,899,750	5,710,861
Debt service:				
Principal retirement	2,270,609	2,270,609	2,201,996	68,613
Interest and fiscal charges	3,495,472	2,406,495	2,001,749	404,746
Total debt service	5,766,081	4,677,104	4,203,745	473,359
Total expenditures	191,115,714	193,138,368	181,314,665	11,823,703
Excess of revenues over expenditures	2,584,705	923,722	8,588,848	7,665,126
OTHER FINANCING SOURCES (USES)				
Other financing uses:				
Transfers to governmental funds:				
County Improvements Fund	2,242,000	2,333,000	2,333,000	-
School Improvements Fund	1,810,000	1,810,000	1,810,000	-
Comprehensive Services Fund	2,790,991	2,790,991	1,980,366	810,625
Community Services Fund	4,580,671	4,580,671	3,938,197	642,474
Total transfers to governmental funds	11,423,662	11,514,662	10,061,563	1,453,099
Transfers to Proprietary Funds:				
Airport Fund	192,889	192,889	192,889	-
Total other financing uses	11,616,551	11,707,551	10,254,452	1,453,099
Net change in fund balance	(9,031,846)	(10,783,829)	(1,665,604)	9,118,225
Fund balance - beginning	9,031,846	47,298,460	47,298,460	-
Fund balance - ending	\$ -	36,514,631	45,632,856	9,118,225

See accompanying independent auditors' report.



COUNTY IMPROVEMENTS FUND

County Improvements – Accounts for the acquisition or construction of the County’s capital assets

COUNTY OF HANOVER, VIRGINIA**Exhibit 14**

County Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenues from use of money and property	\$ -	-	2,858	2,858
Charges for services	400,000	400,000	596,818	196,818
Recovered costs	500,000	5,026,511	72,260	(4,954,251)
Miscellaneous	-	5,435	5,433	(2)
Total revenue from local sources	900,000	5,431,946	677,369	(4,754,577)
Intergovernmental:				
Revenue from the Commonwealth	1,000,000	15,450,265	246,376	(15,203,889)
Revenue from the Federal government	-	3,495,016	520,812	(2,974,204)
Total intergovernmental	1,000,000	18,945,281	767,188	(18,178,093)
Total revenues	1,900,000	24,377,227	1,444,557	(22,932,670)
EXPENDITURES				
General government administration	836,000	1,188,520	851,634	336,886
Judicial administration	-	194,196	46,110	148,086
Public safety	996,000	6,743,792	5,361,554	1,382,238
Public works	2,310,000	29,655,445	1,550,556	28,104,889
Human services	-	88,184	19,429	68,755
Parks, recreation and cultural	-	1,084,246	902,478	181,768
Community development	-	122,272	-	122,272
Total expenditures	4,142,000	39,076,655	8,731,761	30,344,894
Excess (deficiency) of revenues over (under) expenditures	(2,242,000)	(14,699,428)	(7,287,204)	7,412,224
OTHER FINANCING SOURCES				
Transfers in	2,242,000	2,333,000	2,333,000	-
Total other financing sources	2,242,000	2,333,000	2,333,000	-
Net change in fund balance	-	(12,366,428)	(4,954,204)	7,412,224
Fund balance - beginning	-	15,133,175	15,133,175	-
Fund balance - ending	\$ -	2,766,747	10,178,971	7,412,224

See accompanying independent auditors' report.

SCHOOL IMPROVEMENTS FUND

School Improvements – Accounts for the acquisition or construction of capital assets used by the County's School Board Component Unit.

COUNTY OF HANOVER, VIRGINIA

Exhibit 15

School Improvements Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ 25,000	25,000	2,591	(22,409)
Charges for services:				
Proffers	765,000	765,000	707,412	(57,588)
Total charges for services	765,000	765,000	707,412	(57,588)
Total revenues	790,000	790,000	710,003	(79,997)
EXPENDITURES				
Capital outlay:				
Education	14,500,000	22,651,990	8,261,318	14,390,672
Debt service:				
Interest and fiscal charges	-	110,000	35,649	74,351
Total expenditures	14,500,000	22,761,990	8,296,967	14,465,023
Excess (deficiency) of revenues over (under) expenditures	(13,710,000)	(21,971,990)	(7,586,964)	14,385,026
OTHER FINANCING SOURCES (USES)				
Other financing sources:				
Transfers in	1,810,000	1,810,000	1,810,000	-
Issuance of general obligation bonds	11,900,000	16,765,424	5,855,000	(10,910,424)
Premium on general obligation bonds issued	-	635,000	616,989	(18,011)
Total other financing sources	13,710,000	19,210,424	8,281,989	(10,928,435)
Net change in fund balance	-	(2,761,566)	695,025	3,456,591
Fund balance - beginning	-	2,761,566	2,761,566	-
Fund balance - ending	\$ -	-	3,456,591	3,456,591

See accompanying independent auditors' report.

NONMAJOR OTHER GOVERNMENTAL FUNDS

Nonmajor Other Governmental Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Comprehensive Services - Accounts for the operations of the Commonwealth of Virginia's Comprehensive Services Act for which a community policy and management team comprised of representatives of the School Board, Social Services, Community Services, Health, and Probation provide oversight.

Community Services - Accounts for the operation of mental health, mental retardation, and substance abuse services.

Note: At June 30, 2012, the Comprehensive Services and Community Services Funds' assets, liabilities and net assets were reassigned to the General Fund.

COUNTY OF HANOVER, VIRGINIA**Exhibit 16**

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2012

	Other Governmental Funds		
	Comprehensive Services	Community Services	Total
ASSETS			
Pooled cash, cash equivalents and investments	\$ -	-	-
Accounts receivable (net of allowance for uncollectible accounts)	-	-	-
Due from other governmental units	-	-	-
Total assets	<u>\$ -</u>	<u>-</u>	<u>-</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	-	-
Accrued liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted	-	-	-
Assigned	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>-</u>	<u>-</u>

Note: At June 30, 2012, the Comprehensive Services and Community Services Funds' assets, liabilities and net assets were reassigned to the General Fund.

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 17**

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

	Other Governmental Funds		
	Comprehensive Services	Community Services	Total
REVENUES			
Revenue from local sources:			
Revenue from use of money and property	\$ -	37,770	37,770
Charges for services	-	2,933,370	2,933,370
Recovered cost	142,052	95,192	237,244
Miscellaneous	-	51,393	51,393
Total revenue from local sources	142,052	3,117,725	3,259,777
Intergovernmental:			
Revenue from the Commonwealth	3,089,368	2,228,932	5,318,300
Revenue from the Federal government	-	461,904	461,904
Total intergovernmental	3,089,368	2,690,836	5,780,204
Total revenues	3,231,420	5,808,561	9,039,981
EXPENDITURES			
Human services	5,611,786	10,119,259	15,731,045
Total expenditures	5,611,786	10,119,259	15,731,045
Excess (deficiency) of revenues over (under) expenditures	(2,380,366)	(4,310,698)	(6,691,064)
OTHER FINANCING SOURCES			
Transfers in	1,980,366	3,938,197	5,918,563
Net change in fund balance	(400,000)	(372,501)	(772,501)
Fund balances - beginning	400,000	372,501	772,501
Fund balances - ending	\$ -	-	-

Note: At June 30, 2012, the Comprehensive Services and Community Services Funds' assets, liabilities and net assets were reassigned to the General Fund.

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 18**

Comprehensive Services Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources				
Recovered costs	\$ 82,500	82,500	142,052	59,552
Total revenue from local sources	82,500	82,500	142,052	59,552
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State agency):				
Education	3,282,216	3,282,216	3,089,368	(192,848)
Total revenues	3,364,716	3,364,716	3,231,420	(133,296)
EXPENDITURES				
Human services:				
Comprehensive services	6,155,707	6,155,707	5,611,786	543,921
Total expenditures	6,155,707	6,155,707	5,611,786	543,921
Excess (deficiency) of revenues over (under) expenditures	(2,790,991)	(2,790,991)	(2,380,366)	410,625
OTHER FINANCING SOURCES				
Transfers in	2,790,991	2,790,991	1,980,366	(810,625)
Net change in fund balance	-	-	(400,000)	(400,000)
Fund balance - beginning	-	400,000	400,000	-
Fund balance - ending	\$ -	400,000	-	(400,000)

Note: At June 30, 2012, the Comprehensive Services and Community Services Funds' assets, liabilities and net assets were reassigned to the General Fund.

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 19**

Community Services Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property:				
Sale of materials and supplies	\$ 45,000	45,000	37,770	(7,230)
Total revenue from use of money and property	45,000	45,000	37,770	(7,230)
Charges for services	2,909,952	2,909,952	2,933,370	23,418
Recovered cost	180,000	180,000	95,192	(84,808)
Miscellaneous	119,000	119,000	51,393	(67,607)
Total revenue from local sources	3,253,952	3,253,952	3,117,725	(136,227)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid (State agency):				
Mental Health, Retardation and Substance Abuse	2,221,865	2,221,865	2,228,932	7,067
Total revenue from the Commonwealth	2,221,865	2,221,865	2,228,932	7,067
Revenue from the Federal government:				
Categorical aid (Federal agency):				
Health and Human Services	467,153	467,153	461,904	(5,249)
Total revenue from the Federal government	467,153	467,153	461,904	(5,249)
Total intergovernmental	2,689,018	2,689,018	2,690,836	1,818
Total revenues	5,942,970	5,942,970	5,808,561	(134,409)
EXPENDITURES				
Human services:				
Community services	10,523,641	10,696,142	10,119,259	576,883
Total expenditures	10,523,641	10,696,142	10,119,259	576,883
Excess (deficiency) of revenues over (under) expenditures	(4,580,671)	(4,753,172)	(4,310,698)	442,474
OTHER FINANCING SOURCES				
Transfers in	4,580,671	4,580,671	3,938,197	(642,474)
Net change in fund balance	-	(172,501)	(372,501)	(200,000)
Fund balance - beginning	-	372,501	372,501	-
Fund balance - ending	\$ -	200,000	-	(200,000)

Note: At June 30, 2012, the Comprehensive Services and Community Services Funds' assets, liabilities and net assets were reassigned to the General Fund.

See accompanying independent auditors' report.



INTERNAL SERVICE FUND

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and other government units, on a cost reimbursement basis.

Self-Insurance - Accounts for payment of health insurance premiums from departments and employee deductions and related claims.

COUNTY OF HANOVER, VIRGINIA
Internal Service Fund - Self Insurance Fund
Statement of Net Assets
June 30, 2012

Exhibit 20

	<u>Self-Insurance</u>
ASSETS	
Current Assets:	
Pooled cash, cash equivalents and investments	\$ 9,206,915
Total current assets	<u>9,206,915</u>
Total assets	<u>9,206,915</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	7,309
Incurred but not reported self-insurance claims	1,780,000
Accrued liabilities	12,499
Unearned revenue	<u>1,471,403</u>
Total current liabilities	<u>3,271,211</u>
Total liabilities	<u>3,271,211</u>
NET ASSETS	
Unrestricted	<u>5,935,704</u>
Total net assets	<u>\$ 5,935,704</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 21**

Internal Service Fund

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2012

	<u>Self-Insurance</u>
OPERATING REVENUES	
Charges for services	\$ 31,129,558
Recovered cost	57,118
Total operating revenues	<u>31,186,676</u>
OPERATING EXPENSES	
Health care claims and benefits	28,534,817
Personal services	22,485
Fringe benefits	1,999
Contractual services	48,195
Other charges	32,030
Total operating expenses	<u>28,639,526</u>
Operating income (loss)	<u>2,547,150</u>
NONOPERATING REVENUES	
Revenue from the Federal government	243,078
Interest income	86,663
Total nonoperating revenues	<u>329,741</u>
Change in net assets	2,876,891
Total net assets - beginning	<u>3,058,813</u>
Total net assets - ending	<u>\$ 5,935,704</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 22**

Internal Service Fund

Statement of Cash Flows

For the Year Ended June 30, 2012

	<u>Self-Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 31,199,941
Payments to suppliers and service providers	(75,060)
Payments to employees	(24,484)
Claims and benefits paid	(28,715,751)
Net cash provided by operating activities	<u>2,384,646</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipt of revenue from Federal government	243,078
Net cash provided by noncapital financing activities	<u>243,078</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	86,663
Net cash provided by investing activities	<u>86,663</u>
Net increase in cash and cash equivalents	2,714,387
Pooled cash, cash equivalents and investments at beginning of year	6,492,528
Pooled cash, cash equivalents and investments at end of year	<u>\$ 9,206,915</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 2,547,150
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
(Increase) decrease in:	
Accounts receivable	69,066
Increase (decrease) in:	
Accounts payable	7,309
Incurred but not reported self-insurance claims	(250,000)
Accrued liabilities	(2,144)
Unearned revenue	13,265
Total adjustments	<u>(162,504)</u>
Net cash provided by operating activities	<u>\$ 2,384,646</u>

See accompanying independent auditors' report.

