

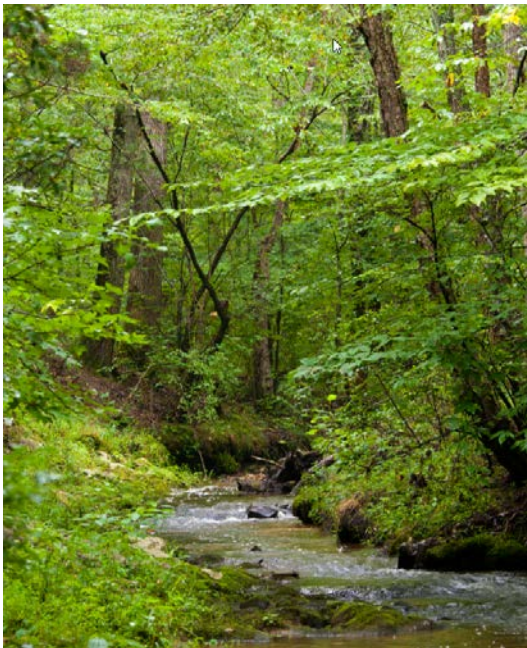


The Comprehensive Annual Financial Report

Hanover County, Virginia

For the year ended June 30, 2017

People, Tradition & Spirit



Hanovercounty.gov

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2017



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 Jacob A. Sumner, CMA, CGFM, 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.hanovercounty.gov.

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

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INTRODUCTORY SECTION

BOARD OF SUPERVISORS

ANGELA KELLY-WIECEK, CHAIRMAN
CHICKAHOMINY DISTRICT

SEAN M. DAVIS, VICE-CHAIRMAN
HENRY DISTRICT

WAYNE T. HAZZARD
SOUTH ANNA DISTRICT

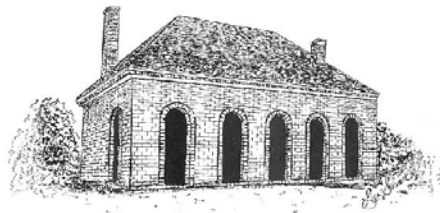
W. CANOVA PETERSON
MECHANICSVILLE DISTRICT

FAYE O. PRICHARD
ASHLAND DISTRICT

AUBREY STANLEY
BEAVERDAM DISTRICT

SCOTT A. WYATT
COLD HARBOR DISTRICT

CECIL R. HARRIS, JR.
COUNTY ADMINISTRATOR



HANOVER COURTHOUSE

HANOVER COUNTY

ESTABLISHED IN 1720

FINANCE AND MANAGEMENT SERVICES DEPARTMENT

JACOB A. SUMNER, CMA, CGFM
DIRECTOR

P. O. BOX 470
7496 COUNTY COMPLEX ROAD
HANOVER, VA 23069

SHELLY H. WRIGHT
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FINANCE DIVISION DIRECTOR

STEVEN K. RUSCH
PURCHASING DIVISION DIRECTOR

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WWW..HANOVERCOUNTY.GOV

November 15, 2017

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 the County of Hanover (the County) for the fiscal year ended June 30, 2017. 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 principles (GAAP) and audited in accordance with government auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. This CAFR has been prepared by the County's Department of Finance and Management Services in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB) and the Auditor of Public Accounts of the Commonwealth of Virginia (APA).

This CAFR 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 financial 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 CAFR 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 interested readers. All are encouraged to contact the Department of Finance and Management Services with any comments or questions concerning this financial report.

Hanover: People, Tradition and Spirit

The County's financial statements have been audited by Cherry Bekaert LLP, a firm of licensed certified public accountants. The independent auditors' responsibility is to express opinions on the County's financial statements based on their audit. The auditors conducted the audit in accordance with professional auditing standards, which require that the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The independent auditors concluded, based upon the audit evidence they obtained, that there was a reasonable basis for forming and expressing unmodified opinions that the County's financial statements as of and for the fiscal year ended June 30, 2017 are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report on the financial statements is presented as the first component of the Financial Section of this financial report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the requirements 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 report on the County's compliance with federal requirements for each major program as well as on internal control over compliance pursuant to the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, U.S. Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The independent auditors' report on the Single Audit for the County is available in the Compliance Section of this financial report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the 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 independent auditors' report on the financial statements.

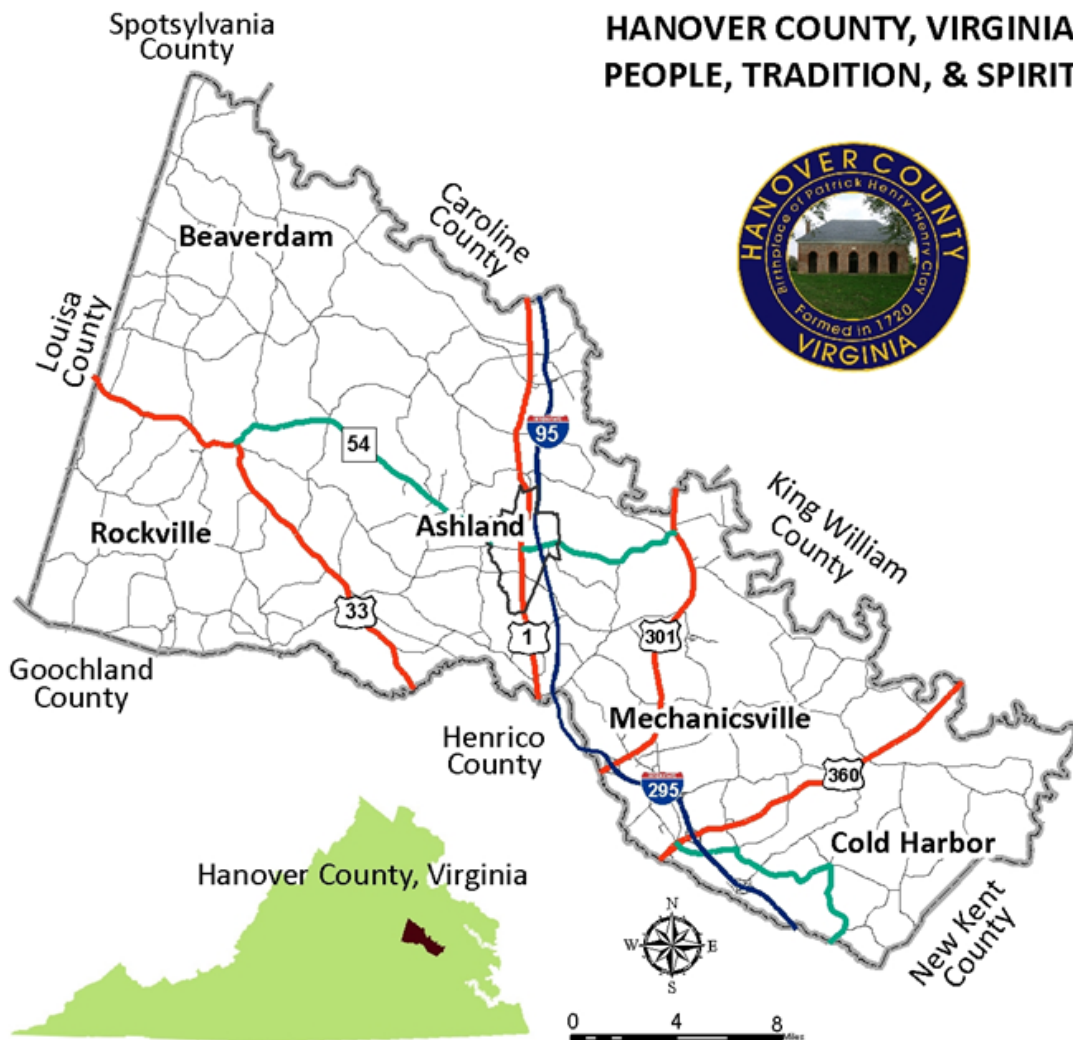
Profile of the County

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, 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,
Hanover: People, Tradition and Spirit

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. General Services provides property management of all County-owned, non-school related properties.

The Department of Social Services determines eligibility for public assistance programs, which are mandated by federal and State law and expenditures for services required by the Children's Services Act. The Community Services Board provides prevention, treatment, employment and support services for Hanover citizens and families with mental health, substance use and developmental disabilities. 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.

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 including the Town of Ashland), the Doswell area, the Route 33 area, and the Hanover Courthouse area. The County provides utility service to approximately 20,905 water and 20,343 wastewater customers.

The County provides education through its public school system administered by the Hanover County School Board (School Board) and promotes industry and commerce 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 1st 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.

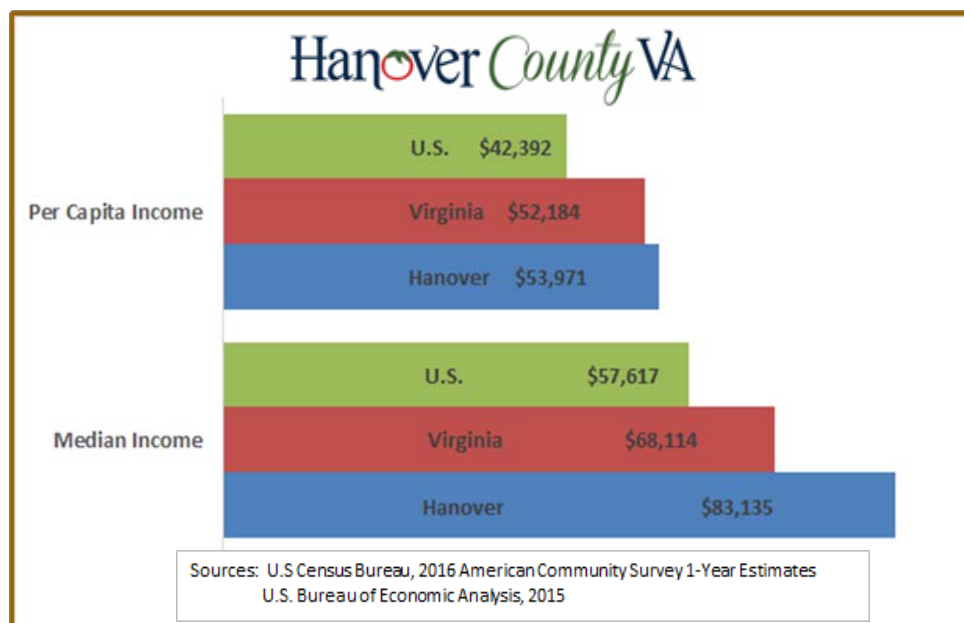
Factors Affecting Financial Condition

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. Hanover County's municipal bond rating continues to be AAA from the rating agencies, Fitch, Moody's and Standard & Poor's. All three agencies noted the County's sound financial management, solid economic indicators, low debt burden and strong reserves in affirming the AAA rating.

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.

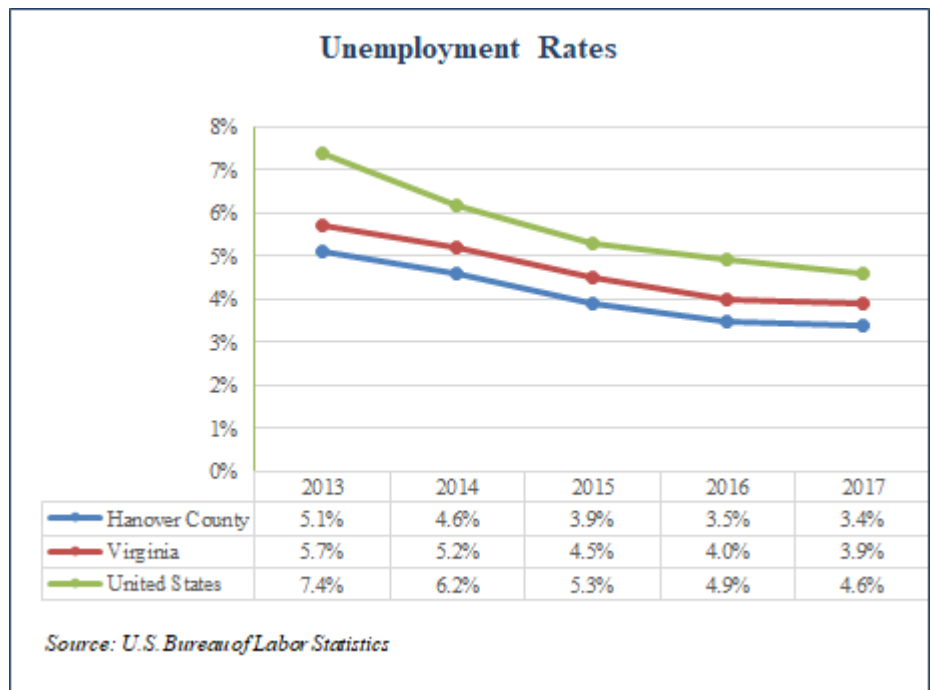
Hanover County has remained in a favorable financial position due in large part to the financial strength and diversification of the County's business community, its low reliance on federal jobs or procurement, its low debt levels and growing property tax base.



As the chart to the left illustrates, based on the most recent estimates available, Hanover enjoys a higher per capita income and median household income than the national and State averages. Comparatively, Hanover's per capita income of \$53,971 is consistent with the Commonwealth's \$52,184, while its median (mid-point) household income is 22.1% above the Commonwealth's and 44.3% above the national average. In addition, the U.S. Census Bureau's estimate of Hanover's mean (average) household income of

\$101,533 in 2016 is 8.1% above the Commonwealth's \$93,939 and 24.8% higher than the United States' of \$81,346.

The County also continues to attract and maintain diverse sectors of employment. Historically, the County's major employment sectors have been in retail, healthcare 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. This has contributed to Hanover's lowest unemployment rate since the recession and as illustrated in the chart comparably lower levels of unemployment than that of Virginia and the United States over the past five years.



Approximately 670 jobs were added bringing Hanover's job total to 55,000 this year. The County continues to target key industries poised for growth including: Professional Services, Advanced Manufacturing, Healthcare, and Supply Chain and Logistics. Within these growth industries, Hanover specifically works to recruit those with higher wage jobs.



Economic Development Update:

This marked a successful year for increased business investment in Hanover County. In 2016, commercial construction permits were issued at approximately \$49.0 million. Hanover County is home to approximately 3,200 businesses with 21 recent business expansions. Below is a few examples of the recent developments.

Hanover: People, Tradition and Spirit

Kings Dominion will be bringing online a new roller coaster, Twisted Timbers, in 2018, as well as “Winterfest” a winter wonderland attraction which will keep the park open from late October through December. The extended season is expected to attract between 100,000 and 200,000 visitors.

Communications Testing and Design Inc, a full-service, global engineering, repair and logistics company, moved into an 85,000 square foot space in Northlake. The Hanover facility will provide logistics and technical services to CTDI’s Mid-Atlantic Region clientele.

Absolute Stone Design, a fabricator and installer of natural and engineered stone products, expanded to a 40,000 square foot warehouse and showroom.

James River Cellars Winery is tripling their footprint in Hanover by expanding their operations to a 6,000 square foot facility to include a new wine tasting room and wine cellar.

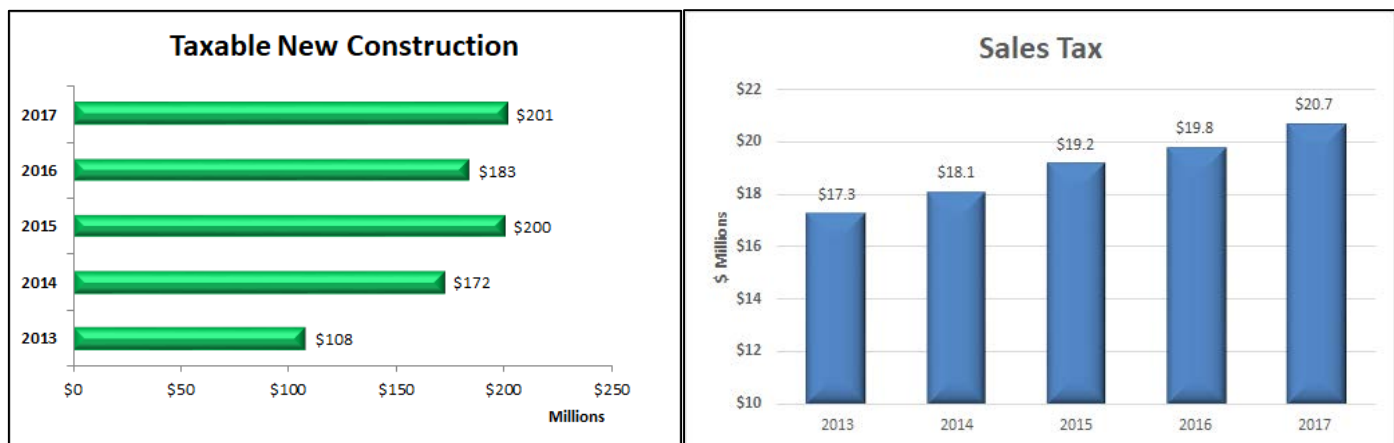
Pryor Technology based in Sheffield, England opened their first dedicated facilities in the United States by opening a 5,000 square foot facility in Hanover. Pryor creates marking, identification and traceability solutions through marking tools, lasers and dot peen marking machines.

Origin Beer Lab, created by the founders of COTU Brewery, opened a boutique style brewery in downtown Ashland catering to those looking for specialty and seasonal beers.

The Service Company of Virginia purchased a new facility in the Airpark and is a single source solution for building maintenance, construction, facility management, project management, HVAC, plumbing and electrical services.

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

As shown in the following charts, the fiscal health of our community and our local economy continues to be demonstrated with steady increases in our taxable new construction and taxable sales over a five year period.



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 2018 capital budget for County, School and Public Utilities projects is \$44.6 million. 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 2017 CIP includes 82.5% of "pay-as-you-go" funding (from non-debt sources).

- **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 Hanover County Financial Policies are approved by the County Administrator and adopted by the Board of Supervisors. These policies apply to all County and School funds except the School Activity Funds as defined by the Department of Education. The financial policies address the methods for accounting, internal controls, procurement, revenues and grant management, guidelines for appropriate fund balance to maintain positive financial position as well as debt issuance and post-issuance compliance. The financial policies prescribe budget formulation and sound financial practices that include the adoption of a Five-Year Financial Plan and the Capital Improvements Program (CIP). Additionally, the Board has adopted a joint Deposit and Investment policy between the County and the Treasurer, Deferred Compensation 457(b) and 403(b) Plan Investment. 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:

In January, Hanover County opened the new Courts Building which includes a number of security improvements along with six courtrooms and office space for the Commonwealth's Attorney and Clerk of the Circuit Court and other related offices. The new facility replaces the two separate courts buildings built in the 1970s. Renovation of the previous District Court building is currently underway and upon completion in fall 2018 will house the Commissioner

of the Revenue, Treasurer's Office and Department of Finance and Management Services.

A major roadway expansion project, Atlee Road Extended, was bid and awarded this year with construction currently underway. Connecting Atlee



Road to Atlee Station Road, the half mile extension includes a bridge over the railroad, new traffic signals and sidewalks and accommodations for bicycles.

This year Hanover County Public Schools (HCPS) planned and implemented the first-ever Governor's Academy for Career and Technical Education, hosting 40 rising juniors and seniors from 22 counties at the University of Richmond. Hanover was **the first in the nation** to offer this. In addition, HCPS opened Advance College Academies at Patrick Henry High School and Lee-Davis High School and a Health Sciences Specialty Center at Hanover High School. The Advance College Academies are a partnership with Reynolds Community College and enable students to earn an associate degree while completing the requirements for their high school diploma. The Health Sciences Specialty Center offers a four year program for students pursuing careers in the health sciences and medical fields.

Awards and Acknowledgements

Hanover County continued to be recognized for excellence in operational and fiscal management during fiscal year 2017. The County's adopted mission (seen in the graphic below) is exemplified by the awards and acknowledgements noted in this section.



Fire/EMS

Hanover Fire/EMS received a Silver Achievement "Mission Lifeline EMS" Award from the American Heart Association. This award is given to EMS units and hospitals that employ procedures to increase the odds of someone surviving a heart attack. Only 27 EMS agencies in Virginia received this recognition.

Public Utilities

Several wastewater plants operated by the Hanover County Department of Public Utilities have been recognized as being among the top performers in the nation. Three of Hanover County's wastewater treatment plants recently received Peak Performance Awards from the National Association of Clean Water Agencies (NACWA). These prestigious awards recognize outstanding compliance with National Pollutant Discharge Elimination System

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(NPDES) permit requirements. The Ashland WWTP received the NACWA's Platinum Peak Performance Award, given to those which achieve 100% permit compliance, for the 18th consecutive year. The Totopotomoy WWTP received the NACWA's Platinum Peak Performance Award for the 12th consecutive year while the Doswell WWTP received the NACWA's Gold Peak Performance Award and the Hanover Courthouse Wastewater Treatment Plan received the NACWA's Silver Peak Performance Award.

Sheriff's Office

The Sheriff's Office received the International Association of Chiefs of Police Community Policing Award from the Commission on Accredited Law Enforcement Agencies (CALEA). This award recognizes outstanding community policing in law enforcement organizations worldwide. The Worship Watch program and the Shield initiative were cited as examples of outstanding community involvement. Further, the Sheriff's Office received the State and National Law Enforcement Challenge Award from the Virginia Association of Chiefs of Police. In FY17, the Sheriff's Office was recertified as a Certified Crime Prevention Community Program by the Virginia Department of Criminal Justice Services. The Sheriff's Office was recognized for its smart use of data and analysis to help prevent crime. Predictive Policing project and Shield initiative were cited. Hanover is Virginia's representative to the national Shield network.

Finance and Management Services

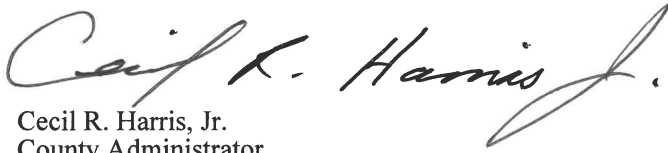
The Government Finance Officers Association (GFOA) awarded a **Certificate of Achievement for Excellence in Financial Reporting** to Hanover County for its CAFR for the fiscal year ended June 30, 2016. The County has received this prestigious award each fiscal year since 1985 (now 32 consecutive years). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting. Hanover County's CAFR was judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR. The GFOA is a non-profit professional association serving nearly 19,000 appointed and elected government finance professionals throughout North America.

The GFOA awarded a **Distinguished Budget Presentation Award** to Hanover County for its FY2016 budget. The County has received this prestigious award each fiscal year since 1990 (now 26 consecutive years). This award reflects the commitment of the governing body and staff to meeting the highest principles of governmental budgeting. In order to receive the budget award, Hanover County had to satisfy nationally recognized guidelines for effective budget presentation. These guidelines are designed to assess how well an entity's budget serves as a policy document; a financial plan; an operations guide; and a communications device.


The County utilizes its website www.hanovercounty.gov for presentation of the CAFR 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 financial report will focus on the County's fiscal year 2017 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 the Accounting Division team for their important contributions. Credit also must be given to the Board for their unfailing support for maintaining high standards of professionalism in the oversight of the County's finances.

Respectfully submitted,

A handwritten signature in cursive script, reading "Cecil R. Harris, Jr.".

Cecil R. Harris, Jr.
County Administrator

A handwritten signature in cursive script, reading "Jacob A. Sumner".

Jacob A. Sumner, CMA, CGFM
Director of Finance and Management Services





Government Finance Officers Association

**Certificate of
Achievement
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**County of Hanover
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

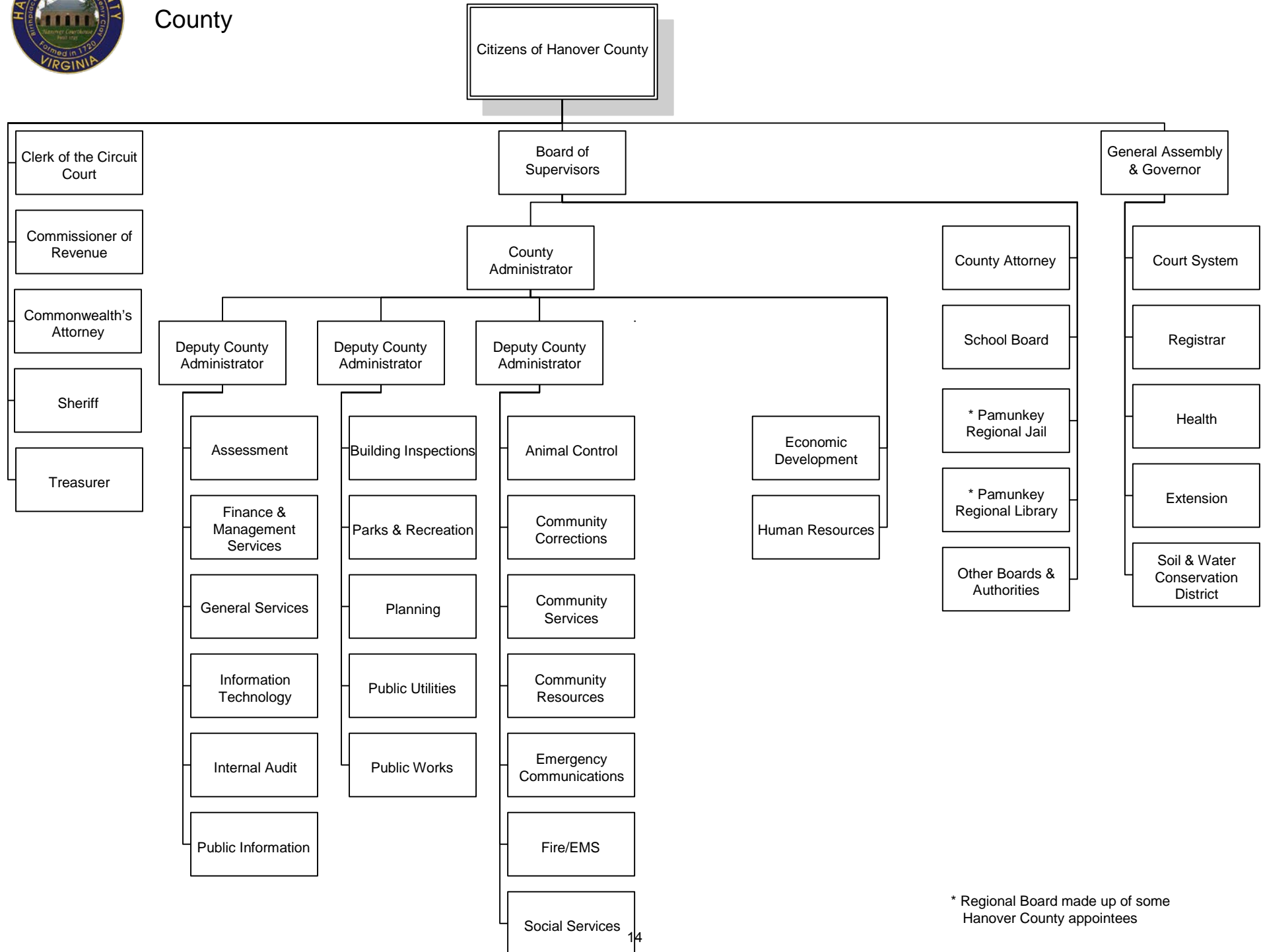
June 30, 2016

Executive Director/CEO



Hanover County

Organizational Chart
June 30, 2017



* Regional Board made up of some
Hanover County appointees

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2017

Board of Supervisors

Angela Kelly-Wiecek, Chair
Sean Davis, Vice-Chair
Faye O. Prichard
Aubrey M. Stanley
Scott A. Wyatt
W. Canova Peterson
Wayne T. Hazzard

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

Constitutional Officers

Frank D. Hargrove, Jr.
T. Scott Harris
R. E. "Trip" Chalkley, III
Colonel David R. Hines
M. Scott Miller

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

County Administrative Officials

Cecil R. Harris, Jr.
Sterling E. Rives, III
Kathleen T. Seay
Frank W. Harksen, Jr.
James P. Taylor
Jacob A. Sumner

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

School Board

Robert L. Hundley, Jr., Chair
Susan (Sue) P. Dibble, Vice Chair
Ola Hawkins
John F. Axselle, III
Norman K. Sulser
Marla G. Coleman
Roger S. Bourassa

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

School Administrative Officials

Dr. Michael B. Gill
Terry S. Stone
Jennifer E. Greif
Mandy Baker
Amanda L. Six

Superintendent of Schools
Asst. Superintendent of Business and Operations
Asst. Superintendent of Instructional Leadership
Asst. Superintendent of Human Resources
Director of Budget & Financial Reporting

FINANCIAL SECTION

Report of Independent Auditor

To the Honorable Members of the Board of Supervisors
County of Hanover, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate 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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia, as of June 30, 2017, 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 – Budget Basis – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (the "MD&A") and the Schedules of Required Supplementary Information other than MD&A, as listed in the table of contents, be presented to supplement the basic financial statement. 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The Introductory Section, Other Supplementary Information and Statistical Section, as listed within the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Other Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information 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 and Statistical sections have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, on our consideration of the County of Hanover, Virginia'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Hanover, Virginia's internal control over financial reporting and compliance.



