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Office of Finance and Management Services

August 24, 2011

Kathleen T. Seay, Director

Attached for your review are the Preliminary Year-End Financial Reports for the County's General Fund and Utility Fund. These reports cover the periods July 1, 2010 through June 30, 2011.

The reports have been prepared by the County's Department of Finance and Management Services and Utility Departments, respectively, from unaudited records and are for management purposes only. Input was provided from various departments and related entities throughout the County to help develop General Fund projections.

The purpose of these reports is to provide key financial management information in a format that is clear and concise.

The County's audited Comprehensive Annual Financial Reports, Budget Docu-



ments and Financial and Budget Policies and Regulations are available on the Department's web-site, at

<http://www.co.hanover.va.us/finance/default.htm>.

For additional information, contact Kathleen T. Seay, Director of Finance and Management Services at (804) 365-6015 or by e-mail at fms@co.hanover.va.us.

HANOVER ADOPTS GASB STATEMENT NO. 54

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which applies to all state and local governments, and is effective for the County's FY11 Comprehensive

Annual Financial Report (CAFR), to be issued in November. The new GASB statement has changed the names of fund balance categories. Fund balances which in the past were referred to as *reserved* in the CAFR will now be called *committed*, and fund

balances that in the past were referred to as *designated* will now be called *assigned*. Assigned fund balances indicate the County's tentative plans, such as to fund subsequent school budgets. The residual fund balance will now be called *unassigned*.



HANOVER COUNTY

GENERAL FUND - Statement of Projected Changes in Unassigned Fund Balance

For the Year Ended June 30, 2011

	Budget	Estimated		Surplus/ (Deficit)	% Variance	Projection from		% Change
		Actual				Third Quarter	\$ Change	
Revenues:								
General property taxes:								
Real property taxes	\$ 99,000,000	98,095,258	(904,742)	-0.9%	98,100,000	(4,742)	0.0%	
Personal property taxes	22,348,875	22,305,447	(43,428)	-0.2%	22,315,125	(9,678)	0.0%	
Other general property taxes	9,169,000	10,395,557	1,226,557	13.4%	10,087,000	308,557	3.1%	
Total general property taxes	130,517,875	130,796,262	278,387	0.2%	130,502,125	294,137	0.2%	
Other local taxes:								
Local sales and use taxes	15,112,000	15,982,000	870,000	5.8%	16,193,000	(211,000)	-1.3%	
Telecommunications sales and use tax	5,474,000	5,250,000	(224,000)	-4.1%	5,300,000	(50,000)	-0.9%	
Other local taxes	5,730,000	5,624,715	(105,285)	-1.8%	5,596,000	28,715	0.5%	
Total other local taxes	26,316,000	26,856,715	540,715	2.1%	27,089,000	(232,285)	-0.9%	
Other local revenues:								
Permits, licenses and charges for service	5,252,553	4,981,983	(270,570)	-5.2%	5,061,253	(79,270)	-1.6%	
Revenue from use of money and property	1,509,000	670,300	(838,700)	-55.6%	759,300	(89,000)	-11.7%	
Recovered costs and other	4,979,650	5,368,888	389,238	7.8%	5,304,067	64,821	1.2%	
Total other local revenues	11,741,203	11,021,171	(720,032)	-6.1%	11,124,620	(103,449)	-0.9%	
Total revenues from local sources	168,575,078	168,674,148	99,070	0.1%	168,715,745	(41,597)	0.0%	
Intergovernmental revenue:								
State aid	22,413,777	22,456,557	42,780	0.2%	22,471,633	(15,076)	-0.1%	
Federal aid	4,075,810	3,836,077	(239,733)	-5.9%	4,083,177	(247,100)	-6.1%	
Total intergovernmental revenue	26,489,587	26,292,634	(196,953)	-0.7%	26,554,810	(262,176)	-1.0%	
Subtotal - operating revenues	195,064,665	194,966,782	(97,883)	-0.1%	195,270,555	(303,773)	-0.2%	
Prior year's balance:	5,935,368	5,935,368	-	0.0%	5,898,483	36,885	0.6%	
Total budgeted sources	\$ 201,000,033	200,902,150	(97,883)	0.0%	201,169,038	(266,888)	-0.1%	

