

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

I. Summary of significant accounting policies

A. Reporting entity

The County of Hanover (the County) was established by an act of the Virginia General Assembly in 1720. It is a political subdivision of the Commonwealth of Virginia operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and six other board members elected from 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 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. 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 (the EDA) was created to foster and stimulate economic development in the County. 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. By statute, the EDA has the power to cause the issuance of tax-exempt industrial revenue bonds to qualifying enterprises wishing to utilize that form of financing. The County is involved in the day-to-day operations of the EDA, the determination of its operating budget and annual service fee rates and the approval of prospective private activity bond issues. Financial statements of the EDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The EDA does not issue separate financial statements.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government (the County) and its component units, exclusive of fiduciary activities. For the most part, the effect of interfund activity has been removed from these 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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

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 Retiree Medical Benefits Trust fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues, net of estimated uncollectible amounts, in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider, including time requirements, if any, have been met. Employer contributions to the Retiree Medical Benefits Trust fund (including cash contributions and actuarially estimated employer premium subsidies), and plan member contributions are recognized in the period in which the contributions and subsidies are due. Benefits are recognized when due and payable in accordance with the terms of the plan. Agency funds are custodial in nature and do not involve the measurement of results of operations. In agency fund financial statements, assets equal liabilities, and are reported using the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual, i.e., as soon as they are both measurable and available. Revenues from intergovernmental reimbursement grants are recorded when earned. Other revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers general property tax and other intergovernmental revenues to be available if they are collected within 31 days of the end of the current fiscal period, and are due on or before the last day of the current fiscal period. Sales taxes, which are collected by the State and subsequently remitted to the County, are recognized consistent with the State's recognition policy. Accordingly, County revenues and receivables include May and June sales tax received from the State in July and August. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Other items associated with the current fiscal period, including other local taxes, licenses, certain charges for services, interest associated with the current fiscal period and direct Federal interest subsidies on bonded indebtedness for which applications have been timely submitted are all considered to be susceptible to accrual and so are recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available and are recorded as revenues when cash is received.

The County reports three major governmental funds. The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

accounted for in another fund. The *County Improvements Fund* accounts for the resources to be used for the acquisition or construction of major governmental capital facilities and equipment. The *School Improvements Fund* accounts for the resources to be used for the acquisition or construction of major capital facilities and equipment used for school operations. Capital assets are transferred to the School Component Unit, except those financed by County obligations, which are reported by the primary government up to the amount of outstanding obligation.

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

The County has two proprietary funds. The *Public Utilities Fund*, a major fund, accounts for the activities and operations of 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 funds account for self-insurance activities and fleet management services provided to other departments or agencies of the County on a cost reimbursement basis.

Fiduciary funds consist of the *Retiree Medical Benefits Trust Fund* and *Agency Funds*. The agency funds include the *Bell Creek Community Development Authority Fund*, the *Lewistown Community Development Authority Fund*, and the *Escrow* and *Special Welfare* funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the County's public utilities function and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the County's internal service funds are charges to customers for sales and services, and internal charges, respectively. The Public Utilities Fund also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the utilities system. Operating expenses for enterprise funds and internal service funds 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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The County and its component units follow the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted cash and investments held by outside custodians in order to comply with the provisions of bond indentures, and the investments of the Retiree Medical Benefits Trust (Trust) held by the Trust's Finance Board. Investments are reported at fair value, based on quoted market prices at year end. As of June 30, 2011, the pooled cash and investments have been allocated between the County and the respective component units based upon their respective ownership percentages. Investment earnings are allocated to the participating funds and component units based upon their respective average monthly equity balances in the pooled account. Cash, cash equivalents and investments – restricted, represent unspent bond proceeds for capital projects and, when applicable, accumulated interest thereon, as well as amounts set aside for bond debt service or to comply with other debt covenants. For purposes of the statements of cash flows, the amounts reported as cash and cash equivalents for the proprietary fund types represent amounts maintained in the reporting entity's investment pool, as they are considered to be demand deposits for the purpose of complying with GASB Statement No. 9.