AGENCY FUNDS

Agency Funds are a type of Fiduciary Fund. Agency funds are custodial in nature, and are maintained to account for funds received and disbursed by the County on behalf of individuals, private organizations or other governments, as follows:

Bell Creek Community Development Authority (Bell Creek CDA) – Accounts for monies collected on behalf of, and subsequently remitted to the Bell Creek CDA.

Lewistown Community Development Authority (Lewistown CDA) – Accounts for monies collected on behalf of, and subsequently remitted to the Lewistown CDA.

Escrow - Accounts for monies held as security deposits for services provided by the County or for performance by contractors.

Special Welfare - Accounts for monies received for and expenditures made on behalf of social service clients.

COUNTY OF HANOVER, VIRGINIA**Exhibit 23**

Agency Funds
Combining Balance Sheet
June 30, 2012

	Bell Creek Community Development Authority	Lewistown Community Development Authority	Escrow	Special Welfare	Total
ASSETS					
Pooled cash, cash equivalents and investments	\$ 80,137	149,313	1,615,915	31,548	1,876,913
Accounts receivable	169,252	340,794	-	-	510,046
Total assets	<u>\$ 249,389</u>	<u>490,107</u>	<u>1,615,915</u>	<u>31,548</u>	<u>2,386,959</u>
LIABILITIES					
Accounts payable	\$ 78,567	149,313	792,662	-	1,020,542
Accrued liabilities	170,822	340,794	169,488	-	681,104
Deposits	-	-	653,765	31,548	685,313
Total liabilities	<u>\$ 249,389</u>	<u>490,107</u>	<u>1,615,915</u>	<u>31,548</u>	<u>2,386,959</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA
Exhibit 24

Agency Funds

Combining Statement of Changes in Assets and Liabilities

For the Year Ended June 30, 2012

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Bell Creek Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	\$ 390	484,234	404,487	80,137
Accounts receivable	287,965	627,971	746,684	169,252
Total assets	288,355	1,112,205	1,151,171	249,389
Liabilities:				
Accounts payable	390	451,656	373,479	78,567
Accrued liabilities	287,965	341,576	458,719	170,822
Total liabilities	288,355	793,232	832,198	249,389
Lewistown Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	138,125	923,458	912,270	149,313
Accounts receivable	16,207	702,200	377,613	340,794
Total assets	154,332	1,625,658	1,289,883	490,107
Liabilities:				
Accounts payable	138,125	648,825	637,637	149,313
Accrued liabilities	16,207	685,992	361,405	340,794
Total liabilities	154,332	1,334,817	999,042	490,107
Escrow				
Assets:				
Pooled cash, cash equivalents and investments	1,522,514	33,213,348	33,119,947	1,615,915
Accounts receivable	-	47,123	47,123	-
Total assets	1,522,514	33,260,471	33,167,070	1,615,915
Liabilities:				
Accounts payable	821,277	10,080,603	10,109,218	792,662
Accrued liabilities	84,401	31,112,803	31,027,716	169,488
Deposits	616,836	704,603	667,674	653,765
Total liabilities	1,522,514	41,898,009	41,804,608	1,615,915
Special Welfare				
Assets:				
Pooled cash, cash equivalents and investments	30,061	142,813	141,326	31,548
Total assets	30,061	142,813	141,326	31,548
Liabilities:				
Deposits	30,061	142,813	141,326	31,548
Total liabilities	30,061	142,813	141,326	31,548
Total Agency Funds				
Assets:				
Pooled cash, cash equivalents and investments	1,691,090	34,763,853	34,578,030	1,876,913
Accounts receivable	304,172	1,377,294	1,171,420	510,046
Total assets	1,995,262	36,141,147	35,749,450	2,386,959
Liabilities:				
Accounts payable	959,792	11,181,084	11,120,334	1,020,542
Accrued liabilities	388,573	32,140,371	31,847,840	681,104
Deposits	646,897	847,416	809,000	685,313
Total liabilities	\$ 1,995,262	44,168,871	43,777,174	2,386,959

See accompanying independent auditors' report.



DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Governmental Funds:

School – Accounts for the activities of primary and secondary education.

Textbook – Accounts for the distribution of textbooks to students.

Cafeteria – Accounts for the operations of school food services.

COUNTY OF HANOVER, VIRGINIA
Discretely Presented Component Unit - School Board
Combining Balance Sheet
June 30, 2012

Exhibit 25

	Governmental Funds			
	School	Textbook	Cafeteria	Totals
ASSETS				
Pooled cash, cash equivalents and investments	\$ 14,963,128	1,779,305	1,418,936	18,161,369
Accounts receivable	239,373	-	-	239,373
Due from other governmental units	4,098,342	-	-	4,098,342
Inventory	-	-	139,723	139,723
Total assets	<u>\$ 19,300,843</u>	<u>1,779,305</u>	<u>1,558,659</u>	<u>22,638,807</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,087,666	93,925	132,691	3,314,282
Accrued liabilities	13,587,306	3,107	427,207	14,017,620
Deferred revenue	113,219	-	-	113,219
Total liabilities	<u>16,788,191</u>	<u>97,032</u>	<u>559,898</u>	<u>17,445,121</u>
Fund balances:				
Nonspendable	-	-	139,723	139,723
Restricted	523,000	-	-	523,000
Assigned	1,989,652	1,682,273	859,038	4,530,963
Total fund balances	<u>2,512,652</u>	<u>1,682,273</u>	<u>998,761</u>	<u>5,193,686</u>
Total liabilities and fund balances	<u>\$ 19,300,843</u>	<u>1,779,305</u>	<u>1,558,659</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 108,651,466
Long-term liabilities and some accrued liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	\$ (4,708,543)
Accrued bond interest	(2,360,246)
	<u>(7,068,789)</u>
Net assets of School Board Component Unit activities	<u>\$ 106,776,363</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 26**

Discretely Presented Component Unit - School Board

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

	Governmental Funds			
	School	Textbook	Cafeteria	Totals
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ -	3,781	5,693	9,474
Charges for services - operating	750,808	-	5,271,614	6,022,422
Miscellaneous	548,248	-	18,312	566,560
Recovered costs	771,688	-	-	771,688
Payments from primary government	86,899,750	-	-	86,899,750
Revenue from the Commonwealth	77,189,107	428,839	63,834	77,681,780
Revenue from the Federal government	10,938,312	-	1,656,123	12,594,435
Total revenues	177,097,913	432,620	7,015,576	184,546,109
EXPENDITURES				
Education	162,044,808	435,374	6,988,016	169,468,198
Debt service:				
Principal retirement	10,502,253	-	-	10,502,253
Interest and fiscal charges	5,092,904	-	-	5,092,904
Total expenditures	177,639,965	435,374	6,988,016	185,063,355
Excess (deficiency) of revenues over (under) expenditures	(542,052)	(2,754)	27,560	(517,246)
Net change in fund balance	(542,052)	(2,754)	27,560	(517,246)
Fund balances - beginning	3,054,704	1,685,027	943,649	5,683,380
Increase in nonspendable fund balance-inventory	-	-	27,552	27,552
Fund balances - ending	\$ 2,512,652	1,682,273	998,761	5,193,686

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 27****Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Discretely Presented School Component Unit to the Statement of Activities
For the Year Ended June 30, 2012**

Net change in fund balances - total governmental funds \$ (517,246)

The County's School Improvements Fund accounts for the construction and acquisition of School Board capital assets. As the School Improvements Fund makes capital outlay expenditures, the capital assets, and a corresponding increase in the "Payment from Hanover County" are recorded by the School Board Component Unit in the government-wide financial statements. After their completion, the cost of the capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$10,220,803) exceeded the increase in the Payment from Hanover County due to capital asset acquisitions (\$6,591,609) in the current period. (3,629,194)

Under Virginia law, the County has a tenancy in common for School Board Component Unit capital assets for which the County is obligated to repay outstanding "on-behalf" bonds. Under the tenancy in common, the County reports the net book value of School Board Component Unit capital assets up to the outstanding principal balance of "on-behalf" bonds at year end. This amount is the decrease in the net book value of School Board Component Unit capital assets reported by the County for the fiscal year, which resulted primarily from a decrease in school construction activity during the fiscal period. 5,622,429

Some expenses reported in this statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 12,102

Changes in net assets of School Board Component Unit activities \$ 1,488,091

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA

Exhibit 28

School Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Charges for services:				
Tuition and other charges for services	\$ 890,000	890,000	750,808	(139,192)
Total charges for services	890,000	890,000	750,808	(139,192)
Miscellaneous:				
Sale of assets	2,000	2,000	-	(2,000)
Miscellaneous	1,117,000	287,016	548,248	261,232
Total miscellaneous revenue	1,119,000	289,016	548,248	259,232
Recovered costs:				
Recovered costs	903,000	927,900	771,688	(156,212)
Total recovered costs	903,000	927,900	771,688	(156,212)
Payments from primary government:				
General Fund	92,610,611	92,610,611	86,899,750	(5,710,861)
Total payments from primary government	92,610,611	92,610,611	86,899,750	(5,710,861)
Total revenue from local sources	95,522,611	94,717,527	88,970,494	(5,747,033)
Revenue from the Commonwealth:				
Non-categorical aid:				
Lottery proceeds and basic school aid	58,886,597	58,888,597	59,022,588	133,991
Total non-categorical aid	58,886,597	58,888,597	59,022,588	133,991
Categorical aid:				
Categorical aid programs	17,919,495	18,065,647	18,166,519	100,872
Total categorical aid	17,919,495	18,065,647	18,166,519	100,872
Total revenue from the Commonwealth	76,806,092	76,954,244	77,189,107	234,863
Revenue from the Federal government:				
Categorical aid:				
Department of Education	9,489,132	11,644,624	10,938,312	(706,312)
Total revenue from the Federal government	9,489,132	11,644,624	10,938,312	(706,312)
Total revenues	181,817,835	183,316,395	177,097,913	(6,218,482)
EXPENDITURES				
Education:				
General support	9,814,017	9,827,279	9,007,188	820,091
Pupil transportation	8,612,186	8,707,620	8,208,788	498,832
Operations and maintenance	12,754,587	12,904,837	11,888,745	1,016,092
Instruction	134,055,869	137,304,839	131,610,533	5,694,306
Facilities	964,458	1,849,911	1,329,554	520,357
Total education	166,201,117	170,594,486	162,044,808	8,549,678
Debt service:				
Principal retirement	15,616,718	15,616,718	10,502,253	5,114,465
Interest and fiscal charges	-	-	5,092,904	(5,092,904)
Total debt service	15,616,718	15,616,718	15,595,157	21,561
Total expenditures	181,817,835	186,211,204	177,639,965	8,571,239
Net change in fund balance	-	(2,894,809)	(542,052)	2,352,757
Fund balance - beginning	-	2,894,809	3,054,704	159,895
Fund balance - ending	\$ -	-	2,512,652	2,512,652

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 29**

Textbook Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of property	\$ -	-	3,781	3,781
Total revenue from local sources	-	-	3,781	3,781
Revenue from the Commonwealth:				
Categorical aid:				
Textbook	427,343	427,343	428,839	1,496
Total revenue from the Commonwealth	427,343	427,343	428,839	1,496
Total revenues	427,343	427,343	432,620	5,277
EXPENDITURES				
Education:				
Textbook	427,343	429,649	435,374	(5,725)
Total expenditures	427,343	429,649	435,374	(5,725)
Net change in fund balance	-	(2,306)	(2,754)	(448)
Fund balance - beginning	-	2,306	1,685,027	1,682,721
Fund balance - ending	\$ -	-	1,682,273	1,682,273

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 30**

Cafeteria Fund - School Board

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ 10,000	10,000	5,693	(4,307)
Charges for services	5,513,012	5,513,012	5,271,614	(241,398)
Miscellaneous revenue	20,000	20,000	18,312	(1,688)
Total revenue from local sources	5,543,012	5,543,012	5,295,619	(247,393)
Revenue from the Commonwealth:				
Categorical aid:				
School food programs	58,800	58,800	63,834	5,034
Total revenue from the Commonwealth	58,800	58,800	63,834	5,034
Revenue from the Federal government:				
Categorical aid:				
USDA donated commodities	193,769	193,769	257,270	63,501
School food programs	1,034,199	1,034,199	1,117,042	82,843
Breakfast reimbursement	225,750	225,750	281,811	56,061
Total revenue from the Federal government	1,453,718	1,453,718	1,656,123	202,405
Total revenues	7,055,530	7,055,530	7,015,576	(39,954)
EXPENDITURES				
Education:				
Cafeteria	7,207,934	7,207,934	6,988,016	219,918
Total expenditures	7,207,934	7,207,934	6,988,016	219,918
Net change in fund balance	(152,404.00)	(152,404.00)	27,560	179,964
Fund balance - beginning	152,404.00	152,404.00	943,649	791,245
Increase in nonspendable fund balance-inventory	-	-	27,552	27,552
Fund balance - ending	\$ -	-	998,761	998,761

See accompanying independent auditors' report.

DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Governmental Fund:

Economic Development Authority – Accounts for the operations of the Economic Development Authority of Hanover County.

COUNTY OF HANOVER, VIRGINIA**Exhibit 31**

Discretely Presented Component Unit - Economic Development Authority

Balance Sheet

June 30, 2012

ASSETS

Pooled cash, cash equivalents and investments	\$ 220,541
Support agreement receivable	<u>15,300,000</u>
Total assets	<u><u>\$ 15,520,541</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 19
Bonds payable	<u>15,300,000</u>
Total liabilities	<u>15,300,019</u>

Fund balances:

Assigned	80,000
Unassigned	<u>140,522</u>
Total fund balances	<u>220,522</u>
Total liabilities and fund balances	<u><u>\$ 15,520,541</u></u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 32**

Discretely Presented Component Unit - Economic Development Authority

Schedule of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services:				
Economic development fees	\$ 176,190	176,190	178,765	2,575
Total revenues	176,190	176,190	178,765	2,575
EXPENDITURES				
Community Development:				
Economic development	256,190	281,190	276,687	4,503
Total expenditures	256,190	281,190	276,687	4,503
Net change in fund balance	(80,000)	(105,000)	(97,922)	7,078
Fund balance - beginning	80,000	318,444	318,444	-
Fund balance - ending	\$ -	213,444	220,522	7,078

See accompanying independent auditors' report.

STATISTICAL SECTION

(Unaudited)

The Statistical Section of the County of Hanover's Comprehensive Annual Financial Report provides readers with additional detailed information as a context to assist in understanding what the information in the financial statements, accompanying notes, and required supplementary information indicates about the County's economic condition over an extended period of time. Information is presented in the following five categories:

	<u>Pages</u>
Financial trends information	125 - 131
Financial trends information is intended to help the reader understand and assess how the County's financial position has changed over time.	
Revenue capacity information	132 - 135
Revenue capacity information is intended to help the reader understand and assess the County's ability to generate its most significant local revenue source, the property tax.	
Debt capacity information	136 - 138
Debt capacity information is intended to help the reader understand and assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.	
Demographic and economic information	139 - 140
Demographic and economic information is intended to help the reader understand the socioeconomic environment within which the County's financial activities take place.	
Operating information	141 - 143
Operating information is intended to provide information about the County's services and capital asset resources to help the reader understand how the information in the financial report relates to the services the County provides and the activities it performs.	

COUNTY OF HANOVER, VIRGINIA

Net Assets by Component (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 1

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities: ⁽¹⁾										
Invested in capital assets, net of related debt \$	60,564,926	62,499,667	64,429,211	67,583,618	61,976,094	65,019,988	75,900,088	76,120,457	81,246,238	74,105,915
Restricted	4,496,905	6,124,298	6,379,543	7,058,772	9,599,544	10,833,093	6,765,782	6,606,606	5,594,093	5,054,300
Unrestricted	21,566,419	20,741,027	20,659,883	29,453,112	41,592,279	41,446,839	38,277,590	49,631,805	51,276,177	56,041,435
Total net assets, governmental activities	\$ 86,628,250	89,364,992	91,468,637	104,095,502	113,167,917	117,299,920	120,943,460	132,358,868	138,116,508	135,201,650
Business-type activities:										
Invested in capital assets, net of related debt \$	115,034,367	123,953,003	130,259,289	136,220,116	144,494,562	154,625,394	163,313,856	171,366,224	188,046,917	180,255,835
Restricted	4,519,720	4,318,022	3,151,730	3,716,918	3,445,443	3,374,603	3,445,007	3,488,079	3,454,766	3,400,179
Unrestricted	16,840,408	14,229,206	13,975,727	13,986,263	24,492,963	33,756,282	30,802,106	23,610,692	9,143,399	17,105,102
Total net assets, business-type activities	\$ 136,394,495	142,500,231	147,386,746	153,923,297	172,432,968	191,756,279	197,560,969	198,464,995	200,645,082	200,761,116
Primary government:										
Invested in capital assets, net of related debt \$	175,599,293	186,452,670	194,688,500	203,803,734	206,470,656	219,645,382	239,213,944	247,486,681	269,293,155	254,361,750
Restricted	9,016,625	10,442,320	9,531,273	10,775,690	13,044,987	14,207,696	10,210,789	10,094,685	9,048,859	8,454,479
Unrestricted	38,406,827	34,970,233	34,635,610	43,439,375	66,085,242	75,203,121	69,079,696	73,242,497	60,419,576	73,146,537
Total net assets, primary government	\$ 223,022,745	231,865,223	238,855,383	258,018,799	285,600,885	309,056,199	318,504,429	330,823,863	338,761,590	335,962,766

Notes: (1) Beginning in fiscal year 2005, the School Improvements Fund was included as a major fund of the primary government.

COUNTY OF HANOVER, VIRGINIA

Changes in Net Assets (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 2

	Fiscal Year									
	2003	2004	2005 ⁽²⁾	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government administration	\$ 10,137,986	10,712,124	11,897,058	12,118,463	13,312,730	14,671,166	14,093,119	13,554,927	13,686,641	14,324,220
Judicial administration	2,952,076	3,057,632	3,663,672	3,978,959	3,930,945	4,385,408	4,785,034	4,420,920	4,447,352	4,338,334
Public safety	27,672,227	29,003,658	33,111,907	35,956,589	39,333,719	43,545,081	46,110,980	45,610,131	47,946,531	49,003,762
Public works	7,776,824	9,254,986	11,304,517	9,570,693	8,741,705	12,431,287	16,093,111	11,102,331	9,891,396	11,407,634
Human services	15,041,790	17,441,669	18,840,933	19,849,312	21,269,844	23,096,023	24,258,087	23,880,094	24,165,944	22,925,913
Parks, recreation and cultural	4,451,009	4,649,850	4,894,299	5,260,603	4,732,962	6,413,393	8,453,137	6,523,401	6,444,651	6,531,096
Community development	4,442,153	4,289,916	4,582,344	4,878,481	5,306,364	5,593,695	5,969,406	5,797,455	5,318,097	4,625,376
Education	66,451,732	73,124,850	78,974,707	83,003,947	81,203,331	100,925,769	92,993,766	86,294,322	86,779,122	88,976,562
Interest on long-term debt	694,615	590,519	462,760	314,867	627,078	503,177	772,402	836,290	1,536,631	1,494,308
Total governmental activities expenses	139,620,412	152,125,204	167,732,197	174,931,914	178,458,678	211,564,999	213,529,042	198,019,871	200,216,365	203,627,205
Business-type activities:										
Public utilities	16,415,587	17,142,203	20,491,371	21,848,595	22,688,647	23,823,738	25,318,192	26,625,112	24,915,456	26,264,524
Airport ⁽¹⁾	-	-	-	-	465,203	626,257	1,434,208	616,225	696,323	759,169
Total business-type activities expenses	16,415,587	17,142,203	20,491,371	21,848,595	23,153,850	24,449,995	26,752,400	27,241,337	25,611,779	27,023,693
Total expenses, primary government	\$ 156,035,999	169,267,407	188,223,568	196,780,509	201,612,528	236,014,994	240,281,442	225,261,208	225,828,144	230,650,898
Program Revenues										
Governmental activities:										
Charges for services:										
General governmental administration	\$ 1,597,896	1,826,275	2,391,346	2,489,994	2,313,953	1,614,956	1,664,898	1,798,980	1,919,228	2,015,327
Judicial administration	970,867	1,220,044	1,329,836	1,415,939	1,420,359	1,340,222	1,380,219	1,321,041	1,295,959	1,121,848
Public safety	1,246,926	1,359,546	2,079,389	3,375,762	2,954,680	3,716,157	3,274,434	3,354,180	4,170,594	3,077,467
Public works	404,414	556,516	674,414	695,494	899,047	1,232,908	1,226,498	1,132,817	1,347,446	1,260,824
Human services	2,365,348	2,947,057	2,889,334	3,493,429	3,550,827	3,283,721	3,778,613	3,748,484	3,876,950	3,332,257
Parks, recreation and cultural	248,158	269,206	302,452	401,075	547,094	553,811	531,639	543,768	571,427	498,989
Community development	1,258,422	1,631,596	2,509,039	2,825,277	2,147,341	1,028,076	888,838	789,276	725,907	1,005,930
Operating grants and contributions	11,880,071	15,127,498	14,390,381	14,310,471	15,408,252	16,589,245	16,736,272	16,020,098	17,075,125	16,696,451
Capital grants and contributions	2,649,711	4,819,588	7,417,338	7,205,048	5,902,858	9,696,499	7,814,843	4,474,879	2,521,940	1,993,464
Total governmental activities program revenues	22,621,813	29,757,326	33,983,529	36,212,489	35,144,411	39,055,595	37,296,254	33,183,523	33,504,576	31,002,557
Business-type activities:										
Charges for services:										
Public utilities	14,509,559	14,920,100	15,463,650	19,226,205	19,584,259	21,328,133	21,237,074	21,462,492	21,981,551	21,715,203
Airport ⁽¹⁾	-	-	-	-	33,861	46,658	109,168	170,730	178,080	184,550
Operating grants and contributions	589,689	471,777	451,600	75,300	-	-	-	-	-	-
Capital grants and contributions	9,793,850	7,824,732	8,901,655	8,495,258	10,776,808	20,831,594	9,781,068	5,961,957	5,289,134	4,936,335
Total business-type activities program revenues	24,893,098	23,216,609	24,816,905	27,796,763	30,394,928	42,206,385	31,127,310	27,595,179	27,448,765	26,836,088
Total program revenues, primary government	\$ 47,514,911	52,973,935	58,800,434	64,009,252	65,539,339	81,261,980	68,423,564	60,778,702	60,953,341	57,838,645
Net (Expense) Revenue										
Governmental activities	\$ (116,998,599)	(122,367,878)	(133,748,668)	(138,719,425)	(143,314,267)	(172,509,404)	(176,232,788)	(164,836,348)	(166,711,789)	(172,624,648)
Business-type activities	8,477,511	6,074,406	4,325,534	5,948,168	7,241,078	17,756,390	4,374,910	353,842	1,836,986	(187,605)
Total net expense, primary government	\$ (108,521,088)	(116,293,472)	(129,423,134)	(132,771,257)	(136,073,189)	(154,753,014)	(171,857,878)	(164,482,506)	(164,874,803)	(172,812,253)

(continued)

COUNTY OF HANOVER, VIRGINIA

Changes in Net Assets (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 2

	Fiscal Year									
	2003	2004	2005 ⁽²⁾	2006	2007	2008	2009	2010	2011	2012
<u>General Revenues and Other Changes in Net Assets</u>										
Governmental activities:										
Taxes:										
Property taxes	\$ 79,361,213	86,761,263	94,939,793	104,905,885	117,152,314	128,411,615	135,784,877	133,924,474	129,565,022	126,263,780
Sales taxes	10,315,156	12,354,866	14,361,323	16,235,682	17,352,664	17,903,788	15,831,268	15,118,688	15,981,340	16,607,323
Utility taxes	3,924,184	4,224,798	4,418,593	4,403,173	5,358,588	7,317,207	7,207,864	7,100,382	6,939,774	6,869,415
Motor vehicle licenses ⁽³⁾	2,197,812	2,291,651	2,359,824	2,437,925	-	-	-	-	-	-
Recordation taxes	1,679,648	2,054,751	2,313,113	2,741,419	2,863,512	2,415,144	1,877,835	1,730,678	1,556,422	1,695,512
Other	2,002,815	2,133,494	2,022,926	2,371,936	2,378,024	2,317,560	2,133,154	2,127,589	2,378,684	2,190,557
Noncategorical State aid	13,524,847	14,289,391	14,066,416	15,674,963	14,895,053	15,419,398	14,985,990	14,948,811	14,716,447	14,746,150
Grants and contributions not restricted to specific programs	1,248,522	835,610	693,279	1,144,348	849,714	1,119,078	1,224,305	1,029,730	1,165,499	1,215,096
Unrestricted investment earnings	605,143	140,128	411,689	1,427,007	1,790,177	1,967,295	1,164,116	472,107	356,297	314,846
Gain (loss) on sale of capital assets	(268,063)	18,668	-	3,952	-	-	-	-	-	-
Transfers	-	-	-	-	(619,072)	(229,678)	(333,081)	(200,703)	(190,056)	(192,889)
Total general revenues and other changes in net assets, governmental activities	114,591,277	125,104,620	135,586,956	151,346,290	162,020,974	176,641,407	179,876,328	176,251,756	172,469,429	169,709,790
Business-type activities:										
Public utilities - unrestricted investment earnings	449,062	31,330	560,981	588,383	1,015,229	1,337,243	1,096,699	349,481	153,045	110,750
Transfers - Airport fund	-	-	-	-	619,072	229,678	333,081	200,703	190,056	192,889
Total general revenues and other changes in net assets, business-type activities	449,062	31,330	560,981	588,383	1,634,301	1,566,921	1,429,780	550,184	343,101	303,639
Total general revenues and other changes in net assets, primary government	\$ 115,040,339	125,135,950	136,147,937	151,934,673	163,655,275	178,208,328	181,306,108	176,801,940	172,812,530	170,013,429
<u>Change in Net Assets</u>										
Governmental activities	\$ (2,407,322)	2,736,742	1,838,288	12,626,865	18,706,707	4,132,003	3,643,540	11,415,408	5,757,640	(2,914,858)
Business-type activities	8,926,573	6,105,736	4,886,515	6,536,551	8,875,379	19,323,311	5,804,690	904,026	2,180,087	116,034
Total change in net assets, primary government	\$ 6,519,251	8,842,478	6,724,803	19,163,416	27,582,086	23,455,314	9,448,230	12,319,434	7,937,727	(2,798,824)

Notes: (1) The County began to report its airport activities in a nonmajor airport fund beginning in fiscal year 2007.