Richmond, Virginia
November 15, 2017



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

As management of the County of Hanover, Virginia (the County), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the County as of and for the fiscal year ended June 30, 2017. 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 and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2017 by \$378.3 million (*net position*). Of this amount, \$83.7 million (*unrestricted net position*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$12.0 million, of which the governmental activities increased by \$2.3 million and business-type activities increased by \$9.7 million.
- As of the close of fiscal year 2017, the County's governmental funds reported combined ending fund balances of \$94.9 million, an increase of \$1.5 million from prior year. Of the \$94.9 million total, 75.2% (\$71.4 million) is available for spending in compliance with County policies (sum of *committed*, *assigned* and *unassigned fund balances*), while *nonspendable* and *restricted fund balances* were 24.8% or \$23.5 million of the total.
- The General Fund's unassigned fund balance remained at 13.0% of total General Fund revenues, which reflects an increase of \$1.2 million to \$29.4 million at June 30, 2017. This balance continues to meet and 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 decreased \$5.1 million to \$21.7 million at June 30, 2017. The \$5.1 million decrease is the net of increases and decreases to amounts assigned for various purposes, including education, public works, economic development, the subsequent fiscal year's adopted budget, the subsequent five-year financial plan, capital projects, and other County services.
- The County's total debt decreased by \$4.0 million (2.21%) to \$180.4 million during fiscal year 2017 due to principal payments 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 Position* presents information on all of the County's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the resulting difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of how the financial position of the County may be changing. Increases in net position may indicate an improved financial position; however, even decreases in net position 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 total net position changed during the most recent fiscal year. All changes in net position 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 years (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 airport operations.

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 2017, the County maintained four individual governmental funds. Information is presented separately in the governmental funds' financial statements for the General Fund, the County Improvements Fund, the Debt Service Fund, and the School Improvements Fund; all four of which are considered to be *major funds*. The County did not maintain any *nonmajor* governmental funds as of and for the year ended June 30, 2017. 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 an internal service fund to account for its employee healthcare benefit 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. The proprietary fund financial statements can be found at Exhibits 7 through 9 of this report along with data for the internal service fund.

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 17 and 18 of this report.

Notes to the financial statements: The notes to the financial statements provide additional information that is essential for a full understanding of the County's government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes thereto, this report also presents certain *schedules of required supplementary information* concerning the County's pension and other postemployment benefits to its current and future retirees. These schedules of required supplementary information can be found at Exhibit 12 of this report.

Other *supplementary information* is presented immediately following the required supplementary information at Exhibits 13 through 25 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 supplementary information can be found at Exhibit 13 of this report. The combining financial statements referred to earlier in connection with agency funds and individual fund statements and schedules are presented at Exhibits 14 through 25 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.

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

Financial Analysis of the County as a Whole

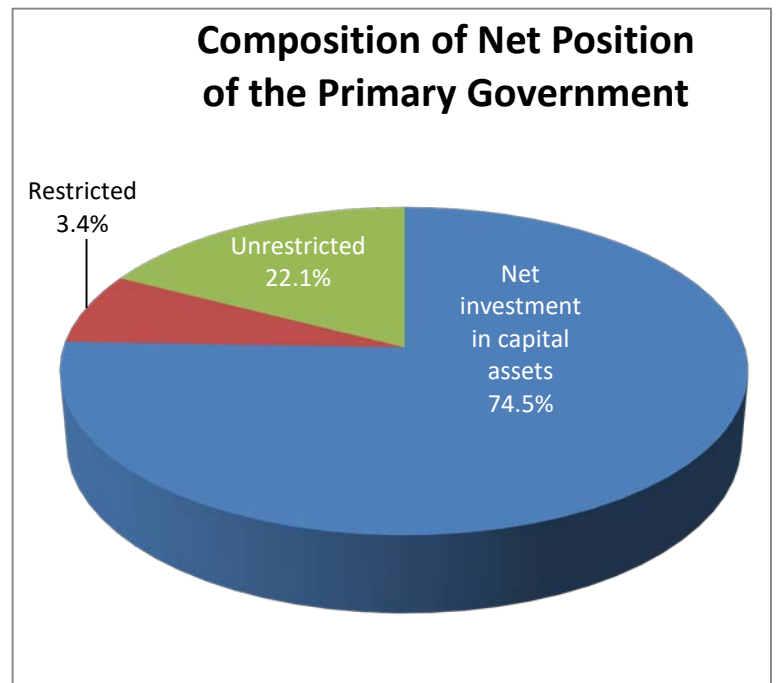
Statement of Net Position

Table 1 summarizes the Statements of Net Position for the Primary Government as of June 30, 2017 and 2016:

County of Hanover, Virginia Summary of Net Position (\$ in millions)						
Table 1	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 183.3	181.0	35.2	30.6	218.5	211.6
Capital assets	224.6	224.4	221.7	217.0	446.3	441.4
Total assets	407.9	405.4	256.9	247.6	664.8	653.0
Deferred outflows of resources	12.2	8.2	1.6	1.6	13.8	9.8
Long-term liabilities outstanding	179.1	193.1	19.7	24.0	198.8	217.1
Other liabilities	38.1	19.2	6.7	2.2	44.8	21.4
Total liabilities	217.2	212.3	26.4	26.2	243.6	238.5
Deferred inflows of resources	56.5	57.2	0.2	0.8	56.7	58.0
Net position:						
Net investment in capital assets	78.7	77.8	202.9	196.6	281.6	274.4
Restricted	9.4	9.0	3.6	3.5	13.0	12.5
Unrestricted	58.3	57.3	25.4	22.1	83.7	79.4
Total net position	146.4	144.1	231.9	222.2	378.3	366.3

Changes in net position is a useful indicator of a County's financial position. Of interest, the County's assets exceeded liabilities by \$378.3 million at the close of fiscal year 2017, representing an increase of \$12.0 million from the net position at June 30, 2016.

As the following graph shows, by far the largest portion of the County's total net position (\$281.6 million, 74.5% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and intangibles); less any related debt and deferred loss on refunding used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, like water and wastewater services, schools, libraries, law enforcement, and fire and emergency medical services. Consequently, these assets are *not* available for future spending, 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 total net position (\$13.0 million, 3.4% 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 position (\$83.7 million, 22.1% of total) may be used to meet the County's ongoing obligations to citizens and creditors.

Statement of Activities

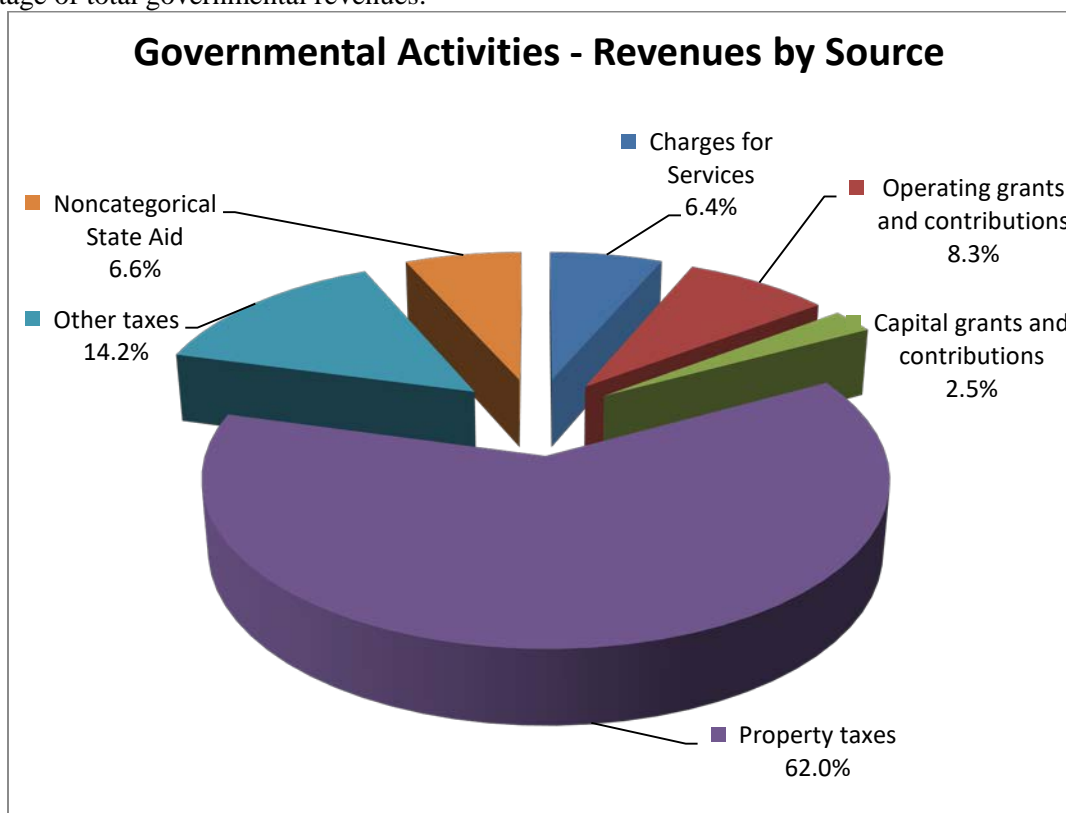
Table 2 summarizes the Statements of Activities of the Primary Government for the fiscal years ended June 30, 2017 and 2016:

Table 2	County of Hanover, Virginia Summary of Changes in Net Position (\$ in millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 14.9	13.5	30.6	30.7	45.5	44.2
Operating grants and contributions	19.2	16.6	-	-	19.2	16.6
Capital grants and contributions	5.7	5.3	6.1	3.3	11.8	8.6
General revenues:						
Property taxes	143.8	139.3	-	-	143.8	139.3
Other taxes	32.8	31.9	-	-	32.8	31.9
Noncategorical State aid	15.4	15.3	-	-	15.4	15.3
Grants and contributions	1.3	1.4	-	-	1.3	1.4
Other	0.1	0.6	-	0.1	0.1	0.7
Total revenues	<u>233.2</u>	<u>223.9</u>	<u>36.7</u>	<u>34.1</u>	<u>269.9</u>	<u>257.9</u>
Expenses:						
General government	17.0	14.6	-	-	17.0	14.6
Judicial administration	6.9	4.9	-	-	6.9	4.9
Public safety	59.4	53.7	-	-	59.4	53.7
Public works	17.7	14.6	-	-	17.7	14.6
Human services	22.5	21.2	-	-	22.5	21.2
Parks, recreation and cultural	6.6	6.2	-	-	6.6	6.2
Community development	5.2	5.1	-	-	5.2	5.1
Education	89.4	85.2	-	-	89.4	85.2
Interest on long-term debt *	6.1	6.6	-	-	6.1	6.6
Public utilities	-	-	26.5	26.3	26.5	26.3
Airport	-	-	0.6	0.6	0.6	0.6
Total expenses	<u>230.8</u>	<u>212.1</u>	<u>27.1</u>	<u>26.9</u>	<u>257.9</u>	<u>239.0</u>
Increase in net assets before transfers	2.4	11.8	9.6	7.2	12.0	19.0
Transfers	(0.1)		0.1	0.1	-	0.1
Increase in net position	2.3	11.8	9.7	7.3	12.0	19.1
Total net position - beginning of year	144.1	132.3	222.2	214.9	366.3	347.2
Total net position - end of year	<u>146.4</u>	<u>144.1</u>	<u>231.9</u>	<u>222.2</u>	<u>378.3</u>	<u>366.3</u>

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

Governmental Activities: The increase in net position attributable to the County's governmental activities totaled \$2.3 million for fiscal year 2017. Generally, net position changes are the result of the difference between revenues and expenses. Fiscal year 2017 revenues of \$233.2 million represent an increase of \$9.3 million, or 4.2% in comparison to the prior year, while expenses and transfers of \$230.9 million represent an increase of \$18.8 million, or 8.9% compared to the prior year.

The following chart illustrates the County's fiscal year 2017 governmental revenues by source as a percentage of total governmental revenues:



Taxes are the largest source of County revenues, totaling \$176.6 million for fiscal year 2017, an increase of \$5.4 million, or 3.2%, in comparison to fiscal year 2016. An increase in general property taxes of \$4.5 million, or 3.1% was largely attributable to higher than projected real property tax revenue resulting from increased assessed values. Sales tax revenue increased by \$0.9 million, or 4.4%. General property taxes totaled \$143.8 million for fiscal year 2017, and represent 81.4% of total taxes and 62.0% of all revenues.

Also in fiscal year 2017, \$39.8 million, or 17.1% of total revenues, consisted of program revenues, including \$14.9 million in charges for services, \$19.2 million of operating grants and contributions, and \$5.7 million of capital grants and contributions. General revenues, including \$15.4 million of noncategorical state aid and \$1.3 million of unrestricted grants and contributions and unrestricted investment earnings, accounted for the remaining revenues.

As shown in Table 2 and Table 3, the total expenses of all the County's governmental activities for fiscal year 2017 were \$230.8 million, which represents an increase of \$18.7 million, or 8.8% higher than fiscal year 2016. Increases in expenses for general government, judicial administration, public safety, human services, parks, recreation and cultural, education expenses of \$2.4 million, \$2 million, \$5.7 million, \$1.3 million, \$0.4 million, \$4.2 million, respectively, were offset by decreases in interest on long term debt of \$0.5 million. As the following chart indicates, education continues to be one of the County's largest programs and highest priorities, with education expenses totaling \$89.4 million in fiscal year 2017. Public safety and human services are also strategic focus areas and the County's second and third largest expenses, totaling \$59.4 million and \$22.5 million, respectively in fiscal year 2017.

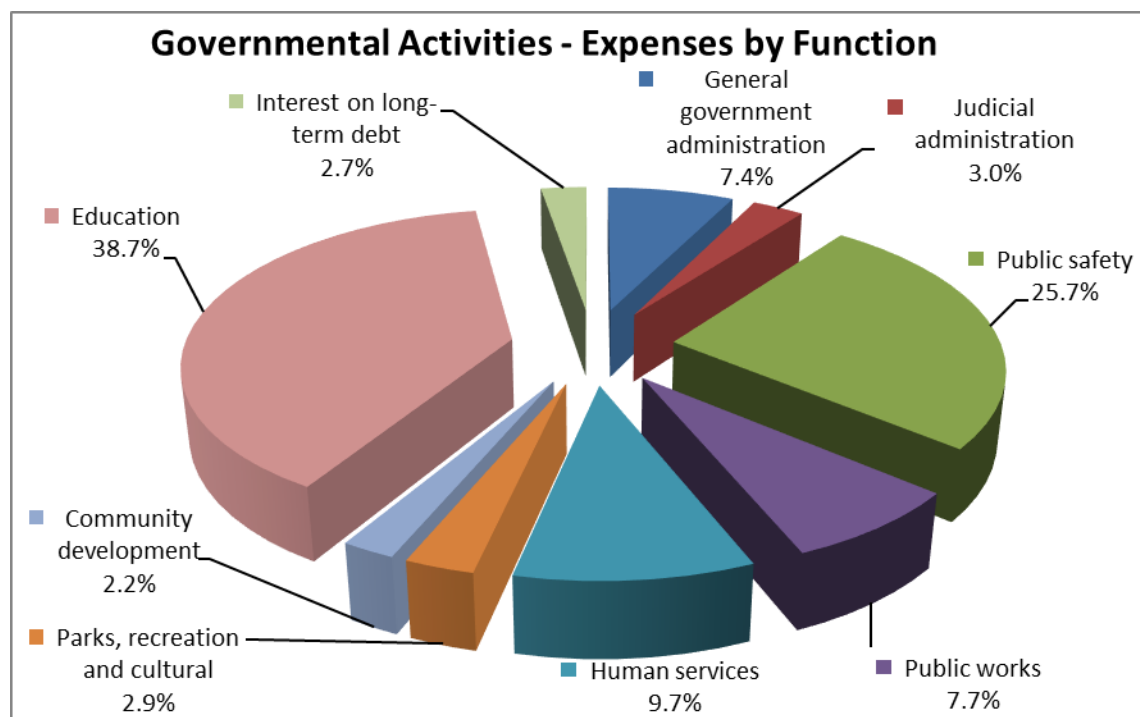


Table 3 presents the total cost of the County's governmental activities by function, as well as the net cost of each function (total cost less fees generated by each function and program-specific intergovernmental aid) for the fiscal year ended June 30, 2017 and 2016:

Table 3 Net Cost of Hanover County's Governmental Activities For the Fiscal Years Ended June 30 (\$ in millions)				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$ 17.0	14.6	\$ 14.3	12.1
Judicial administration	6.9	4.9	4.2	2.2
Public safety	59.4	53.7	49.1	43.6
Public works	17.7	14.6	8.0	11.1
Human services	22.5	21.2	9.9	8.9
Parks, recreation and cultural	6.6	6.2	6.1	3.1
Community development	5.2	5.1	4.0	3.9
Education	89.4	85.2	89.4	85.2
Interest on long-term debt	6.1	6.6	6.1	6.6
Total	<u>\$ 230.8</u>	<u>212.1</u>	<u>\$ 191.0</u>	<u>176.7</u>

A portion of the \$230.8 million cost of the County's governmental activities was paid by those who directly benefited from the programs (i.e., charges for services of \$14.9 million) and other governments and organizations that subsidized certain programs (i.e., operating and capital grants and contributions of \$24.9 million). These combined program revenues of \$39.8 million reduced the total fiscal year 2017 cost of services from \$230.8 million to the net cost of services of \$191.0 million. The net cost of services was covered by the County's general revenues, consisting primarily of taxes and state aid.

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 position attributable to the County's business-type activities totaled \$9.7 million for fiscal year 2017.

Public Utilities revenues totaled \$34.5 million, of which \$25.2 million, or 73.0%, was generated from charges for services and user fees. Nonoperating capacity fee revenue decreased to \$5.1 million from \$6.0 million last year, based on revenue and the allocation of operating costs. Capital contributions increased \$1.4 million to \$4.1 million in 2017. Public Utilities expenses totaled \$26.5 million for fiscal year 2017 and 2016.

Airport operating revenues totaled \$215,748 in fiscal year 2017, compared to \$207,288 last year. The Airport had no nonoperating revenues in fiscal year 2017, compared to \$469 in fiscal year 2016, while capital contributions increased by \$1.4 million to \$2.0 million due to federal and state grants. Airport nonoperating expenses were \$60,008 and \$64,116 in fiscal years 2017 and 2016, 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 2017, the County's governmental funds reported combined ending fund balances of \$94.9 million (Exhibit 3), as compared to \$93.4 million at June 30, 2016, an increase of \$1.5 million. Of the \$94.9 million fiscal year 2017 fund balance, \$0.5 million is classified as *nonspendable* because it is invested in inventories and prepaid expenses and, therefore, is not in spendable form, \$23.0 million 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, \$41.6 million is *assigned* to indicate that County administration has identified specific purposes for the use of those funds, and the remaining \$29.4 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 \$4.1 million (7.2%) during fiscal year 2017, to \$52.5 million, of which \$0.2 million is nonspendable, \$0.7 million is restricted, \$0.5 million is committed, \$21.7 million is assigned and \$29.4 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 2017, the General Fund's committed, assigned and unassigned fund balances of \$52.5 million represents 23.3% of total General Fund revenues of \$225.7 million. In addition, General Fund's unassigned fund balance totaled \$29.4 million, up from \$28.2 million at the end of fiscal year 2016, which represents 13.0% of total General Fund revenues in 2017 and 13.0% in 2016, continuing to exceed the 10% minimum set by the County's fund balance policy. The \$4.1 million fiscal year 2017 decrease in the General Fund's fund balance resulted from General Fund revenues of \$225.7 million less expenditures of \$196.1 million and other financing uses of \$33.7 million, as shown on Exhibit 4 to the financial statements.

The fund balance in the County Improvements Fund (Exhibit 4) decreased by \$1.4 million to \$33.2 million during fiscal year 2017. The fund balance in the School Improvements Fund (Exhibit 4) increased by \$6.7 million to \$8.6 million during fiscal year 2017. The fund balance in the Debt Service Fund (Exhibit 4) increased by \$.3 million to \$.6 million fiscal year 2017.

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 \$1.0 million, or .5% between the originally-adopted fiscal year 2017 budget appropriation for expenditures and transfers out and the final budget, with \$.8 million of the increase resulting from reappropriation of fiscal year 2016 budget commitments for completion of ongoing projects in fiscal year 2017. Encumbered balances account for 77.6% of the total reappropriation.

Capital Assets and Debt Administration

Capital assets: The County's investment in capital assets as of June 30, 2017, totals \$446.3 million, net of accumulated depreciation. This represents an increase of \$4.9 million, or 1.1% more than fiscal year 2016. Capital assets, net of accumulated depreciation, are illustrated in the following table:

	(\$ in millions)			
	Governmental	Business-type	Totals at June 30	
	Activities	Activities	2017	2016
Land	\$ 9.8	11.2	20.9	21.0
Intangible assets	1.1	-	1.1	1.1
Buildings	148.7	48.2	196.9	174.8
Improvements other than buildings	10.4	147.0	157.4	155.0
Machinery and equipment	39.0	6.7	45.7	40.6
Infrastructure (1)	13.1	-	13.1	12.1
Construction in progress	2.5	8.6	11.1	36.8
Total	<u>\$ 224.6</u>	<u>221.7</u>	<u>446.3</u>	<u>441.4</u>

Major capital asset activity during fiscal year 2017 included the following:

- The completion of a new courthouse facility, which was funded by proceeds from issuance of Infrastructure and State Moral Obligation Revenue Bonds.
- The costs of completed water and wastewater infrastructure projects reported in the Public Utilities Fund totaling \$4.5 million, funded by water and sewer user fees and capacity fees.
- Developers' contributions of water and wastewater lines totaled \$3.9 million.
- The costs of public safety improvements including ambulances and equipment upgrades, totaling \$1.0 million, funded by general revenues and state grants.

- The costs of a new revenue management system totaled \$.5 million during the fiscal year.
- The costs of school facility improvements and equipment acquisition by the School Component Unit totaled \$7.2 million.

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 limiting 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, 2017.

The following table illustrates the County's outstanding debt at June 30, 2017:

	(\$ in millions)		
	Governmental Activities	Business-type Activities	Total
General obligation bonds (1)	\$ 113.2	-	113.2
Revenue bonds	-	16.4	16.4
Infrastructure and state moral obligation bonds	43.4	-	43.4
Support agreement	3.2	2.3	5.4
Capital lease obligations	1.9	-	1.9
Total	<u>\$ 161.7</u>	<u>18.7</u>	<u>180.4</u>

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 2017, Hanover County experienced positive trends in its economic indicators. The County's revenues continue to slowly grow primarily due to higher real property assessed valuations. Total value of taxable property increased 3.8% in calendar year 2016 and 4.0% in calendar year 2017. Throughout fiscal year 2017, the County's unemployment rate continued to show steady improvement over the prior year. In June 2017, the County's unemployment rate was 3.5%, which continues to compare favorably to the Commonwealth's average unemployment rate of 3.9% and the national average rate of 4.4%. Fiscal year 2017 showed positive and consistent revenue returns. Fiscal year 2018 is anticipated to continue those trends, particularly in the areas of real estate taxes and personal property taxes. Real estate taxes and personal property taxes are budgeted to increase 6% and 9.5%, respectively, from the 2016 to the 2017 budget. With these factors in mind, net of the use of \$7.6 million of prior year fund balance, the County's adopted fiscal year 2018 General Fund budget was set at \$241.2 million, an increase of \$7.9 million or 3.4% in comparison to the fiscal year 2017 figure of \$233.3 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, 2017 the County has assigned \$7.6 million of fund balance in its General Fund to fund a portion of the fiscal year 2018 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 \$2.4 million to fund future school budgets, \$2.2 million to fund capital projects, and \$3.0 million to fund other specific purposes. All commitments and assignments of fund balance are illustrated in Note V.B to the accompanying financial statements.

County general property tax rates remained unchanged for calendar year 2017. In fiscal year 2017, Public Utilities' water and sewer user fees increased by 2.5% 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
Statement of Net Position
June 30, 2017

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
ASSETS					
Current Assets:					
Pooled cash, cash equivalents and investments	\$ 97,969,161	25,883,334	123,852,495	13,626,912	40,679
Receivables (net of allowance for uncollectibles)	70,692,680	5,742,614	76,435,294	5,957,704	-
Prepaid expenses	497,030	-	497,030	1,448	-
Support agreement receivable	-	-	-	-	1,980,000
Advances to other activities	328	-	328	-	-
Inventories	248,444	-	248,444	146,442	-
Total current assets	169,407,643	31,625,948	201,033,591	19,732,506	2,020,679
Noncurrent Assets:					
Pooled cash, cash equivalents and investments - restricted	13,912,360	3,587,279	17,499,639	-	-
Support agreement receivable	-	-	-	-	3,300,000
Net pension asset - restricted	-	-	-	453,924	-
Capital assets (net of accumulated depreciation):					
Land	9,850,563	11,187,305	21,037,868	7,400,682	-
Intangible assets	1,073,366	-	1,073,366	-	-
Buildings	148,698,076	48,157,510	196,855,586	87,504,046	-
Improvements other than buildings	10,386,371	146,949,934	157,336,305	10,442,848	-
Machinery and equipment	38,980,192	6,701,569	45,681,761	7,212,658	-
Infrastructure	13,109,412	-	13,109,412	-	-
Construction in progress	2,545,955	8,647,907	11,193,862	3,254,030	-
Total capital assets, net	224,643,935	221,644,225	446,288,160	115,814,264	-
Total noncurrent assets	238,556,295	225,231,504	463,787,799	116,268,188	3,300,000
Total assets	407,963,938	256,857,452	664,821,390	136,000,694	5,320,679
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	2,025,691	814,965	2,840,656	-	-
Pension contributions after measurement date	5,269,366	429,486	5,698,852	14,648,050	-
Pension investment experience	4,917,346	400,794	5,318,140	10,767,670	-
Total deferred outflows of resources	12,212,403	1,645,245	13,857,648	25,415,720	-
LIABILITIES					
Current Liabilities:					
Accounts payable	6,975,940	2,688,022	9,663,962	1,615,549	-
Incurred but not reported self-insurance claims	2,523,781	-	2,523,781	-	-
Accrued liabilities	3,738,755	439,127	4,177,882	16,689,646	-
Advances from other activities	-	328	328	-	-
Accrued bond interest	2,587,715	201,246	2,788,961	-	-
Unearned revenues	1,705,961	-	1,705,961	161,733	-
Current portion of bonds payable	13,114,139	1,294,471	14,408,610	-	1,980,000
Current portion of capital lease obligations	99,476	-	99,476	-	-
Current portion of compensated absences	6,576,006	700,461	7,276,467	2,274,017	-
Current portion of liability for landfill closure and postclosure costs	79,511	-	79,511	-	-
Current portion of support agreement	687,852	1,359,985	2,047,837	-	-
Total current liabilities	38,089,136	6,683,640	44,772,776	20,740,945	1,980,000
Noncurrent Liabilities:					
Bonds payable	143,512,972	15,026,886	158,539,858	-	3,300,000
Capital lease obligations	1,783,715	-	1,783,715	-	-
Compensated absences	2,567,356	54,744	2,622,100	3,717,178	-
Other postemployment benefit obligations	739,468	-	739,468	-	-
Deposits	-	562,542	562,542	-	-
Capacity fee credits	-	870,248	870,248	-	-
Liability for landfill closure and postclosure costs	1,767,818	-	1,767,818	-	-
Support agreement	2,464,222	1,015,979	3,480,201	-	-
Net pension liability	26,321,139	2,181,051	28,502,190	177,365,000	-
Total noncurrent liabilities	179,156,690	19,711,450	198,868,140	181,082,178	3,300,000
Total liabilities	217,245,826	26,395,090	243,640,916	201,823,123	5,280,000
DEFERRED INFLOWS OF RESOURCES					
Deferred revenues	54,189,270	-	54,189,270	-	-
Change in actual and proportionate share of pension contributions	-	-	-	3,657,000	-
Difference between expected and actual experience	2,320,370	203,182	2,523,552	6,765,888	-
Total deferred inflows of resources	56,509,640	203,182	56,712,822	10,422,888	-
NET POSITION					
Net investment in capital assets	78,760,193	202,891,621	281,651,814	115,814,264	-
Restricted for:					
Grant programs	693,756	-	693,756	65,266	-
Capital projects	8,712,219	-	8,712,219	-	-
Debt covenants	-	3,587,279	3,587,279	-	-
Pension	-	-	-	453,924	-
Unrestricted (deficit)	58,254,707	25,425,525	83,680,232	(167,163,051)	40,679
Total net position	\$ 146,420,875	231,904,425	378,325,300	(50,829,597)	40,679

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

COUNTY OF HANOVER, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2017

Exhibit 2

		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	\$ 16,967,133	1,847,076	833,337	-	(14,286,720)	-	(14,286,720)	-	-
Judicial administration	6,931,360	1,077,473	1,638,458	-	(4,215,429)	-	(4,215,429)	-	-
Public safety	59,422,217	5,181,569	5,098,994	-	(49,141,654)	-	(49,141,654)	-	-
Public works	17,693,369	1,715,083	4,963,700	3,033,763	(7,980,823)	-	(7,980,823)	-	-
Human services	22,498,625	3,346,538	6,632,661	2,663,701	(9,855,725)	-	(9,855,725)	-	-
Parks, recreation and cultural	6,615,395	554,834	-	-	(6,060,561)	-	(6,060,561)	-	-
Community development	5,139,068	1,166,607	-	-	(3,972,461)	-	(3,972,461)	-	-
Education	89,409,847	-	-	-	(89,409,847)	-	(89,409,847)	-	-
Interest on long-term debt	6,132,233	-	-	-	(6,132,233)	-	(6,132,233)	-	-
Total governmental activities	230,809,247	14,889,180	19,167,150	5,697,464	(191,055,453)	-	(191,055,453)	-	-
Business-type activities:									
Public Utilities	26,477,038	30,374,748	-	4,092,983	-	7,990,693	7,990,693	-	-
Airport	625,962	215,748	-	2,038,344	-	1,628,130	1,628,130	-	-
Total business-type activities	27,103,000	30,590,496	-	6,131,327	-	9,618,823	9,618,823	-	-
Total Primary Government	\$ 257,912,247	45,479,676	19,167,150	11,828,791	(191,055,453)	9,618,823	(181,436,630)	-	-
Component Units:									
School Board	\$ 178,235,780	6,182,528	96,171,872	-	-	-	-	(75,881,380)	-
Economic Development Authority	194,502	168,480	-	-	-	-	-	-	(26,022)
Total component units	\$ 178,430,282	6,351,008	96,171,872	-	-	-	-	(75,881,380)	(26,022)
General revenues:									
Taxes:									
General property taxes					143,800,396	-	143,800,396	-	-
Sales taxes					20,752,689	-	20,752,689	-	-
Utility taxes					6,639,025	-	6,639,025	-	-
Recordation taxes					2,403,524	-	2,403,524	-	-
Other					3,024,186	-	3,024,186	-	-
Noncategorical State aid					15,390,161	-	15,390,161	-	-
Grants and contributions not restricted to specific programs					1,338,897	-	1,338,897	348,278	-
Payment from Hanover County					-	-	-	76,666,934	28,598
Unrestricted investment earnings					81,738	49,582	131,320	434	-
Transfers					(52,249)	52,249	-	-	-
Total general revenues and transfers					193,378,367	101,831	193,480,198	77,015,646	28,598
Change in net position					2,322,914	9,720,654	12,043,568	1,134,266	2,576
Total net position - beginning					144,097,961	222,183,771	366,281,732	(51,963,863)	38,103
Total net position - ending					\$ 146,420,875	231,904,425	378,325,300	(50,829,597)	40,679