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."

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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 based upon criteria established by the Virginia Auditor of Public Accounts.

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, 2010, and the first installment (June 5) of the levy on assessed value at January 1, 2011.

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 revenue 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, 2011

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 2010 tax bills, payable in fiscal year 2011, included a sixty-four percent reduction on the first \$20,000 in value for qualifying vehicles. PPTRA payments received from the Commonwealth of Virginia are classified as noncategorical State aid in the General Fund.

3. Inventories

All County inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventory of the County's discretely presented School Board Component Unit is accounted for using the purchases method.

4. Restricted assets

In accordance with applicable bond covenants, governmental activities report restricted cash, cash equivalents and investments at June 30, 2011 of \$6,260,278, which consists of \$70,810, maintained in the General Fund as a debt service reserve, and unexpended bond proceeds and accumulated interest of \$2,734,702 restricted for capital projects in the School and County Improvements Funds. Business-type activities report restricted cash, cash equivalents and investments of \$3,454,766 maintained as reserves required by water and sewer revenue bond covenants.

5. Capital assets

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that intangible assets acquired since July 1, 2009, including easements, and which are considered to have unlimited useful lives, be capitalized and reported as intangible assets. Accordingly, the County has capitalized easements acquired in fiscal year 2011 totaling \$202,524. Tangible capital assets, which include property, plant, equipment, and infrastructure, and intangible capital assets, which consist of drainage, stormwater and access easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The County defines tangible capital assets as items with an initial, individual cost of more than \$5,000 and an estimated useful life of at least five years, and intangible capital assets as easements with an initial cost or estimated fair market value of more than \$25,000. As there are no factors which limit their useful lives, all County intangible assets are considered to have indefinite useful lives. Tangible capital assets are recorded at actual or estimated historical cost if purchased or constructed. Donated capital assets, whether tangible or intangible, are recorded at estimated fair market value at the date of donation. Purchased intangible capital assets are recorded at the purchase price or at estimated fair market value at the date acquired. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed or purchased. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	25-35
Vehicles, trucks, fire trucks	5-15
Office equipment	5
Computer equipment	5

6. *Compensated absences*

It is the County's policy to permit eligible employees to accumulate earned but unused vacation, compensatory time and sick pay benefits, subject to certain limitations. All such pay 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 these amounts is reported in governmental funds only to the extent the liability has matured: for example, as a result of employee resignations or retirements.

7. *Long-term obligations*

In the government-wide and proprietary fund statements of net assets, long-term debt and other long-term obligations are reported as liabilities.

In the governmental funds financial statements, newly issued long-term debt and other new long-term obligations, including bond premiums, discounts and issuance costs are reported in the statement of revenues, expenditures and changes in fund balances during the current period. The face amount of general long-term and other debt issued is reported as other financing sources, while premiums received on debt issuances are reported as separate other financing sources, and discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Net assets / Fund balances*

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute. In the fiduciary fund financial statements, net assets of the Retiree Medical Benefits Trust Fund are held by the trust for payment of retiree health benefits, and are reported as net assets held in trust for other postemployment benefits.

Effective in fiscal year 2011, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). Under GASB 54, fund balances are required to be reported according to the following classifications:

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 a formal policy, resolution or ordinance adopted by the Board of

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Supervisors, the County's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

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

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Under GASB 54, positive unassigned fund balances are only reported in the General Fund. However, in governmental funds other than the General Fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed, or assigned to that purpose, and a negative residual amount for that purpose may result (for example, if capital project fund expenditures are made prior to receipt of bond proceeds). If that occurs, any negative residual is offset to the extent of any other assigned amounts in that fund, and any remaining negative residual amount is classified as a negative unassigned fund balance in the applicable governmental fund.

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

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

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets.