(2) Beginning in fiscal year 2005, the School Improvements Fund was included as a major fund of the primary government.

(3) Motor vehicle license decal fees were eliminated in fiscal year 2007, corresponding with a change in assessed values from loan to trade value.

COUNTY OF HANOVER, VIRGINIA
Fund Balances, Governmental Funds (Unaudited)
Last Ten Fiscal Years ⁽¹⁾
(modified accrual basis of accounting)

Table 3

	Fiscal Year Ended June 30,							
	2003	2004	2005	2006	2007	2008	2009	2010
General Fund:								
Reserved	\$ 527,273	354,572	553,033	715,857	1,069,762	899,660	695,386	1,466,750
Unreserved								
Designated	4,830,429	4,186,764	6,203,575	7,517,340	12,668,077	12,425,409	7,727,214	11,587,951
Undesignated	13,630,537	15,223,546	16,157,585	21,274,693	22,459,100	24,126,843	24,494,204	24,494,204
Total General Fund	\$ 18,988,239	19,764,882	22,914,193	29,507,890	36,196,939	37,451,912	32,916,804	37,548,905
All other governmental funds: ⁽²⁾								
Reserved	\$ 9,347,203	2,424,192	11,197,000	6,868,451	9,297,392	10,922,248	9,260,250	5,534,957
Unreserved, reported in:								
Capital projects funds:								
County Improvements Fund	7,098,191	7,308,317	6,482,013	7,434,188	11,671,975	8,117,903	3,584,494	10,305,801
School Improvements Fund ⁽³⁾	1,885,982	248,064	1,297,717	2,446,894	1,380,260	(2,054,242)	(252,310)	4,477,556
Special revenue funds	376,132	133,375	339,445	415,457	583,364	500,000	602,131	603,391
Total All Other Governmental Funds	\$ 18,707,508	10,113,948	19,316,175	17,164,990	22,932,991	17,485,909	13,194,565	20,921,705

Notes: (1) Source: County of Hanover, Virginia Comprehensive Annual Financial Reports for fiscal years indicated.

(2) Beginning in fiscal year 2005, the School Improvements Fund was included as a major fund of the primary government. Fiscal years 2003 through 2004 above also include the School Improvements Fund to be consistent with fiscal 2005 and subsequent presentation.

(3) At fiscal years ended June 30, 2008 and 2009, reserved fund balances exceeded total fund balance in the School Improvements Fund, reflecting commitments of current financial resources for capital projects in excess of amounts available at each respective fiscal year end. Such commitments were funded primarily by subsequent bond proceeds, grant commitments, proffers and general fund transfers, as more fully described in the County's Comprehensive Annual Financial Report for each applicable year.

	Fiscal Year Ended June 30, (see note 1 below)	
	2011	2012
General Fund:		
Nonspendable	\$ 147,333	170,004
Restricted	532,845	467,104
Committed	2,500,000	500,000
Assigned	19,552,419	20,567,906
Unassigned	24,565,863	23,927,842
Total General Fund	\$ 47,298,460	45,632,856
All other governmental funds: (2)		
Nonspendable	\$ -	-
Restricted	6,103,928	4,113,255
Committed	-	-
Assigned	12,563,314	9,522,307
Unassigned	-	-
Total All Other Governmental Funds	\$ 18,667,242	13,635,562

Notes: (1) GASB 54 classification of fund balances was implemented in fiscal year 2011.

(2) Includes the County Improvements Fund and the School Improvements Fund of the primary government.



COUNTY OF HANOVER, VIRGINIA

Changes in Fund Balances, Governmental Funds ^{(3), (4)} (Unaudited)

Last Ten Fiscal Years

(modified accrual basis of accounting)

Table 4

	Fiscal Year				
	2003	2004	2005	2006	2007
Primary Government:					
REVENUES					
General property taxes	\$ 79,536,223	87,102,894	94,604,793	104,909,885	116,138,314
Other local taxes	20,119,615	23,059,560	25,475,779	28,190,135	27,952,788
Permits, privilege fees and regulatory licenses	2,031,537	2,382,618	2,723,338	2,741,893	2,840,734
Fines and forfeitures	535,613	755,612	900,479	922,784	979,511
Revenues from use of money and property	1,158,711	469,494	739,604	1,778,603	2,948,143
Charges for services	6,364,983	6,808,704	7,763,532	9,799,667	9,163,731
Miscellaneous	755,405	651,467	341,392	902,337	534,902
Recovered costs	1,801,326	3,465,357	4,025,895	4,938,320	4,901,798
Intergovernmental (state and federal)	27,205,814	31,953,115	30,661,978	31,784,408	31,601,395
Total revenues	139,509,227	156,648,821	167,236,790	185,968,032	197,061,316
EXPENDITURES					
General governmental administration	9,046,646	9,996,622	10,820,949	11,842,572	12,998,848
Judicial administration	2,790,441	2,904,596	3,417,726	3,797,463	3,864,913
Public safety	28,218,865	28,867,772	33,448,190	36,508,483	40,357,437
Public works	8,867,259	11,347,662	10,121,770	8,691,474	8,361,994
Human services	14,840,637	17,409,953	18,643,912	20,000,898	21,453,342
Parks, recreation and cultural	4,446,149	4,314,220	4,780,299	5,393,280	6,564,538
Community development	4,360,063	4,254,248	4,507,798	4,920,539	5,313,263
Education expenditures, for:					
Instruction, operations and administration	54,046,905	59,586,631	60,195,699	65,364,031	67,881,714
Capital outlay	26,255,738	11,261,499	9,924,452	23,847,050	21,461,655
Debt service:					
Principal retirement	8,193,484	8,055,740	8,873,194	8,666,075	10,064,060
Interest and fiscal charges	5,015,871	5,794,545	5,268,461	5,389,377	5,592,647
Total education, primary government	93,511,998	84,698,415	84,261,806	103,266,533	105,000,076
Debt service:					
Principal retirement	1,561,108	1,527,625	1,448,913	1,185,722	1,220,185
Interest and fiscal charges	692,568	605,076	476,297	408,199	292,753
Bond issuance costs	-	-	-	-	160,802
Total expenditures	168,335,734	165,926,189	171,927,660	196,015,163	205,588,151
Excess of revenues over (under) expenditures	(28,826,507)	(9,277,368)	(4,690,870)	(10,047,131)	(8,526,835)
OTHER FINANCING SOURCES (USES)					
Transfers in	6,063,542	7,742,528	9,472,429	12,732,206	12,970,459
Transfers out	(5,535,931)	(6,282,077)	(9,527,429)	(12,982,206)	(13,589,531)
Bonds issued	21,500,000	-	17,097,408	14,739,643	21,487,759
Refunding bonds issued	-	-	-	-	14,653,901
Payments to escrow agent	-	-	-	-	(14,538,703)
Support agreement	-	-	-	-	-
Total other financing sources (uses)	22,027,611	1,460,451	17,042,408	14,489,643	20,983,885
Net change in fund balances	\$ (6,798,896)	(7,816,917)	12,351,538	4,442,512	12,457,050
County capital outlay (other than for education) contained in functional expenditure categories, above	\$ 5,452,015	5,722,320	3,651,890	4,724,911	7,706,846
GASB 44 debt service disclosure (primary government): (2)					
Debt service as a percentage of noncapital expenditures, primary government, governmental funds	11.3%	10.7%	10.1%	9.3%	9.8%
Self-imposed debt margin compliance (total reporting entity): (1)					
Noncapital expenditures - total reporting entity	\$ 195,661,023	214,131,882	232,429,030	249,296,596	273,302,713
Debt service as a percent of noncapital expenditures - total reporting entity	7.9%	7.5%	6.9%	6.3%	6.3%

Notes: (1) Self-imposed debt limit information

The Commonwealth of Virginia does not impose a legal debt limit on the amount of long-term indebtedness the County can incur or have outstanding. The Board of Supervisors, however, has imposed limits in the County's Debt Policy. For example, the County's debt policy provides that the annual debt service will not exceed ten percent of noncapital expenditures for the governmental funds of the reporting entity as a whole. For this purpose, capital outlay consists of total expenditures of the County and School Improvements Funds (Capital Projects Funds), and noncapital expenditures consist of total expenditures of the reporting entity, exclusive of the Capital Projects Funds. This table shows how the County has met this self-imposed debt limit for each of the past ten fiscal years. Information about additional self-imposed debt limits is presented on Table 9.

(2) GASB 44 debt service disclosure

This table also shows debt service as a percent of noncapital expenditures for the governmental funds of the primary government only (excluding component units), as required by GASB Statement No. 44. For this purpose, capital outlay is defined in accordance with GASB 44 as the amount of capital assets constructed or acquired during the fiscal year in accordance with the County's asset capitalization policy.

(3) Certain estimates and reclassifications have been made to conform with the presentations required by GASB Statements No. 34 and 44. In addition, bond issuance costs have been presented separately from Interest and Fiscal Charges beginning in fiscal year 2007.

(4) Beginning in fiscal year 2005, the School Improvements Fund was included as a major fund of the primary government. To be consistent with subsequent presentation, amounts for fiscal years 2003 - 2004 have been restated to include revenues, expenditures and other financing sources (uses) of the School Improvements Fund.