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

COUNTY OF HANOVER, VIRGINIA

Governmental Funds

Balance Sheet

June 30, 2017

Exhibit 3

	Capital Funds				Total
	General	County Improvements	School Improvements	Debt Service	Governmental Funds
ASSETS					
Pooled cash, cash equivalents and investments	\$ 50,657,310	24,027,112	4,531,208	465,426	79,681,056
Receivables (net of allowances for uncollectibles)	65,591,182	4,189,492	-	126,830	69,907,504
Advances to other funds	328	-	-	-	328
Prepaid expenditures	-	264,560	-	-	264,560
Inventories	248,444	-	-	-	248,444
Pooled cash, cash equivalents and investments - restricted	-	8,038,897	5,873,463	-	13,912,360
Total assets	\$ 116,497,264	36,520,061	10,404,671	592,256	164,014,252
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,298,986	2,930,185	1,700,500	1,400	6,931,071
Accrued liabilities	3,012,414	372,647	106,901	-	3,491,962
Unearned revenues	83,008	-	-	-	83,008
Total liabilities	5,394,408	3,302,832	1,807,401	1,400	10,506,041
Deferred Inflows of Resources:					
Deferred revenues	58,567,270	-	-	-	58,567,270
Fund Balances:					
Nonspendable	248,444	264,560	-	-	513,004
Restricted	693,755	16,081,010	6,240,639	-	23,015,404
Committed	500,000	-	-	-	500,000
Assigned	21,741,736	16,871,659	2,356,631	590,856	41,560,882
Unassigned	29,351,651	-	-	-	29,351,651
Total fund balances	52,535,586	33,217,229	8,597,270	590,856	94,940,941
Total liabilities, deferred inflows of resources and fund balances	\$ 116,497,264	36,520,061	10,404,671	592,256	164,014,252

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 224,643,935
Receivables on the Statement of Net Position that do not provide current financial resources are not reported in the funds.	5,001,962
Postemployment healthcare benefits represent irrevocable payments made to the Retiree Medical Benefits Trust and VRS for retiree healthcare benefits. The liability is reported in the Statement of Net Position as a noncurrent liability and as expenditures in the funds when made.	(739,468)
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 Position.	14,243,393
Long-term liabilities, including bonds payable and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.	(175,240,782)
Deferred loss on refunding does not provide current financial resources and, therefore, is not reported in the funds.	2,025,691
GAAP requires the recognition of net pension liability and deferred inflows and outflows related to pensions. These amounts do not use current financial resources and are not reported in the funds.	
Net pension liability	(26,321,139)
Pension investment experience	4,917,346
Difference between expected and actual experience	(2,320,370)
Pension contributions after measurement date	5,269,366
Total net position of governmental activities	\$ 146,420,875

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, 2017

	General	County Improvements	School Improvements	Debt Service	Total Governmental Funds
REVENUES					
Revenue from local sources:					
General property taxes	\$ 144,598,402	-	-	-	144,598,402
Other local taxes	32,819,424	-	-	-	32,819,424
Permits, privilege fees and regulatory licenses	2,192,797	-	-	-	2,192,797
Fines and forfeitures	1,033,165	-	-	-	1,033,165
Revenues from use of money and property	564,296	80,431	-	61,901	706,628
Charges for services	8,091,354	890,868	-	-	8,982,222
Miscellaneous	1,025,564	-	39,736	-	1,065,300
Recovered costs	3,445,940	-	-	-	3,445,940
Revenue from the Commonwealth	28,104,617	2,142,895	-	-	30,247,512
Revenue from the Federal government	3,875,272	4,864,924	-	253,660	8,993,856
Total revenues	225,750,831	7,979,118	39,736	315,561	234,085,246
EXPENDITURES					
General governmental administration	14,727,404	2,967,714	-	-	17,695,118
Judicial administration	6,014,277	7,125,322	-	-	13,139,599
Public safety	55,014,120	1,046,324	-	-	56,060,444
Public works	10,251,500	8,528,295	-	-	18,779,795
Human services	22,172,932	-	-	-	22,172,932
Parks, recreation and cultural	6,148,425	13,494	-	-	6,161,919
Community development	5,077,614	-	-	-	5,077,614
Education	76,666,934	-	7,224,396	-	83,891,330
Debt service:					
Principal retirement	-	-	-	12,788,637	12,788,637
Interest and fiscal charges	-	-	-	6,763,982	6,763,982
Debt issuance costs	-	-	-	40,116	40,116
Total expenditures	196,073,206	19,681,149	7,224,396	19,592,735	242,571,486
Excess (deficiency) of revenues over (under) expenditures	29,677,625	(11,702,031)	(7,184,660)	(19,277,174)	(8,486,240)
OTHER FINANCING SOURCES (USES)					
Transfers in	103,300	10,392,766	3,900,000	19,495,058	33,891,124
Transfers out	(33,825,376)	(103,300)	(14,697)	-	(33,943,373)
Issuance of general obligation bonds	-	-	9,099,884	40,116	9,140,000
Premium on general obligation bonds issued	-	-	906,605	-	906,605
Total other financing sources (uses), net	(33,722,076)	10,289,466	13,891,792	19,535,174	9,994,356
Net change in fund balances	(4,044,451)	(1,412,565)	6,707,132	258,000	1,508,116
Total fund balances - beginning	56,580,037	34,629,794	1,890,138	332,856	93,432,825
Total fund balances - ending	\$ 52,535,586	33,217,229	8,597,270	590,856	94,940,941

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, 2017

Net change in fund balance - total governmental funds	\$ 1,508,116
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.	
Capital Outlays	14,701,082
Depreciation Expense	(9,219,910)
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 Board 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 position reported by the County (Primary Government) on the statement of activities.	(5,219,250)
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).	(900,836)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Debt Issued, Net of Issuance Costs	(10,046,605)
Repayment of Debt Principal	12,788,637
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.	(1,443,875)
Pension contributions reported as expenditures in the fund statements are reported as deferred outflows of resources on the Statement of Net Position. Pension expenses reported on the Statement of Activities do not use current financial resources and are not reported in the funds.	
Pension contributions after measurement date	5,269,366
Pension expenses	(4,318,375)
An internal service fund is used by management to charge the costs of self-insurance to individual funds. The change in internal service fund net position is reported with governmental activities.	(795,436)
Change in net position of governmental activities	<u>\$ 2,322,914</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 - Budget Basis
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final	Budget Basis	
REVENUES				
Revenue from local sources:				
General property taxes	\$ 143,157,700	143,157,700	144,598,402	1,440,702
Other local taxes	32,013,700	32,043,700	32,819,424	775,724
Permits, privilege fees and regulatory licenses	2,113,800	2,113,800	2,192,797	78,997
Fines and forfeitures	1,011,700	1,011,700	1,033,165	21,465
Revenues from use of money and property	699,800	699,800	564,296	(135,504)
Charges for services	6,743,108	7,243,108	8,091,354	848,246
Miscellaneous	1,205,800	1,056,645	1,025,564	(31,081)
Recovered costs	3,280,580	3,358,685	3,445,940	87,255
Revenue from the Commonwealth	28,674,001	28,964,343	28,104,617	(859,726)
Revenue from the Federal government	4,067,339	4,359,942	3,875,272	(484,670)
Total revenues	222,967,528	224,009,423	225,750,831	1,741,408
EXPENDITURES				
General governmental administration	14,878,830	15,465,507	14,835,739	629,768
Judicial administration	6,018,021	6,193,158	6,038,451	154,707
Public safety	55,241,551	56,479,206	55,325,346	1,153,860
Public works	10,122,328	11,005,112	10,341,852	663,260
Human services	24,161,419	24,478,768	22,206,618	2,272,150
Parks, recreation and cultural	6,074,352	6,166,785	6,164,584	2,201
Community development	5,158,130	5,310,721	5,110,013	200,708
Education	79,529,000	79,529,000	76,666,934	2,862,066
Nondepartmental	1,829,271	808,423	-	808,423
Total expenditures - budgetary basis	203,012,902	205,436,680	196,689,537	8,747,143
Less encumbrances at June 30, 2017	-	-	(616,331)	616,331
Total expenditures	203,012,902	205,436,680	196,073,206	9,363,474
Excess of revenues over expenditures	19,954,626	18,572,743	29,677,625	11,104,882
OTHER FINANCING SOURCES (USES)				
Transfers in	-	103,300	103,300	-
Transfers out	(30,250,626)	(33,849,872)	(33,825,376)	24,496
Total other financing uses, net	(30,250,626)	(33,746,572)	(33,722,076)	24,496
Net change in fund balance	(10,296,000)	(15,173,829)	(4,044,451)	11,129,378
Fund balances - beginning	10,296,000	56,580,037	56,580,037	-
Fund balances - ending	\$ -	41,406,208	52,535,586	11,129,378

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

COUNTY OF HANOVER, VIRGINIA

Proprietary Funds
Statement of Net Position
June 30, 2017

Exhibit 7

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
ASSETS				
Current Assets:				
Pooled cash, cash equivalents and investments	\$ 25,883,334	-	25,883,334	18,288,105
Receivables (net of allowances for uncollectibles)	4,718,755	1,023,859	5,742,614	244,222
Prepaid expenses	-	-	-	232,470
Total current assets	30,602,089	1,023,859	31,625,948	18,764,797
Noncurrent Assets:				
Pooled cash, cash equivalents and investments - restricted	3,587,279	-	3,587,279	-
Capital assets:				
Land	6,417,136	4,770,169	11,187,305	-
Buildings and system	85,920,813	3,669,137	89,589,950	-
Improvements other than buildings	254,158,899	8,154,569	262,313,468	-
Machinery and equipment	15,703,628	33,857	15,737,485	-
Construction in progress	5,014,827	3,633,080	8,647,907	-
Less accumulated depreciation	(159,445,126)	(6,386,764)	(165,831,890)	-
Total capital assets (net of accumulated depreciation)	207,770,177	13,874,048	221,644,225	-
Total noncurrent assets	211,357,456	13,874,048	225,231,504	-
Total assets	241,959,545	14,897,907	256,857,452	18,764,797
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	814,965	-	814,965	-
Pension contributions after measurement date	421,422	8,064	429,486	-
Pension investment experience	393,269	7,525	400,794	-
Total deferred outflows of resources	1,629,656	15,589	1,645,245	-
LIABILITIES				
Current Liabilities:				
Accounts payable	2,302,309	385,713	2,688,022	44,869
Incurred but not reported self-insurance claims	-	-	-	2,523,781
Accrued liabilities	356,610	82,517	439,127	246,793
Advances from other funds	-	328	328	-
Accrued bond interest	171,769	29,477	201,246	-
Advance premiums	-	-	-	1,705,961
Current portion of bonds payable	1,208,369	86,102	1,294,471	-
Current portion of compensated absences	696,608	3,853	700,461	-
Current portion of support agreement	1,359,985	-	1,359,985	-
Total current liabilities	6,095,650	587,990	6,683,640	4,521,404
Noncurrent Liabilities:				
Bonds payable	13,952,464	1,074,422	15,026,886	-
Compensated absences	41,047	13,697	54,744	-
Deposits	562,542	-	562,542	-
Capacity fee credits	870,248	-	870,248	-
Support agreement	1,015,979	-	1,015,979	-
Net pension liability	2,140,440	40,611	2,181,051	-
Total noncurrent liabilities	18,582,720	1,128,730	19,711,450	-
Total liabilities	24,678,370	1,716,720	26,395,090	4,521,404
DEFERRED INFLOWS OF RESOURCES				
Difference between expected and actual experience	199,501	3,681	203,182	-
Total deferred inflows of resources	199,501	3,681	203,182	-
NET POSITION				
Net investment in capital assets	190,178,097	12,713,524	202,891,621	-
Restricted for debt covenants	3,587,279	-	3,587,279	-
Unrestricted	24,945,954	479,571	25,425,525	14,243,393
Total net position	\$ 218,711,330	13,193,095	231,904,425	14,243,393

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 Position
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
OPERATING REVENUES				
Revenue from use of money and property	\$ -	215,748	215,748	-
Charges for services	24,595,629	-	24,595,629	34,485,729
Capacity fees	433,455	-	433,455	-
Recovered cost	-	-	-	75,000
Miscellaneous	215,205	-	215,205	-
Total operating revenues	25,244,289	215,748	25,460,037	34,560,729
OPERATING EXPENSES				
Personnel services	4,941,918	88,073	5,029,991	57,640
Fringe benefits	1,563,623	23,564	1,587,187	18,086
Pension expense	(76,057)	(1,455)	(77,512)	-
Health care claims and benefits	-	-	-	34,886,607
Contractual services	5,708,836	42,294	5,751,130	76,367
Internal services	1,231,500	-	1,231,500	-
Other charges	3,309,750	13,515	3,323,265	349,523
Depreciation	9,168,150	399,963	9,568,113	-
Total operating expenses	25,847,720	565,954	26,413,674	35,388,223
Operating loss	(603,431)	(350,206)	(953,637)	(827,494)
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues:				
Capacity fees - nonoperating	5,130,459	-	5,130,459	-
Interest income	49,582	-	49,582	32,058
Total nonoperating revenues	5,180,041	-	5,180,041	32,058
Nonoperating expenses:				
Interest expense and fiscal charges	629,318	60,008	689,326	-
Total nonoperating expenses	629,318	60,008	689,326	-
Net nonoperating revenues (expenses)	4,550,723	(60,008)	4,490,715	32,058
Income (loss) before capital contributions and transfers	3,947,292	(410,214)	3,537,078	(795,436)
Capital contributions	4,092,983	2,038,344	6,131,327	-
Transfers in	-	52,249	52,249	-
Change in fund net position	8,040,275	1,680,379	9,720,654	(795,436)
Total fund net position - beginning	210,671,055	11,512,716	222,183,771	15,038,829
Total fund net position - ending	\$ 218,711,330	13,193,095	231,904,425	14,243,393

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, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 25,432,672	215,748	25,648,420	-
Receipts from interfund services provided	-	-	-	34,734,772
Payments to suppliers and service providers	(11,126,204)	(54,216)	(11,180,420)	(76,367)
Payments to employees	(4,763,856)	(107,303)	(4,871,159)	(75,726)
Claims and benefits paid	-	-	-	(35,260,872)
Net cash provided by operating activities	9,542,612	54,229	9,596,841	(678,193)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	52,249	52,249	-
Advance from other funds	-	328	328	-
Net cash provided by noncapital financing activities	-	52,577	52,577	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental revenue received - capital grants	99,451	1,138,078	1,237,529	-
Capacity fees received	4,905,125	-	4,905,125	-
Acquisition and construction of capital assets	(6,812,764)	(1,918,239)	(8,731,003)	-
Principal payments on revenue bonds and support agreement debt	(2,321,830)	(81,889)	(2,403,719)	-
Interest payments on revenue bonds	(755,275)	(62,088)	(817,363)	-
Net cash (used) by capital and related financing activities	(4,885,293)	(924,138)	(5,809,431)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	49,582	-	49,582	32,058
Net cash provided by investing activities	49,582	-	49,582	32,058
Net increase in cash and cash equivalents	4,706,901	(817,332)	3,889,569	(646,135)
Pooled cash, cash equivalents and investments at beginning of year	24,763,712	817,332	25,581,044	18,934,240
Pooled cash, cash equivalents and investments at end of year	\$ 29,470,613	-	29,470,613	18,288,105
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (603,431)	(350,206)	(953,637)	(827,494)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	9,168,150	399,963	9,568,113	-
Pension expense	(76,057)	(1,455)	(77,512)	-
(Increase) decrease in:				
Receivables	168,539	-	168,539	139,017
Prepays	-	-	-	(35,250)
Increase (decrease) in:				
Customer deposits	19,843	-	19,843	-
Accounts payable	687,505	1,593	689,098	(46,373)
Incurred but not reported self-insurance claims	-	-	-	102,894
Accrued liabilities	5,318	(15)	5,303	(46,013)
Advance premiums	-	-	-	35,026
Compensated absences	172,745	4,349	177,094	-
Total adjustments	10,146,043	404,435	10,550,478	149,301
Net cash provided by operating activities	\$ 9,542,612	54,229	9,596,841	(678,193)
Noncash investing, capital, and financing activities:				
Capital contributions	\$ 4,092,983	2,038,344	6,131,327	-
Capitalized interest	\$ 27,255	-	27,255	-

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 Position**

June 30, 2017

	Retiree Medical Benefits Trust	Agency Funds
ASSETS		
Pooled cash, cash equivalents and investments	\$ -	\$ 2,466,897
Receivables	1,966	691,240
Investments, at fair value (mutual funds):		
Money market	11,597	-
Domestic equity	2,295,787	-
International equity	1,273,226	-
Fixed income	1,602,421	-
Total assets	<u>\$ 5,184,997</u>	<u>\$ 3,158,137</u>
LIABILITIES		
Accounts payable	\$ -	\$ 445,003
Accrued liabilities	-	1,638,820
Deposits	-	1,074,314
Total liabilities	<u>\$ -</u>	<u>\$ 3,158,137</u>
FIDUCIARY NET POSITION		
Held in trust for other postemployment benefits	<u>\$ 5,184,997</u>	

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

COUNTY OF HANOVER, VIRGINIA
Retiree Medical Benefits Trust Fund
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

Exhibit 11

	Retiree Medical Benefits Trust
ADDITIONS	
Contributions:	
Employer	\$ 56,000
Plan members	903,556
Total contributions	<u>959,556</u>
Investment earnings	502,289
Total additions	<u>1,461,845</u>
DEDUCTIONS	
Benefits	<u>959,556</u>
Net increase in fiduciary net position	502,289
Fiduciary net position held in trust for other postemployment benefits	
Beginning	4,682,708
Ending	<u><u>\$ 5,184,997</u></u>

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

I. Summary of significant accounting policies

A. Reporting entity

The County of Hanover, Virginia (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 (the Board) 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 Board pursuant to the Industrial Development and Revenue Bond Act (Chapter 33, Title 15.1, *Code of Virginia* (the Code) 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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the Primary Government and its component units, exclusive of fiduciary activities. For the most part, the effect of interfund activity has been removed 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 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 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 Commonwealth 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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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. All other revenue items are considered to be measurable and available and are recorded as revenues when cash is received.

The County reports four 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 *Debt Service Fund* accounts for the resources to be used for County and School Board obligations for the payment of interest and principal on long-term debt.

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 accounts for self-insurance activities of the County related to employee health insurance, including clinic operations and wellness initiatives.

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.

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 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 position 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, 2017, 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 Statement 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 accounting principles generally accepted in the United States of America (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 judgment.

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, 2016, and the first installment (June 5) of the levy on assessed value at January 1, 2017.

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.

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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 2016 tax bills, payable in fiscal year 2017, included a fifty-five 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, 2017 \$17,499,639, which consists of unspent bond proceeds and accumulated interest of \$13,912,360 restricted for capital projects in the School and County Improvements Funds. Business-type activities report restricted cash, cash equivalents and investments of \$3,587,279 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, storm water 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 such 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 acquisition 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, net of related interest income. Interest cost of \$27,255 was capitalized during the year-ended June 30, 2017.

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 indefinite useful lives are not depreciated or amortized.

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The estimated useful lives of capital assets are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30
Durable Equipment	20
Vehicles, trucks, fire trucks	5-15
School Buses	12
Heavy Equipment	10
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 position, long-term debt, net pension liability and other long-term obligations are reported as liabilities.

In the governmental funds' financial statements, proceeds from long-term debt including bond premiums and discounts 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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the retirement plan for the County and the School Board Component Unit, and the additions to and deductions from the net fiduciary position of the County and the School Board Component Unit have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

8. *Net position / Fund balances*

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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 position of the Retiree Medical Benefits Trust Fund is held by the trust for payment of retiree health benefits, and is reported as net position held in trust for other postemployment benefits.

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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.

Committed fund balance – Consists of amounts that can only be used for specific purposes pursuant to constraints imposed by the Board, the County's highest level of decision-making authority, and adopted by a formal ordinance or resolution, the highest levels of formal action approved by the Board. 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. The highest levels of formal action approved by the Board are ordinances and resolutions, which are equally binding.

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 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 GAAP, 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 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 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 actual revenues.

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9. Pension Plans

The County is consistent with VRS guidance in respect to its pension reporting, including their measurement of retirement plan net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the VRS agent multiple-employer (VRS Local Plans) and teachers' cost-sharing plan (VRS Teachers' Pool).

GAAP requires the liability of employers for defined benefit pensions to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past period of service, less the amount of the pension plan's fiduciary net position. Accordingly, the County and School Board Component Unit recorded the impact of the related net pension asset, net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. For further information regarding the reporting entity's defined benefit pension plans, refer to Note V.F. of the accompanying notes to the financial statements.

10. New Accounting Pronouncements

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in financial reports of state and local governments, to establish requirements for defined benefit pensions and the assets accumulated for purposes of providing pensions that are not within the scope of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement also amends certain provisions of Statement No. 67 and Statement No. 68. The County's adoption of this statement in fiscal year 2017 did not have a significant impact on the reporting entity's financial statements or disclosures.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the financial reports of state and local governments. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The County adopted this statement in fiscal year 2017 in Note V.G. of the accompanying notes to the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement is not applicable to the County as there are no agreements of this type.

In December, 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through certain cost-sharing multiple-employer defined benefit pension plans. The Statement establishes requirements for recognition and measurement of pension expense, expenditures, and

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liabilities; note disclosures; and required supplementary information for a pension plan that is (1) not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The County's adoption of this statement in fiscal year 2017 did not have a significant impact on the reporting entity's financial statements or disclosures.

In January, 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to clarify the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The County's adoption of this statement in fiscal year 2017 did not have a significant impact on the reporting entity's financial statements or disclosures.

In March, 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to previous pension-related statements regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The County's adoption of this statement in fiscal year 2017 did not have a significant impact on the reporting entity's financial statements or disclosures. See related Required Supplementary Information (RSI) Schedules for amended covered compensation presentation.

11. Future Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions and to improve information provided by state and local governmental employers about financial support for other postemployment benefits (OPEB) that is provided by other entities. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2018.

In March, 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to provide recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement, and recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. It also requires that a government recognize revenue when the resources become applicable to the reporting

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period. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2018.

In November 2016, GASB issues statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2018.

In January 2017, GASB issues statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2019.

In March 2017, GASB issued statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2018.

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In May 2017, GASB issued statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The County will analyze the impact on the reporting entity's financial statements and disclosures and will adopt this Statement for the fiscal year ending June 30, 2019.

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 Position.

The governmental funds balance sheet includes a reconciliation between *total fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statement of Net Position. One element of the governmental funds' Balance Sheet includes a reconciliation between *total fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds."

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

Bonds payable, net	\$ 156,627,111
Accrued bond interest	2,587,715
Capital lease obligations	1,883,191
Support agreement payable	3,152,074
Compensated absences	9,143,362
Liability for landfill closure and postclosure costs	<u>1,847,329</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net position - governmental activities	 <u>\$ 175,240,782</u>

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B. Explanation of certain differences between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the government-wide Statement of Activities.

The governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between the *net change in fund balance - total governmental funds* and the *change in net position 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	\$ 14,701,082
Depreciation expense (excludes internal service fund)	<u>(9,219,910)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net position of governmental activities	<u>\$ 5,481,172</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	\$ (2,209,331)
Liability for landfill closure and postclosure costs	79,511
Other postemployment benefit (OPEB) costs	14,079
Accrued interest	(7,923)
Amortization of bond premiums	970,129
Amortization of deferred loss on refunding	<u>(290,340)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net position of governmental activities	<u>\$ (1,443,875)</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with GAAP 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 Board 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. The budget policy generally authorizes the County Administrator (County Funds) and School Superintendent (School Funds) to transfer amounts as needed within the

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personnel and capital categories, and to transfer within a \$50,000 limit per topic or issue in the operating category. 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's approval.

IV. Detailed notes on all funds

A. Deposits and investments

As of June 30, 2017, the reporting entity's pooled cash and investments, including \$2,466,897 held on behalf of agency funds, and amounts separately invested by the Retiree Medical Benefits Trust's Finance Board, were as follows:

Investment Type	June 30, 2017	Credit Quality Rating			
		AAA/AAAm	AA	A	N/A
Pooled Investments:					
Cash on hand	\$ 4,375	-	-	-	4,375
Cash deposits	47,653,374	-	-	-	47,653,374
Demand and time deposits	11,083,848	-	7,091,176	3,506,150	486,522
Money market mutual funds (AAAm ratings)	19,439,763	19,439,763	-	-	-
U.S. government and agency bonds	55,805,659	4,444,164	51,361,495	-	-
Corporate notes and bonds	13,512,272	1,550,989	11,961,283	-	-
Commercial paper	9,825,690	-	-	9,825,690	-
Total pooled deposits and investments	\$ 157,324,981	25,434,916	70,413,954	13,331,840	48,144,271

Retiree Medical Benefits Trust:	June 30, 2017	Fund Credit Quality Rating	
		AAA/Aaa	N/A
Mutual funds:			
Money market	\$ 11,597	11,597	-
Domestic equity	2,295,787	-	2,295,787
International equity	1,273,226	-	1,273,226
Fixed income	1,602,421	-	1,602,421
Other	-	-	-
Total trust investments	\$ 5,183,031	11,597	5,171,434

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 and other applicable laws 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 Commonwealth of Virginia Treasurer's Local Government Investment Pool (the LGIP, a 2a-7 like pool).

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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:

	Maximum
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 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 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 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.

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The target asset classes and asset weightings are as follows:

Trust Asset Class	June 30, 2017	Trust Asset Weightings		
		Range	Target	Actual
Liquidity assets:				
Cash equivalent	\$ 11,597	0 - 100%	100%	100%
Investment assets:				
Domestic equity	2,295,787	26 - 46%	36%	44%
International equity	1,273,226	13 - 33%	23%	25%
REITs	-	0 - 12%	6%	-
Inflation hedged	-	0 - 10%	-	-
Fixed income	1,602,421	20 - 60%	35%	31%
Total investment assets	5,171,434		100%	100%
Total trust investments	\$ 5,183,031			

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 stated 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.

As of June 30, 2017, deposits and fixed income investments managed by the Treasurer are summarized at fair value and maturity as follows:

Investment Type	June 30, 2017	Investment Maturities (in Years)	
		Less than 1	1 to 3
Pooled Investments:			
Cash on hand	\$ 4,375	4,375	-
Cash deposits	47,653,374	47,653,374	-
Demand and time deposits	11,083,848	8,506,563	2,577,285
Money market mutual funds	19,439,763	19,439,763	-
U.S. Government and agency bonds	55,805,659	5,868,954	49,936,705
Corporate notes and bonds	13,512,272	1,761,370	11,750,902
Commercial paper	9,825,690	9,825,690	-
Total pooled deposits and investments	\$ 157,324,981	93,060,089	64,264,892

Retiree Medical Benefits Trust:	June 30, 2017	Investment Maturity
		Less than 1 Year
Money market mutual fund	\$ 11,597	11,597
Fixed income	1,602,421	1,602,421
Domestic equity	2,295,787	2,295,787
International equity	1,273,226	1,273,226
Total trust deposits and investments	\$ 5,183,031	5,183,031

COUNTY OF HANOVER
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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 following: Moody's Investors Service, Standard & Poor's and Fitch Ratings, and that its maturity may not exceed 270 days and the issuing corporation, or its guarantor must have a net worth of at least \$50 million and the issuer's net income must average \$3 million for the five previous years.

Corporate notes 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, 2017 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 Trust's fixed income investments shall not exceed 5% of the total bond portfolio at the time of purchase. The 5% limitation does not apply to the issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization.

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, 2017, the only issuer exceeding five percent of the pooled investments was the U.S. Treasury, which represented twelve percent of pooled investments.

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.

COUNTY OF HANOVER
Notes to Financial Statements
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Custodial Credit Risk – Deposits: For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. The County's deposits at June 30, 2017 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, 2017, 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, 2017.