Comments—Budget Sources

- **Real property tax revenue**— FY11 Real Property tax revenue was \$900,000 short of budget as forecasted at the third quarter.
- **Personal property tax revenue**—FY11 Personal Property tax revenue was slightly under budget (\$43,400) as forecasted at the third quarter as growth did not outpace depreciation.
- **Other general property tax revenue**—FY11 Other General Property tax revenue exceeded budget by \$1.2M, due primarily to better than expected collection of delinquent taxes on real and personal property. This is \$300,000 over the third quarter projection as a result of better than anticipated collection results.
- **Sales tax revenue**—Sales Tax trend was positive in FY11, exceeding budget by \$870,000. This is \$200,000 below the third quarter projection due to two months that resulted in a lower than average return.
- **Revenue from use of money and property**— Interest earned on investments declined another \$89,000 from the third quarter projection, or \$839,700 in total below budget. At the third quarter, it was expected that interest income would equal the prior year's returns, however, market conditions resulted in lower returns than FY10.

HANOVER COUNTY

GENERAL FUND - Statement of Projected Changes in Unassigned Fund Balance

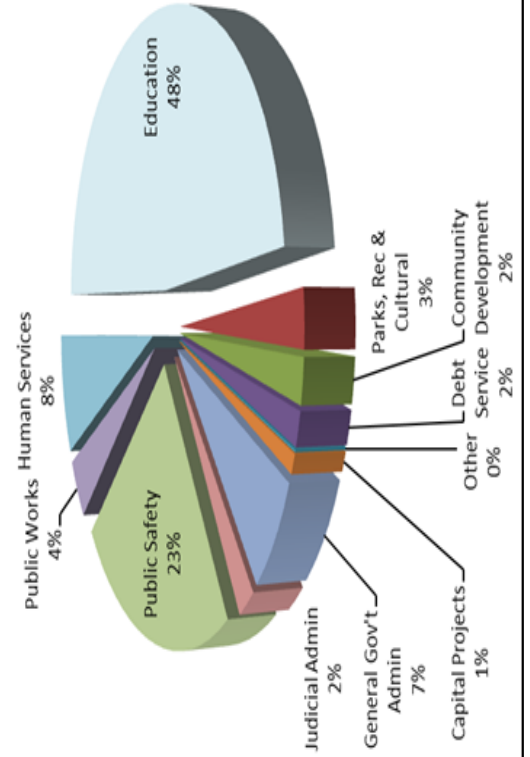
For the Year Ended June 30, 2011

	Budget	Estimated Actual	Surplus/ (Deficit)	% Variance	Projection from Third Quarter	\$ Change	% Change
Total budgeted sources	\$ 201,000,033	200,902,150	(97,883)	0.0%	201,169,038	(266,888)	-0.1%
Expenditures, Encumbrances & Reappropriations:							
General government administration	\$ 13,622,647	12,849,005	773,642	5.7%	13,059,066	(210,061)	-1.6%
Judicial administration	4,511,784	4,279,658	232,126	5.1%	4,467,218	(187,560)	-4.2%
Public safety	46,064,588	45,027,178	1,037,410	2.3%	44,738,333	288,845	0.6%
Public works	8,350,202	8,156,255	193,947	2.3%	8,077,736	78,519	1.0%
Human Services	15,956,842	14,777,733	1,179,109	7.4%	14,876,700	(98,967)	-0.7%
Parks, recreation and cultural	6,350,691	6,130,243	220,448	3.5%	6,125,890	4,353	0.1%
Community development	6,059,114	5,373,296	685,818	11.3%	5,718,209	(344,913)	-6.0%
Debt service	3,741,919	3,583,705	158,214	4.2%	3,592,013	(8,308)	-0.2%
Nondepartmental	795,446	358,982	436,464	54.9%	1,151,841	(792,859)	-68.8%
Capital projects	2,129,800	2,129,800	-	0.0%	1,998,800	131,000	6.6%
Education	93,417,000	85,427,000	7,990,000	8.6%	88,745,889	(3,318,889)	-3.7%
Total budgeted uses	201,000,033	188,092,856	12,907,177	6.4%	192,551,695	(4,458,839)	-2.3%
Subtotal FY2011 operating balance	-	12,809,295	12,809,295	-	8,617,343	4,191,952	-
Less - Use of projected FY11 operating balance for:							
Funding of FY12 Schools budget	-	(4,671,111)	(4,671,111)	-	(4,671,111)	-	-
Funding of FY12 County budget	-	(2,699,510)	(2,699,510)	-	(2,699,510)	-	-
Total funding of FY12 budgets	-	(7,370,621)	(7,370,621)	-	(7,370,621)	-	-
Projected 2011 net operating balance	\$ -	5,438,674	5,438,674	-	1,246,722	4,191,952	-