Continued

COUNTY OF HANOVER, VIRGINIA
Changes in Fund Balances, Governmental Funds ^{(3), (4)} (Unaudited)
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 4

Fiscal Year					
2008	2009	2010	2011	2012	
127,752,615	134,631,877	132,160,474	130,806,022	126,110,780	REVENUES
29,953,700	27,050,122	26,077,337	26,856,220	27,362,807	General property taxes
2,570,668	1,756,291	1,493,234	1,771,735	1,555,734	Other local taxes
967,867	1,111,383	1,145,092	1,234,619	1,123,148	Permits, privilege fees and regulatory licenses
2,507,279	1,386,151	747,670	663,868	730,397	Fines and forfeitures
8,165,843	7,982,604	7,758,435	7,734,023	7,383,203	Revenues from use of money and property
654,065	839,426	621,088	728,750	720,888	Charges for services
6,824,257	6,677,511	3,366,236	3,939,877	3,899,087	Miscellaneous
34,398,123	33,571,769	32,739,887	32,981,600	32,212,010	Recovered costs
213,794,417	215,007,134	206,109,453	206,716,714	201,098,054	Intergovernmental (state and federal)
					Total revenues
13,604,057	13,221,357	13,065,175	13,264,877	14,078,620	EXPENDITURES
4,342,825	5,603,761	4,452,332	4,238,674	4,365,516	General governmental administration
47,391,988	61,749,637	56,977,215	52,271,337	50,485,129	Judicial administration
12,212,146	15,502,385	10,387,021	9,048,288	10,938,918	Public safety
22,960,809	24,195,148	25,624,808	26,117,943	23,259,647	Public works
9,221,302	10,083,714	7,231,464	7,567,583	6,886,334	Human services
5,547,312	5,940,549	6,360,382	5,474,907	4,659,812	Parks, recreation and cultural
					Community development
75,940,541	79,411,219	70,527,127	67,587,462	72,974,302	Education expenditures, for:
22,020,675	9,706,041	7,868,873	7,700,153	6,591,609	Instruction, operations and administration
					Capital outlay
10,888,261	11,336,693	11,932,672	11,111,792	10,502,253	Debt service:
5,936,066	6,061,070	5,495,314	5,546,302	5,092,904	Principal retirement
114,785,543	106,515,023	95,823,986	91,945,709	95,161,068	Interest and fiscal charges
					Total education, primary government
1,578,504	1,697,930	2,155,086	2,065,489	2,201,996	Debt service:
696,081	514,194	862,522	1,518,217	2,001,749	Principal retirement
31,161	360,492	287,099	326,444	35,649	Interest and fiscal charges
232,371,728	245,384,190	223,227,090	213,839,468	214,074,438	Bond issuance costs
(18,577,311)	(30,377,056)	(17,117,637)	(7,122,754)	(12,976,384)	Total expenditures
					Excess of revenues over (under) expenditures
16,327,577	16,039,580	9,930,074	9,196,315	10,061,563	OTHER FINANCING SOURCES (USES)
(16,557,255)	(16,372,661)	(10,130,777)	(9,530,584)	(10,254,452)	Transfers in
14,614,880	21,679,548	27,228,580	12,809,071	6,471,989	Transfers out
-	24,962,676	-	5,660,579	-	Bonds issued
-	(24,758,539)	-	(10,844,571)	-	Refunding bonds issued
-	-	-	7,327,036	-	Payments to escrow agent
14,385,202	21,550,604	27,027,877	14,617,846	6,279,100	Support agreement
(4,192,109)	(8,826,452)	9,910,240	7,495,092	(6,697,284)	Total other financing sources (uses)
					Net change in fund balances
11,459,039	22,252,664	18,214,702	13,066,182	7,641,249	County capital outlay (other than for education) contained in functional expenditure categories, above
9.6%	9.4%	10.5%	10.7%	9.9%	GASB 44 Debt Service Disclosure (primary government): (2)
					Debt service as a percentage of noncapital expenditures, primary government, governmental funds
292,793,745	307,559,903	296,946,733	289,156,980	295,486,002	Self-imposed debt margin compliance (total reporting entity): (1)
6.5%	6.5%	7.0%	7.1%	6.7%	Noncapital expenditures - total reporting entity
					Debt service as a percent of noncapital expenditures - total reporting entity

To assist the reader, the fiscal year 2012 percentages, calculated in accordance with the County's self-imposed debt margin, and with GASB 44, respectively, are as follows:

Debt Margin Information (1), (2)		
Fiscal Year 2011	Self-imposed	GASB 44
	Total	
	Reporting Entity (Note 1)	Primary Government (Note 2)
Total expenditures	\$ 312,514,730	214,074,438
Less:		
Capital Outlay	(17,028,728)	(14,232,858)
Noncapital expenditures	\$ 295,486,002	199,841,580
Debt service expenditures	\$ 19,834,551	19,834,551
As a % of noncapital expenditures	6.7%	9.9%

COUNTY OF HANOVER, VIRGINIA

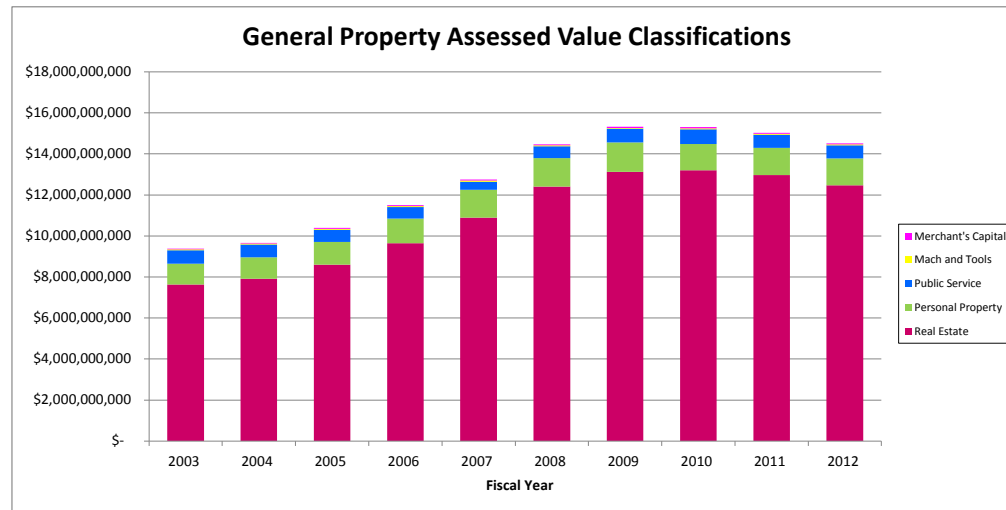
Table 5

Assessed Value and Estimated Actual Value of Taxable Property ^(1,2) (Unaudited)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools (3)	Merchant's Capital	Public Service Corporations (4)	Total Taxable Assessed Value	Total Direct Tax Rate (5)	Estimated Actual Taxable Value (6)	Taxable Assessed Value as a % of Actual Taxable Value
2003	\$ 7,637,172,050	\$ 1,011,227,278	\$ 44,844,800	\$ 37,327,513	\$ 650,801,107	\$ 9,381,372,748	1.14	\$ 10,437,673,444	89.9%
2004	7,911,038,250	1,052,222,261	43,715,905	37,951,150	618,887,688	9,663,815,254	1.16	10,734,661,024	90.0%
2005	8,602,251,150	1,104,271,432	44,360,770	42,696,180	599,353,434	10,392,932,966	1.17	11,517,095,356	90.2%
2006	9,642,919,834	1,207,102,828	43,255,420	45,487,432	557,153,154	11,495,918,668	1.16	12,689,954,469	90.6%
2007	10,887,416,600	1,360,895,130	51,135,605	48,916,675	398,554,972	12,746,918,982	1.14	13,888,502,922	91.8%
2008	12,406,058,400	1,394,357,395	47,647,920	51,861,300	570,955,157	14,470,880,172	1.08	15,673,250,517	92.3%
2009	13,125,005,050	1,437,119,361	43,260,613	50,228,645	664,757,197	15,320,370,866	1.07	16,533,565,376	92.7%
2010	13,200,604,700	1,289,239,482	49,736,420	53,188,390	710,146,172	15,302,915,164	1.05	16,555,688,273	92.4%
2011	12,976,492,850	1,317,726,666	46,767,920	56,331,127	636,154,791	15,033,473,354	1.06	16,251,114,190	92.5%
2012	12,473,065,850	1,305,637,852	48,382,950	50,402,585	640,206,513	14,517,695,750	1.06	15,721,793,938	92.3%
% Change	-3.9%	-0.9%	3.5%	-10.5%	0.6%	-3.4%		-3.3%	
% Ch. Since 2003	63.3%	29.1%	7.9%	35.0%	-1.6%	54.8%		50.6%	
% of Total	85.9%	9.0%	0.3%	0.3%	4.4%	100.0%			

- Notes: (1) Assessed values of all classes of property approximate market value as of assessment date, unless otherwise noted, and is shown for each period for which taxes are levied.
(2) Real property is assessed as of January 1 each year, with the resulting taxes being payable in two equal installments, on June 5 and October 5. Personal property is assessed as of January 1 each year, with payment due on February 5 of the following year.
(3) Machinery and tools are assessed at 10% of cost.
(4) The assessed values of Public Service Corporation real and personal property are determined by the State Corporation Commission.
(5) The total direct tax rate for each fiscal year is per \$100 of assessed valuation, calculated on the weighted average basis.
(6) Market valuation estimates include: machinery and tools estimated at 90% of cost, real estate (including Public Service Corporation real estate) based on traditional 105% sales/assessment ratio, personal property based on 112% trade to book ratio.

Source: County of Hanover, Virginia Treasurer's Office



COUNTY OF HANOVER, VIRGINIA

Direct and Overlapping Property Tax Rates (Unaudited)

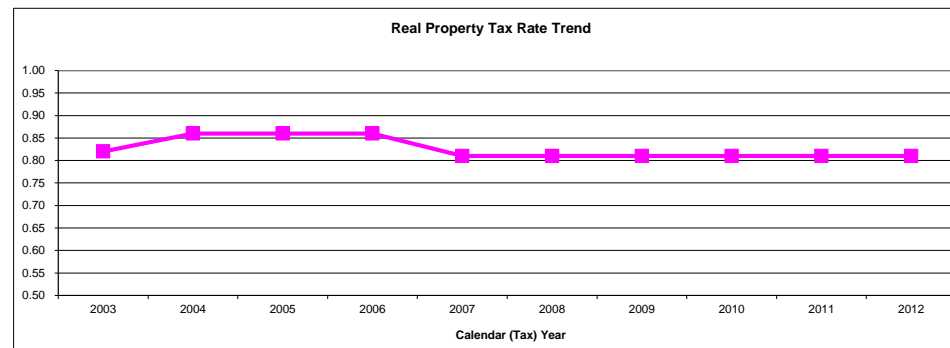
Last Ten Calendar (Tax) Years

Table 6

Calendar (Tax) Year (1)	County of Hanover, Virginia Direct Rates (1,2)							County Total Direct Tax Rate For each Fiscal Year Shown (3)	Town of Ashland (Overlapping Rates) (4)		
	Real Property	Power Generating Equipment	Personal Property	Fire and Rescue Volunteers	Aircraft	Machinery and Tools	Merchant's Capital		Real Property	Personal Property	Machinery and Tools
2003	0.82	0.45	3.64	1.82	1.00	3.64	1.90	1.14	0.09	0.77	0.77
2004	0.86	0.49	3.64	1.82	1.00	3.64	1.90	1.16	0.09	0.77	0.77
2005	0.86	0.49	3.64	1.82	1.00	3.64	1.90	1.17	0.09	0.77	0.77
2006	0.86	0.55	3.57	1.78	1.00	3.57	1.90	1.16	0.07	0.77	0.77
2007	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.14	0.07	0.77	0.77
2008	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.08	0.09	0.77	0.77
2009	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.07	0.09	0.77	0.77
2010	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.05	0.09	0.77	0.77
2011	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.06	0.09	0.77	0.77
2012	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.06	0.09	0.77	0.77
% Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% Ch. Since 2003	-1.2%	22.2%	-1.9%	-2.2%	-50.0%	-1.9%	0.0%	-7.0%	0.0%	0.0%	0.0%

- Notes: (1) The individual tax rates are per \$100 of assessed value, which is generally determined as of January 1 of each year, and are used to determine tax payments due within the same calendar (tax) year.
- (2) Real property taxes are payable in two equal installments, on June 5 and October 5. Personal property taxes are due on February 5 of the following calendar year.
- (3) The County prepares its budgets and its Comprehensive Annual Financial Report on a fiscal year basis (July 1 through June 30), as required by Section 15.2-2500 of the Code of Virginia, and levies taxes to support County activities for the fiscal year in which the tax payments are due. Accordingly, the Total Direct Tax Rates are applicable to the fiscal year for which the taxes are levied and due. The total direct tax rates are calculated per \$100 of assessed valuation and calculated on the weighted average basis.
- (4) These overlapping rates are in addition to the County rates, but only apply to taxpayers owning property within the borders of the Town of Ashland, Virginia, which lies within the County.