Fair Value Hierarchy Disclosure: The following tables present investments at fair value on a recurring basis in accordance with GAAP at June 30, 2017:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled Investments:	Total			
Investments by fair value level				
U.S. Treasury bonds and notes	\$ 23,982,590	-	23,982,590	-
U.S. agency securities	31,823,069	-	31,823,069	-
Commercial paper	9,825,690	-	9,825,690	-
Corporate notes and bonds	13,512,272	-	13,512,272	-
Fair value certificates of deposit	10,597,326	-	10,597,326	-
Total investments by fair value	\$ 89,740,947	-	89,740,947	-

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Retiree Medical Benefits Trust:	Total			
Investments by fair value level				
Fixed income	\$ 1,602,421	-	1,602,421	-
Domestic equity	2,295,787	-	2,295,787	-
International equity	1,273,226	-	1,273,226	-
Total investments by fair value	\$ 5,171,434	-	5,171,434	-

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

B. Receivables

Receivables and allowances for uncollectible receivables of the Primary Government and School Component Unit, excluding fiduciary funds, at June 30, 2017, are as follows:

	Primary Government						Total Primary Government	School Component Unit
	General Fund	Debt Service Fund	County Improvements Fund	Public Utilities	Airport Fund	Internal Services Funds		
Receivables:								
Interest	\$ 319,437	-	7,718	-	-	-	327,155	-
Taxes	58,670,380	-	-	-	-	-	58,670,380	-
Accounts	3,476,832	-	-	4,915,850	-	244,222	8,636,904	235,188
Commonwealth of Virginia	5,882,514	-	1,366,822	-	119,977	-	7,369,313	3,436,476
Federal government	480,737	126,830	2,814,952	-	903,882	-	4,326,401	2,286,040
Gross receivables	68,829,900	126,830	4,189,492	4,915,850	1,023,859	244,222	79,330,153	5,957,704
Allowance for uncollectibles	(2,697,764)	-	-	(197,095)	-	-	(2,894,859)	-
Net total receivables	\$ 66,132,136	\$ 126,830	4,189,492	4,718,755	1,023,859	244,222	76,435,294	5,957,704

The governmental funds financial statements report *unearned revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The government-wide financial statements report *unearned revenues* in connection with assets which have not yet been earned, including advance health insurance premiums received in the Self-Insurance Fund. Prepaid taxes, taxes receivable that were levied to finance expenditures of the next fiscal year, and the second installment of the 2017 real property tax levy, due on October 5, 2017, are reported as *deferred inflows of resources* at June 30, 2017 in the government-wide financial statements, and in the governmental fund financial statements. At June 30, 2017, the various components of the Primary Government's *deferred inflows of resources* and *unearned revenues* were as follows:

	Deferred Inflows of Resources	Unearned Revenues	Deferred Inflows of Resources	Unearned Revenues
	Governmental Funds' Financial Statements	Governmental Funds' Financial Statements	Government - wide Financial Statements	Government - wide Financial Statements
Property tax levies not yet due	\$ 52,548,978	-	52,548,978	-
Prepaid taxes	1,640,292	-	1,640,292	-
Past due taxes (net of allowance for uncollectibles)	4,378,000	-	-	-
EMS transport fees	-	83,008	-	-
Advance health insurance premiums - Self Insurance Fund	-	-	-	1,705,961
Total deferred/unearned revenues - Primary Government	\$ 58,567,270	83,008	54,189,270	1,705,961

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

C. Capital assets

Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

Primary Government				
Governmental activities:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	\$ 9,850,563	-	-	9,850,563
Intangible assets	1,073,366	-	-	1,073,366
Construction in progress	32,324,993	10,587,793	(40,366,831)	2,545,955
Total capital assets, not being depreciated	43,248,922	10,587,793	(40,366,831)	13,469,884
Capital assets, being depreciated:				
Buildings	213,530,444	31,544,250	(2,178,247)	242,896,447
Improvements other than buildings	16,580,636	1,639,917	-	18,220,553
Machinery and equipment	76,903,780	9,296,404	(2,375,796)	83,824,388
Infrastructure	32,186,464	1,999,548	-	34,186,012
Total capital assets, being depreciated	339,201,324	44,480,119	(4,554,043)	379,127,400
Less accumulated depreciation for:				
Buildings	(89,118,085)	(5,080,286)	-	(94,198,371)
Improvements other than buildings	(7,142,718)	(691,464)	-	(7,834,182)
Machinery and equipment	(41,645,661)	(5,527,672)	2,329,137	(44,844,196)
Infrastructure	(20,115,109)	(961,491)	-	(21,076,600)
Total accumulated depreciation	(158,021,573)	(12,260,913)	2,329,137	(167,953,349)
Total capital assets, being depreciated, net	181,179,751	32,219,206	(2,224,906)	211,174,051
Governmental activities capital assets, net	\$ 224,428,673	42,806,999	(42,591,737)	224,643,935
Business-type activities:	Balance July 1	Increases	Decreases	Balance June 30
Public Utilities:				
Capital assets, not being depreciated:				
Land	\$ 6,417,136	-	-	6,417,136
Construction in progress	3,176,774	6,333,395	(4,495,342)	5,014,827
Total capital assets, not being depreciated	9,593,910	6,333,395	(4,495,342)	11,431,963
Capital assets, being depreciated:				
Buildings	85,801,191	119,622	-	85,920,813
Improvements other than buildings	246,265,675	7,893,224	-	254,158,899
Machinery and equipment	13,727,356	2,021,134	(44,862)	15,703,628
Total capital assets, being depreciated	345,794,222	10,033,980	(44,862)	355,783,340
Less accumulated depreciation for:				
Buildings	(38,037,533)	(2,234,459)	-	(40,271,992)
Improvements other than buildings	(103,830,709)	(6,331,126)	-	(110,161,835)
Machinery and equipment	(8,453,596)	(602,565)	44,862	(9,011,299)
Total accumulated depreciation	(150,321,838)	(9,168,150)	44,862	(159,445,126)
Total capital assets, being depreciated, net	195,472,384	865,830	-	196,338,214
Public Utilities' capital assets, net	\$ 205,066,294	7,199,225	(4,495,342)	207,770,177

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

	Balance July 1	Increases	Decreases	Balance June 30
Airport Fund:				
Capital assets, not being depreciated:				
Land	\$ 4,770,169	-	-	4,770,169
Construction in progress	1,333,836	2,299,244	-	3,633,080
Total capital assets, not being depreciated	6,104,005	2,299,244	-	8,403,249
Capital assets, being depreciated:				
Buildings	3,669,137	-	-	3,669,137
Improvements other than buildings	8,154,569	-	-	8,154,569
Machinery and equipment	33,857	-	-	33,857
Total capital assets, being depreciated	11,857,563	-	-	11,857,563
Less accumulated depreciation for:				
Buildings	(1,042,365)	(118,083)	-	(1,160,448)
Improvements other than buildings	(4,920,889)	(280,810)	-	(5,201,699)
Machinery and equipment	(23,547)	(1,070)	-	(24,617)
Total accumulated depreciation	(5,986,801)	(399,963)	-	(6,386,764)
Total capital assets, being depreciated, net	5,870,762	(399,963)	-	5,470,799
Airport capital assets, net	\$ 11,974,767	1,899,281	-	13,874,048
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 11,187,305	-	-	11,187,305
Construction in progress	4,510,610	8,632,639	(4,495,342)	8,647,907
Total capital assets, not being depreciated	15,697,915	8,632,639	(4,495,342)	19,835,212
Capital assets, being depreciated:				
Buildings	89,470,328	119,622	-	89,589,950
Improvements other than buildings	254,420,244	7,893,224	-	262,313,468
Machinery and equipment	13,761,213	2,021,134	(44,862)	15,737,485
Total capital assets, being depreciated	357,651,785	10,033,980	(44,862)	367,640,903
Less accumulated depreciation for:				
Buildings	(39,079,898)	(2,352,542)	-	(41,432,440)
Improvements other than buildings	(108,751,598)	(6,611,936)	-	(115,363,534)
Machinery and equipment	(8,477,143)	(603,635)	44,862	(9,035,916)
Total accumulated depreciation	(156,308,639)	(9,568,113)	44,862	(165,831,890)
Total capital assets, being depreciated, net	201,343,146	465,867	-	201,809,013
Business-type activities capital assets, net	\$ 217,041,061	9,098,506	(4,495,342)	221,644,225
Total capital assets, net - Primary government	\$ 441,469,734	51,905,505	(47,087,079)	446,288,160

COUNTY OF HANOVER
Notes to Financial Statements
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Capital assets activity for the School Board Component Unit for the year ended June 30, 2017 was as follows:

	Balance July 1	Increases	Decreases	Balance June 30
School Board Component Unit activities:				
Capital assets, not being depreciated:				
Land	\$ 7,400,682	-	-	7,400,682
Construction in progress	1,327,742	6,220,544	(4,294,256)	3,254,030
Total capital assets, not being depreciated	8,728,424	6,220,544	(4,294,256)	10,654,712
Capital assets, being depreciated:				
Buildings	157,322,467	2,178,247	-	159,500,714
Improvements other than buildings	11,308,808	2,815,885	-	14,124,693
Machinery and equipment	27,000,543	1,884,363	(100,540)	28,784,366
Total capital assets, being depreciated	195,631,818	6,878,495	(100,540)	202,409,773
Less accumulated depreciation for:				
Buildings	(66,643,792)	(5,352,876)	-	(71,996,668)
Improvements other than buildings	(3,089,630)	(592,215)	-	(3,681,845)
Machinery and equipment	(19,937,372)	(1,725,238)	90,902	(21,571,708)
Total accumulated depreciation	(89,670,794)	(7,670,329)	90,902	(97,250,221)
Total capital assets, being depreciated, net	105,961,024	(791,834)	(9,638)	105,159,552
School Board Component Unit capital assets, net	\$ 114,689,448	5,428,710	(4,303,894)	115,814,264

Depreciation expense was charged to functions of the Primary Government and School Component Unit as follows:

Primary Government:	
Governmental activities:	
General governmental administration	\$ 616,032
Judicial administration	687,125
Public safety	5,132,386
Public works	1,961,799
Human services	208,477
Parks, recreation and cultural	540,954
Community development	73,137
Education	3,963,736
Total - governmental activities	13,183,646
Less tenancy in common transfer	(922,733)
Total depreciation expense - governmental activities	12,260,913
Business-type activities:	
Public Utilities	9,168,150
Airport	399,963
Total depreciation expense - business-type activities	9,568,113
Total depreciation expense - Primary Government	\$ 22,751,759
School Board Component Unit:	
Education	\$ 6,747,596
Tenancy in common transfer	922,733
Total depreciation expense - School Board Component Unit	\$ 7,670,329

COUNTY OF HANOVER
Notes to Financial Statements
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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, 2017, the County had outstanding financial obligations related to the construction of school buildings totaling \$78,291,594. Accordingly, school buildings with a net book value of that amount are reported in the governmental activities of the Primary Government at June 30, 2017. During fiscal year 2017, the County's financial obligations related to school buildings decreased by a net amount of \$5,219,250, 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 \$10,711,332 in fiscal year 2017, of which \$3,963,736 is reported by the Primary Government and \$6,747,596 is reported by the School Component Unit.

D. Interfund transfers

The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2017 are as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 103,300	33,825,376
County Improvements Fund	10,392,766	103,300
School Improvements Fund	3,900,000	14,697
Debt Service Fund	19,495,058	-
Airport Fund	52,249	-
Total Primary Government	<u>\$ 33,943,373</u>	<u>33,943,373</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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, 2017:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Primary Government					
Governmental activities:					
General obligation bonds payable:					
Principal amount of bonds payable	\$ 108,477,459	9,140,000	11,653,637	105,963,822	11,415,718
Premium	7,197,004	906,605	862,302	7,241,307	847,921
Infrastructure and state moral obligation bonds payable:					
Principal amount of bonds payable	41,455,000	-	365,000	41,090,000	765,000
Premium	2,417,481	-	85,499	2,331,982	85,500
Total bonds payable	159,546,944	10,046,605	12,966,438	156,627,111	13,114,139
Capital lease obligations	1,982,667	-	99,476	1,883,191	99,476
Compensated absences	6,934,031	7,244,666	5,035,335	9,143,362	6,576,006
Other postemployment benefit obligations	753,547	-	14,079	739,468	-
Liability for landfill closure	1,926,840	-	79,511	1,847,329	79,511
Support agreement	3,844,925	-	692,851	3,152,074	687,852
Net pension liability	18,160,669	4,318,375	(3,842,095)	26,321,139	-
Total governmental activities	193,149,623	21,609,646	15,045,595	199,713,674	20,556,984
Business-type activities:					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	14,451,864	-	1,016,830	13,435,034	1,046,831
Premium	1,887,337	-	161,538	1,725,799	161,538
Total bonds payable	16,339,201	-	1,178,368	15,160,833	1,208,369
Compensated absences	564,909	706,220	533,474	737,655	696,608
Deposits	542,699	268,917	249,074	562,542	-
Capacity fee credits	57,099	1,086,953	273,804	870,248	-
Support agreement	3,723,110	-	1,347,146	2,375,964	1,359,985
Net pension liability	1,487,800	345,365	(307,275)	2,140,440	-
Total Public Utilities	22,714,818	2,407,455	3,274,591	21,847,682	3,264,962
Airport Fund:					
VRA airport revenue bond payable	1,242,413	-	81,889	1,160,524	86,102
Compensated absences	13,201	7,247	2,898	17,550	3,853
Net pension liability	28,123	6,609	(5,879)	40,611	-
Total Airport Fund	1,283,737	13,856	78,908	1,218,685	89,955
Total business-type activities	23,998,555	2,421,311	3,353,499	23,066,367	3,354,917
Total Business-type activities:					
Revenue bonds payable:					
Principal amount of bonds payable	15,694,277	-	1,098,719	14,595,558	1,132,933
Premium	1,887,337	-	161,538	1,725,799	161,538
Total bonds payable	17,581,614	-	1,260,257	16,321,357	1,294,471
Compensated absences	578,110	713,467	536,372	755,205	700,461
Deposits	542,699	268,917	249,074	562,542	-
Capacity fee credits	57,099	1,086,953	273,804	870,248	-
Support agreement	3,723,110	-	1,347,146	2,375,964	1,359,985
Net pension liability	1,515,923	351,974	(313,154)	2,181,051	-
Total business-type activities	23,998,555	2,421,311	3,353,499	23,066,367	3,354,917
Total noncurrent liabilities - Primary government	\$ 217,148,178	24,030,957	18,399,094	222,780,041	23,911,901
School Board Component Unit					
Compensated absences	\$ 5,270,161	2,579,223	1,858,189	5,991,195	2,274,017
Net pension liability	160,089,000	13,839,067	(3,436,933)	177,365,000	-
Total noncurrent liabilities - School Board Component Unit	\$ 165,359,161	16,418,290	(1,578,744)	183,356,195	2,274,017

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.

COUNTY OF HANOVER
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June 30, 2017

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 \$1,847,329 reported as landfill closure and post closure care liability at June 30, 2017 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 2017. 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 and generally are issued as 20- to 30-year serial bonds with equal amounts of principal maturing each year.

On November 17, 2016, the Primary Government issued \$10,046,604 of VPSA General Obligation Bonds, Series 2016A with interest rates between 2.80 and 5.05 percent to finance capital projects for school improvements.

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 \$17.2 million as of June 30, 2017, 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, 2017 of approximately \$11.9 million annually, it is estimated that approximately 9.6 percent of future Utility Net Available Revenues are pledged through fiscal 2032, and will expire in that fiscal year with the 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 2017, pledged Net Available Revenues totaled \$13,744,758 and the water and sewer revenue bond debt service requirement was \$2,978,404.

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 \$1,511,760 as of June 30, 2017, 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.

COUNTY OF HANOVER
Notes to Financial Statements
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During fiscal year 2017, pledged rental receipts totaled \$187,848 and the debt service requirement was \$141,897.

The following is a schedule, by year, of total minimum lease payments under direct financing leases as of June 30, 2017:

2018	\$	143,977
2019		143,977
2020		143,977
2021 and thereafter		1,079,829
Total minimum lease payments	\$	1,511,760

County General Obligation Bonds and Revenue Bonds

Outstanding general obligation bonds and revenue bonds as of June 30, 2017 are comprised of the following issues:

(See schedule on following page)

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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	\$ -
Series 2006A Refunding	4.00 - 5.00	10-12-06	3,965,000	-
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	10,765,000	2,205,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	5,655,000	1,810,000
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	4,837,324
Series 2015 Refunding	2.00 - 5.00	03-19-15	11,199,110	11,144,570
Total general obligation bonds - County				27,846,894
Schools:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	-
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	2,935,000
Series 2009 Public Improvement	2.00 - 5.00	02-18-09	9,450,000	1,480,000
Series 2009 Refunding	2.00 - 5.00	02-18-09	22,375,000	9,525,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	6,585,000	2,110,000
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	442,676
Series 2011A Refunding	2.00 - 5.25	01-20-11	5,340,000	3,200,000
Series 2015 Refunding	2.00 - 5.00	03-19-15	9,335,890	9,290,430
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	-
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	840,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	730,731
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	7,245,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	3,259,781
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	3,145,000
VPSA Series 2007	4.10 - 5.10	11-08-07	13,838,206	7,858,310
VPSA Series 2009A Refunding	4.35 - 5.35	11-20-97	3,220,000	160,000
VPSA Series 2011B	2.05 - 5.05	11-09-11	5,855,000	4,380,000
VPSA Series 2014A	2.68 - 5.05	05-15-14	1,895,000	1,770,000
VPSA Series 2015B	2.05 - 5.02	05-14-15	4,470,000	4,330,000
VPSA Series 2016B	2.80 - 5.05	11-01-16	9,140,000	9,140,000
Total general obligation bonds - Schools				78,116,928
Total governmental activities - general obligation bonds				105,963,822
Infrastructure and state moral obligation revenue bonds:				
VRA Series 2014A	2.74 - 4.83	5-21-14	19,950,000	19,950,000
VRA Series 2015B	3.125 - 5.125	8-19-15	21,505,000	21,140,000
Total infrastructure and state moral obligation bonds				41,090,000
Business-type activities:				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	0.00	06-14-02	920,400	276,120
Series 2007	0.00	07-19-07	616,206	338,914
Series 2014B Refunding	2.031 - 5.025	08-13-14	6,340,000	6,340,000
Series 2015D Refunding	3.094 - 5.125	11-18-15	7,130,000	6,480,000
Total Public Utilities				13,435,034
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,160,524
Total Airport Fund				1,160,524
Total Business-type activities				14,595,558
Total bond indebtedness - Primary Government				\$ 161,649,380

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

Principal and interest to maturity for the County's governmental activities general obligation bonds and business-type activities revenue bonds outstanding at June 30, 2017, 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	
2018	\$	11,415,718	4,768,112	1,046,831	589,094	86,102	57,875	12,548,651	5,415,081
2019		11,253,475	4,186,195	1,096,831	539,075	90,532	53,445	12,440,838	4,778,715
2020		11,016,952	3,663,913	1,151,831	486,416	95,189	48,788	12,263,972	4,199,117
2021		9,547,465	3,211,192	1,201,831	436,466	100,086	43,891	10,849,382	3,691,549
2022		9,276,892	2,788,462	1,256,831	383,300	105,235	38,742	10,638,958	3,210,504
2023-2027		34,672,342	8,353,270	5,025,080	1,024,790	613,175	106,712	40,310,597	9,484,772
2028-2032		14,900,978	2,003,926	2,655,799	267,234	70,205	1,783	17,626,982	2,272,943
2033-2037		3,880,000	303,790	-	-	-	-	3,880,000	303,790
Totals	\$	105,963,822	29,278,860	13,435,034	3,726,375	1,160,524	351,236	120,559,380	33,356,471

The County has no legal debt margin requirement. Any issuance of general obligation bonded debt, except State Literary Fund loans and VPSA bonds, must be approved by a voting majority of the qualified County voters. Revenue bonds, State Literary Fund loans, VPSA bonds and VRA Infrastructure and State Moral Obligation Revenue Bonds may be issued by the adoption of a resolution by the Board of Supervisors.

Infrastructure and State Moral Obligation Revenue Bonds

Principal and interest to maturity for the Infrastructure and State Moral Obligation Revenue Bonds outstanding at June 30, 2017 are as follows:

Fiscal Year	Governmental Activities	
	Principal	Interest
2018	\$ 765,000	1,692,166
2019	800,000	1,658,938
2020	835,000	1,624,666
2021	865,000	1,592,803
2022	905,000	1,557,997
2023-2027	5,195,000	7,108,997
2028-2032	6,445,000	5,853,519
2033-2037	7,775,000	4,533,534
2038-2042	9,505,000	2,792,216
2043-2047	8,000,000	656,669
Totals	\$ 41,090,000	29,071,505

Conduit Debt Obligations

The 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, 2017, the principal amounts outstanding on these IRBs totaled approximately \$164.0 million.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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 \$15,055,000 was used to refund existing County general obligation school bonds and water and sewer revenue bonds. The original issue premium of \$681,656 is amortized over the life of the 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 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. Support principal and interest payments of \$2,237,463 were paid by the County during the fiscal year ended June 30, 2017.

The Support Agreement annual debt service requirements to maturity as of June 30, 2017, excluding amortization of premium, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 675,000	119,313	1,305,000	73,600	1,980,000	192,913
2019	450,000	92,313	680,000	32,350	1,130,000	124,663
2020	275,000	78,813	60,000	11,950	335,000	90,763
2021	210,000	69,875	60,000	10,000	270,000	79,875
2022	215,000	61,475	60,000	7,600	275,000	69,075
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	\$ 2,985,000	683,239	2,295,000	143,300	5,280,000	826,539

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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, 2017, are as follows:

<u>Asset Class</u>	<u>Primary Government - Governmental Activities</u>
Land	\$ 384,847
Buildings	13,804,580
Machinery and equipment	<u>1,783,693</u>
Total assets, at cost	15,973,120
Accumulated depreciation	<u>(8,639,382)</u>
Total assets, net	<u><u>\$ 7,333,738</u></u>

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2018	\$ 172,655
2019	173,095
2020	173,425
2021	173,989
2022	174,743
2023-2027	871,276
2028-2032	697,600
Total minimum lease payments	2,436,783
Less: Portion representing interest	<u>(553,592)</u>
Present value of minimum lease payments	<u><u>\$ 1,883,191</u></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, 2017, the County had general obligation bonds that were outstanding but considered defeased totaling \$11,505,000, and Public Utilities had revenue bonds that were outstanding but considered defeased totaling \$14,710,000.

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 2017.

COUNTY OF HANOVER
Notes to Financial Statements
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All claims are paid in accordance with policy coverage in effect at the time. In addition, the County provides various surety bond coverage as required under regulations, generally at industry-recommended levels.

The County and School Board are participating members 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 \$200,000 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 position 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 health insurance claim liabilities and IBNR during the past two years are as follows:

Fiscal Year	Payable (Prepaid) Beginning of Year	Claims and Other Charges Processed	Claims and Benefit Payments	Payable (Prepaid) End of Year	Incurred But Not Reported
2016	\$ (98,442)	31,516,406	31,034,725	(383,239)	2,420,887
2017	\$ (383,239)	34,197,306	33,581,597	(232,470)	2,523,781

	Balance July 1	Increases	Decreases	Balance June 30
Incurred But Not Reported	\$ 2,420,887	34,197,306	(34,094,412)	2,523,781

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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	Debt Service Fund			
Nonspendable:							
Inventory	\$ 248,444	-	-	-	248,444	146,442	-
Prepaid expenditures	-	264,560	-	-	264,560	1,448	-
Total nonspendable	248,444	264,560	-	-	513,004	147,890	-
Restricted for:							
Public safety - asset forfeitures	394,872	-	-	-	394,872	-	-
Judicial administration - asset forfeitures	236,323	-	-	-	236,323	-	-
Public safety - grants and donations	16,307	-	-	-	16,307	-	-
Public works - recycling service districts	46,253	-	-	-	46,253	-	-
Health and human services - Federal and state grants	-	-	-	-	-	-	-
Education - grants	-	-	-	-	-	65,266	-
Capital improvements	-	16,081,010	6,240,639	-	22,321,649	-	-
Total restricted	693,755	16,081,010	6,240,639	-	23,015,404	65,266	-
Committed to:							
Economic development	500,000	-	-	-	500,000	-	-
Total committed	500,000	-	-	-	500,000	-	-
Assigned to:							
Education	3,600,000	-	-	-	3,600,000	1,052,422	-
Economic development	3,750,000	-	-	-	3,750,000	-	-
Public works - stormwater	1,000,000	-	-	-	1,000,000	-	-
Public works - transportation	1,000,000	-	-	-	1,000,000	-	-
Debt service	-	-	-	590,856	590,856	-	-
Encumbrances and reappropriations	1,164,795	-	-	-	1,164,795	-	-
Funding of subsequent fiscal year's adopted budget	7,600,000	-	-	-	7,600,000	-	-
Funding of subsequent five-year financial plans	-	-	-	-	-	-	-
Capital improvements	3,626,941	16,871,659	2,356,631	-	22,855,231	-	-
Total assigned	21,741,736	16,871,659	2,356,631	590,856	41,560,882	1,052,422	-
Unassigned Fund Balance	29,351,651	-	-	-	29,351,651	-	40,679
Total fund balances	\$ 52,535,586	33,217,229	8,597,270	590,856	94,940,941	1,265,578	40,679

C. Commitments and contingent liabilities

Other commitments

At June 30, 2017, the Primary Government had commitments for capital projects totaling \$34,364,163 as follows:

	Primary Government				Total Primary Government
	County Improvements Fund	School Improvements Fund	Public Utilities Fund	Airport Fund	
Total capital commitments	\$ 26,919,804	3,297,875	4,089,309	3,079,205	37,386,193

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2017

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 the governmental funds. In accordance with the County's adopted Budget Policy, encumbered funds are reappropriated annually by the Board 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	Total Primary Government	
Encumbrances outstanding at fiscal year-end	\$ 616,331	26,919,804	3,297,875	30,834,010	654,572

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 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 10.5%. 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 C, 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

COUNTY OF HANOVER
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9, 1998 pursuant to the Public Recreational Facilities Authorities Act, Chapter 56, Title 15.2 of the Code. 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 \$1,019,789 for transient occupancy tax to the GRCCA during fiscal year 2017. Complete financial statements for the GRCCA can be obtained from Chesterfield County, Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

Dominion Resources Innovation Center: The Dominion Resources GreenTech Incubator (DRGI), a Virginia non-profit, non-stock corporation, was created in 2009, under authority granted by the Virginia General Assembly to the Virginia Biotechnology Research Partnership Authority, pursuant to an Agreement between the 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.

The DRGI was created to encourage new business formation primarily in the areas of clean, "green" and energy conservation technologies within the 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, the County and 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. In fiscal year 2015, the County renewed its commitment to this partnership for another three years. 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 2017, the EDA contributed \$50,000. Neither the County nor EDA have any ongoing financial interest in DRGI. Annual audited financial statements are available from DRGI at 201 Duncan Street, Ashland, VA 23005.

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 the 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. The 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 2017, the County contributed a total of \$2,701,150 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.

COUNTY OF HANOVER
Notes to Financial Statements
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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 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, which typically provides a majority of the inmates to the facility, made per diem contributions totaling \$5,529,640 in fiscal year 2017. 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 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 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 2017, the County's per diem payments to the Detention Commission totaled \$270,318. 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, 101-F Mounts Bay Road, 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 19 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. Twenty subdivisions

COUNTY OF HANOVER
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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 2017 payments to the Waste Authority totaled \$355,940. 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 2017, the County made payments to the GRP totaling \$385,000. Complete financial statements can be obtained from GRP's office at Riverfront Plaza, 901 East Byrd Street, Suite 801, Richmond, Virginia 23219.

Richmond Region Tourism: The Richmond Metropolitan Convention and Visitors Bureau (RMCVB) serves the Counties of Chesterfield, Hanover, 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 2017 contributions to RMCVB totaling \$194,755. 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 \$62,595 in fiscal year 2017. Complete financial statements can be obtained from the RRPDC at 9211 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235.

F. Defined benefit pension plans – Virginia Retirement System (VRS)

Pension Plans

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 VRS. 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 professional employees participate in a cost-sharing multiple-employer defined benefit pension plan administered by VRS. The VRS establishes a separate annual contribution requirement for the School Board's professional employees who participate in the VRS statewide teacher cost-sharing pool.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of

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the VRS agent multiple-employer and cost-sharing multiple-employer plans and the additions to/deductions from the VRS agent multiple-employer and cost-sharing multiple-employer plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Detailed information about the VRS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR) and GASB 68 Report. A copy of the 2015 VRS CAFR and GAAP Pension Report may be downloaded from the VRS website at <http://www.varetire.org/employers/financial-reporting/vrs-guidelines-and-resources.asp>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS Plan Description

All full-time, salaried permanent employees of the County and School Board (professional and non-professional) are automatically covered by VRS upon employment. This plan is administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and the County or School Board pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The VRS administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out as described below:

VRS Plan 1 and Plan 2

Overview: Plan 1 and Plan 2 are defined benefit plans. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for and in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Employees are eligible for and in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. VRS Plan 1 and Plan 2 non-hazardous duty covered members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

Contributions: Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service: Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. The Board elected 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.

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Vesting: Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan.

Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Benefit Calculations: The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

For Plan 1, a member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. The Plan 1 retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%, and the multiplier for hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer. The Board elected to provide the higher retirement multiplier (1.85%) to all eligible employees in hazardous duty positions as described in the Code Section 51.1-138.

Under Plan 1, the normal retirement age is 65, with a provision of age 60 for hazardous duty members. The earliest unreduced retirement can occur at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. For hazardous duty employees, the earliest unreduced eligibility is at age 60 with at least five years of credible service or age 50 with at least 25 years of credible service. The earliest reduced retirement can occur at age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees can receive a reduced retirement benefit as early as age 50 with at least five years of credible service.

For Plan 2, a member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The service retirement multiplier factor is the same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier for non-hazardous duty employees is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. The retirement multiplier for Sheriffs and regional jail superintendents is 1.85%, the same as Plan 1. The retirement multiplier for hazardous duty employees is 1.70% or 1.85% as elected by the employer, the same as under Plan 1.

Under Plan 2, the normal retirement age is consistent with the normal Social Security retirement age. The earliest unreduced retirement can occur at normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. The earliest reduced retirement can occur at Age 60 with at least five years (60 months) of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

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For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Under Plan 1, the COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. Under Plan 2, the COLA matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage: Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% under Plan 1 and 1.65% under Plan 2 on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Purchase of Prior Service: Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Hybrid Plan

Overview: The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan as noted:

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window held January 1-April 30, 2014.

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Contributions: A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit, as well as determining vesting for the employer contribution portion of the plan. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. The Board elected 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.