Comments — Budget Uses

- County Savings**—County expenditure savings (not including education) of \$4.9 million are projected, and include \$1.4 million in salary and benefit savings due to vacancies, and \$3.5 million in across-the-board operating savings. As shown above, \$2.7 million of the FY11 County savings was appropriated to fund a portion of the FY12 County budget.
- School Savings**—County expenditures on Schools are projected to be \$8.0 million less than budget, which resulted from \$4.0 million in State Fiscal Stabilization (“Stimulus”) funds which were available on a one-time basis in FY 2011, and which were used as a first source of FY 2011 funding in the School Fund, and \$4.0 million of school operating savings. As shown above, \$4.7 million of the FY11 Schools savings was appropriated to fund a portion of the FY12 Schools’ budget.

FY11 Expenditures



General Fund - FY11 Budget Highlights

Unassigned Fund Balance Uses

	Estimated Actual		
Projected 2011 net operating balance	\$ 5,438,674		
Projected Year-end Assignments made	<u>(5,396,500)</u>		
Projected 2011 net operating balance, net of assignments	42,174		
Net decrease in restricted and nonspendable fund balances (inventory, grants and DSR)	98,749		
Beginning Unassigned Fund Balance July 1, 2010	<u>24,494,204</u>	<u>% of revenue</u>	<u>June 30,</u>
		12.6%	FY10
Projected Ending Unassigned Fund Balance June 30, 2011	\$ 24,635,127	12.6%	FY11

As shown on page 3, the projected FY2011 Operating Balance was utilized to fund approximately \$7.4 million of the FY12 School and County budgets, after which a projected 2011 Net Operating Balance of \$5,438,674 remained. As shown above, of that amount, \$5,396,500 has been assigned to fund future needs; primarily attributable to schools (\$2.8 million), revenue stabilization (\$1.7 million), sheriff (\$264,000) and capital improvements (\$300,000).

The County's 2011 fiscal year-end unassigned fund balance is projected to remain at approximately 12.6% of revenues, which is consistent with the 2010 percentage, and meets the current fund balance target, per County Financial Policy.

Assigned Fund Balance Uses

	<u>Actuals</u>	<u>Projected</u>
	<u>FY10</u>	<u>FY11</u>
Reserve for Revenue Stabilization		
Beginning balance	2,066,529	3,725,246
Additions	2,658,717	1,665,000
Use:		
In subsequent year budget	<u>(1,000,000)</u>	<u>(1,665,000)</u>
Ending Balance	<u>\$ 3,725,246</u>	<u>\$ 3,725,246</u>

To preserve essential services to County residents during the recession, since 2009, any amounts over a designated percentage of the County's unassigned fund balance target (currently 12.6%) generated by position vacancies and operating savings have been placed in a Reserve for Revenue Stabilization. This reserve provides a source of funds to mitigate future revenue/service declines, primarily by funding a portion of future year budgets in the five-year plan. The \$1.6 million addition from FY11 fully funds the amount committed from the Reserve for Revenue Stabilization Fund to support the current five-year plan.

The projected FY11 fiscal year-end balance of \$3.7 million is included as a funding source for the FY13—FY14 budgets in the current five-year plan.