The governmental funds balance sheet includes a reconciliation between *total fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Bonds payable, net	\$ 162,502,144
Accrued bond interest	412,663
Capital leases payable	2,712,424
Support agreement payable	7,314,184
Compensated absences (excludes internal services)	5,669,003
Liability for landfill closure	<u>2,246,099</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets - governmental activities	<u>\$ 180,856,517</u>

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances, and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the *net change in fund balance - total governmental funds* and the *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 13,245,961
Depreciation expense (excludes internal services)	<u>(6,635,120)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	<u>\$ 6,610,841</u>

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

Compensated absences (excludes internal services)	\$ (351,012)
Landfill closure and postclosure costs	213,658
Other postemployment benefit (OPEB) costs	(696,476)
Accrued interest	181,715
Amortization of bond premiums	589,169
Amortization of deferred amount on refunding	<u>(453,681)</u>
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net assets of governmental activities	<u>\$ (516,627)</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before December 1 of each year, all agencies of the County submit requests for appropriations to the County Administrator so that a budget may be prepared. No later than the fourth Wednesday in February, the proposed budget is presented to the County's Board of Supervisors for review. The Board holds informational budget sessions, workshops, and a public hearing to obtain detailed information on budgetary issues and citizen input, and a final budget is legally adopted through passage of a Budget Appropriation Resolution no later than June 30. The Budget Appropriation Resolution establishes budgetary appropriation amounts at the fund level.

To address changes to the fiscal plan, the Board has adopted a budget policy which establishes thresholds for making adjustments to the adopted budget. The budget policy effectively establishes a *legal level of budgetary control*, the lowest level at which County administration may not reallocate resources without Board approval, at the department level, with a \$25,000 limitation placed on transfers between departments. The budget policy generally authorizes the County Administrator to transfer amounts as needed within a department's budget, and to transfer amounts between departments and between capital projects up to the \$25,000 limit. The Board of Supervisors must approve all other transfers and all requests for supplemental appropriations. The School Board is authorized to transfer budgeted amounts within the school component unit funds. However, any transfer or supplemental appropriation that increases the School's total appropriated budget requires subsequent Board of Supervisors approval.

IV. Detailed notes on all funds

A. Deposits and investments

As of June 30, 2011, the reporting entity's pooled cash and investments, including \$1,691,090 held on behalf of agency funds, and amounts separately invested by the Retiree Medical Benefits Trust's Finance Board, were as follows:

Investment Type	Fair Value	Credit Quality Rating			
		AAA/AAAm	AA	N/R	N/A
Pooled Investments:					
Cash on hand	\$ 3,400	-	-	-	3,400
Cash deposits	16,856,951	-	-	-	16,856,951
Demand and time deposits	1,167,605	-	-	-	1,167,605
Money market mutual funds (AAAm ratings)	18,546,159	18,546,159	-	-	-
U.S. government and agency bonds	67,399,788	20,036,835	-	47,362,953	-
Corporate notes and bonds	7,927,335	4,291,633	3,635,702	-	-
Municipal bonds	580,363	-	580,363	-	-
Total pooled deposits and investments	\$ 112,481,601	42,874,627	4,216,065	47,362,953	18,027,956

Retiree Medical Benefits Trust:	Fair Value	Fund Credit Quality Rating		
		AAAm	N/R	N/A
Mutual funds:				
Money market	\$ 17,901	17,901	-	-
Domestic equity	1,474,006	-	-	1,474,006
International equity	486,772	-	-	486,772
Fixed income	1,099,391	-	1,099,391	-
Other	196,935	-	-	196,935
Total trust investments	\$ 3,275,005	17,901	1,099,391	2,157,713

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

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

Pooled Investments: In accordance with Section 2.2-4500 of the Code of Virginia (Code) and other applicable law and regulations, the County’s pooled investment policy (County Policy) permits investments in obligations of the United States or agencies thereof; held directly, by collateralized repurchase agreements, or in mutual funds registered under the Investment Company Act of 1940, whose portfolios are restricted to U.S. Government and U.S. agency obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper, certain corporate notes, bankers acceptances and repurchase agreements, savings accounts or time deposits in approved banks or savings institutions within the Commonwealth, and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