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service, as follows:

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Benefit Calculations: The benefit calculations for the Hybrid Plan are as outlined in Plan 1 and 2, except the defined contribution component is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

The average final compensation is a member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. It is used in the retirement formula for the defined benefit component of the plan.

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The service retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

The normal retirement age is consistent with the normal Social Security retirement age, with a provision that members are eligible to receive distributions upon leaving employment, subject to restrictions. The earliest member unreduced retirement can occur at normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. The COLA in retirement terms are consistent with the provisions noted for Plan 2.

Disability Coverage: Employees of political subdivisions and school divisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (the VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under the VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Purchase of Prior Service: Considerations are the same as noted under Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

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Agent Multiple-Employer Plan

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>County</u>	<u>School Board Non-Professional</u>
Inactive members or their beneficiaries currently receiving benefits	449	152
Inactive members:		
Vested inactive members	174	27
Non-vested inactive members	154	72
Inactive members active elsewhere in VRS	344	34
Total inactive members	672	133
Active members:	1,022	282
Total covered employees	2,143	567

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. The Board elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees through June 30, 2012. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Board elected to require that employees pay the 5% member contribution effective July 1, 2012 and provided a salary increase equal to the 5% employee-paid member contribution. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code and approved by the VRS Board of Trustees.

The contractually required contribution rates for the County and for the School Board's non-professional employee group for the fiscal year ended June 30, 2017 were 9.56% and 4.18%, respectively, of their annual covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

These rates, when combined with employee contributions, were expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were \$5,698,852 and contributions from the School Board's non-professional group were \$202,659 for the year ended June 30, 2017.

Net Pension Liability

At June 30, 2017, the County reported a net pension liability of \$28,502,190 and the School Board's non-professional group reported a net pension asset of \$453,924. The total pension liability used to calculate the net pension liability/asset was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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Actuarial Assumptions – General and Public Safety Employees

The total pension liability was measured as of June 30, 2015 for general employees of the County, School Board non-professional group, and the County public safety employees, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016:

	<u>General Employees and Public Safety Employees</u>
Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35% for County general employees and School Board non-professional group and 3.50% - 4.75% for County public safety employees
Payroll growth	3.00%
Discount rate	7.00%
Cost-of-living adjustment	2.25% - 2.50%
Investment rate of return (net of pension plan investment expense, including inflation)	7.00%
Mortality Rates	14 % of deaths are assumed to be service related for County general employees and School Board non-professional group and 60% of deaths are assumed to be service related for County public safety employees
Pre-Retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years for County general employees and School Board non-professional group and RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years for County public safety employees
Post-Retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation was based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

<u>County General Employees and School Board Non-Professional Group</u>	<u>County Public Safety Employees</u>
Update mortality table	Update mortality table
Decrease in rates of service retirement	Adjustments to rates of service retirement for females
Decrease in rates of disability retirement	Increase in rates of withdrawal
Reduce rates of salary increase by 0.25% per year	Decrease in male and female rates of disability

Long-Term Expected Rate of Return

The long-term expected rate of return on the pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class (Strategy)	Target Allocation	Arithmetic Long- Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic normal return	<u>8.33%</u>

- Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the agent multiple-employer plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers and employees are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in Net Pension Liability (County)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 216,555,591	\$ 196,878,999	\$ 19,676,592
Changes for the year:			
Service cost	7,195,250	-	7,195,250
Interest	14,918,283	-	14,918,283
Differences between expected and actual experience	(566,270)	-	(566,270)
Contributions - employer	-	6,383,455	(6,383,455)
Contributions - employee	-	2,911,440	(2,911,440)
Net investment income	-	3,550,392	(3,550,392)
Benefit payments, including refunds of employee contributions	(6,874,514)	(6,874,514)	-
Administrative expenses	-	(122,126)	122,126
Other changes	-	(1,496)	1,496
Net changes	14,672,749	5,847,151	8,825,598
Balances at June 30, 2016	\$ 231,228,340	\$ 202,726,150	\$ 28,502,190

Changes in Net Pension Liability (School Board non-professional group)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) (a) - (b)
Balances at June 30, 2015	\$ 23,398,608	\$ 23,968,623	\$ (570,015)
Changes for the year:			
Service cost	704,264	-	704,264
Interest	1,604,103	-	1,604,103
Difference between expected and actual experience	(1,070,969)	-	(1,070,969)
Contributions - employer	-	437,250	(437,250)
Contributions - employee	-	280,632	(280,632)
Net investment income	-	418,439	(418,439)
Benefit payments, including refunds of employee contributions	(965,702)	(965,702)	-
Administrative expenses	-	(14,837)	14,837
Other changes	-	(177)	177
Net changes	271,696	155,605	116,091
Balances at June 30, 2016	\$ 23,670,304	\$ 24,124,228	\$ (453,924)

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the County and School non-professional group using the discount rate of 7.00%, as well as what their net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1 % Increase</u>
County Employees			
Net Pension Liability	\$ 62,020,489	\$ 28,502,190	\$ 863,807
School Non-Professional			
Net Pension Liability (Asset)	\$ 2,314,317	\$ (453,924)	\$ (2,792,711)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (County)

For the year ended June 30, 2017, the County recognized pension expense of \$4,670,349. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$2,523,552
Net difference between projected and actual earnings on pension plan investments	5,318,140	-
Employer contributions subsequent to the measurement date	5,698,852	-
Total	<u>\$11,016,992</u>	<u>\$2,523,552</u>

\$5,698,852 reported as deferred outflows of resources as of June 30, 2017 related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The difference between expected and actual experience and the net difference between projected and actual earning on pension plan investments will be recognized in pension expense as follows:

Year ended June 30

2018	\$ (793,449)
2019	(793,449)
2020	2,380,979
2021	2,000,507
2022	-
Thereafter	-
Total	<u>\$ 2,794,588</u>

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (School Board non-professional group)

For the year ended June 30, 2017, the School Board non-professional group recognized a credit to pension expense of \$177,951. At June 30, 2017, the School Board non-professional group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$1,017,888
Net difference between projected and actual earnings on pension plan investments	635,670	-
Employer contributions subsequent to the measurement date	<u>202,659</u>	<u>-</u>
Total	<u>\$838,329</u>	<u>\$1,017,888</u>

\$202,659 reported as deferred outflows of resources as of June 30, 2017 related to pensions resulting from the School Board non-professional group's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The difference between expected and actual experience and the net difference between projected and actual earning on pension plan investments will be recognized in pension expense as follows:

Year ending June 30

2018	\$ (552,095)
2019	(346,566)
2020	266,409
2021	250,034
2022	-
Thereafter	<u>-</u>
Total	<u>\$ (382,218)</u>

Cost-Sharing Multiple-Employer Plan

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. The Board elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees through June 30, 2012. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Board elected to require that employees pay the 5% member contribution effective July 1, 2012 and provided a salary increase equal to the 5% employee-paid member contribution. In addition, the County and School

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Board are required to contribute 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.

Each school division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$14,445,391 for the year ended June 30, 2017.

Net Pension Liability

At June 30, 2017, the School Board professional group reported a liability of \$177,365,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Board's proportion of the net pension liability was based on the School Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the School Board's proportion was 1.26562% as compared to 1.27192% at June 30, 2015.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the School Board's professional group recognized pension expense of \$13,813,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. At June 30, 2017, the School Board's professional group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$5,748,000
Net difference between projected and actual earnings on pension plan investments	10,132,000	
Changes in proportion and differences between employer contributions and proportionate share of contributions	400,000	4,057,000
Employer contributions subsequent to the measurement date	14,445,391	-
Total	<u>\$24,977,391</u>	<u>\$9,805,000</u>

\$14,445,391 reported as deferred outflows of resources as of June 30, 2017 related to pensions resulting from the School Board's professional group's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Deferred

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inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30

2018	\$ (2,626,000)
2019	(2,626,000)
2020	3,675,000
2021	2,757,000
2022	(453,000)
Thereafter	-
Total	<u>\$ 727,000</u>

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016:

	<u>School Board Professional Employee Group</u>
Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return (net of pension plan investment expense, including inflation)	7.00%
Mortality Rates:	
Pre-Retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years
Post-Retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuations were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

<u>School Board's Professional Employee Group</u>
Update mortality table
Adjustments to the rates of service retirement
Decrease in rates of withdrawals for 3 through 9 years of service
Decrease in rates of disability
Reduce rates of salary increase by 0.25% per year

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Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GAAP, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 44,182,326
Plan Fiduciary Net Position	30,168,211
Employers' Net Pension Liability	<u>\$ 14,014,115</u>
 Plan Fiduciary Net Position as a Percentage of the Total Plan Liability	 68.28%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long- Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic normal return	8.33%

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- Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the cost-sharing plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability for the School Board's professional group using the discount rate of 7.00%, as well as what their net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	6.0% 1% Decrease	7.0% Discount Rate	8.0% 1 % Increase
School Professional share of the VRS			
Teacher Employment Retirement Plan			
Net Pension Liability	<u>\$ 252,835,000</u>	<u>\$ 177,365,000</u>	<u>\$ 115,197,000</u>

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 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 assigns the authority to administer the Plan, and to establish and amend the benefit provisions of the Plan by the 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

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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.

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, 2017. Securities without an established market are reported at estimated fair value.

b. 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 June 30, 2017, the date of the most recent biennial actuarial valuation, membership in the Plan consisted of the following:

	Primary Government	School Board Component Unit	Affiliates	Total
Retirees and beneficiaries receiving benefits	7	48	1	56
Active employees	992	2,088	131	3,211
Total number of plan members	999	2,136	132	3,267
Number of participating employers	1	1	2	4

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 County employees at date of separation. In addition, participants must meet the 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, 2013, 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. Effective for those who retire July 1, 2015 or later, there shall not be a subsidy for their spouse or dependents. 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. Any Plan participants currently in the Plan over age 65 must be enrolled in Medicare as primary insurer effective July 1, 2015. Additionally, any grandfathered retirees who are not yet age 65 must enroll in Medicare as primary insurer once they have met the Medicare eligibility requirements.

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

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upon the health care plan selected, the net retiree premium amounts range from \$333 to \$957 per month and, for those electing retiree and family coverage, from \$943 to \$2,869 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

Contributions - The Code permits the Board 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 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 GAAP. 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 for fiscal year 2016 and the reporting entity's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2017.

	OPEB Trust	Primary Government	School Board Component Unit
ARC, for the fiscal year ended June 30, 2017	\$ 56,000	14,000	40,000
Interest on the net OPEB obligation	-	-	-
Amortization of the net OPEB obligation	-	-	-
Annual OPEB cost	56,000	14,000	40,000
Employer contributions:			
Cash contribution to OPEB trust	-	-	-
Expected Cash Payment	(56,000)	(14,000)	(40,000)
Total Employer contributions	(56,000)	(14,000)	(40,000)
Change in the net OPEB asset, for the fiscal year ended June 30, 2017	-	-	-
Net OPEB obligation, beginning of year	-	-	-
Net OPEB obligation, end of year	\$ -	\$ -	\$ -

Reporting Entity	Fiscal Year Ended June 30	Annual OPEB Cost	Cash Contribution	Subsidies Paid on Behalf of Retirees	Total Percentage Contributed	Net OPEB Obligation at End of Fiscal Year
OPEB Trust	2017	\$ 56,000	0.0%	100%	100%	\$ -
Primary Government	2017	14,000	0.0%	100%	100%	-
School Board Component Unit	2017	40,000	0.0%	100%	100%	-
OPEB Trust	2016	\$ 59,000	0.0%	100%	100%	\$ -
Primary Government	2016	14,000	0.0%	100%	100%	-
School Board Component Unit	2016	43,000	0.0%	100%	100%	-
OPEB Trust	2015	\$ 305,000	57.0%	79.3%	136.4%	\$ -
Primary Government	2015	109,000	144.6%	74.3%	218.9%	-
School Board Component Unit	2015	186,000	-9.6%	84.9%	75.3%	-

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Funded Status and Funding Progress - The funded status of the Plan as July 1, 2016 was as follows:

Reporting Entity	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)
OPEB Trust	7/1/2016	\$4,802,074	\$ 3,311,000	\$ (1,491,074)	145.0%	\$ 187,285,093	-0.8%
Primary Government	7/1/2016	1,720,000	1,186,000	(534,000)	145.0%	65,107,961	-0.8%
School Board Component Unit	7/1/2016	2,958,074	2,038,000	(920,074)	145.1%	114,872,079	-0.8%

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 most recent actuarial valuation containing GAAP presentation was dated July 1, 2016 for the County fiscal years ending June 30, 2016 and June 30, 2017.

The schedules of required supplementary information following the notes to the financial statements present 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.

Investments – The OPEB Trust Board has determined that to achieve the greatest likelihood of meeting the applicable investment objectives, the Trust should allocate assets into two broad classes: 1) Investment Assets to be invested to achieve the annual rate of return equal to the Trust's actuarial discount rate with a target allocations comprised of 42% in Domestic Equity, 23% in International Equity, and 35% in Fixed Income investments, and 2) Liquidity Assets to be held solely in cash equivalent investments and used to pay for benefits and expenses of the Trust.

Rate of Return – For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.35%. This return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability – In accordance with GAAP as implemented per GASB Statement No. 74, the Net OPEB Liability amounts for the Plan is as follows:

Hanover OPEB Plan for Retiree Medical	
Total OPEB Liability	\$ 3,581,077
Plan Fiduciary Net Position	5,185,650
Employers' Net OPEB Asset	<u>\$ (1,604,573)</u>
Plan Fiduciary Net Position as a Percentage of the Total Plan Liability	144.81%

The total OPEB liability is calculated by the Plan's actuary issued in the most recent actuarial valuation containing GASB 74 presentation was dated July 1, 2017 for the County fiscal years ending June 30, 2018 and June 30, 2019.

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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, 2017 actuarial valuation, the Entry-Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 7.0% annual investment rate of return (net of administrative expenses) and a payroll increase assumption of 2.50%. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years. Mortality rates were based on the RP-2000 Fully Generational Combined Table.

The long-term expected rate of return of OPEB plan investments is 7.7% on Equities (including US and International), 5.5% on Core Bonds, 6.3% on Intermediate Investment Grade Investments, 7.3% on Emerging Market Debt, 6.8% on High Yield Investments, and 5.2% on Bank Loans.

Discount Rate – The discount rate used to measure the total OPEB liability was 7.00%, unchanged from Plan inception. This is the expected rate of return on trust assets. The OPEB Trust Board established 7.0% as the long-term target rate for the Plan over a rolling five year period. This is included in the most recent Investment Policy adopted on May 31, 2016. The OPEB Trust Board reviews annual feasibility studies performed by the Plan's investment consultant to consider the ongoing appropriateness of the target rate and whether a change should be considered.

Long-Term Medical Trend – The Plan is not affected by changes in the Long Term Medical Trend.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net pension liability for the OPEB plan using the discount rate of 7.00%, as well as what their net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6%	Discount Rate 7%	1 % Increase 8%
Total OPEB Liability	\$ 3,803,704	\$ 3,581,077	\$ 3,373,301
Net OPEB Asset	\$ (1,381,946)	\$ (1,604,573)	\$(1,812,349)

H. Health Insurance Credit program - Virginia Retirement System

- a. **Plan description** – The County participates in the VRS program which provides a credit toward the cost of health insurance coverage for any County employee who retires under VRS with at least 15 years of total creditable service. The amount of each monthly health insurance credit shall be a \$1.50 per year of creditable service, which amount shall be credited monthly to any retired County employee participating in the County retiree health benefits program. However, such credit shall not exceed the health insurance premium for retiree.

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- b. **Funding policy** – The County employer contribution rate for the fiscal year ended June 30, 2017 was 0.21% of annual covered payroll.
- c. **Annual health credit cost and net health credit obligation** – The following schedule shows the annual retiree health insurance credit cost for the current and two preceding fiscal years for the County employees:

Fiscal Year Ended	Annual Health Credit	Employer	Annual Health	Health Credit
June 30	Cost	Contribution	Credit Cost Contributed	(Obligation) Asset
2017	\$ 81,864	\$ 81,864	100.0%	\$ -
2016	\$ 78,845	\$ 78,845	100.0%	\$ -
2015	\$ 76,532	\$ 76,532	100.0%	\$ -

- d. **Funded status and funding progress** – As of June 30, 2016, the County's most recent actuarial valuation date, the plan was 35.67% funded. The AAL for benefits was \$1,149,417 and the actuarial value of assets was \$409,951, resulting in an UAAL of \$739,466. The covered payroll (annual payroll of active employees covered by the plan) was \$37,911,409, and the ratio of the UAAL to the covered payroll was 1.95%.

The schedules of required supplementary information following the notes to the financial statements present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the AAL for benefits.

- e. **Methods and assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan 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 projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, an entry age normal cost method was used. The actuarial assumptions included a 7.0% annual investment rate of return which includes inflation at 2.5%. The UAAL is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at June 30, 2016 was 18-27 years.

I. 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. This 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 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*

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at Bell Creek, a light industrial park, and a residential development on 167 acres known as *The Bluffs at Bell Creek*.

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 CDA 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, 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 the 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, 2017, the total 2003 Bonds outstanding were \$1,247,000. 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 on 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 annually to the Bell Creek CDA for debt service payments. However, such payments to the Bell Creek CDA are not deemed general obligations of the 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 2017, special assessments on property within the District totaled \$150,000 and payments to the Bell Creek CDA of special assessments collected totaled \$156,456.

- **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. This 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 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 CDA \$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. 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

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schedule for sinking fund redemptions, and allow interest on the bonds to be paid by the bond's debt service reserve fund through March 1, 2014, dependent upon the developer meeting agreed-upon construction milestones. At June 30, 2017, the Lewistown CDA's Amended 2007 Bonds outstanding totaled \$36,877,000. 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 the County, and neither the faith nor credit of the Lewistown CDA, nor the faith and credit of the 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 August 26, 2014 between the County, the Lewistown CDA, and the developers, the Amended 2007 Bonds are payable 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 the 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 2017, Special Assessment Tax levy on property within the district totaled \$959,144. The 2017 Special Real Estate Property Tax (Valorem) levy was \$39,675. Incremental tax collections owed to the Lewistown CDA totaled \$508,705 and are payable semiannually by February 1 and August 1 of each year.

J. Subsequent event

The Primary Government participated in a Technology lease purchase equipment agreement with Bank of America Public Capital Corp on July 6, 2017 in the amount of \$4,044,300 with an interest rate of 1.8498% with a five year amortization period. The proceeds will be used for various technology capital projects for the School Board.

The Primary Government has been notified of a refunding opportunity to refund Virginia Resources Authority Infrastructure and State Moral Obligation Revenue bonds for up to \$1,370,000 of the Series 2010A bonds maturing between 2021 and 2030. A minimum 2% net present value savings is required in accordance with the County financial regulations. Current market conditions indicate the opportunity for total net present value savings of 8.9% and average annual debt service savings of approximately \$8,600. This is an estimate until the final pricing. The tentative bond sale is November 2017.

On July 26, 2017, the VPSA issued School Financing Refunding Bonds in which the Primary Government participated. The County debt service payments will remain unchanged and VPSA will issue an annual credit for the return of debt service savings. The anticipated credit savings total \$220,594.

**SCHEDULES OF REQUIRED
SUPPLEMENTARY INFORMATION**

(Unaudited)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

Virginia Retirement System-Pension Plan - Primary Government

Schedule of Changes in the Net Pension Liability and Related Ratios

	2017*	2016*	2015*
Total pension liability			
Service cost	\$ 7,195,250	7,003,117	6,872,262
Interest on total pension liability	14,918,283	14,159,064	13,186,216
Differences between expected and actual experience	(566,270)	(3,717,438)	-
Benefit payments	(6,874,514)	(6,323,001)	(5,604,586)
Other	-	(196,852)	-
Net change in total pension liability	14,672,749	10,924,890	14,453,892
Total pension liability - beginning	216,555,591	205,630,701	191,176,809
Total pension liability - ending (a)	<u>\$ 231,228,340</u>	<u>216,555,591</u>	<u>205,630,701</u>
Total fiduciary net position			
Contributions - employer	\$ 6,383,455	6,227,470	6,347,611
Contributions - employee	2,911,440	2,841,053	2,728,734
Net investment income	3,550,392	8,626,111	25,182,288
Benefit Payments, including refunds of employee contributions	(6,874,514)	(6,323,001)	(5,604,586)
Administrative expense	(122,126)	(113,582)	(131,515)
Other	(1,496)	(485,907)	1,327
Net change in plan fiduciary net position	5,847,151	10,772,144	28,523,859
Plan fiduciary net position - beginning	196,878,999	186,106,855	157,582,996
Plan fiduciary net position - ending (b)	<u>\$ 202,726,150</u>	<u>196,878,999</u>	<u>186,106,855</u>
Net pension liability ending (a) - (b)	\$ 28,502,190	19,676,592	19,523,846
Plan fiduciary net position as a percentage of the total pension liability	87.67%	90.91%	90.51%
Covered-employee payroll	\$ 58,128,921	56,469,989	55,711,055
Political subdivision's net pension liability as a percentage of covered-employee payroll	49.03%	34.84%	35.04%

Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no earlier data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

(continued)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

Virginia Retirement System-Pension Plan - School Non-Professional

Schedule of Changes in the Net Pension Asset and Related Ratios

	2017*	2016*	2015*
Total pension liability			
Service cost	\$ 704,264	717,494	761,268
Interest on total pension liability	1,604,103	1,563,895	1,470,488
Differences between expected and actual experience	(1,070,969)	(750,409)	-
Benefit payments	(965,702)	(947,448)	(847,310)
Net change in total pension liability	271,696	583,532	1,384,446
Total pension liability - beginning	23,398,608	22,815,076	21,430,630
Total pension liability - ending (a)	<u>\$ 23,670,304</u>	<u>23,398,608</u>	<u>22,815,076</u>
Total fiduciary net position			
Contributions - employer	\$ 437,250	507,170	595,088
Contributions - employee	280,632	325,545	325,403
Net investment income	418,439	1,054,611	3,133,692
Benefit Payments, including refunds of employee contributions	(965,702)	(947,448)	(847,310)
Administrative expense	(14,837)	(14,331)	(16,675)
Other	(177)	(223)	165
Net change in plan fiduciary net position	155,605	925,324	3,190,363
Plan fiduciary net position - beginning	23,968,623	23,043,299	19,852,936
Plan fiduciary net position - ending (b)	<u>\$ 24,124,228</u>	<u>23,968,623</u>	<u>23,043,299</u>
Net pension asset ending (a) - (b)	\$ (453,924)	(570,015)	(228,223)
Plan fiduciary net position as a percentage of the total pension asset	101.92%	102.44%	101.00%
Covered-employee payroll	\$ 5,775,545	6,613,413	6,145,564
Net pension asset as a percentage of covered-employee payroll	7.86%	8.62%	3.71%

Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no earlier data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

(continued)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

**Schedule of School Board Professional's Share of Net Pension Liability
VRS Teacher Retirement Plan**

	2017*	2016*	2015*
Employer's Proportion of the Net Pension Liability	1.2656%	1.27192%	1.26737%
Employer's Proportionate Share of the Net Pension Liability	\$ 177,365,000	160,089,000	153,157,000
Employer's Covered-Employee Payroll	\$ 96,591,415	94,472,208	90,933,148
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	183.62%	169.46%	168.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%	70.68%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no earlier data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions

Primary Government:

Date*	Contractually Required Contribution of Employer (1)	Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered - Employee Payroll (4)	Contributions as a % of Covered - Employee Payroll (5)
2017	\$ 5,698,852	\$ 5,698,852	\$ -	\$ 60,564,521	9.41%
2016	6,383,455	6,383,455	-	58,128,921	10.98%
2015	6,227,470	6,227,470	-	56,469,989	11.03%

* Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available.

School Non-Professional:

Date*	Contractually Required Contribution of Employer (1)	Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered - Employee Payroll (4)	Contributions as a % of Covered - Employee Payroll (5)
2017	\$ 202,659	\$ 202,659	\$ -	\$ 5,201,892	3.90%
2016	437,250	437,250	-	5,775,545	7.57%
2015	507,170	507,170	-	6,613,413	7.67%

* Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available.

School Professional:

Date*	Contractually Required Contribution of Employer (1)	Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered - Employee Payroll (4)	Contributions as a % of Covered - Employee Payroll (5)
2017	\$ 14,445,391	\$ 14,445,391	\$ -	\$ 99,817,919	14.47%
2016	13,472,067	13,472,067	-	96,591,415	13.95%
2015	13,679,435	13,679,435	-	94,472,208	14.48%

*Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no earlier data is available. However, additional years will be included as they become available.

(continued)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

Hanover County Retiree Medical Benefits Trust

Schedule of Funding Progress

<i>OPEB TRUST</i>						
	Actuarial	Actuarial Accrued				UAAL as a
	Value of	Liability (AAL)				Percentage of
	Assets	- Projected Unit	Unfunded	Funded	Covered	Covered
		Credit	AAL (UAAL)	Ratio	Payroll *	Payroll
Valuation Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
7/1/2016	\$ 4,802,074	\$ 3,311,000	\$ (1,491,074)	145.0%	\$ 187,285,093	-0.8%
7/1/2015	4,629,063	3,130,000	(1,499,063)	147.9%	176,924,340	-0.8%
7/1/2014	4,360,224	4,747,000	386,776	91.9%	173,560,314	0.2%
7/1/2013	3,666,177	7,779,000	4,112,823	47.1%	170,823,797	2.4%
6/30/2012	3,380,679	9,077,222	5,696,543	37.2%	160,140,920	3.6%
6/30/2011	3,278,003	12,046,156	8,768,153	27.2%	153,707,760	5.7%

* Prior year amounts have been amended from previous annual presentation.

<i>Primary Government</i>						
	Actuarial	AAL				UAAL as a
	Value of	- Projected Unit				Percentage of
	Assets	Credit	AAL (UAAL)	Funded	Covered	Covered
				Ratio	Payroll*	Payroll
Valuation Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
7/1/2016	\$ 1,720,000	\$ 1,186,000	\$ (534,000)	145.0%	\$ 65,107,961	-0.8%
7/1/2015	1,654,000	1,118,000	(536,000)	147.9%	60,858,553	-0.9%
7/1/2014	1,759,000	1,915,000	156,000	91.9%	58,865,903	0.3%
7/1/2013	1,215,000	2,578,000	1,363,000	47.1%	56,151,192	2.4%
6/30/2012	1,164,715	3,127,200	1,962,485	37.2%	53,055,658	3.7%

<i>School Board Component Unit</i>						
	Actuarial	AAL				UAAL as a
	Value of	- Projected Unit				Percentage of
	Assets	Credit	AAL (UAAL)	Funded	Covered	Covered
				Ratio	Payroll*	Payroll
Valuation Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
7/1/2016	\$ 2,958,074	\$ 2,038,000	\$ (920,074)	145.1%	\$ 114,872,079	-0.8%
7/1/2015	2,860,063	1,934,000	(926,063)	147.9%	108,882,662	-0.9%
7/1/2014	2,468,224	2,688,000	219,776	91.8%	107,735,953	0.2%
7/1/2013	2,390,177	5,072,000	2,681,823	47.1%	107,981,507	2.5%
6/30/2012	2,083,379	5,594,039	3,510,660	37.2%	101,357,174	3.5%

(continued)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

Hanover County, Virginia Retirement Medical Benefits Plan**Schedule of Changes in the Net OPEB Asset and Related Ratios**

<i>As of June 30 of the Measurement Year</i>	2017
Total OPEB liability	
Service cost	\$ 161,244
Interest cost	230,876
Benefit payments	(218,532)
Net change in total OPEB liability	173,588
Total OPEB liability - beginning	3,407,489
Total OPEB liability - ending (a)	<u>\$ 3,581,077</u>
Total fiduciary net position	
Contributions - employer	\$ 218,532
Net investment income	502,797
Benefit payments	(218,532)
Net change in plan fiduciary net position	502,797
Plan fiduciary net position - beginning	4,682,853
Plan fiduciary net position - ending (b)	<u>\$ 5,185,650</u>
Net pension asset ending (a) - (b)	\$ (1,604,573)
Plan fiduciary net position as a percentage of the total pension asset	144.81%
Covered-employee payroll	\$ 187,285,093
Net OPEB asset as a percentage of covered-employee payroll	0.86%
Contributions as a percentage of covered-employee payroll	0.12%

Schedule is intended to show information for 10 years. Since 2017 is the first fiscal year for presentation, no earlier data is available. However, additional years will be included as they become available.

* The actuarial determined contribution was \$59,000 for FY17. As the Plan operates on a pay-go basis, a cash contribution was not made to the Trust. Rather, the employer contribution amount noted above was paid for retiree subsidies during the year and no funds were drawn from the Trust.

(continued)

Schedules of Required Supplementary Information (Unaudited)
June 30, 2017

Hanover County Retiree Medical Benefits Trust

Schedule of Investment Returns

	Fiscal Year	Rate
Annual money-weighted rate of return, net of investment expense	6/30/2017	11.35%
	6/30/2016	1.68%
	6/30/2015	2.71%
	6/30/2014	17.48%
	6/30/2013	12.53%
	6/30/2012	0.58%
	6/30/2011	21.48%
	6/30/2010	14.86%

Note: The schedule is presented to illustrate the one year trailing returns of each fiscal year since inception in 2009. Returns are net of fees. Returns are expressed as percentages.