HANOVER COUNTY

Statement of Utility Fund Revenues and Expenditures

For the Year Ended June 30, 2011

	Budget	Est. Actual	\$ Variance	% Variance	Projection from Third Quarter	\$ Change	% Change
OPERATING:							
Operating Revenues:							
Water	\$ 9,276,000	10,390,270	1,114,270	12.0%	10,500,000	(109,730)	-1.0%
Sewer	10,578,155	10,484,323	(93,832)	-0.9%	10,540,675	(56,352)	-0.5%
Review and inspection fees	244,000	193,012	(50,988)	-20.9%	155,000	38,012	24.5%
Penalties	240,000	282,320	42,320	17.6%	225,000	57,320	25.5%
Miscellaneous revenues	138,000	204,698	66,698	48.3%	150,000	54,698	36.5%
Total Operating Revenues	\$ 20,476,155	21,554,624	1,078,469	5.3%	21,570,675	(16,051)	-0.1%
Operating Expenses:							
Administration and Customer Service	\$ 1,850,556	1,714,077	136,479	7.4%	1,800,000	(85,923)	-4.8%
Purchase of Services	6,114,802	5,021,218	1,093,584	17.9%	5,600,000	(578,782)	-10.3%
Operations	6,290,045	5,563,384	726,661	11.6%	5,937,252	(373,868)	-6.3%
Engineering	1,119,986	1,046,832	73,154	6.5%	1,026,429	20,403	2.0%
Maintenance	2,805,445	2,509,291	296,154	10.6%	2,600,000	(90,709)	-3.5%
Operating Expenses	\$ 18,180,834	15,854,801	2,326,033	12.8%	16,963,681	(1,108,880)	-6.5%
Operating revenues over (under) expenses	\$ 2,295,321	5,699,822	3,404,501		4,606,994	1,092,828	
NONOPERATING:							
Nonoperating Revenues:							
Revenue from use of money and property	\$ 400,000	154,850	(245,150)	-61.3%	120,000	34,850	29.0%
Intergovernmental Revenue	571,397	405,956	(165,441)	-29.0%	562,427	(156,471)	-27.8%
Recovered Cost	196,403	224,338	27,935	14.2%	180,000	44,338	24.6%
Capacity fees - water	890,900	1,517,348	626,448	70.3%	1,378,000	139,348	10.1%
Capacity fees - sewer	1,210,100	2,225,800	1,015,700	83.9%	2,030,007	195,793	9.6%
Long term debt - revenue bonds	12,880,595	11,180,595	(1,700,000)	-13.2%	11,480,595	(300,000)	-2.6%
Prior year's balance	15,598,855	9,098,855	(6,500,000)	-41.7%	10,598,855	(1,500,000)	-14.2%
Total Non operating Revenues	\$ 31,748,250	24,807,742	(6,940,508)	-21.9%	26,349,884	(1,542,142)	-5.9%
Nonoperating expenses:							
Capital expenses	29,302,003	22,725,926	6,576,077	22.4%	24,302,003	(1,576,077)	-6.5%
Debt Service	4,526,568	3,727,030	799,538	17.7%	3,700,000	27,030	0.7%
Nondepartmental - other	215,000	69,674	145,326	67.6%	215,000	(145,326)	-67.6%
Nonoperating expenses	\$ 34,043,571	26,522,631	7,520,940	22.1%	28,217,003	(1,694,372)	-6.0%
Nonoperating revenues over (under) expenses	(2,295,321)	(1,714,889)	(580,432)	-	(1,867,119)	152,230	-
Total revenues over (under) expenses	\$ -	3,984,934	-	-	2,739,875	1,245,059	-

See the Notes to Utility Fund Statement of Revenues and Expenditures on the next page

Notes - Statement of Utility Fund Revenues and Expenditures

Operating Revenues: A conservative budget was prepared for FY 2011 water revenue in anticipation of a challenging economic climate with less growth and irrigation. However, water revenues were not significantly affected by these issues and have exceeded budget by \$1.1 million dollars.

Operating Expenses: Favorable water and sewer cost of Service adjustments from the City of Richmond and Henrico County will result in significant reductions (\$1 million) for purchased services. The remaining savings were the result of lower salaries (due to vacancies), chemical costs, power, and professional services.

Non-operating Revenues: Water and sewer capacity fee revenues exceeded budget by \$1.6 million due to completion of existing projects and new construction. Although new revenue bonds were not issued during the year this revenue source includes anticipated debt required to fund multi-year capital projects. The prior year's balance includes reappropriation of contracts and/or remaining balances for prior year projects for which funding sources were received in a prior year. Projections assume 100% use of prior year's balance. The accumulated earnings in prior year's balance was reduced to reflect the release of capital appropriations for completed projects and favorable bids received for future projects.

Non-operating Expenses: For continuity across fiscal years, projections include actual expenditures, encumbrances and planned reappropriation of ongoing capital projects. Capital expenses were reduced to reflect the release of appropriations noted above. Issuance of long term debt was deferred resulting in lower debt service.

General Fund Policy Compliance

General obligation debt - principal outstanding at June 30, 2011

\$ 157,458,770

Debt Policy Compliance	Policy Limit	Estimate at 6/30/11
Debt to assessed value	< 2.5%	1.0%
Debt per capita	<\$2,017	\$1,660
Debt service to General Govt'l Exp	<10%	7.1%
Debt per per-capita income	\$5,000	\$3,704
Debt payoff in 5 years	>25%	37%
Debt payoff in 10 years	>50%	71%

Hanover County's Economic Development Authority issued \$2.4 million in revenue bonds and \$16.1 million in refunding bonds in March, 2011, under a Support Agreement with the County. The chart above shows that the County remains in compliance with all debt policies after issuance of the EDA bonds.