Source: Hanover County Commissioner of the Revenue's Office and Treasurer's Office and Town of Ashland



COUNTY OF HANOVER, VIRGINIA

Table 7

Principal Property Tax Payers (1) (Unaudited)

Current Year and Nine Years Ago

Taxpayer	Type of Business	2012			2003		
		General Property Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	General Property Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Doswell Limited Partnership	Power generation facility	\$ 275,527,206	1	1.9%	\$ 276,761,168	1	3.0%
Virginia Electric and Power Company	Electric company	150,913,119	2	1.0%	105,578,631	2	1.1%
Memorial Regional Medical Center	Hospital/medical center	126,262,670	3	0.9%	83,489,460	3	0.9%
Paramount Parks, Inc.	Entertainment	85,417,975	4	0.6%	72,548,295	4	0.8%
Verizon Virginia	Telecommunications	49,471,902	5	0.3%	61,268,466	6	0.7%
Bear Island Paper Company	Paper mill	46,038,950	6	0.3%	48,267,175	8	0.5%
Covenant Woods	Nursing home	42,074,420	7	0.3%	-	n/a	-
Richmond Newspapers, Inc./Media General, Inc.	Newspaper publisher	38,743,295	8	0.3%	72,442,725	5	0.8%
SuperValu	Food distributor	36,813,935	9	0.3%	51,115,865	7	0.5%
Virginia Natural Gas	Natural gas distributor	34,569,904	10	0.2%	25,416,612	9	0.3%
AMF, Inc.	Bowling manufacture	-	n/a	-	24,458,185	10	0.3%
		<u>\$ 885,833,376</u>		<u>6.1%</u>	<u>\$ 821,346,582</u>		<u>8.8%</u>
Total taxable assessed values		<u>\$ 14,517,695,750</u>			<u>\$ 9,381,372,748</u>		

Notes: (1) Source: Hanover County Commissioner of the Revenue's Office

(2) n/a = not applicable (taxpayer not in top 10 taxpayers of applicable year)

COUNTY OF HANOVER, VIRGINIA**Table 8**

Property Tax Levies and Collections (Unaudited)

Last Ten Fiscal Years

Fiscal Year	General Property Taxes Levied for the Fiscal Year (1,2)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	90,962,517	86,678,830	95.3%	4,261,497	90,940,327	100.0%
2004	98,276,555	95,328,641	97.0%	2,925,356	98,253,997	100.0%
2005	106,293,313	102,152,923	96.1%	4,113,538	106,266,461	100.0%
2006	117,153,995	113,003,453	96.5%	4,114,189	117,117,642	100.0%
2007	128,606,341	123,943,881	96.4%	4,353,106	128,296,987	99.8%
2008	139,951,410	134,776,945	96.3%	4,665,681	139,442,626	99.6%
2009	146,731,880	140,814,064	96.0%	4,776,821	145,590,885	99.2%
2010	142,757,714	137,896,486	96.6%	2,922,275	140,818,761	98.6%
2011	141,464,681	136,643,777	96.6%	2,329,676	138,973,453	98.2%
2012	138,147,691	136,569,536	98.9%	-	136,569,536	98.9%

Notes: (1) Source: County of Hanover, Virginia Treasurer's Office

- (2) Total tax levies include the Commonwealth of Virginia's personal property tax relief reimbursements, and are net of supplemental levies for prior fiscal years, abatements, land use deferrals and tax relief in each fiscal year. The levies exclude special assessments on behalf of the Bell Creek and Lewistown Community Development Authorities and curbside recycling districts.

COUNTY OF HANOVER, VIRGINIA

Ratios of Outstanding Debt by Type, and

Self-Imposed Debt Limit Information (3) (Unaudited)

Last Ten Fiscal Years

Table 9

Governmental Activities											
General Bonded Debt Outstanding (1)											
Fiscal Year	General Obligation Bonds	Virginia Public School Authority Bonds	State Literary Fund Loans	Total General Bonded Debt	Estimated Actual Value of Taxable Property	Bonded Debt to Estimated Actual Value of Taxable Property	Percent of General		General Bonded Debt per Capita	Capital Leases	Support Agreement
								Population (2)			
2003	\$ 71,530,000	\$ 43,158,143	\$ 10,839,000	\$ 125,527,143	\$ 10,437,673,444	1.2%	93,647	\$ 1,340	\$ 7,405,117	-	
2004	68,635,000	38,532,153	9,909,250	117,076,403	10,734,661,024	1.1%	95,459	1,226	5,456,935	-	
2005	64,740,000	50,093,709	9,079,500	123,913,209	11,517,095,356	1.1%	96,520	1,284	5,218,579	-	
2006	60,745,000	59,820,042	8,249,750	128,814,792	12,689,954,469	1.0%	98,126	1,313	4,427,857	-	
2007	78,260,000	54,136,732	7,519,000	139,915,732	13,888,502,922	1.0%	99,047	1,413	3,602,672	-	
2008	73,085,000	62,277,427	6,788,250	142,150,677	15,673,250,517	0.9%	99,713	1,426	2,739,169	-	
2009	87,370,000	56,032,984	6,156,000	149,558,984	16,533,565,376	0.9%	100,051	1,495	1,836,239	-	
2010	107,215,000	50,013,562	5,552,750	162,781,312	16,555,688,273	1.0%	100,408	1,621	3,330,677	-	
2011	112,595,000	44,863,770	-	157,458,770	16,251,114,190	1.0%	100,822	1,562	2,712,424	7,314,184	
2012	104,950,000	46,558,285	-	151,508,285	15,721,793,938	1.0%	101,586	1,491	2,355,572	6,681,332	
% Change	-6.8%	3.8%	0.0%	-3.8%	-3.3%	-0.5%	0.8%	-4.5%	-13.2%	-8.7%	
% Ch. Since 2003	46.7%	7.9%	-100.0%	20.7%	50.6%	-19.9%	8.5%	11.3%	-68.2%	100.0%	
Business-type Activities											
Total Primary Government											
Self-Imposed Debt Limit Information (3)											
Fiscal Year	Revenue Bonds	Support Agreement	Total Primary Government	Demographic Information		Total Primary Government Debt as a Percentage of Personal Income	Total Primary Government Debt Per Capita	Outstanding Debt Funded by General Governmental Expenditures (4)	Ratio of Outstanding Debt Funded by General Governmental Expenditures to Assessed Value (4)	Outstanding Debt Funded by General Governmental Expenditures per Capita (5)	Ratio of Total General Bonded Debt per Per Capita Income (6)
				Total Personal Income (2) (000's)	Per Capita Personal Income (2)						
2003	\$ 26,597,684	\$ -	\$ 159,529,944	\$ 3,354,845	\$ 35,824	4.8%	\$ 1,704	\$ 132,932,260	1.4%	\$ 1,420	\$ 3,504
2004	36,205,779	-	158,739,117	3,534,059	37,022	4.5%	1,663	122,533,338	1.3%	1,284	3,162
2005	33,868,168	-	162,999,956	3,758,827	38,944	4.3%	1,689	129,131,788	1.2%	1,338	3,182
2006	41,051,727	-	174,294,376	4,008,876	40,854	4.3%	1,776	133,242,649	1.2%	1,358	3,153
2007	40,953,945	-	184,472,349	4,306,337	43,478	4.3%	1,862	143,518,404	1.1%	1,449	3,218
2008	39,324,531	-	184,214,377	4,533,546	45,466	4.1%	1,847	144,889,846	1.0%	1,453	3,127
2009	37,228,336	-	188,623,559	4,350,581	43,484	4.3%	1,885	151,395,223	1.0%	1,513	3,439
2010	34,977,770	-	201,089,759	4,409,466	43,915	4.6%	2,003	166,111,989	1.1%	1,654	3,707
2011	22,226,555	10,562,075	200,274,008	4,427,647	43,915	4.5%	1,986	167,485,378	1.1%	1,661	3,585
2012	21,256,002	9,172,282	190,973,473	4,461,198	43,915	4.3%	1,880	160,545,189	1.1%	1,580	3,450
% Change	-4.4%	-13.2%	-4.6%	0.8%	0.0%	-5.4%	-5.4%	-4.1%	-0.7%	-4.9%	-3.8%
% Ch. Since 2003	-20.1%	-100.0%	19.7%	33.0%	22.6%	-10.0%	10.4%	20.8%	-22.0%	11.3%	-1.5%

Notes:

- (1) Bond amounts are reported gross, excluding premiums and/or discounts and deferred amounts on refundings. See Financial Statement Note IV-E for additional information on outstanding debt.
- (2) Population estimates at June 30th for each year from Hanover County Planning Department. Per Capita Personal Income is calculated by dividing Personal Income by the population estimate for each fiscal year. Personal income data for 2003 through 2009 (the last year available) is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce. Per Capita Personal Income for 2011 and 2012 is assumed to be equal to 2010, the last year for which Personal Income data is available from the U.S. Department of Commerce. Personal Income amounts for 2011 and 2012 are calculated by multiplying the population estimates by the Per Capita Personal Income estimates for each year.
- (3) **Self-imposed debt limit information:**
The Commonwealth of Virginia does not impose a legal limit on the amount of long-term indebtedness the County can incur or have outstanding. The Board of Supervisors, however, has imposed limits in the County's Debt Policy. These limits, and relevant information pertaining to them are described in this table, and on Table 4 of this Statistical Section.
- (4) The County's debt policy provides that outstanding debt funded by general government expenditures as a percentage of Assessed Value will not exceed 2.5 percent. Outstanding debt funded by general governmental expenditures includes general bonded debt, governmental activity capital lease obligations, and governmental activities support agreements presented above.
- (5) The County's debt policy provides that outstanding debt funded by general government expenditures per Capita will not exceed \$1,900 at June 30, 2007, growing at two percent annually (\$2,098 for fiscal year 2012). The policy ceiling was \$1,400 through 2005, and \$1,800 for 2006.
- (6) The County's debt policy provides that general bonded debt per Per Capita Income will not exceed \$5,000.

COUNTY OF HANOVER, VIRGINIA**Table 10**

Direct and Overlapping Governmental Activities Debt (Unaudited)

June 30, 2012

	<u>Governmental Unit</u>	<u>General Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable to County of Hanover</u>	<u>Estimated Share of Direct and Overlapping Debt</u>	<u>Legal Debt Margin</u>
Overlapping debt (2)	Town of Ashland	\$ 205,000	80.5%	\$ 165,042	
Direct debt (1)	County of Hanover	151,508,285		151,508,285	(3)
Total direct and overlapping debt				<u>\$ 151,673,327</u>	

Notes: (1) Amounts for bonds are reported gross, excluding premiums and/or discounts and deferred amounts on refunding.

(2) The estimated percentage of the Town of Ashland's net general bonded debt outstanding applicable to the County is based upon a 1996 agreement under which the County assumed ownership of the Town's water and sewer system, and agreed to reimburse the Town for 80.5 percent of the debt service on the applicable water and sewer bonds.

(3) Counties in the State of Virginia are not subject to a legal debt margin. See information on self-imposed debt limits on Tables 4 and 9 in this Statistical Section.

COUNTY OF HANOVER, VIRGINIA

Pledged Revenue Coverage (1) (Unaudited)
Last Ten Fiscal Years

Table 11

Utility - Water and Sewer Revenue Bonds

Utility - Water and Sewer Revenue Bonds						Net Available Revenues Coverage (5)	Utility - Debt Covenant Coverage Ratio (1,2,6)			
Fiscal Year	Utility Revenues (3,8)	Less: Operating Expenses (4)	Net Available Revenues	Debt Service Requirements			Debt Service		Debt Covenant Coverage Test	
				Principal	Interest		Senior Debt Service	Subordinate Debt Service		
2003	\$ 22,019,995	\$ 10,739,603	\$ 11,280,392	\$ 1,194,006	\$ 979,335	5.2	\$ 1,221,541	\$ 951,800	4.8	
2004	20,204,934	11,575,054	8,629,880	1,804,612	1,178,264	2.9	1,996,845	986,031	2.6	
2005	22,269,236	13,583,502	8,685,734	2,380,906	1,487,739	2.2	3,076,445	792,200	2.0	
2006	24,926,132	14,357,272	10,568,860	1,595,163	1,350,519	3.6	2,750,338	195,344	3.1	
2007	24,793,867	14,376,026	10,417,841	2,033,671	1,680,484	2.8	3,513,740	200,415	2.5	
2008	34,519,573	15,127,475	19,392,098	2,254,088	1,572,342	5.1	3,622,625	203,805	4.4	
2009	25,584,480	16,429,026	9,155,454	2,304,393	1,328,738	2.5	3,461,496	171,635	2.2	
2010	24,194,254	17,331,485	6,862,769	2,257,626	1,369,346	1.9	3,459,711	167,261	1.7	
2011	25,293,064	15,245,233	10,047,831	2,385,498	1,286,239	2.7	3,501,011	170,726	2.4	
2012	24,767,507	16,260,265	8,507,242	2,407,847	1,033,888	2.5	3,275,615	166,120	2.2	
% Change			-15.3%	0.9%	-19.6%	-9.7%	-6.4%	-2.7%	-9.7%	
% Ch. Since 2003			-24.6%	101.7%	5.6%	-52.4%	168.2%	-82.5%	-54.8%	

Airport Revenue Bond

Fiscal Year	Rent received from Airport Fixed Base Operator	Less: Operating Expenses	Net Available Revenues	Debt Service Requirements		Available Revenues Coverage (5)	Airport - Debt Covenant Coverage Ratio (1,7)			
							Rent Received	Restricted cash - (used during current FY or available at FYE for debt service)	Lessee irrevocable letter of credit pledged for satisfaction of debt covenant ratio	Debt Covenant Coverage Test
2008	\$ 61,039	\$ -	\$ 61,039	\$ 26,396	\$ 70,922	0.6	\$ 61,039	\$ 156,081	\$ 36,000	2.6
2009	88,093	-	88,093	54,820	89,158	0.6	88,093	156,081	36,000	1.9
2010	152,748	-	152,748	57,640	86,337	1.1	152,748	12,361	36,000	1.4
2011	157,330	-	157,330	60,605	83,372	1.1	157,330	-	36,000	1.3
2012	162,050	-	162,050	63,723	80,254	1.1	162,050	-	36,000	1.4
% Change			3.0%	5.1%	-3.7%	3.0%	3.0%	0.0%	0.0%	2.4%
% Ch. Since 2008			165.5%	141.4%	13.2%	79.4%	165.5%	-100.0%	0.0%	-47.1%

Notes: (1) Further information on the County's revenue bonds can be found in Note IV-E to the accompanying basic financial statements.