Virginia Retirement System-Health Insurance Credit Program

Schedule of Funding Progress

	Actuarial	AAL			UAAL as a
	Value of	- Projected Unit		Funded	Covered
	Assets	Credit	AAL (UAAL)	Ratio	Payroll
Valuation Date	(a)	(b)	(b-a)	(a/b)	((b-a)/c)
6/30/2016	\$ 409,951	\$ 1,149,417	739,466	35.7%	\$ 37,911,409
6/30/2015	379,842	1,133,389	753,547	33.5%	36,684,779
6/30/2014	335,290	1,111,222	775,932	30.2%	36,884,265
6/30/2013	285,259	1,045,358	760,099	27.3%	36,036,041
6/30/2012	236,903	1,002,036	765,133	23.6%	36,747,184
6/30/2011	197,743	937,871	740,128	21.1%	35,669,865

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 - Budget Basis

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budget Basis	Final Budget - Positive (Negative)
REVENUES				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 101,650,000	101,650,000	102,529,731	879,731
Public service corporation property taxes	4,920,000	4,920,000	4,960,949	40,949
Personal property taxes	30,888,000	30,888,000	31,633,775	745,775
Machinery and tools taxes	1,888,000	1,888,000	1,812,144	(75,856)
Merchants' capital taxes	1,257,000	1,257,000	1,359,719	102,719
Delinquent taxes	1,440,700	1,440,700	1,249,111	(191,589)
Penalties and interest	1,114,000	1,114,000	1,052,973	(61,027)
Total general property taxes	143,157,700	143,157,700	144,598,402	1,440,702
Other local taxes:				
Local sales and use taxes	20,415,000	20,415,000	20,752,689	337,689
Consumer utility taxes	1,806,800	1,806,800	1,939,939	133,139
Contractor license taxes	400,000	400,000	624,644	224,644
Franchise license taxes	690,000	690,000	633,154	(56,846)
Lodging taxes	1,000,000	1,030,000	1,019,696	(10,304)
Bank stock tax	500,000	500,000	746,692	246,692
Taxes on recordation and wills	2,151,900	2,151,900	2,403,524	251,624
Communication sales tax	5,050,000	5,050,000	4,699,086	(350,914)
Total other local taxes	32,013,700	32,043,700	32,819,424	775,724
Permits, privilege fees and regulatory licenses:				
Public Safety:				
Animal licenses	102,500	102,500	78,694	(23,806)
Building permits	700,000	700,000	740,422	40,422
Heating and air conditioning	300,000	300,000	344,559	44,559
Electrical permits	204,000	204,000	210,482	6,482
Plumbing permits	126,000	126,000	134,694	8,694
Septic tank permits	6,300	6,300	6,780	480
Inspection fees	148,000	148,000	168,500	20,500
Public Works:				
Erosion and sediment inspections	260,000	260,000	272,587	12,587
Stormwater management	-	-	3,600	3,600
Human Services:				
Well and septic inspection	3,000	3,000	4,850	1,850
Community Development:				
Planning fees	264,000	264,000	227,629	(36,371)
Total permits, privilege fees and regulatory licenses	2,113,800	2,113,800	2,192,797	78,997
Fines and Forfeitures:				
Public Works:				
Erosion and sediment fines	5,000	5,000	4,500	(500)
Judicial Administration:				
Court fines and forfeitures	772,200	772,200	759,485	(12,715)
Courthouse maintenance fees	47,000	47,000	107,495	60,495
Court appointed attorney fees	36,400	36,400	38,974	2,574
Public Safety:				
Criminal Justice Academy training fees	100,000	100,000	85,549	(14,451)
Security alarm fines	50,500	50,500	37,162	(13,338)
Animal control	600	600	-	(600)
Total fines and forfeitures	1,011,700	1,011,700	1,033,165	21,465
Revenues from use of money and property:				
Revenue from use of money	345,800	345,800	81,738	(264,062)
Revenue from use of property	354,000	354,000	482,558	128,558
Total revenues from use of money and property	699,800	699,800	564,296	(135,504)
Charges for services:				
EMS cost recovery	2,200,000	2,213,000	2,844,305	631,305
Landfill fees	411,500	411,500	497,442	85,942
Recreation fees	520,200	520,200	553,634	33,434
Community Services	3,127,908	3,127,908	3,131,306	3,398
Other	483,500	970,500	1,064,667	94,167
Total charges for services	6,743,108	7,243,108	8,091,354	848,246

(Continued)

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

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

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budget Basis	Final Budget - Positive (Negative)
Miscellaneous:				
Refunds	\$ 295,400	316,389	150,804	(165,585)
Insurance recoveries	33,100	342,515	316,458	(26,057)
Gifts and donations	53,000	59,758	38,497	(21,261)
Other miscellaneous revenue	249,300	254,014	519,805	265,791
Reserve for revenue transfers	575,000	83,969	-	(83,969)
Total miscellaneous	1,205,800	1,056,645	1,025,564	(31,081)
Recovered costs:				
General Government Administration:				
Pamunkey Regional Jail Authority	278,100	278,100	263,000	(15,100)
Public Utilities Fund:				
Cost allocation	900,000	900,000	900,000	-
Service assessment	341,400	341,400	331,500	(9,900)
Treasurer	35,000	44,825	38,701	(6,124)
Commissioner of the Revenue	65,000	131,780	131,781	1
Judicial Administration:				
Clerk of Circuit Court	25,000	25,000	20,857	(4,143)
Commonwealth's Attorney	-	-	2,275	2,275
Public Safety:				
Community Corrections	55,200	56,700	55,438	(1,262)
Sheriff	49,500	49,500	65,418	15,918
Building Inspector	15,000	15,000	3,180	(11,820)
Animal Control	2,100	2,100	8,440	6,340
Fire	99,300	99,300	116,317	17,017
Human Services:				
Social Services	27,200	27,200	28,812	1,612
Community Resources	5,000	5,000	5,000	-
Comprehensive Services	140,200	140,200	87,249	(52,951)
Community Services	150,000	150,000	94,169	(55,831)
Health Department	20,000	20,000	-	(20,000)
Public Works:				
Solid Waste Management	323,500	323,500	440,405	116,905
General Services	6,000	6,000	5,347	(653)
Parks, recreation and cultural:				
Veterans' memorial	-	-	1,200	1,200
Community Development:				
Contributions: Greater Richmond Convention Center Authority	600,000	600,000	703,774	103,774
Lewistown CDA	29,520	29,520	29,517	(3)
Economic Development	113,560	113,560	113,560	-
Total recovered costs	3,280,580	3,358,685	3,445,940	87,255
Total revenues from local sources	190,226,188	190,685,138	193,770,942	3,085,804
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Vehicle rental tax	180,000	180,000	310,605	130,605
Personal property taxes (State remittance)	15,002,000	15,002,000	15,002,745	745
Rolling Stock Tax	70,000	70,000	76,811	6,811
Total non-categorical aid	15,252,000	15,252,000	15,390,161	138,161
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	250,000	250,000	246,342	(3,658)
Treasurer	224,000	224,000	218,231	(5,769)
Registrar	61,000	61,000	53,204	(7,796)
Clerk of Circuit Court	550,000	550,000	549,609	(391)
Commonwealth's Attorney	906,000	906,000	884,359	(21,641)
Sheriff	3,473,000	3,473,000	3,308,263	(164,737)
Total shared expenses	5,464,000	5,464,000	5,260,008	(203,992)
Other categorical aid:				
Social Services	1,317,320	1,319,033	1,193,340	(125,693)
Comprehensive Services	2,841,800	2,841,800	2,277,746	(564,054)
Community Services	2,476,046	2,570,180	2,581,825	11,645
Other	1,322,835	1,517,330	1,401,537	(115,793)
Total other categorical aid	7,958,001	8,248,343	7,454,448	(793,895)
Total categorical aid	13,422,001	13,712,343	12,714,456	(997,887)
Total revenue from the Commonwealth	28,674,001	28,964,343	28,104,617	(859,726)

(Continued)

COUNTY OF HANOVER, VIRGINIA

Exhibit 13

General Fund

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

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budget Basis	Final Budget - Positive (Negative)
Revenue from the Federal government:				
Categorical aid:				
General Government: Federal grants	\$ 2,000	2,000	19,792	17,792
Fire: Federal grants	587,152	853,532	436,992	(416,540)
Sheriff: Federal grants	76,000	101,621	122,130	20,509
Social Services: Federal grants	2,741,378	2,741,980	2,663,701	(78,279)
Community Resources: Federal grants	38,750	38,750	38,746	(4)
Commonwealth Attorney: Federal grants	120,000	120,000	92,907	(27,093)
Comprehensive Services: Federal grants	37,300	37,300	28,072	(9,228)
Community Services: Federal grants	464,759	464,759	472,932	8,173
Total revenue from the Federal government	4,067,339	4,359,942	3,875,272	(484,670)
Total intergovernmental	32,741,340	33,324,285	31,979,889	(1,344,396)
Total revenues	222,967,528	224,009,423	225,750,831	1,741,408
EXPENDITURES				
General government administration:				
Legislative - Board of Supervisors	535,335	558,228	536,367	21,861
General and financial administration:				
County Administrator	1,277,412	1,262,047	1,207,736	54,311
Human Resources	1,017,338	1,150,676	1,130,347	20,329
County Attorney	1,147,369	1,154,134	1,140,824	13,310
Commissioner of the Revenue	1,401,866	1,519,130	1,410,354	108,776
Assessor	1,029,429	1,037,828	1,003,619	34,209
Treasurer	1,462,408	1,479,907	1,413,731	66,176
Finance	1,936,778	1,982,850	1,849,768	133,082
Management Services	287,858	289,153	271,516	17,637
Information Technology	4,365,179	4,476,070	4,372,418	103,652
Total general and financial administration	13,925,637	14,351,795	13,800,313	551,482
Board of elections - Registrar and Electoral Board	417,858	555,484	499,059	56,425
Total general government administration	14,878,830	15,465,507	14,835,739	629,768
Judicial administration:				
Courts:				
Circuit Court	196,036	207,095	204,810	2,285
General District Court	88,130	88,255	89,261	(1,006)
Magistrates	2,965	2,965	3,308	(343)
Juvenile and Domestic Relations District Court	26,346	26,346	18,213	8,133
Clerk of the Circuit Court	1,389,426	1,429,576	1,384,851	44,725
Court Services	2,512,073	2,555,765	2,513,665	42,100
Total courts	4,214,976	4,310,002	4,214,108	95,894
Commonwealth's Attorney	1,803,045	1,883,156	1,824,343	58,813
Total judicial administration	6,018,021	6,193,158	6,038,451	154,707
Public safety:				
Sheriff	23,233,436	23,781,401	23,499,345	282,056
Fire and rescue services:				
Fire and Emergency Management Services	17,175,119	17,826,853	17,673,591	153,262
Total fire and rescue services	17,175,119	17,826,853	17,673,591	153,262
Correction and Detention:				
Pamunkey Regional Jail Authority	5,594,801	5,594,801	5,529,640	65,161
Juvenile Court Services	671,852	673,943	508,591	165,352
Community Corrections	497,892	504,193	501,805	2,388
Total correction and detention	6,764,545	6,772,937	6,540,036	232,901
Inspections - Building Inspections	1,501,046	1,525,072	1,415,179	109,893
Other protection:				
Emergency Communications	5,538,396	5,555,811	5,239,741	316,070
Animal Control	1,029,009	1,017,132	957,454	59,678
Total other protection	6,567,405	6,572,943	6,197,195	375,748
Total public safety	55,241,551	56,479,206	55,325,346	1,153,860

(Continued)

COUNTY OF HANOVER, VIRGINIA
Exhibit 13

General Fund

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

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budget Basis	Final Budget - Positive (Negative)
Public works:				
Sanitation and waste removal:				
Public Works	\$ 1,879,521	1,987,159	1,875,465	111,694
Solid Waste Services	3,800,972	4,453,456	4,309,911	143,545
Total sanitation and waste removal	5,680,493	6,440,615	6,185,376	255,239
Maintenance of buildings, grounds and equipment:				
Facilities and Vehicle Management	4,441,835	4,564,497	4,156,476	408,021
Total maintenance of buildings, grounds and equip.	4,441,835	4,564,497	4,156,476	408,021
Total public works	10,122,328	11,005,112	10,341,852	663,260
Health and human services:				
Health	574,000	574,000	574,000	-
Human Services:				
Social Services	5,634,730	5,680,997	5,189,265	491,732
Community Resources	398,986	406,667	375,561	31,106
Comprehensive Services	5,220,000	5,220,000	4,267,170	952,830
Community Services	10,723,703	10,987,104	10,152,559	834,545
Tax Relief	1,610,000	1,610,000	1,648,063	(38,063)
Total human services	23,587,419	23,904,768	21,632,618	2,272,150
Total health and human services	24,161,419	24,478,768	22,206,618	2,272,150
Parks, recreation and cultural:				
Parks and Recreation	3,419,494	3,465,635	3,463,434	2,201
Pamunkey Regional Library	2,654,858	2,701,150	2,701,150	-
Total parks, recreation and cultural	6,074,352	6,166,785	6,164,584	2,201
Community development:				
Planning and community development:				
Planning	1,862,566	1,907,112	1,870,504	36,608
Economic development	1,645,633	1,716,219	1,563,708	152,511
Community support	1,469,299	1,506,758	1,496,548	10,210
Total planning and community development	4,977,498	5,130,089	4,930,760	199,329
Environmental mgmt. - Soil and Water Conservation District	97,000	97,000	97,000	-
Cooperative extension program - VPI Extension	83,632	83,632	82,253	1,379
Total community development	5,158,130	5,310,721	5,110,013	200,708
Education:				
School Fund	79,529,000	79,529,000	76,666,934	2,862,066
Total education	79,529,000	79,529,000	76,666,934	2,862,066
Total education	79,529,000	79,529,000	76,666,934	2,862,066
Nondepartmental:				
Reserves	1,829,271	808,423	-	808,423
Total nondepartmental	1,829,271	808,423	-	808,423
Total expenditures - budgetary basis	203,012,902	205,436,680	196,689,537	8,747,143
Less encumbrances at June 30, 2017	-	-	(616,331)	616,331
Total expenditures	203,012,902	205,436,680	196,073,206	9,363,474
Excess of revenues over expenditures	19,954,626	18,572,743	29,677,625	11,104,882
OTHER FINANCING SOURCES (USES)				
Other financing sources:				
Transfers from governmental funds:				
County Improvements Fund	-	103,300	103,300	-
Total other financing sources	-	103,300	103,300	-
Other financing uses:				
Transfers to governmental funds:				
County Improvements Fund	(6,793,520)	(10,392,766)	(10,392,766)	-
School Improvements Fund	(3,900,000)	(3,900,000)	(3,900,000)	-
Debt Service Fund	(19,504,857)	(19,504,857)	(19,480,361)	24,496
Total transfers to governmental funds	(30,198,377)	(33,797,623)	(33,773,127)	24,496
Transfers to Proprietary Funds:				
Airport Fund	(52,249)	(52,249)	(52,249)	-
Total other financing uses	(30,250,626)	(33,849,872)	(33,825,376)	24,496
Total other financing uses, net	(30,250,626)	(33,746,572)	(33,722,076)	24,496
Net change in fund balance	(10,296,000)	(15,173,829)	(4,044,451)	11,129,378
Fund balance - beginning	10,296,000	56,580,037	56,580,037	-
Fund balance - ending	\$ -	41,406,208	52,535,586	11,129,378

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 - Budget Basis

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budget Basis	Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenues from use of money and property	\$ -	49,892	80,431	30,539
Charges for services	750,000	750,000	890,868	140,868
Miscellaneous	-	100,874	-	(100,874)
Total revenue from local sources	750,000	900,766	971,299	70,533
Intergovernmental:				
Revenue from the Commonwealth	3,504,645	18,949,560	2,142,895	(16,806,665)
Revenue from the Federal government	293,509	26,342,328	4,864,924	(21,477,404)
Total intergovernmental	3,798,154	45,291,888	7,007,819	(38,284,069)
Total revenues	4,548,154	46,192,654	7,979,118	(38,213,536)
EXPENDITURES				
General government administration	2,512,000	4,187,675	3,750,806	436,869
Judicial administration	2,000,000	16,831,335	12,094,391	4,736,944
Public safety	2,119,750	7,368,257	6,884,932	483,325
Public works	7,051,754	57,373,406	23,744,028	33,629,378
Parks, recreation and cultural	150,000	240,101	126,796	113,305
Reserve for future projects	133,170	134,070	-	134,070
Total expenditures - budgetary basis	13,966,674	86,134,844	46,600,953	39,533,891
Less encumbrances at June 30, 2017	-	-	(26,919,804)	26,919,804
Total expenditures	13,966,674	86,134,844	19,681,149	66,453,695
Excess (deficiency) of revenues over (under) expenditures	(9,418,520)	(39,942,190)	(11,702,031)	28,240,159
OTHER FINANCING SOURCES (USES)				
Transfers in	6,793,520	10,392,666	10,392,766	100
Transfers out	-	(103,300)	(103,300)	-
Total other financing sources, net	6,793,520	10,289,366	10,289,466	100
Net change in fund balance	(2,625,000)	(29,652,824)	(1,412,565)	28,240,259
Fund balance - beginning	2,625,000	34,629,794	34,629,794	-
Fund balance - ending	\$ -	4,976,970	33,217,229	28,240,259

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 - Budget Basis

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts Budget Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Miscellaneous	\$ -	-	39,736	39,736
Total revenues	-	-	39,736	39,736
EXPENDITURES				
Capital outlay:				
Education	13,900,000	15,410,896	10,522,271	4,888,625
Total expenditures - budgetary basis	13,900,000	15,410,896	10,522,271	4,888,625
Less encumbrances at June 30, 2017	-	-	(3,297,875)	3,297,875
Total expenditures	13,900,000	15,410,896	7,224,396	8,186,500
Excess (deficiency) of revenues over (under) expenditures	(13,900,000)	(15,410,896)	(7,184,660)	8,226,236
OTHER FINANCING SOURCES (USES)				
Transfers in	3,900,000	3,900,000	3,900,000	-
Issuance of general obligation bonds	10,000,000	10,000,000	10,006,489	6,489
Transfers out	-	(14,697)	(14,697)	-
Total other financing sources, net	13,900,000	13,885,303	13,891,792	6,489
Net change in fund balance	-	(1,525,593)	6,707,132	8,232,725
Fund balance - beginning	-	1,890,138	1,890,138	-
Fund balance - ending	\$ -	364,545	8,597,270	8,232,725

See accompanying independent auditors' report.

DEBT SERVICE FUND

Debt Service Fund – accounts for the resources to be used for County and School Board obligations for the payment of interest and principal on long-term debt.

COUNTY OF HANOVER, VIRGINIA**Exhibit 16**

Debt Service Fund

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

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive
	Original	Final		(Negative)
REVENUES				
Revenue from local sources:				
Revenues from use of money and property	\$	-	65,303	61,901
Total revenue from local sources		-	65,303	61,901
Intergovernmental:				
Revenue from the Federal government		252,843	252,843	253,660
Total intergovernmental		252,843	252,843	253,660
Total revenues		252,843	318,146	315,561
EXPENDITURES				
Debt service:				
Principal retirement		12,788,600	12,788,647	12,788,637
Interest		6,951,600	7,031,553	6,747,842
Other fiscal charges		17,500	17,500	16,140
Debt issuance costs		100,000	100,000	40,116
Total expenditures		19,857,700	19,937,700	19,592,735
Excess (deficiency) of revenues over (under) expenditures		(19,604,857)	(19,619,554)	(19,277,174)
OTHER FINANCING SOURCES				
Transfers in		19,504,857	19,519,554	19,495,058
Issuance of general obligation bonds		100,000	100,000	40,116
Total other financing sources		19,604,857	19,619,554	19,535,174
Net change in fund balance		-	-	258,000
Fund balance - beginning		-	332,856	332,856
Fund balance - ending	\$	-	332,856	590,856

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 17**

Agency Funds
Combining Balance Sheet
June 30, 2017

	Bell Creek Community Development Authority	Lewistown Community Development Authority	Escrow	Special Welfare	Total
ASSETS					
Pooled cash, cash equivalents and investments	\$ 2,128	283,150	2,142,884	38,735	2,466,897
Accounts receivable	74,923	615,271	1,046	-	691,240
Total assets	<u>\$ 77,051</u>	<u>898,421</u>	<u>2,143,930</u>	<u>38,735</u>	<u>3,158,137</u>
LIABILITIES					
Accounts payable	\$ -	224,949	220,054	-	445,003
Accrued liabilities	77,051	673,472	888,297	-	1,638,820
Deposits	-	-	1,035,579	38,735	1,074,314
Total liabilities	<u>\$ 77,051</u>	<u>898,421</u>	<u>2,143,930</u>	<u>38,735</u>	<u>3,158,137</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 18**

Agency Funds

Combining Statement of Changes in Assets and Liabilities

For the Year Ended June 30, 2017

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Bell Creek Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	\$ 4,983	167,077	169,932	2,128
Accounts receivable	82,932	158,719	166,728	74,923
Total assets	<u>\$ 87,915</u>	<u>325,796</u>	<u>336,660</u>	<u>77,051</u>
Liabilities:				
Accounts payable	\$ 4,983	150,880	155,863	-
Accrued liabilities	82,932	161,644	167,525	77,051
Total liabilities	<u>\$ 87,915</u>	<u>312,524</u>	<u>323,388</u>	<u>77,051</u>
Lewistown Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	\$ 879,424	1,781,506	2,377,780	283,150
Accounts receivable	856,716	1,084,258	1,325,703	615,271
Total assets	<u>\$ 1,736,140</u>	<u>2,865,764</u>	<u>3,703,483</u>	<u>898,421</u>
Liabilities:				
Accounts payable	\$ 208,353	224,949	208,353	224,949
Accrued liabilities	1,527,787	386,012	1,240,327	673,472
Total liabilities	<u>\$ 1,736,140</u>	<u>610,961</u>	<u>1,448,680</u>	<u>898,421</u>
Escrow				
Assets:				
Pooled cash, cash equivalents and investments	\$ 3,045,493	37,316,227	38,218,836	2,142,884
Accounts receivable	261	107,233	106,448	1,046
Total assets	<u>\$ 3,045,754</u>	<u>37,423,460</u>	<u>38,325,284</u>	<u>2,143,930</u>
Liabilities:				
Accounts payable	\$ 46,148	2,818,937	2,645,031	220,054
Accrued liabilities	943,020	37,678,909	37,733,632	888,297
Deposits	2,056,586	1,141,038	2,162,045	1,035,579
Total liabilities	<u>\$ 3,045,754</u>	<u>41,638,884</u>	<u>42,540,708</u>	<u>2,143,930</u>
Special Welfare				
Assets:				
Pooled cash, cash equivalents and investments	\$ 45,905	79,854	87,024	38,735
Total assets	<u>\$ 45,905</u>	<u>79,854</u>	<u>87,024</u>	<u>38,735</u>
Liabilities:				
Deposits	\$ 45,905	79,854	87,024	38,735
Total liabilities	<u>\$ 45,905</u>	<u>79,854</u>	<u>87,024</u>	<u>38,735</u>
Total Agency Funds				
Assets:				
Pooled cash, cash equivalents and investments	\$ 3,975,805	39,344,664	40,853,572	2,466,897
Accounts receivable	939,909	1,350,210	1,598,879	691,240
Total assets	<u>\$ 4,915,714</u>	<u>40,694,874</u>	<u>42,452,451</u>	<u>3,158,137</u>
Liabilities:				
Accounts payable	\$ 259,484	3,194,766	3,009,247	445,003
Accrued liabilities	2,553,739	38,226,565	39,141,484	1,638,820
Deposits	2,102,491	1,220,892	2,249,069	1,074,314
Total liabilities	<u>\$ 4,915,714</u>	<u>42,642,223</u>	<u>44,399,800</u>	<u>3,158,137</u>

See accompanying independent auditors' report.

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Governmental Funds:

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

Cafeteria – Accounts for the operations of school food services.

COUNTY OF HANOVER, VIRGINIA
Discretely Presented Component Unit - School Board
Combining Balance Sheet
June 30, 2017

Exhibit 19

	Governmental Funds		
	School	Cafeteria	Totals
ASSETS			
Pooled cash, cash equivalents and investments	\$ 13,102,126	524,786	13,626,912
Accounts receivable	235,188	-	235,188
Due from other governmental units	5,722,516	-	5,722,516
Inventory	-	146,442	146,442
Prepaid expenses	1,448	-	1,448
Total assets	<u>\$ 19,061,278</u>	<u>671,228</u>	<u>19,732,506</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,563,303	52,246	1,615,549
Accrued liabilities	16,238,625	451,021	16,689,646
Unearned revenues	161,733	-	161,733
Total liabilities	<u>17,963,661</u>	<u>503,267</u>	<u>18,466,928</u>
Fund balances:			
Nonspendable	1,448	146,442	147,890
Restricted	65,266	-	65,266
Assigned	1,030,903	21,519	1,052,422
Total fund balances	<u>1,097,617</u>	<u>167,961</u>	<u>1,265,578</u>
Total liabilities and fund balances	<u>\$ 19,061,278</u>	<u>671,228</u>	<u>19,732,506</u>

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 115,814,264
Long-term liabilities and some accrued liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	(5,991,195)
GAAP requires the recognition of net pension asset, net pension liability and deferred inflows and outflows related to pensions. These amounts do not use current financial resources and are not reported in the funds.	
Net pension asset	453,924
Net pension liability	(177,365,000)
Pension investment experience	10,767,670
Pension contributions after measurement date	14,648,050
Change in actual and proportionate share of pension contributions	(3,657,000)
Difference between projected and actual earnings	(6,765,888)
Net position of School Board Component Unit activities	<u>\$ (50,829,597)</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 20**

Discretely Presented Component Unit - School Board

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2017

	Governmental Funds		
	School	Cafeteria	Totals
REVENUES			
Revenue from local sources:			
Revenue from use of money and property	\$ -	434	434
Charges for services - operating	879,626	4,767,043	5,646,669
Miscellaneous	695,392	43,694	739,086
Recovered costs	174,689	-	174,689
Payments from Primary Government	76,666,934	-	76,666,934
Revenue from the Commonwealth	86,627,777	47,858	86,675,635
Revenue from the Federal government	7,695,692	1,780,544	9,476,236
Total revenues	172,740,110	6,639,573	179,379,683
EXPENDITURES			
Education	173,092,470	6,543,663	179,636,133
Total expenditures	173,092,470	6,543,663	179,636,133
Excess (deficiency) of revenues over (under) expenditures	(352,360)	95,910	(256,450)
Net change in fund balance	(352,360)	95,910	(256,450)
Fund balances - beginning	1,449,977	72,051	1,522,028
Fund balances - ending	\$ 1,097,617	167,961	1,265,578

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 21****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, 2017**

Net change in fund balances - total governmental funds \$ (256,450)

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.

Capital outlay	6,616,898
Depreciation expense	(10,711,332)

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.

5,219,250

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.

(721,033)

Pension contributions reported as expenditures in the fund statements are reported as deferred outflows of resources on the statement of net position. Pension expenses reported on the statement of activities do not use current financial resources and are not reported in the funds.

Pension contributions after measurement date	14,648,050
Pension expenses	(13,661,117)

Changes in net position of School Board Component Unit activities

\$ 1,134,266

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA
Exhibit 22

School Fund - School Board

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

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts Budget Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Charges for services:				
Tuition and other charges for services	\$ 847,500	867,500	879,626	12,126
Total charges for services	847,500	867,500	879,626	12,126
Miscellaneous:				
Sale of assets	2,500	2,500	-	(2,500)
Miscellaneous	1,186,700	977,551	695,392	(282,159)
Total miscellaneous revenues	1,189,200	980,051	695,392	(284,659)
Recovered costs:				
Recovered costs	463,000	463,000	174,689	(288,311)
Total recovered costs	463,000	463,000	174,689	(288,311)
Payments from Primary Government:				
General Fund	79,529,000	79,529,000	76,666,934	(2,862,066)
Total payments from Primary Government	79,529,000	79,529,000	76,666,934	(2,862,066.00)
Total revenue from local sources	82,028,700	81,839,551	78,416,641	(3,422,910)
Revenue from the Commonwealth:				
Non-categorical aid:				
Non-categorical aid programs	66,182,746	66,336,717	65,752,295	(584,422)
Total non-categorical aid	66,182,746	66,336,717	65,752,295	(584,422)
Categorical aid:				
Categorical aid programs	21,017,812	21,104,672	20,875,482	(229,190)
Total categorical aid	21,017,812	21,104,672	20,875,482	(229,190)
Total revenue from the Commonwealth	87,200,558	87,441,389	86,627,777	(813,612)
Revenue from the Federal government:				
Categorical aid:				
Department of Education	6,785,100	7,849,759	7,695,692	(154,067)
Total revenue from the Federal government	6,785,100	7,849,759	7,695,692	(154,067)
Total revenues	176,014,358	177,130,699	172,740,110	(4,390,589)
EXPENDITURES				
Education:				
General support	10,827,089	10,862,707	9,903,877	958,830
Pupil transportation	8,435,801	8,624,026	8,700,313	(76,287)
Operations and maintenance	12,815,100	12,948,219	12,585,381	362,838
Instruction	143,482,354	145,517,704	142,125,368	3,392,336
Facilities	454,014	628,020	432,103	195,917
Total education	176,014,358	178,580,676	173,747,042	4,833,634
Total expenditures - budgetary basis	176,014,358	178,580,676	173,747,042	4,833,634
Less encumbrances at June 30, 2017	-	-	(654,572)	654,572
Total expenditures	176,014,358	178,580,676	173,092,470	5,488,206
Excess (deficiency) of revenues over (under) expenditures	-	(1,449,977)	(352,360)	1,097,617
Net change in fund balance	-	(1,449,977)	(352,360)	1,097,617
Fund balance - beginning	-	1,449,977	1,449,977	-
Fund balance - ending	\$ -	-	1,097,617	1,097,617

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 23**

Cafeteria Fund - School Board

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

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	\$ 4,000	4,000	434	(3,566)
Charges for services	5,222,284	5,222,284	4,767,043	(455,241)
Miscellaneous revenues	25,000	25,000	43,694	18,694
Total revenues from local sources	5,251,284	5,251,284	4,811,171	(440,113)
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
School food programs	44,716	44,716	47,858	3,142
Total revenues from the Commonwealth	44,716	44,716	47,858	3,142
Revenue from the Federal government:				
Categorical aid:				
USDA donated commodities	315,000	315,000	273,657	(41,343)
School food programs	1,168,300	1,168,300	1,197,297	28,997
Breakfast reimbursement	262,700	262,700	309,590	46,890
Total revenues from the Federal government	1,746,000	1,746,000	1,780,544	34,544
Total revenues	7,042,000	7,042,000	6,639,573	(402,427)
EXPENDITURES				
Education:				
Cafeteria	7,042,000	7,042,000	6,543,663	498,337
Total expenditures	7,042,000	7,042,000	6,543,663	498,337
Net change in fund balance	-	-	95,910	95,910
Fund balance - beginning	-	72,051	72,051	-
Fund balance - ending	\$ -	72,051	167,961	95,910

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 24**

Discretely Presented Component Unit - Economic Development Authority

Balance Sheet

June 30, 2017

ASSETS

Pooled cash, cash equivalents and investments	\$ 40,679
Total assets	<u>\$ 40,679</u>

LIABILITIES AND FUND BALANCES

Liabilities	\$ -
Total liabilities	<u>\$ -</u>

Fund balances:

Unassigned	40,679
Total fund balances	<u>40,679</u>
Total liabilities and fund balances	<u>\$ 40,679</u>

Amounts reported for the Economic Development Authority in the Statement of Net Position are different because:

Receivables on the Statement of Net Position that do not provide current financial resources are not reported in the funds.	\$ 5,280,000
Long-term liabilities, including bonds payable and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.	(5,280,000)
Total net position of the Economic Development Authority	<u>\$ 40,679</u>

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA**Exhibit 25**

Discretely Presented Component Unit - Economic Development Authority

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

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services:				
Economic development fees	\$ 168,480	168,480	168,480	-
Payments from Primary Government:				
Public Utilities	-	28,598	28,598	-
Total revenues	168,480	197,078	197,078	-
EXPENDITURES				
Community Development:				
Economic development	168,480	197,078	194,502	2,576
Total expenditures	168,480	197,078	194,502	2,576
Excess of revenues over expenditures	-	-	2,576	2,576
Net change in fund balance	-	-	2,576	2,576
Fund balance - beginning	-	38,103	38,103	-
Fund balance - ending	\$ -	38,103	40,679	2,576

See accompanying independent auditors' report.