The County Policy establishes limitations on the holding of non-U.S. Government obligations by type of instrument. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each type of security is as follows:

	<u>Maximum</u>
Negotiable certificates of deposits/bank notes	100%
Repurchase agreements	50%
Corporate notes	50%
Bankers' acceptances	40%
Commercial paper	35%
State bonds, notes and other evidences of indebtedness	25%
County, town, city, district, authority or other public body bonds, notes and other evidences of indebtedness	25%

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 (Trust Policy) restricts investment in stocks and REITs to readily-marketable securities that are actively

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

traded on a major exchange; restricts fixed-income investments to high-quality U.S. Treasury and agency, municipal or corporate fixed-income investments; prohibits the investment of Trust assets in hedge funds, derivatives, options or futures for the purpose of portfolio leveraging; and prohibits other enumerated investment types and transactions. In addition to these constraints on the Trust investment portfolio, the Trust Policy also requires periodic comparison of investment performance to appropriate benchmarks, and periodic review of asset allocations, investment manager performance and investment guidelines.

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

Trust Asset Class	Fair Value	Range	Trust Asset Weightings	
			Target	Actual
Liquidity assets:				
Cash equivalent	\$ 17,901	0 - 100%	100%	100.0%
Investment assets:				
Domestic equity	1,474,006	26 - 46%	36%	45.3%
International equity	486,772	13 - 33%	23%	14.9%
REITs	101,477	0 - 12%	6%	3.1%
Inflation hedged	95,458	0 - 10%	0%	2.9%
Fixed income	1,099,391	20 - 60%	35%	33.8%
Cash equivalent	-	0 - 20%	0%	0.0%
Total investment assets	3,257,104		100%	100.0%
Total trust investments	\$ 3,275,005			

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

As of June 30, 2011, deposits and fixed income investments are summarized at fair value and maturity as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	More than 3
Pooled Investments:				
Cash on hand	\$ 3,400	3,400	-	-
Cash deposits	16,856,951	16,856,951	-	-
Demand and time deposits	1,167,605	1,167,605	-	-
Money market mutual funds	18,546,159	18,546,159	-	-
U.S. Government and agency bonds	67,399,788	44,916,911	19,432,929	3,049,948
Corporate notes and bonds	7,927,335	3,933,976	3,922,938	70,421
Municipal bonds	580,363	-	580,363	-
Total pooled deposits and investments	\$ 112,481,601	85,425,002	23,936,230	3,120,369

Retiree Medical Benefits Trust:	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 5	More than 5
Money market mutual fund	\$ 17,901	17,901	-	-
Fixed Income	1,099,391	-	219,104	880,286
Total trust deposits and investments	\$ 1,117,292	17,901	219,104	880,286

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, 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 Investors Service. Notes having a maturity of greater than one year must be rated AA by Standard & Poor's and Aa by Moody's Investors Service.

The County's rated pooled debt investments as of June 30, 2011 were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization. The credit quality and fund credit quality ratings presented previously in this note are determined using the S&P rating scales. Deposits and investments not exposed to credit quality risk, as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, are designated as not applicable (N/A) in the credit rating column, and those that are not rated are designated as N/R.

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

On August 5, 2011, Standard & Poor's lowered the long-term sovereign credit rating of U.S. Government debt obligations from AAA to AA+. On August 8, 2011, S&P also downgraded the long-term credit ratings of U.S. government-sponsored enterprises (GSEs). S&P affirmed the U.S. Treasury's short-term credit rating of A-1+ indicating that the short-term capacity of the United States to meet its financial commitment on its outstanding obligations remained strong. As of the date of this report the two other major rating agencies, Moody's and Fitch, continued to have U.S. sovereign debt on their watch lists but had not downgraded U.S. sovereign debt from their highest credit rating classifications. Because of the unprecedented nature of S&P's negative credit rating actions with respect to U.S. government obligations, the global and domestic financial markets may continue to

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

react for some time, and the ultimate impacts on the County's operations, financial condition, and liquidity are therefore uncertain. Generally, however, fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency continue to be considered by the financial markets to be high quality, and the obligor's capacity to meet its obligations on such securities continues to be considered strong. In addition, as of the date of this report, the County does not expect that the value of its U.S. Treasury of GSE securities have been other than temporarily impaired.