(2) For comparability, the utility debt covenant coverage test for 2003 through 2005 has been restated to comply with current water and sewer system revenue bond covenants. The County was in compliance with all utility debt coverage ratios applicable to those years before restatement, as demonstrated in the statistical sections of the Comprehensive Annual Financial Reports for those years.

(3) Utility revenues exclude donated capital assets.

(4) Utility operating expenses exclude depreciation.

(5) The net available revenues coverage equals net available revenues divided by total debt service requirements.

(6) The utility debt covenant coverage ratios assist users to assess the County's legal compliance with its utility debt service covenant requirements. The County's water and sewer revenue bonds debt covenant requires the ratio of utilities net available revenues divided by the sum of 115% of senior debt service and 100% of subordinate debt service to exceed 1.0.

(7) During fiscal 2007, the County issued an airport revenue bond, secured by rent from the airport's fixed base operator. The airport bond had no debt service requirement or debt covenant requirement for fiscal 2007. Beginning in fiscal year 2008, the County's airport debt covenant required the ratio of the sum of rent received from the airport's fixed base operator, restricted cash used during the fiscal year (FY) or available at fiscal year-end (FYE) for airport bond debt service, and the amount of any lessee irrevocable letter of credit, divided by the airport bond principal and interest paid during the fiscal year to equal or exceed 1.25. The lease agreement with the airport's fixed base operator contains scheduled rent increases consistent with the availability of the property to the lessee, designed to meet the debt covenant coverage requirement during the lease term.

(8) Utility revenues do not include exercise of oversize credits, which are reported as capital contributions on Exhibit 8 of the financial statements.

COUNTY OF HANOVER, VIRGINIA
Demographic Statistics (Unaudited)
Last Ten Fiscal Years

Table 12

Fiscal Year	Population (1)	Personal Income (1) (000's)	Per Capita Personal Income (1)	Median Age (2)	Unemployment Rate (3)	School Enrollment (4)	School Instructional Positions (5)	School Enrollment to Instructional Positions Ratio
2003	93,647	\$ 3,354,845	\$ 35,824	37.4	3.2%	17,580	1,315	13.4
2004	95,459	3,534,059	37,022	37.4	3.0%	17,979	1,381	13.0
2005	96,520	3,758,827	38,944	39.5	2.9%	18,150	1,434	12.7
2006	98,126	4,008,876	40,854	39.2	2.5%	18,518	1,485	12.5
2007	99,047	4,306,337	43,478	38.9	2.5%	18,844	1,563	12.1
2008	99,713	4,533,546	45,466	40.4	3.5%	18,686	1,577	11.8
2009	100,051	4,350,581	43,484	41.1	6.6%	18,566	1,614	11.5
2010	100,408	4,409,466	43,915	41.0	6.5%	18,420	1,569	11.7
2011	100,822	4,427,647	43,915	41.0	5.8%	18,191	1,492	12.2
2012	101,586	4,461,198	43,915	41.0	5.7%	18,125	1,490	12.2
% Change	0.8%	0.8%	0.0%	0.0%	-1.7%	-0.4%	-0.1%	-0.2%
% Ch. Since 2003	8.5%	33.0%	22.6%	9.6%	78.1%	3.1%	13.3%	-9.0%

Notes: (1) Population estimates at June 30th for each year from Hanover County Planning Department. Per Capita Personal Income is calculated by dividing Personal Income by the population estimate for each fiscal year. Personal income data for 2003 through 2010 (the last year available) is obtained from the U. S. Department of Commerce, Bureau of Economic Analysis. Per Capita Personal Income for 2011 and 2012 is assumed to be equal to 2010, the last year for which Personal Income data is available from the U.S. Department of Commerce, Bureau of Economic Analysis. Personal Income amounts for 2011 and 2012 are calculated by multiplying the population estimates by the Per Capita Personal Income estimates for each year.

(2) U. S. Department of Commerce, Census Bureau

(3) Virginia Employment Commission

(4) Hanover County School Board (30th day enrollment for school fiscal year).

(5) Hanover County School Board (instructional positions include teachers, guidance counselors, librarians and other instructional-related positions).

COUNTY OF HANOVER, VIRGINIA

Table 13

Principal Employers (1) (Unaudited)
Current Year and Nine Years Ago

Employer	Type of Business	2011			2002		
		Employees	Rank	Percentage of Total County Employment (2)	Employees	Rank	Percentage of Total County Employment (2)
Hanover County Schools	Education	2,544	1	4.8%	2,102	1	4.3%
Bon Secours Memorial Regional Medical	Hospital/Medical Center	1,000 and over	2	3.8%	1,000 and over	2	4.1%
County of Hanover	Government	1,106	3	2.1%	893	4	1.8%
New Caps LLC	Entertainment Payroll Services	500-999	4	1.4%	n/a		
Randolph-Macon College	Education	500-999	5	1.4%	500-999	6	1.5%
Tyson Foods	Food Manufacturing	500-999	6	1.4%	1,000 and over	3	4.1%
SuperValu	Food Distributor	500-999	7	1.4%	500-999	5	1.5%
Paramount Kings Dominion	Entertainment	500-999	8	1.4%	500-999	7	1.5%
Wal-Mart Stores	Retail	250-499	9	0.7%	500-999	8	1.5%
Sales Mark	Wholesale Electronic Markets	250-499	10	0.7%	n/a		
Culpeper Star Exponent	Newspaper Publisher	n/a			250-499	9	0.8%
Ukrops	Food and Beverage Stores	n/a			250-499	10	0.8%
Totals				19.3%			22.0%
Total County Employment (3)		52,612			48,700		

- Notes:
- (1) Sources: County and Schools employment levels provided by the Hanover County Department of Finance and Management Services, Budget Division. Other data provided by the Virginia Employment Commission (VEC). Employment levels represent full-time equivalents. The most recent year for which this data is available is 2011.
 - (2) Employment ranges for the private sector are as published by the VEC to ensure confidentiality. Percentages are based on the midpoint of the employment range.
 - (3) VEC Annual not Seasonally Adjusted Labor Force

COUNTY OF HANOVER, VIRGINIA

Full-time Equivalent Government Employees by Function (1) (Unaudited)
Last Ten Fiscal Years

Table 14

Function/Program	Full-time Equivalent Employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary government:										
General governmental administration	124	126	131	135	138	140	145	141	137	132
Judicial administration	47	49	52	54	54	57	59	59	57	57
Public safety	341	345	381	415	433	457	472	474	464	462
Public works	60	61	64	66	71	73	73	73	60	88
Human services	211	214	220	230	235	221	227	226	198	189
Parks, recreation and cultural	42	42	45	46	47	49	50	50	37	37
Community development	31	31	32	31	33	34	31	35	29	29
Public utilities	88	88	92	92	93	95	96	96	95	95
Fleet management (2)	26	26	26	26	27	28	29	29	29	-
Self insurance fund	-	-	-	-	-	-	1	1	1	1
Totals - Primary government	970	982	1,043	1,095	1,131	1,154	1,183	1,184	1,107	1,090
Component Unit:										
School Board	2,373	2,548	2,673	2,713	2,827	2,903	2,973	2,678	2,544	2,532
Total:	3,343	3,530	3,716	3,808	3,958	4,057	4,156	3,862	3,651	3,622

Notes: (1) Source: Hanover County Department of Finance and Management Services, Budget Division.
(2) In FY12, Facilities Management, General Services, and Fleet Management were merged together as General Services. Fleet Management is now part of the General Fund and no longer an Internal Service Fund.

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary government:										
General governmental administration										
Number of registered voters	56,000	56,000	58,741	62,960	63,059	65,290	67,322	68,294	68,968	69,752
Number of real estate transfers	4,024	4,024	3,689	3,490	3,293	3,564	2,173	2,874	2,800	2,858
State income tax returns processed	25,000	25,000	12,529	10,200	12,225	10,790	8,038	7,757	7,545	8,696
Judicial administration										
Judgments docketed	2,230	2,540	2,513	3,104	3,330	3,330	3,388	3,740	4,321	4,037
Public safety										
Sheriff incidents	47,089	49,788	49,783	46,259	42,340	42,928	41,863	40,189	46,077	38,819
Number of sworn officers	158	160	170	180	189	196	201	201	201	201
Fire/EMS incidents	9,151	8,725	8,789	9,401	10,712	7,954	10,735	11,705	13,381	14,216
Animal control incidents	6,946	6,169	6,720	6,866	8,018	7,881	8,508	7,029	6,720	6,485
Commercial building plan reviews	303	358	532	467	517	624	414	439	377	415
Residential building plan reviews	1,727	1,643	1,518	1,608	1,427	1,330	1,051	1,025	1,092	1,098
Public works										
Tons of solid waste received	34,600	34,600	37,714	37,710	37,086	39,306	38,243	37,700	37,600	36,868
Tons of solid waste recycled	-	-	14,342	13,716	14,000	13,300	17,000	18,000	18,500	23,474
Human services										
Communicable disease visits/investigations	300	300	585	873	689	533	969	429	262	259
Immunization visits (3)	3,300	3,300	1,650	1,005	693	501	358	9,454	1,210	217
Restaurant inspection visits	330	330	689	590	1,068	1,449	1,024	560	894	663
Social services lobby visits	9,866	9,866	9,764	9,425	10,150	12,143	16,271	15,377	17,632	20,068
Social services telephone calls received	43,288	43,288	35,950	30,521	28,206	22,413	25,679	24,089	25,997	29,323
Number of Hanover Youth Service Council (HYSC) projects	38	29	30	26	30	36	34	39	48	48
HYSC Volunteer hours reported	602	594	618	508	762	711	780	1,406	1,793	1,847
County employees United Way contribution	45,943	45,943	51,958	55,344	60,115	64,896	60,294	60,945	56,816	54,522
Parks, recreation and cultural										
Active Library borrowers	37,641	37,641	45,422	49,311	52,657	50,149	56,968	65,558	74,382	57,864
Internet sessions	41,765	41,765	61,023	66,218	70,189	72,130	84,423	114,945	150,295	103,700
Library reference questions answered	-	-	148,470	169,834	193,942	214,409	240,776	295,810	356,454	271,324
Community development										
Economic development services to existing/prospective businesses	410	410	455	423	350	350	311	311	311	284
Public utilities										
Water customers	17,918	18,389	18,825	19,260	19,472	19,742	19,930	20,125	20,381	20,592
Wastewater customers	16,143	16,597	17,001	17,384	17,661	17,931	18,178	18,367	18,604	18,816
Daily average water distributed (million gallons/day)	6.20	6.52	6.35	7.30	8.80	8.50	8.20	8.70	9.04	8.70
Maximum daily water capacity (million gallons/day)	16.00	16.00	19.95	19.95	19.95	19.95	19.95	19.95	19.95	19.95
Daily average wastewater treatment (million gallons/day)	5.80	6.06	6.29	5.43	6.20	5.60	6.70	6.93	6.94	6.07
Maximum daily capacity of wastewater treatment plant (mg/d)	8.48	8.48	13.48	13.48	13.50	13.50	13.50	15.50	15.50	15.50
General services										
School buses serviced	261	261	302	305	302	301	309	311	303	305
Public safety vehicles serviced	371	371	410	420	425	434	433	442	438	420
Fleet availability	96%	96%	97%	96.5%	96.8%	96.7%	97.0%	97.0%	96.2%	95.4%

Notes: (1) Source: County Departments as identified above.
(2) Information not available prior to first year reported. Operating indicators for the School Component Unit are presented on the Demographic Information schedule.
(3) Variability in number of immunization visits from year to year due to various factors. H1N1 immunizations primary factor for volume of visits in 2010.