STATISTICAL SECTION

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	133 - 138
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	140 - 143
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	144 - 145
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	146 - 147
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	148 - 150
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 Position by Component (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 1

	2008	2009	2010	2011	2012	2013	2014	2015 (1)	2016	2017
Governmental activities:										
Net investment in capital assets	\$ 65,019,988	75,900,088	76,120,457	81,246,238	74,105,915	71,850,313	74,495,930	73,603,011	77,813,118	78,760,193
Restricted	10,833,093	6,765,782	6,606,606	5,594,093	5,054,300	5,034,427	7,621,816	8,444,892	8,991,060	9,405,975
Unrestricted	41,446,839	38,277,590	49,631,805	51,276,177	56,041,435	57,584,445	66,759,717	50,299,917	57,293,783	58,254,707
Total net position, governmental activities	\$ 117,299,920	120,943,460	132,358,868	138,116,508	135,201,650	134,469,185	148,877,463	132,347,820	144,097,961	146,420,875
Business-type activities:										
Net investment in capital assets	\$ 154,625,394	163,313,856	171,366,224	188,046,917	180,255,835	183,511,196	187,148,593	192,592,248	196,617,097	202,891,621
Restricted	3,374,603	3,445,007	3,488,079	3,454,766	3,400,179	3,431,374	3,474,707	3,524,693	3,486,303	3,587,279
Unrestricted	33,756,282	30,802,106	23,610,692	9,143,399	17,105,102	18,279,356	20,297,896	18,734,211	22,080,371	25,425,525
Total net position, business-type activities	\$ 191,756,279	197,560,969	198,464,995	200,645,082	200,761,116	205,221,926	210,921,196	214,851,152	222,183,771	231,904,425
Primary government:										
Net investment in capital assets	\$ 219,645,382	239,213,944	247,486,681	269,293,155	254,361,750	255,361,509	261,644,523	266,195,259	274,430,215	281,651,814
Restricted	14,207,696	10,210,789	10,094,685	9,048,859	8,454,479	8,465,801	11,096,523	11,969,585	12,477,363	12,993,254
Unrestricted	75,203,121	69,079,696	73,242,497	60,419,576	73,146,537	75,863,801	87,057,613	69,034,128	79,374,154	83,680,232
Total net position, primary government	\$ 309,056,199	318,504,429	330,823,863	338,761,590	335,962,766	339,691,111	359,798,659	347,198,972	366,281,732	378,325,300

Notes: (1) The County adopted GASB Statement Nos. 68 and 71 in fiscal year 2015. Prior years have not been adjusted for the effect of this statement on net position.

COUNTY OF HANOVER, VIRGINIA

Changes in Net Position (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 2

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015 (1)	2016	2017
Expenses										
Governmental activities:										
General government administration	\$ 14,671,166	14,093,119	13,554,927	13,686,641	14,324,220	13,251,586	13,327,904	14,078,698	14,579,237	16,967,133
Judicial administration	4,385,408	4,785,034	4,420,920	4,447,352	4,338,334	4,737,986	4,671,068	4,699,748	4,968,826	6,931,360
Public safety	43,545,081	46,110,980	45,610,131	47,946,531	49,003,762	51,534,448	50,081,795	51,586,916	53,695,056	59,422,217
Public works	12,431,287	16,093,111	11,102,331	9,891,396	11,407,634	12,115,168	8,156,659	15,054,599	14,580,033	17,693,369
Human services	23,096,023	24,258,087	23,880,094	24,165,944	22,925,913	21,502,295	20,053,613	20,364,814	21,222,733	22,498,625
Parks, recreation and cultural	6,413,393	8,453,137	6,523,401	6,444,651	6,531,096	6,141,549	5,914,812	6,118,595	6,189,937	6,615,395
Community development	5,593,695	5,969,406	5,797,455	5,318,097	4,625,376	4,809,867	4,556,186	4,723,408	5,094,822	5,139,068
Education	100,925,769	92,993,766	86,294,322	86,779,122	88,976,562	88,113,912	80,080,452	82,732,244	85,215,836	89,409,847
Interest on long-term debt	503,177	772,402	836,290	1,536,631	1,494,308	1,966,102	8,266,750	6,005,268	6,611,846	6,132,233
Total governmental activities expenses	211,564,999	213,529,042	198,019,871	200,216,365	203,627,205	204,172,913	195,109,239	205,364,290	212,158,326	230,809,247
Business-type activities:										
Public utilities	23,823,738	25,318,192	26,625,112	24,915,456	26,264,524	26,370,084	26,704,949	26,303,713	26,302,409	26,477,038
Airport	626,257	1,434,208	616,225	696,323	759,169	641,915	649,430	736,601	627,311	625,962
Total business-type activities expenses	24,449,995	26,752,400	27,241,337	25,611,779	27,023,693	27,011,999	27,354,379	27,040,314	26,929,720	27,103,000
Total expenses, primary government	\$ 236,014,994	240,281,442	225,261,208	225,828,144	230,650,898	231,184,912	222,463,618	232,404,604	239,088,046	257,912,247
Program Revenues										
Governmental activities:										
Charges for services:										
General governmental administration	\$ 1,614,956	1,664,898	1,798,980	1,919,228	2,015,327	1,989,140	1,919,543	1,945,854	1,687,666	1,847,076
Judicial administration	1,340,222	1,380,219	1,321,041	1,295,959	1,121,848	1,181,522	1,131,565	1,114,869	1,049,789	1,077,473
Public safety	3,716,157	3,274,434	3,354,180	4,170,594	3,077,467	4,261,351	4,520,561	4,828,466	4,664,786	5,181,569
Public works	1,232,908	1,226,498	1,132,817	1,347,446	1,260,824	1,172,975	1,270,579	1,021,198	1,106,528	1,715,083
Human services	3,283,721	3,778,613	3,748,484	3,876,950	3,332,257	3,400,041	3,563,282	3,462,587	3,338,548	3,346,538
Parks, recreation and cultural	553,811	531,639	543,768	571,427	498,989	477,202	523,055	456,682	480,162	554,834
Community development	1,028,076	888,838	789,276	725,907	1,005,930	926,660	973,409	1,077,596	1,204,089	1,166,607
Operating grants and contributions	16,589,245	16,736,272	16,020,098	17,075,125	16,696,451	15,906,997	17,090,061	16,135,262	16,575,846	19,167,150
Capital grants and contributions	9,696,499	7,814,843	4,474,879	2,521,940	1,993,464	3,477,420	4,400,177	6,157,602	5,331,207	5,697,464
Total governmental activities program revenues	39,055,595	37,296,254	33,183,523	33,504,576	31,002,557	32,793,308	35,392,232	36,200,116	35,438,621	39,753,794
Business-type activities:										
Charges for services:										
Public utilities	21,328,133	21,237,074	21,462,492	21,981,551	21,715,203	22,523,614	22,727,173	23,922,093	30,524,162	30,374,748
Airport ⁽¹⁾	46,658	109,168	170,730	178,080	184,550	189,662	194,468	207,379	207,288	215,748
Capital grants and contributions	20,831,594	9,781,068	5,961,957	5,289,134	4,936,335	8,634,930	10,021,676	8,745,545	3,282,212	6,131,327
Total business-type activities program revenues	42,206,385	31,127,310	27,595,179	27,448,765	26,836,088	31,348,206	32,943,317	32,875,017	34,013,662	36,721,823
Total program revenues, primary government	\$ 81,261,980	68,423,564	60,778,702	60,953,341	57,838,645	64,141,514	68,335,549	69,075,133	69,452,283	76,475,617
Net (Expense) Revenue										
Governmental activities	\$ (172,509,404)	(176,232,788)	(164,836,348)	(166,711,789)	(172,624,648)	(171,379,605)	(159,717,007)	(169,164,174)	(176,719,705)	(191,055,453)
Business-type activities	17,756,390	4,374,910	353,842	1,836,986	(187,605)	4,336,207	5,588,938	5,834,703	7,083,942	9,618,823
Total net expense, primary government	\$ (154,753,014)	(171,857,878)	(164,482,506)	(164,874,803)	(172,812,253)	(167,043,398)	(154,128,069)	(163,329,471)	(169,635,763)	(181,436,630)

(continued)

COUNTY OF HANOVER, VIRGINIA

Changes in Net Position (Unaudited)

Last Ten Fiscal Years

(accrual basis of accounting)

Table 2

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015 (1)	2016	2017
<u>General Revenues and Other Changes in Net Position</u>										
Governmental activities:										
Taxes:										
Property taxes	\$ 128,411,615	135,784,877	133,924,474	129,565,022	126,263,780	125,689,871	127,974,854	130,303,062	139,280,061	143,800,396
Sales taxes	17,903,788	15,831,268	15,118,688	15,981,340	16,607,323	17,357,257	18,158,255	19,201,921	19,886,580	20,752,689
Utility taxes	7,317,207	7,207,864	7,100,382	6,939,774	6,869,415	6,871,623	6,769,285	6,770,101	6,726,388	6,639,025
Recordation taxes	2,415,144	1,877,835	1,730,678	1,556,422	1,695,512	2,428,067	1,955,691	2,165,891	2,431,061	2,403,524
Other	2,317,560	2,133,154	2,127,589	2,378,684	2,190,557	2,184,430	2,387,749	2,552,378	2,835,584	3,024,186
Noncategorical State aid	15,419,398	14,985,990	14,948,811	14,716,447	14,746,150	14,850,432	15,273,372	15,107,698	15,322,281	15,390,161
Grants and contributions not restricted to specific programs	1,119,078	1,224,305	1,029,730	1,165,499	1,215,096	1,168,838	1,283,768	1,468,137	1,416,225	1,338,897
Unrestricted investment earnings	1,967,295	1,164,116	472,107	356,297	314,846	164,364	322,311	302,518	582,027	81,738
Transfers	(229,678)	(333,081)	(200,703)	(190,056)	(192,889)	(67,742)	-	(90,074)	(10,361)	(52,249)
Total general revenues and other changes in net position, governmental activities	176,641,407	179,876,328	176,251,756	172,469,429	169,709,790	170,647,140	174,125,285	177,781,632	188,469,846	193,378,367
Business-type activities:										
Public utilities - unrestricted investment earnings	1,337,243	1,096,699	349,481	153,045	110,750	56,861	110,332	104,280	188,316	49,582
Transfers - Airport fund	229,678	333,081	200,703	190,056	192,889	67,742	-	90,074	10,361.00	52,249
Total general revenues and other changes in net position, business-type activities	1,566,921	1,429,780	550,184	343,101	303,639	124,603	110,332	194,354	198,677	101,831
Total general revenues and other changes in net position, primary government	\$ 178,208,328	181,306,108	176,801,940	172,812,530	170,013,429	170,771,743	174,235,617	177,975,986	188,668,523	193,480,198
<u>Change in Net Position</u>										
Governmental activities	\$ 4,132,003	3,643,540	11,415,408	5,757,640	(2,914,858)	(732,465)	14,408,278	8,617,458	11,750,141	2,322,914
Business-type activities	19,323,311	5,804,690	904,026	2,180,087	116,034	4,460,810	5,699,270	6,029,057	7,282,619	9,720,654
Total change in net position, primary government	\$ 23,455,314	9,448,230	12,319,434	7,937,727	(2,798,824)	3,728,345	20,107,548	14,646,515	19,032,760	12,043,568

Notes: (1) The County adopted GASB Statement Nos. 68 and 71 in fiscal year 2015. Prior years have not been adjusted for the effect of this statement on the change in net position.

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,		
	2008 (2)	2009 (2)	2010
General Fund:			
Reserved	\$ 899,660	695,386	1,466,750
Unreserved			
Designated	12,425,409	7,727,214	11,587,951
Undesignated	24,126,843	24,494,204	24,494,204
Total General Fund	\$ 37,451,912	32,916,804	37,548,905
All other governmental funds:			
Reserved	\$ 10,922,248	9,260,250	5,534,957
Unreserved, reported in:			
Capital projects funds:			
County Improvements Fund	8,117,903	3,584,494	10,305,801
School Improvements Fund	(2,054,242)	(252,310)	4,477,556
Special revenue funds	500,000	602,131	603,391
Total All Other Governmental Funds	\$ 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) 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,

	Fiscal Year Ended June 30, (see note 1 below)						
	2011	2012	2013	2014	2015	2016	2017
General Fund:							
Nonspendable	\$ 147,333	170,004	197,871	263,620	201,790	221,923	248,444
Restricted	532,845	467,104	581,242	975,241	892,123	894,106	693,755
Committed	2,500,000	500,000	500,000	500,000	500,000	500,000	500,000
Assigned	19,552,419	20,567,906	17,754,733	23,260,372	24,467,668	26,794,234	21,741,736
Unassigned	24,565,863	23,927,842	25,200,284	25,644,215	26,418,188	28,169,774	29,351,651
Total General Fund	\$ 47,298,460	45,632,856	44,234,130	50,643,448	52,479,769	56,580,037	52,535,586
All other governmental funds: ⁽²⁾							
Nonspendable	\$ -	-	-	178,126.00	158,852	290,107	264,560
Restricted	6,103,928	4,113,255	4,878,185	26,801,595	24,100,147	23,664,172	22,321,649
Assigned	12,563,314	9,522,307	10,071,820	11,298,077	13,646,110	12,898,509	19,819,146
Total All Other Governmental Funds	\$ 18,667,242	13,635,562	14,950,005	38,277,798	37,905,109	36,852,788	42,405,355

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

(2) Includes the County Improvements Fund, the School Improvements Fund and the Debt Service Fund of the Primary Government.



COUNTY OF HANOVER, VIRGINIA

 Changes in Fund Balances, Governmental Funds ⁽³⁾ (Unaudited)

Last Ten Fiscal Years

(modified accrual basis of accounting)

Table 4

	Fiscal Year				
	2008	2009	2010	2011	2012
Primary Government:					
REVENUES					
General property taxes	\$ 127,752,615	134,631,877	132,160,474	130,806,022	126,110,780
Other local taxes	29,953,700	27,050,122	26,077,337	26,856,220	27,362,807
Permits, privilege fees and regulatory licenses	2,570,668	1,756,291	1,493,234	1,771,735	1,555,734
Fines and forfeitures	967,867	1,111,383	1,145,092	1,234,619	1,123,148
Revenues from use of money and property	2,507,279	1,386,151	747,670	663,868	730,397
Charges for services	8,165,843	7,982,604	7,758,435	7,734,023	7,383,203
Miscellaneous	654,065	839,426	621,088	728,750	720,888
Recovered costs	6,824,257	6,677,511	3,366,236	3,939,877	3,899,087
Intergovernmental (state and federal)	34,398,123	33,571,769	32,739,887	32,981,600	32,212,010
Total revenues	213,794,417	215,007,134	206,109,453	206,716,714	201,098,054
EXPENDITURES					
General governmental administration	13,604,057	13,221,357	13,065,175	13,264,877	14,078,620
Judicial administration	4,342,825	5,603,761	4,452,332	4,238,674	4,365,516
Public safety	47,391,988	61,749,637	56,977,215	52,271,337	50,485,129
Public works	12,212,146	15,502,385	10,387,021	9,048,288	10,938,918
Human services	22,960,809	24,195,148	25,624,808	26,117,943	23,259,647
Parks, recreation and cultural	9,221,302	10,083,714	7,231,464	7,567,583	6,886,334
Community development	5,547,312	5,940,549	6,360,382	5,474,907	4,659,812
Education expenditures, for:					
Instruction, operations and administration	75,940,541	79,411,219	70,527,127	67,587,462	72,974,302
Capital outlay	22,020,675	9,706,041	7,868,873	7,700,153	6,591,609
Debt service:					
Principal retirement	10,888,261	11,336,693	11,932,672	11,111,792	10,502,253
Interest and fiscal charges	5,936,066	6,061,070	5,495,314	5,546,302	5,092,904
Total education, primary government	114,785,543	106,515,023	95,823,986	91,945,709	95,161,068
Debt service:					
Principal retirement	1,578,504	1,697,930	2,155,086	2,065,489	2,201,996
Interest and fiscal charges	696,081	514,194	862,522	1,518,217	2,001,749
Bond issuance costs	31,161	360,492	287,099	326,444	35,649
Total expenditures	232,371,728	245,384,190	223,227,090	213,839,468	214,074,438
Excess of revenues over (under) expenditures	(18,577,311)	(30,377,056)	(17,117,637)	(7,122,754)	(12,976,384)
OTHER FINANCING SOURCES (USES)					
Transfers in	16,327,577	16,039,580	9,930,074	9,196,315	10,061,563
Transfers out	(16,557,255)	(16,372,661)	(10,130,777)	(9,530,584)	(10,254,452)
Sale of capital assets	-	-	-	-	-
Bonds issued	14,614,880	21,679,548	27,228,580	12,809,071	6,471,989
Refunding bonds issued	-	24,962,676	-	5,660,579	-
Payments to escrow agent	-	(24,758,539)	-	(10,844,571)	-
Support agreement	-	-	-	7,327,036	-
Total other financing sources (uses)	14,385,202	21,550,604	27,027,877	14,617,846	6,279,100
Net change in fund balances	<u>\$ (4,192,109)</u>	<u>(8,826,452)</u>	<u>9,910,240</u>	<u>7,495,092</u>	<u>(6,697,284)</u>
County capital outlay (other than for education) contained in functional expenditure categories, above	\$ 11,459,039	22,252,664	18,214,702	13,066,182	7,641,249
GASB 44 debt service disclosure (primary government): (2)					
Debt service as a percentage of noncapital expenditures, primary government, governmental funds	<u>9.6%</u>	<u>9.2%</u>	<u>10.4%</u>	<u>10.5%</u>	<u>9.9%</u>
Self-imposed debt margin compliance (total reporting entity): (1)					
Noncapital expenditures - total reporting entity	\$ 292,793,745	307,559,903	296,946,733	289,156,980	295,486,002
Debt service as a percent of noncapital expenditures - total reporting entity	<u>6.5%</u>	<u>6.4%</u>	<u>6.9%</u>	<u>7.0%</u>	<u>6.7%</u>

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.

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

Table 4

Fiscal Year					
2013	2014	2015	2016	2017	
125,716,871	127,474,854	132,279,062	137,857,061	144,598,402	REVENUES
28,841,377	29,270,980	30,690,291	31,879,613	32,819,424	General property taxes
2,117,648	2,172,162	2,126,778	2,143,668	2,192,797	Other local taxes
1,122,896	1,142,444	1,086,243	1,002,872	1,033,165	Permits, privilege fees and regulatory licenses
519,442	710,460	796,077	1,260,668	706,628	Fines and forfeitures
7,738,869	9,170,473	8,015,343	7,764,617	8,982,222	Revenues from use of money and property
765,157	960,005	1,050,022	875,690	1,065,300	Charges for services
4,085,951	3,743,137	3,746,404	3,539,942	3,445,940	Miscellaneous
32,350,451	34,174,720	36,088,750	35,946,025	39,241,368	Recovered costs
203,258,662	208,819,235	215,878,970	222,270,156	234,085,246	Intergovernmental (state and federal)
					Total revenues
					EXPENDITURES
13,388,389	13,610,993	15,080,859	16,799,922	17,695,118	General governmental administration
4,625,522	5,602,584	9,260,522	27,667,680	13,139,599	Judicial administration
49,214,788	48,819,005	52,259,053	54,722,857	56,060,444	Public safety
10,512,574	10,928,408	14,300,650	14,374,485	18,779,795	Public works
21,110,782	20,337,280	20,978,177	21,640,679	22,172,932	Human services
5,611,331	5,472,274	5,748,956	6,116,007	6,161,919	Parks, recreation and cultural
4,719,372	4,565,432	4,824,351	5,120,515	5,077,614	Community development
					Education expenditures, for:
72,349,963	70,939,017	71,361,872	72,803,686	76,666,934	Instruction, operations and administration
1,863,441	1,632,012	6,188,679	3,527,024	7,224,396	Capital outlay
					Debt service:
10,723,304	-	-	-	-	Principal retirement
4,992,396	-	-	-	-	Interest and fiscal charges
					Total education, primary government
89,929,104	72,571,029	77,550,551	76,330,710	83,891,330	Debt service:
					Principal retirement
2,541,464	13,312,349	12,581,509	12,477,200	12,788,637	Interest and fiscal charges
1,957,177	6,451,957	6,728,512	6,811,762	6,763,982	Bond issuance costs
-	307,254	246,024	289,742	40,116	Total expenditures
203,610,503	201,978,565	219,559,164	242,351,559	242,571,486	Excess of revenues over (under) expenditures
(351,841)	6,840,670	(3,680,194)	(20,081,403)	(8,486,240)	OTHER FINANCING SOURCES (USES)
					Transfers in
4,123,000	23,595,558	27,503,653	26,712,119	33,891,124	Transfers out
(4,190,742)	(23,595,558)	(27,593,727)	(26,722,480)	(33,943,373)	
335,300	-	-	-	-	Bonds issued
-	22,896,441	5,014,371	23,139,711	10,046,605	Refunding bonds issued
-	-	23,903,469	-	-	Payments to escrow agent
-	-	(23,683,940)	-	-	Support agreement
-	-	-	-	-	Total other financing sources (uses)
267,558	22,896,441	5,143,826	23,129,350	9,994,356	
(84,283)	29,737,111	1,463,632	3,047,947	1,508,116	Net change in fund balances
					County capital outlay (other than for education) contained
3,126,556	8,426,621	9,174,311	30,947,021	14,701,082	in functional expenditure categories, above
					GASB 44 Debt Service Disclosure (primary government): (2)
10.2%	10.3%	9.5%	9.3%	8.9%	Debt service as a percentage of noncapital expenditures,
					primary government, governmental funds
					Self-imposed debt margin compliance (total reporting entity): (1)
294,560,877	290,620,815	303,333,119	307,134,844	318,829,642	Noncapital expenditures - total reporting entity
6.9%	6.8%	6.4%	6.3%	6.1%	Debt service as a percent of noncapital expenditures -
					total reporting entity

To assist the reader, the fiscal year 2017 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 2017	Self-imposed	GASB 44
	Total Reporting Entity (Note 1)	Primary Government (Note 2)
Total expenditures	\$ 345,735,187	242,571,486
Less:		
Capital Outlay	(26,905,545)	(21,925,478)
Noncapital expenditures	\$ 318,829,642	220,646,008
Debt service expenditures	\$ 19,592,735	19,552,619
As a % of noncapital expenditures	6.1%	8.9%

COUNTY OF HANOVER, VIRGINIA

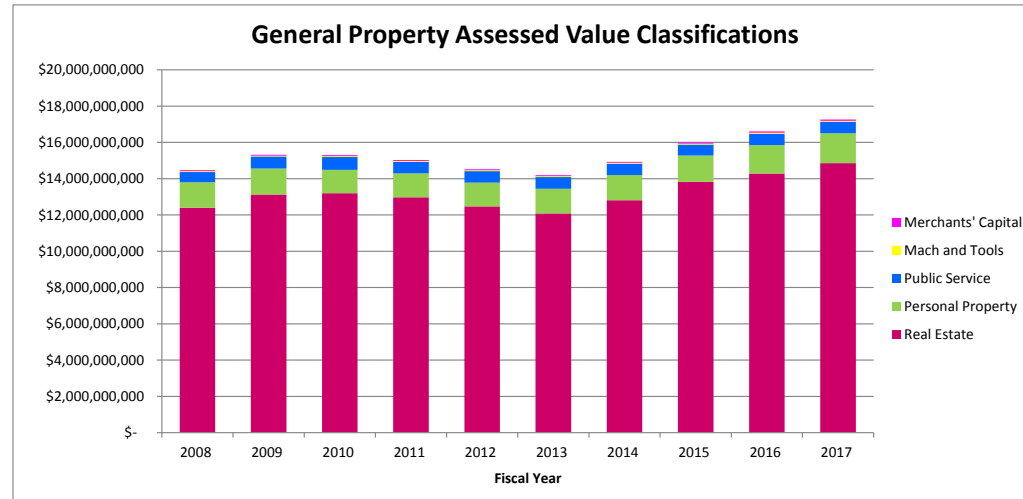
Table 5

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)	Merchants' 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
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%
2013	12,085,083,900	1,362,897,839	52,410,151	54,335,585	641,273,699	14,196,001,174	1.09	15,420,048,309	92.1%
2014	12,811,773,150	1,393,705,252	47,093,690	57,047,845	623,384,698	14,933,004,635	1.08	16,153,767,752	92.4%
2015	13,826,817,650	1,452,694,995	49,984,140	63,368,410	599,981,428	15,992,846,623	1.07	17,293,606,269	92.5%
2016	14,289,819,850	1,565,166,980	58,997,854	67,922,205	624,325,439	16,606,232,328	1.08	18,017,370,030	92.2%
2017	14,858,279,800	1,643,589,209	53,077,040	76,493,600	634,456,928	17,265,896,577	1.08	18,668,289,972	92.5%
% Change	4.0%	5.0%	-10.0%	12.6%	1.6%	4.0%		3.6%	
% Ch. Since 2007	19.8%	17.9%	11.4%	47.5%	11.1%	19.3%		19.1%	
% of Total	86.1%	9.5%	0.3%	0.4%	3.7%	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. Litigation with Bear Island resulted in additional supplemental billing in 2015, based on prior years (2012-2014) tax basis. This resulted in 2015 showing an assessed value of \$127,046,115. Adjustments to determine the actual tax basis in prior years was calculated, in applying the retro-adjustments to 2015 for purposes of evaluating a more realistic tax basis in 2015.
(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 and Commissioner of Revenue's Office



COUNTY OF HANOVER, VIRGINIA

Direct and Overlapping Property Tax Rates (Unaudited)

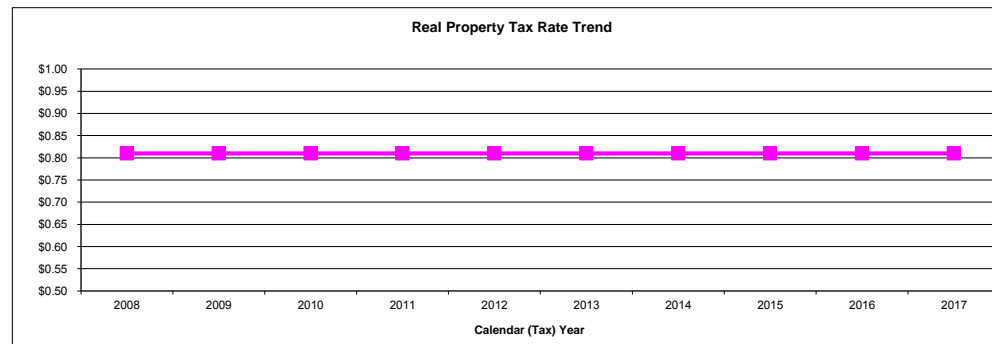
Last Ten Calendar (Tax) Years

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
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
2013	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.09	0.09	0.77	0.77
2014	0.81	0.81	3.57	1.78	0.50	3.57	1.90	1.08	0.09	0.77	0.77
2015	0.81	0.81	3.57	1.78	0.50	3.57	1.90	1.07	0.09	0.77	0.77
2016	0.81	0.81	3.57	1.78	0.50	3.57	1.90	1.08	0.09	0.77	0.77
2017	0.81	0.81	3.57	1.78	0.50	3.57	1.90	1.08	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 2008	0.0%	47.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	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

Principal Property Tax Payers (1) (Unaudited)
Current Year and Nine Years Ago

Table 7

Taxpayer	Type of Business	2017			2008		
		General Property Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	General Property Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Virginia Electric and Power Company	Electric company	\$ 230,560,112	1	1.3%	\$ 110,742,880	3	0.8%
Doswell Limited Partnership	Power Generation Facility	176,239,398	2	1.0%	274,448,549	1	1.9%
Memorial Regional Medical Center	Hospital/medical center	118,495,700	3	0.7%	119,191,630	2	0.8%
Cedar Fair Southwest(2015)/Paramount Parks(2006)	Entertainment	89,974,560	4	0.5%	79,693,745	4	0.6%
Covenant Woods	Nursing home	88,267,790	5	0.5%	38,200,825	9	0.3%
Virginia Natural Gas	Natural gas distributor	56,833,441	6	0.3%	-	n/a	-
Bear Island Paper Company	Paper mill	50,946,435	7	0.3%	50,786,755	8	0.4%
Richfood, Inc.	Grocery Wholesale	44,390,830	8	0.3%	52,288,065	7	0.4%
Verizon Virginia	Telecommunications	39,632,431	9	0.2%	61,198,536	5	0.4%
Rappahannock Electric Coop	Electric company	38,001,922	10	0.2%	27,338,855	10	0.2%
Richmond Newspaper, Inc./Media General, Inc.	Newspaper publisher	-	n/a	0.0%	54,379,290	6	0.4%
		<u>\$ 933,342,619</u>		<u>5.4%</u>	<u>\$ 868,269,130</u>		<u>6.0%</u>
Total taxable assessed values		<u>\$ 17,265,896,577</u>			<u>\$ 14,470,880,172</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 as of June 30, 2017	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 139,951,410	134,776,945	96.3%	5,162,743	139,939,688	100.0%
2009	146,731,880	140,814,064	96.0%	5,891,532	146,705,596	100.0%
2010	142,757,714	137,896,486	96.6%	4,851,811	142,748,297	100.0%
2011	141,464,681	136,643,777	96.6%	4,808,598	141,452,375	100.0%
2012	138,147,691	136,569,536	98.9%	1,536,160	138,105,696	100.0%
2013	136,956,978	135,351,034	98.8%	1,376,772	136,727,806	99.8%
2014	138,899,948	137,555,596	99.0%	1,061,004	138,616,600	99.8%
2015	144,003,614	143,368,974	99.6%	35,564	143,404,538	99.6%
2016	147,705,971	144,943,605	98.1%	1,474,898	146,418,503	99.1%
2017	157,129,677	154,661,526	98.4%	-	154,661,526	98.4%

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.

(3) The lower and negative net collections figure in subsequent years for 2014 and 2015 are due to abatements of Bear Island bills. Due to system limitations, the movement of funds from the abatements to the revised bills are handled as negative adjustments. FY15 adjustments equaled \$827,225.05 for Bear Island. Litigation is still in process.

COUNTY OF HANOVER, VIRGINIA

Table 9

Ratios of Outstanding Debt by Type, and
Self-Imposed Debt Limit Information (3) (Unaudited)
Last Ten Fiscal Years

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	Percent of General Bonded Debt to Estimated Actual Value of Taxable Property	Population (2)	General Bonded Debt per Capita	Infrastructure and State Moral Obligation Revenue Bonds	Capital Leases	Support Agreement
2008	\$ 73,175,988	64,533,826	6,788,250	144,498,064	15,673,250,517	0.9%	99,713	1,449	-	2,739,169	-
2009	89,665,816	58,168,234	6,156,000	153,990,050	16,533,565,376	0.9%	100,051	1,539	-	1,836,239	-
2010	110,157,033	52,027,571	5,552,750	167,737,354	16,555,688,273	1.0%	100,408	1,671	-	3,330,677	-
2011	115,745,603	46,756,541	-	162,502,144	16,251,114,190	1.0%	100,822	1,612	-	2,712,424	7,314,184
2012	107,857,328	48,885,099	-	156,742,427	15,721,793,938	1.0%	101,586	1,543	-	2,355,572	6,681,332
2013	99,349,768	44,497,391	-	143,847,159	15,420,048,309	0.9%	102,623	1,402	-	2,256,096	5,963,481
2014	90,596,851	42,302,195	-	132,899,046	16,153,767,752	0.8%	104,124	1,276	20,849,280	2,166,620	5,250,629
2015	82,248,421	43,338,840	-	125,587,261	17,293,606,269	0.7%	105,456	1,191	20,818,270	2,077,143	4,547,777
2016	73,803,009	39,555,423	-	113,358,432	18,017,370,030	0.6%	107,152	1,058	43,782,481	1,982,667	3,844,925
2017	67,513,286	45,691,844	-	113,205,130	17,293,606,269	0.7%	108,706	1,041	43,421,982	1,883,191	3,152,074
% Change	-8.5%	15.5%	0.0%	-0.1%	-4.0%	4.0%	1.5%	-1.6%	-0.8%	-5.0%	-18.0%
% Ch. Since 2008	-7.7%	-29.2%	-100.0%	-21.7%	10.3%	-29.0%	9.0%	-28.1%	100.0%	-31.2%	100.0%
Business-type Activities											
Total Primary Government											
Self-Imposed Debt Limit Information (3)											
Fiscal Year	Revenue Bonds	Support Agreement	Total Primary Government	Total Personal Income (2) (000's)	Per Capita Personal Income (2)	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 Capita Income (6)
2008	38,906,488	-	186,143,721	4,515,310	45,283	4.1%	1,867	147,237,233	1.0%	1,477	3,191
2009	36,836,758	-	192,663,047	4,365,589	43,634	4.4%	1,926	155,826,289	1.0%	1,557	3,529
2010	34,612,657	-	205,680,688	4,458,362	44,402	4.6%	2,048	171,068,031	1.1%	1,704	3,778
2011	21,887,907	10,562,075	204,978,734	4,718,576	46,801	4.3%	2,033	172,528,752	1.1%	1,711	3,472
2012	20,943,819	9,172,282	195,895,432	4,907,381	48,308	4.0%	1,928	165,779,331	1.1%	1,632	3,245
2013	19,951,453	7,792,489	179,810,678	4,974,785	48,476	3.6%	1,752	152,066,736	1.1%	1,482	2,967
2014	19,525,241	6,432,696	187,123,512	5,244,783	50,371	3.6%	1,797	161,165,575	1.1%	1,548	2,638
2015	18,970,376	5,077,903	177,078,730	5,571,287	52,830	3.2%	1,679	153,030,451	1.0%	1,451	2,377
2016	17,581,614	3,723,110	184,273,229	5,660,887	52,830	3.3%	1,752	162,968,505	0.9%	1,521	2,146
2017	16,321,357	2,375,964	180,359,698	5,742,986	52,830	3.1%	1,659	161,662,377	0.9%	1,487	2,143
% Change	-7.2%	-36.2%	-2.1%	1.5%	0.0%	-3.5%	-5.3%	-0.8%	4.0%	-2.2%	-0.1%
% Ch. Since 2008	-58.0%	100.0%	-3.3%	30.2%	18.2%	-22.8%	-11.6%	10.7%	-6.9%	0.8%	-33.3%

Notes:

- (1) 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 2008 through 2015 (the last year available) is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce. Per Capita Personal Income for 2016 and 2017 is assumed to be equal to 2015, the last year for which Personal Income data is available from the U.S. Department of Commerce. Personal Income amounts for 2016 and 2017 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, infrastructure and state moral obligation 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 (\$2,317 for fiscal year 2017).
- (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

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

Utility - Water and Sewer Revenue Bonds

Utility - Water and Sewer Revenue Bonds						Net	Utility - Debt Covenant Coverage Ratio (1,5)		
Fiscal Year	Utility Revenues (2,7)	Less: Operating Expenses (3)	Net Available Revenues	Debt Service Requirements		Net Available Revenues Coverage (4)	Debt Service		Debt Covenant Coverage Test
				Principal	Interest		Senior Debt Service	Subordinate Debt Service	
2008	\$ 34,519,573	15,127,475	19,392,098	1,909,173	1,917,256	5.1	3,658,489	167,940	4.4
2009	25,584,480	16,429,026	9,155,454	1,915,617	1,883,137	2.4	3,627,119	171,635	2.1
2010	24,194,254	17,331,485	6,862,769	1,947,116	1,803,348	1.8	3,583,203	167,261	1.6
2011	25,293,064	15,245,233	10,047,831	1,968,672	1,772,376	2.7	3,570,322	170,726	2.3
2012	25,048,715	16,458,146	8,590,569	1,986,020	1,559,074	2.4	3,378,974	166,120	2.1
2013	27,320,235	16,487,597	10,832,638	2,006,019	1,508,668	3.1	3,349,252	165,435	2.7
2014	28,940,235	16,732,863	12,207,372	2,296,831	1,001,088	3.7	3,297,919	-	3.2
2015	29,549,906	16,531,486	13,018,420	2,406,830	884,863	4.0	3,291,693	-	3.4
2016	32,751,145	17,192,885	15,558,260	2,418,471	593,230	5.2	3,011,701	-	4.5
2017	30,424,330	16,679,572	13,744,758	2,321,831	656,573	4.6	2,860,828	-	4.2
% Change			-11.7%	-4.0%	10.7%	-10.7%	-5.0%	-	-7.0%
% Ch. Since 2008			-29.1%	21.6%	-65.8%	-8.9%	-21.8%	-100.0%	-5.7%

Airport Revenue Bond

Fiscal Year	Rent received from Airport Fixed Base Operator	Debt Service Requirements		Available Revenues Coverage (5)	Rent Received	Airport - Debt Covenant Coverage Ratio (1,6)			
		Principal	Interest			Restricted cash - Lessee irrevocable (used during current FY or available at YE for debt service)		Debt Covenant Coverage Test	
						Principal	Interest		
2008	\$ 61,039	\$ 26,396	\$ 70,922	0.6	\$ 61,039	\$ 156,081	\$ 36,000	2.6	
2009	88,093	54,820	89,158	0.6	88,093	156,081	36,000	1.9	
2010	152,748	57,640	86,337	1.1	152,748	12,361	36,000	1.4	
2011	157,330	60,605	83,372	1.1	157,330	-	36,000	1.3	
2012	162,050	63,723	80,254	1.1	162,050	-	36,000	1.4	
2013	166,912	67,001	75,274	1.2	166,912	-	36,000	1.4	
2014	171,919	70,448	71,740	1.2	171,919	-	36,000	1.5	
2015	177,077	74,072	68,024	1.2	177,077	-	36,000	1.5	
2016	182,388	77,883	64,116	1.3	182,388	-	36,000	1.5	
2017	187,848	81,889	60,008	1.3	187,848	-	36,000	1.6	
% Change	3.0%	5.1%	-6.4%	3.1%	3.0%	0.0%	0.0%	2.6%	
% Ch. Since 2008	207.8%	210.2%	-15.4%	111.1%	207.8%	-100.0%	0.0%	-39.3%	

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

(2) Utility revenues exclude donated capital assets.

(3) Utility operating expenses exclude depreciation.

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

(5) 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.

(6) 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.

(7) 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 11

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
2008	99,713	\$ 4,515,310	\$ 45,283	39.5	3.4%	18,686	1,577	11.8
2009	100,051	4,365,589	43,634	39.8	6.5%	18,566	1,614	11.5
2010	100,408	4,458,362	44,402	40.4	6.6%	18,420	1,569	11.7
2011	100,822	4,718,576	46,801	40.8	6.0%	18,191	1,489	12.2
2012	101,586	4,907,381	48,308	41.2	5.5%	18,125	1,487	12.2
2013	102,623	4,974,785	48,476	41.5	5.1%	17,942	1,426	12.6
2014	104,124	5,244,783	50,371	41.8	4.6%	17,952	1,410	12.7
2015	105,456	5,571,287	52,830	41.9	3.9%	17,734	1,445	12.3
2016	107,152	5,660,887	52,830	41.9	3.5%	17,776	1,442	12.3
2017	108,706	5,742,986	52,830	41.9	3.5%	17,751	1,463	12.1
% Change	1.5%	1.5%	0.0%	0.0%	0.0%	-0.1%	1.5%	-1.6%
% Ch. Since 2008	9.0%	27.2%	16.7%	6.1%	2.9%	-5.0%	-7.2%	2.4%

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 2008 through 2015 (the last year available) is obtained from the U. S. Department of Commerce, Bureau of Economic Analysis. Per Capita Personal Income for 2016 and 2017 is assumed to be equal to 2015, 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 2016 and 2017 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 12

Principal Employers (1) (Unaudited)

Current Year and Nine Years Ago

Employer	Type of Business	2016			2007		
		Employees	Rank	Percentage of Total County Employment (2)	Employees	Rank	Percentage of Total County Employment (2)
Hanover County Schools	Education	2,466	1	4.5%	2,827	1	5.3%
Bon Secours Memorial Regional Medical	Hospital/Medical Center	1,000 and over	2	3.6%	1,000 and over	2	3.7%
County of Hanover	Government	1,106	3	3.6%	1,131	3	2.1%
Wal-Mart Stores	Retail	500-999	4	1.4%	500-999	6	1.4%
Tyson Farms	Food Manufacturing	500-999	5	1.4%	500-999	5	1.4%
Kings Dominion	Entertainment	500-999	6	1.4%	500-999	8	1.4%
Supervalu Distribution Center (2016)/Richfood(2007)	Food Distributor	500-999	7	1.4%	500-999	4	1.4%
Acosta Sales & Marketing Co	Sales & Marketing	500-999	8	1.4%	n/a		
Sales Mark	Wholesale Electronic Markets	250-499	9	1.4%	n/a		
Randolph-Macon College	Education	250-499	10	0.7%	500-999	7	1.4%
Culpeper Star Exponent	Newspaper Publisher		n/a		250-499	9	0.7%
Food Lion	Retail		n/a		250-499	10	0.7%
Totals				20.6%			19.6%
Total County Employment (3)		54,896			53,387		

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 2016.

(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 13

Function/Program	Full-time Equivalent Employees as of June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Primary Government:										
General governmental administration	140	145	141	137	132	123	130	132	133	135
Judicial administration	57	59	59	57	57	55	57	59	64	68
Public safety	457	472	474	464	462	449	449	464	489	501
Public works	73	73	73	60	88	83	83	83	86	86
Human services	221	227	226	198	189	183	181	182	185	188
Parks, recreation and cultural	49	50	50	37	37	33	32	32	31	31
Community development	34	31	35	29	29	25	24	24	24	24
Public utilities	95	96	96	95	95	93	91	91	93	94
Fleet management (2)	28	29	29	29	-	-	-	-	-	-
Self insurance fund	-	1	1	1	1	1	1	1	1	1
Totals - Primary Government	1,154	1,183	1,184	1,107	1,090	1,045	1,048	1,068	1,106	1,128
Component Unit:										
School Board	2,903	2,973	2,678	2,544	2,532	2,462	2,438	2,456	2,466	2,659
Total:	4,057	4,156	3,862	3,651	3,622	3,507	3,486	3,524	3,572	3,787

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Primary Government:										
General governmental administration										
Number of registered voters	65,290	67,322	68,294	68,968	71,832	71,010	71,828	72,268	75,126	76,303
Number of real estate transfers	3,564	2,173	2,874	2,800	3,027	3,065	3,256	3,606	4,003	4,079
State income tax returns processed	10,790	8,038	7,757	7,545	8,696	7,514	7,854	7,600	6,268	6,717
Judicial administration										
Judgments docketed	3,330	3,388	3,740	4,321	4,041	3,543	3,114	2,975	2,958	2,863
Public safety										
Sheriff incidents	42,928	41,863	40,189	46,077	38,819	37,125	37,891	34,474	38,046	36,726
Number of sworn officers	196	201	201	201	201	201	207	211	207	215
Fire/EMS incidents	7,954	10,735	11,705	13,381	14,216	13,620	15,740	15,854	13,256	13,882
Animal control incidents	7,881	8,508	7,029	6,720	6,485	6,009	6,233	5,877	5,815	4,944
Commercial building plan reviews	624	414	439	377	414	412	412	506	490	494
Residential building plan reviews	1,330	1,051	1,025	1,092	1,098	1,278	1,381	1,462	1,549	1,536
Public works										
Tons of solid waste received	39,306	38,243	37,700	37,600	36,599	32,571	32,198	44,651	48,336	60,483
Tons of solid waste recycled	13,300	17,000	18,000	18,500	20,000	21,418	15,141	11,970	14,217	10,563
Human services										
Communicable disease visits/investigations	533	969	429	262	405	370	268	555	679	929
Immunization visits (3)	501	358	9,454	1,210	312	636	471	311	391	265
Restaurant inspection visits	1,449	1,024	560	894	710	911	815	939	974	1,262
Social services lobby visits	12,143	16,271	15,377	17,632	20,027	19,018	17,681	15,541	14,700	16,934
Social services New Benefit Program Customers	N/A	N/A	701	850	792	681	786	520	687	523
Number of Hanover Youth Service Council (HYSC) projects	36	34	39	48	48	44	43	37	36	34
HYSC Volunteer hours reported	711	780	1,406	1,793	1,847	1,353	1,576	1,080	1,183	1,116
Parks, recreation and cultural										
Active Library borrowers	50,149	56,968	65,558	74,382	79,700	80,553	80,642	82,096	83,785	84,865
Internet sessions	72,130	84,423	114,945	150,295	103,700	134,980	142,545	141,492	130,315	121,065
Library reference questions answered	214,409	240,776	295,810	356,454	365,265	330,062	375,526	384,223	388,748	381,262
Community development										
Economic development services to existing/prospective businesses	350	311	311	311	286	253	212	479	405	444
Public utilities										
Water customers	19,742	19,930	20,125	20,381	20,592	19,198	19,647	19,995	20,488	20,905
Wastewater customers	17,931	18,178	18,367	18,604	18,816	18,640	19,098	19,428	19,929	20,343
Daily average water distributed (million gallons/day)	8.50	8.20	8.70	9.04	8.70	8.60	8.56	8.90	8.90	9.15
Maximum daily water capacity (million gallons/day)	19.95	19.95	19.95	19.95	19.95	19.95	19.95	19.95	19.95	25.00
Daily average wastewater treatment (million gallons/day)	5.60	6.70	6.93	6.94	6.07	5.99	6.79	5.80	7.07	6.66
Maximum daily capacity of wastewater treatment plant (mg/d)	13.50	13.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50
General services										
School buses serviced	301	309	311	303	310	303	297	301	313	313
Public safety vehicles serviced	434	433	442	438	421	470	476	470	519	519
Fleet availability	96.7%	97.0%	97.0%	96.2%	95.4%	95.2%	96.9%	96.6%	96.6%	96.1%

- 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.
(4) In FY17, Social Services began reporting New Benefit Program Customers count instead of telephone calls received. Information not available prior to first year reported.

	2008	2009	2010	Fiscal Year 2011	2012	2013	2014	2015	2016	2017
Function/Program										
Primary Government:										
General governmental administration										
Estimated square feet- all general administrative office space	43,436	43,436	43,436	47,436	47,436	47,571	47,762	47,762	47,762	106,222
Judicial administration										
Estimated square feet - all judicial buildings	58,460	58,460	58,460	58,460	58,460	58,460	58,460	58,460	58,460	69,933
Public safety										
Estimated square feet - all public safety buildings	177,577	200,804	208,804	213,447	213,447	214,604	214,604	214,604	214,604	214,604
Number of Sheriff's stations	1	1	1	1	1	1	1	1	1	1
Correctional facility inmate capacity	437	437	437	437	437	437	469	469	495	519
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	17,665	17,665	17,665	17,665	17,665
Number of solid waste convenience centers	6	6	6	6	6	6	6	6	6	6
County Airport - acres in facility	232	232	232	257	260	260	260	260	257	260
Aircraft hanger spaces - County Airport	54	54	54	54	54	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	5,402	5,402	5,402	5,402	5,402
Human services										
Estimated square feet of facilities	53,120	52,939	52,939	62,939	62,939	62,939	62,939	62,939	62,939	62,939
Parks, recreation and cultural										
Number of County parks/boat launch	14	14	14	14	14	14	14	14	14	14
Park acreage (2)	1,081	1,116	1,116	1,190	1,282	1,282	1,282	1,250	1,250	1,250
Public utilities										
Miles of water mains	380	387	389	398	412	419	425	429	434	431
Number of fire hydrants	2,162	2,245	2,309	2,367	2,422	2,475	2,523	2,564	2,599	2,670
Miles of sanitary sewers	356	360	362	369	379	383	389	394	399	396
Number of wastewater treatment plants	4	4	4	4	4	4	4	4	4	4
General services										
Number of vehicles maintained	1,145	1,200	1,220	1,204	1,193	1,198	1,206	1,210	1,189	1,189
School Board Component Unit:										
Number of elementary schools	14	15	15	15	15	15	15	15	15	15
Number of secondary schools	8	8	8	8	8	8	8	8	8	8
Alternative Education Facility	1	1	1	1	1	1	1	1	1	1
Number of Technology Centers	-	1	1	1	1	1	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 to Date June 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalog Number	Program Clusters	YTD Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Passed Through the Commonwealth of Virginia:			
<u>Department of Agriculture and Consumer Services:</u>			
National School Lunch Program - Cafeteria (commodities)	10.555	\$ 273,657	
<u>Department of Education:</u>			
School Breakfast Program	10.553	309,590	
National School Lunch Program	10.555	1,197,297	
Total Child Nutrition Cluster			\$ 1,780,544
<u>Department of Health:</u>			
Child & Adult Care Food Program	10.558		34,759
<u>Department of Social Services:</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	561,081	
Total SNAP Cluster			561,081
DEPARTMENT OF DEFENSE:			
Direct Payments:			
JROTC	12.000		290,998
DEPARTMENT OF THE INTERIOR:			
Direct Payments:			
Payments in Lieu of Taxes (PILT)	15.226		19,792
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Equitable Sharing Program	16.922		27,621
Passed Through the Commonwealth of Virginia:			
<u>Department of Criminal Justice Services:</u>			
Crime Victim Assistance (17-T9600VW15, 17-V8854CA17)	16.575		145,878
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Department of Aviation:			
Airport Improvement Program	20.106		1,820,724
Passed Through the Commonwealth of Virginia:			
<u>Department of Transportation:</u>			
Highway Planning & Construction	20.205	4,864,924	
Total Highway Planning and Construction Cluster			4,864,924
<u>Department of Motor Vehicles:</u>			
Alcohol Open Container Requirements (154AL-2017-57162-6811)	20.607		68,685
DEPARTMENT OF EDUCATION:			
Passed Through the Commonwealth of Virginia:			
<u>Department of Education:</u>			
Adult Education - Basic Grants to States (V002A120047, V002A130047)	84.002		41,456
Title I Grants to Local Educational Agencies (S010A110046, S010A120046, S010A130046)	84.010		982,335
Career and Technical Education - Basic Grants to States (V048A130046)	84.048		150,151
Special Education Grants to States (042-88085D-H027A120107, 042-61110-H027A140107; H027A120107)	84.027	3,221,761	
Special Education Preschool Grants (H173A130112)	84.173	76,634	
Total Special Education Cluster (IDEA)			3,298,395
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program)	84.330		2,372
English Language Acquisition State Grants (S365A110046, S365A120046, S365A130046)	84.365		8,897
Improving Teacher Quality State Grants (S367A120044, S367A130044)	84.367		344,428
<u>Department of Behavioral Health & Developmental Services:</u>			
Special Education-Grants for Infants & Families (720C-04363-13D-17)	84.181		118,201

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year to Date June 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Program	Federal Catalog Number	Program Clusters	YTD Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Head Start (03CH0337)	93.600		1,010,299
Passed Through the Commonwealth of Virginia:			
Department of Social Services:			
Promoting Safe & Stable Families	93.556		19,720
Temporary Assistance for Needy Families	93.558	324,079	
Total TANF Cluster			324,079
Refugee & Entrant Assistance - State Administered Programs	93.566		795
Low-Income Home Energy Assistance	93.568		30,941
Child Care Mandatory & Matching Funds of the Child Care & Development Fund	93.596	58,219	
Total CCDF Cluster			58,219
Stephanie Tubbs Jones Child Welfare Services Program	93.645		455
Foster Care - Title IV-E	93.658		421,675
Adoption Assistance	93.659		276,313
Social Services Block Grant	93.667		223,013
Chafee Foster Care Independence Program	93.674		6,422
Department of Medical Assistance Services:			
Children's Health Insurance Program	93.767		22,501
Department of Medical Assistance Services:			
Medical Assistance Program	93.778	718,485	
Total Medicaid Cluster			718,485
Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services (44506-50138)	93.958		67,824
Block Grants for Prevention & Treatment of Substance Abuse (44501-50148, 720C-04220-09M206)	93.959		382,583
Passed Through the Hanover Cares Coalition:			
Hanover Cares Coalition			
Drug-Free Communities Support Program Grants	93.276		1,157
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Staffing for Adequate Fire & Emergency Response (SAFER)	97.083		482,756
Passed Through the Commonwealth of Virginia:			
Department of Emergency Management:			
Emergency Management Performance Grants	97.042		22,997
Homeland Security Grant Program	97.067		53,375
			<u>\$ 18,684,850</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, 2017

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule or SEFA) includes all federal grant activity of 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2017, 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.

COUNTY OF HANOVER, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

3. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal expenditures are reported in the reporting entity financial statements as follows:

<u>Fund</u>	<u>Federal Expenditures</u>
Primary Government:	
Governmental Activities:	
General	\$ 3,958,892
County Improvements	4,864,924
Total Governmental Activities	<u>8,823,816</u>
Business-type Activities:	
Non-major - Airport	<u>1,820,724</u>
Total Business-type Activities	<u>1,820,724</u>
Total Primary Government	<u>10,644,540</u>
Component Unit:	
School Board	<u>8,040,310</u>
Total Component Unit	<u>8,040,310</u>
Total Federal expenditures	<u><u>\$ 18,684,850</u></u>

4. SUB-RECIPIENT PAYMENTS

The County did not expend any funds to a subrecipient during the fiscal year ended June 30, 2017.

5. INDIRECT COST RATE

The County has not elected to use the 10% de minimus indirect cost rate discussed in UG Section 200.414.

**Report of Independent Auditor on Internal Control over Financial Reporting and on
Compliance with Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Honorable Members of the Board of Supervisors
County of Hanover, Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate 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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* 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 a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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* and one instance of noncompliance with the *Specifications for Audits of Counties, Cities, and Towns*, which is described in the accompanying schedule of findings and questioned costs as item 2017-001.

County's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Berkant LLP". The signature is written in a cursive, flowing style.

Richmond, Virginia
November 15, 2017

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Members of the Board of Supervisors
County of Hanover, Virginia

Report on Compliance for Each Major Federal Program

We have audited the County of Hanover, Virginia's (the "County") compliance with the types of compliance requirements described in the *OMB 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, 2017. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of 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, 2017.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Berkant LLP". The signature is written in a cursive, flowing style.

Richmond, Virginia
November 15, 2017

County of Hanover, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **None**
4. Noncompliance, which is material to the 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: **Unmodified opinion**
8. Any audit findings which are required to be reported under the Uniform Guidance: **None**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program and Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
20.106	Airport Improvement Program
84.010	Title I, Part A
93.778	Medical Assistance Program – Medicaid Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **\$750,000**
11. County of Hanover, Virginia qualified as a low-risk auditee under Section 530 of Uniform Guidance

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None reported

C. Findings and Questioned Costs Relating to Federal Awards

None reported

County of Hanover, Virginia

Schedule of Findings and Questioned Costs (Continued)

Year ended June 30, 2017

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2017-001 – Conflict of Interest

Criteria: Section 2.2-3115 of the *Code of Virginia* (the Code) requires local government officials and certain employees to file a Statement of Economic Interest with their respective local body annually by January 15th, which for the 2016 calendar year filing, was January 17, 2017 because of a weekend and the holiday.

Condition: Fifty-four (54) officials and employees filed a completed annual Statement of Economic Interest; however, four (4) of the fifty-four (54) filed the form after the January 17, 2017 deadline required by the Code.

Cause: Completed Statement of Economic Interest forms were filed after the required date of January 17, 2017.

Effect: Non-compliance may result in action by the Commonwealth.

Questioned Cost: Non-financial

Recommendation: Local government officials and employees should file the Statement of Economic Interest forms in accordance with Section 2.2-3115 of the Code.

Views of Responsible Officials: Officials receive multiple notifications of filing deadlines and will continue to be reminded of the deadlines and requirements stipulated in the *Code of Virginia*.

E. Status of Prior Year Findings

None reported



HANOVER COUNTY DEPARTMENT OF FINANCE AND MANAGEMENT SERVICES

Jacob A. Sumner, CMA, CGFM
Director of Finance and Management Services

ACCOUNTING DIVISION

Robyn E. Shugart, Finance Division Director
Lauren N. Brown, CPA, Senior Accountant
Jacqueline A. Manzer, CPA, Accountant
Christine H. Chen, CPP, Payroll Manager
Debbie C. Clark, Payroll Analyst
Kelli M. Hoffner, Financial Technician
Lynnsey A. Johnson, Payroll Analyst
Nancy M. Mancuso, Financial Technician
Connie L. Mills, Financial Technician
Donna B. Neely, Systems Administrator
Khusboo Patel, Payroll Analyst
Amy L. Sylvia, Financial Technician

BUDGET DIVISION

Shelly H. Wright, Budget Division Director
Mark A. Highfield, Budget Manager
Les E. Beasley, Analyst
Caitlin A. Farrell, Analyst

PURCHASING DIVISION

Steven K. Rusch, Purchasing Division Director
Patti M. Beasley, Purchasing Officer
Dawn M. Parent, Purchasing Officer
Trena A. Ponton, Purchasing Officer
Kristin St. Germain, Financial Technician

Hanover: People, Tradition and Spirit

Our Vision

A PLACE, INSPIRED BY
ITS PEOPLE, TRADITION & SPIRIT,
WHICH WILL BE THE PREMIER COMMUNITY
FOR PEOPLE & BUSINESSES TO ACHIEVE THEIR FULL POTENTIAL

Our Mission

TO BE A PREMIER COMMUNITY
BY PROVIDING SUPERIOR SERVICE THROUGH
CREATIVITY, INNOVATION & SOUND FINANCIAL PRACTICES

Our Values

INTEGRITY • ACCOUNTABILITY • RESPECT • INCLUSIVENESS

HANOVER COUNTY
PEOPLE, TRADITION & SPIRIT