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary government:										
General governmental administration										
Estimated square feet- all general administrative office space	42,552	42,552	42,552	42,552	42,552	43,436	43,436	43,436	47,436	47,436
Judicial administration										
Estimated square feet - all judicial buildings	40,796	40,796	40,796	40,796	58,460	58,460	58,460	58,460	58,460	58,460
Public safety										
Estimated square feet - all public safety buildings	177,577	177,577	177,577	177,577	177,577	177,577	200,804	208,804	213,447	213,447
Number of sheriff's stations	1	1	1	1	1	1	1	1	1	1
Correctional facility inmate capacity	429	429	429	429	437	437	437	437	437	437
Number of fire/EMS stations	16	16	16	16	16	16	16	16	16	16
Public works										
Estimated square feet - all public works	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,565
Number of solid waste convenience centers	6	6	6	6	6	6	6	6	6	6
County Airport - acres in facility	210	210	210	232	232	232	232	232	257	257
Aircraft hanger spaces - County Airport	40	40	40	40	46	54	54	54	54	54
Aircraft tie-down spaces	56	56	56	56	56	56	56	56	56	56
Length of runway (ft)	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400
Human services										
Estimated square feet of facilities	53,120	53,120	53,120	53,120	53,120	53,120	52,939	52,939	62,939	62,939
Parks, recreation and cultural										
Number of County parks/boat launch	11	11	11	11	12	14	14	14	14	14
Park acreage (2)	705	705	756	756	809	1,081	1,116	1,116	1,190	1,282
Public utilities										
Miles of water mains	310	351	354	355	366	380	387	389	398	412
Number of fire hydrants	1,825	1,826	1,915	1,941	2,041	2,162	2,245	2,309	2,367	2,422
Miles of sanitary sewers	303	333	346	348	347	356	360	362	369	379
Number of wastewater treatment plants	3	4	4	4	4	4	4	4	4	4
General services										
Number of vehicles maintained	969	982	1,075	1,085	1,100	1,145	1,200	1,220	1,204	1,210
School Board Component Unit:										
Number of elementary schools	13	13	13	13	14	14	15	15	15	15
Number of secondary schools	7	8	8	8	8	8	8	8	8	8
Alternative Education Facility	-	-	-	-	-	1	1	1	1	1
Number of Technology Centers	-	-	-	-	-	-	1	1	1	1

- Notes: (1) Source: County Departments as identified above.
(2) 2011 - North Anna Battlefield Park increased in acreage due to donation by Martin Marietta. Ashland Trolley Line donated to Town of Ashland.
2012 - North Anna Battlefield Park increased in acreage due to donation by Martin Marietta.



COMPLIANCE SECTION

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Passed Through the Commonwealth of Virginia:			
Department of Agriculture and Consumer Services:			
National School Lunch Program - Cafeteria (commodities)	10.555	\$ 257,270	
Department of Education:			
School Breakfast Program	10.553	281,811	
National School Lunch Program	10.555	1,117,042	
Total Child Nutrition Cluster			\$ 1,656,122
Department of Health:			
Child & Adult Care Food Program	10.558		32,730
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	562,237	
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	229	
Total SNAP Cluster			562,466
DEPARTMENT OF DEFENSE:			
Direct Payments:			
JROTC	12.000		203,886
DEPARTMENT OF THE INTERIOR:			
Direct Payments:			
Payments in Lieu of Taxes (PILT)	15.226		2,221
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607		37,825
Passed Through the Commonwealth of Virginia:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program (11-E1220LO10, 12-A2449BY10, 11-A2132AD08)	16.738	5,764	
Total JAG Program Cluster			5,764
Department of Social Services:			
Crime Victim Assistance (SVC-09-038-28)	16.575		27,890
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Department of Aviation:			
Airport Improvement Program	20.106		312,677
Passed Through the Commonwealth of Virginia:			
Department of Transportation:			
Highway Planning and Construction	20.205	419,189	
Total Highway Planning and Construction Cluster			419,189
Department of Motor Vehicles:			
Alcohol Open Container Requirements (154AL-2012-52075-4453)	20.607		147,014
ENVIRONMENTAL PROTECTION AGENCY:			
Passed Through the Commonwealth of Virginia:			
Virginia Department of Environmental Quality:			
Congressional Mandated Projects	66.202		141,478
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		33,002
DEPARTMENT OF ENERGY:			
Direct Payments:			
ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128		156,764
DEPARTMENT OF EDUCATION:			
Passed Through the Commonwealth of Virginia:			
Department of Education:			
Adult Education - Basic Grants to States (V002A080046)	84.002		131,763
Title I Grants to Local Educational Agencies (S010A080046)	84.010	894,918	
Total Title I, Part A Cluster			894,918
Career and Technical Education - Basic Grants to States (V0488A080046)	84.048		154,164
Special Education Grants to States (H027A080107; H027A090107/FFY09)	84.027	3,414,875	
Special Education Preschool Grants (H173A080112)	84.173	78,075	
ARRA - Special Education Grants to States, Recovery Act (H391A090107)	84.391	533,477	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	16,712	
Total Special Education Cluster (IDEA)			4,043,139
English Language Acquisition Grants	84.365		9,522
Improving Teacher Quality State Grants (S367A080044)	84.367		349,708
Education Jobs Fund	84.410		3,500,609

Continued

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF EDUCATION, CONTINUED:			
Department of Behavioral Health & Developmental Services:			
Special Education - Grants for Infants & Families (720C-04118-07-13)	84.181	\$ 109,978	
ARRA - Special Education - Grants for Infants & Families	84.393	47,893	
Total Early Intervention Services (IDEA) Cluster			\$ 157,871
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Head Start (03CH0337)	93.600	837,200	
Total Head Start Cluster			837,200
Passed Through the Regional Drug Free Alliance:			
Drug-Free Communities Support Program Grants	93.276		2,453
Passed Through the Commonwealth of Virginia:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556		27,840
Temporary Assistance for Needy Families	93.558	350,118	
Total TANF Cluster			350,118
Refugee & Entrant Assistance, State Administered Programs	93.566		852
Low-Income Home Energy Assistance	93.568		12,799
Child Care and Development Block Grant	93.575	145,056	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	82,816	
Total CCDF Cluster			227,872
Chafee Education and Training Vouchers Program (ETV)	93.599		2,361
Stephanie Tubbs Jones Child Welfare Services Program	93.645		872
Foster Care, Title IV-E	93.658		370,969
Adoption Assistance	93.659		194,765
Social Services Block Grant	93.667		188,586
Chafee Foster Care Independence Program	93.674		6,998
Department of Medical Assistance Services:			
Children's Health Insurance Program	93.767	120,253	
Department of Behavioral Health and Developmental Services:			
Children's Health Insurance Program	93.767	7,595	
Total Children's Health Insurance Program			127,848
Department of Medical Assistance Services:			
Medical Assistance Program	93.778	613,292	
Department of Behavioral Health and Developmental Services:			
Medical Assistance Program	93.778	87,914	
Total Medicaid Cluster			701,206
Block Grants for Community Mental Health Services (44506-50138)	93.958		65,234
Block Grants for Prevention and Treatment of Substance Abuse (44501-50148 & 50178; 720C-04220-09M06)	93.959		391,047
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Staffing for Adequate Fire & Emergency Response (SAFER)	97.083		425,653
Passed Through the United Way:			
Emergency Food and Shelter National Board Program	97.024	1,750	
Total Emergency Food and Shelter Program Cluster			1,750
Passed Through the Commonwealth of Virginia:			
Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		29,087
Interoperable Emergency Communications	97.055		25,258
State Homeland Security Program (SHSP)	97.073		7,154
			<u>\$16,978,643</u>

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule or SEFA) includes all federal grant activity of the County of Hanover, Virginia (the County), and its component units. The County's reporting entity is defined in Note 1 of the County's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies or not-for-profit organizations, is included on the Schedule.

2. BASIS OF ACCOUNTING

The Schedule is presented using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, as described in Note I. C. to the County's basic financial statements. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. For the year ended June 30, 2012, the County participated in the following federal programs in which non-cash benefits were provided through the State to eligible participants:

National School Lunch Program – Cafeteria (Commodities) (CFDA Number 10.555) – The value of food commodities was calculated using the U.S. Department of Agriculture's Food and Nutrition Service commodity price lists.

Supplemental Nutrition Assistance Program (CFDA Number 10.551) – The Virginia Department of Social Services uses an Electronic Benefits Transfer (EBT) process for Supplemental Nutrition Assistance benefit distribution. Due to the State administration of the EBT process, those benefits are not included in the Schedule.

3. AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA, or Recovery Act) was signed into law on February 17, 2009. As of June 30, 2012, the County has been both a direct recipient and a sub-recipient of ARRA funds, and has separately identified the expenditure of these Federal awards on the accompanying Schedule by inclusion of the prefix "ARRA" in the grant program name.

Pursuant to the Recovery Act, the County is required to report all direct ARRA awards received and expended on a cumulative basis, to www.FederalReporting.gov, by the 10th day after each calendar quarter. Citizens may access the ARRA reports at www.Recovery.gov.

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

4. RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

GASB Statement No. 33 provides that grant revenue should be recognized when all applicable eligibility requirements are met, and, under modified accrual accounting, when the resources are available. Therefore, the proceeds of grants which do not specify time requirements, and for which all other eligibility requirements have been met, are recognized as revenues in the current fiscal year. Expenditures, however, are recognized in the fiscal year spent for the required purpose. In addition, direct Federal interest rate subsidies related to the County's Build America Bonds totaling \$272,459 and amounts received related to the Early Retiree Reinsurance Program totaling \$243,079 are included in revenues from the Federal government in the General Fund, but are not subject to the Single Audit Act and are not reported on the SEFA. The following schedule reconciles revenue from the Federal government per the basic financial statements to Federal expenditures per the Schedule.

Revenue from the Federal government - financial statements	\$ 17,647,067
Less: Direct Federal interest rate subsidies	(272,459)
Early Retiree Reinsurance Program	(243,079)
Add (subtract) Federal awards revenue recognized:	
In prior fiscal years, spent this fiscal year	363,114
In current fiscal years, but not spent	(516,000)
Expenditures of Federal awards per the Schedule	<u>\$ 16,978,643</u>

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with amounts reported in the related federal financial reports, except that certain federal financial reports are prepared on the cash basis of accounting and the Schedule is prepared on the basis of accounting described in the preceding note 2.



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Richmond, VA 23219-4023

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 26, 2012



KPMG LLP
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1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the County of Hanover, Virginia's (the County) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on The County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over



compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 26, 2012



KPMG LLP
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1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the County is the responsibility of the management of the County. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with such provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The following is a summary of the Commonwealth of Virginia laws, regulations, contracts, and grants (as specified in the Specifications, Chapters Two and Three) for which we performed tests of compliance:

Code of Virginia

- Property Taxes and Property Taxes Receivable
- Intergovernmental Revenues
- Intergovernmental Agreements
- Budget and Appropriations Laws
- Cash and Investments
- Conflicts of Interest



- Debt Provisions
- Retirement Systems
- Procurement
- Unclaimed Property

State Agency Requirements

- Education
- Comprehensive Youth Services Act
- Social Services

The results of our tests did not disclose any instances of noncompliance with those requirements which are required to be reported in accordance with the Specifications.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, the Auditor of Public Accounts of the Commonwealth of Virginia, and the applicable state agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 26, 2012

COUNTY OF HANOVER, VIRGINIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED OPINION**
2. Significant deficiencies in internal control over financial reporting disclosed by the audit of the basic financial statements: **NONE REPORTED**
3. Material weaknesses in internal control over financial reporting disclosed by the audit of the basic financial statements: **NONE**
4. Noncompliance, which is material to the basic financial statements: **NONE**
5. Significant deficiencies in internal control over major programs: **NONE REPORTED**
6. Material weaknesses in internal control over major programs: **NONE**
7. The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**
8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NONE**
9. The programs tested as major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128
ARRA - Early Intervention Services (IDEA) Cluster	84.181 and 84.393
ARRA - Special Education Cluster (IDEA)	84.027, 84.173, 84.391, 84.392
Education Jobs Fund	84.410

10. Dollar threshold to distinguish between Types A and B Programs: **\$509,359**
11. Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: **YES**

B. Findings - Financial Statement Audit in Accordance with *Government Auditing Standards*
NONE

C. Findings and Questioned Costs - Major Federal Awards
NONE

D. Findings and Questioned Costs – Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants
NONE

HANOVER COUNTY DEPARTMENT OF FINANCE AND MANAGEMENT SERVICES

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Director of Finance and Management Services

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Steven K. Rush, Purchasing Division Director
Trena A. Ponton, Purchasing Officer
Patti M. Beasley, Purchasing Officer

Hanover: People, Tradition and Spirit

HANOVER COUNTY



PEOPLE, TRADITION AND SPIRIT

OUR VISION

A place inspired by its people, tradition and spirit, which will be the premier community for people and businesses to achieve their full potential

OUR MISSION

To be a premier community by providing superior service through creativity, innovation and sound financial practices

OUR VALUES

Integrity

Accountability

Respect

Inclusiveness