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
Each Federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

As of June 30, 2011, investments in the following issuers exceeded five percent of the pooled investments: Federal Home Loan Mortgage Corporation (22%), Federal National Mortgage Association (17%), and Federal Home Loan Bank (9%).

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

Custodial Credit Risk – Deposits: For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. The County's deposits at June 30, 2011 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, 2011, 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, 2011.

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government and School Component Unit, excluding fiduciary funds, at June 30, 2011, are as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

	Primary Government							School Component Unit
	General Fund	County Improvements Fund	Other Governmental Funds	Public Utilities	Airport Fund	Internal Services Funds	Total Primary Government	
Receivables:								
Interest	\$ 202,142	-	-	-	-	-	202,142	-
Taxes	56,146,230	-	-	-	-	-	56,146,230	-
Accounts	1,518,780	61	311,917	4,326,862	-	69,066	6,226,686	114,190
Commonwealth of Virginia	4,217,897	9,232	417,823	-	39,789	-	4,684,741	2,909,626
Federal government	309,891	36,930	1,825	-	536,987	-	885,633	2,926,199
Gross receivables	62,394,940	46,223	731,565	4,326,862	576,776	69,066	68,145,432	5,950,015
Allowance for uncollectibles	(1,229,771)	-	(57,272)	(323,836)	-	-	(1,610,879)	-
Net total receivables	\$ 61,165,169	46,223	674,293	4,003,026	576,776	69,066	66,534,553	5,950,015

The governmental funds financial statements report *deferred revenue* in connection with prepaid taxes and receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The government-wide financial statements report *unearned revenue* in connection with assets which have not yet been earned, including prepaid taxes and taxes receivable that were levied to finance expenditures of the next fiscal year. Accordingly, the second installment of the 2010 real property tax levy, due on October 5, 2011, is reported as unearned revenue at June 30, 2011 in the government-wide financial statements, and as deferred revenue in the governmental fund financial statements. At June 30, 2011, the various components of the primary government's *deferred revenue* and *unearned revenue* were as follows:

	Unavailable - Deferred Revenue	Unearned Revenue
	Governmental Funds Financial Statements	Government - wide Financial Statements
Property tax levies not yet due	\$ 49,860,030	\$ 49,860,030
Past due taxes (net of allowance for uncollectibles)	5,103,000	-
EMS transport fees	739,191	-
Unearned health insurance premiums - Self Insurance Fund	-	1,458,138
Total deferred/unearned revenue - primary government	<u>\$ 55,702,221</u>	<u>\$ 51,318,168</u>

C. Capital assets

Capital asset activity for the primary government for the year ended June 30, 2011 was as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Primary Government

Governmental activities:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	\$ 8,826,159	-	-	8,826,159
Intangible assets	499,380	202,524	-	701,904
Construction in progress	23,581,153	12,776,382	(16,438,858)	19,918,677
Total capital assets, not being depreciated	<u>32,906,692</u>	<u>12,978,906</u>	<u>(16,438,858)</u>	<u>29,446,740</u>
Capital assets, being depreciated:				
Buildings	243,659,282	2,022,092	(6,273,966)	239,407,408
Improvements other than buildings	7,159,601	3,611,004	-	10,770,605
Machinery and equipment	42,813,245	11,529,507	(2,007,235)	52,335,517
Infrastructure	29,801,796	102,540	-	29,904,336
Total capital assets, being depreciated	<u>323,433,924</u>	<u>17,265,143</u>	<u>(8,281,201)</u>	<u>332,417,866</u>
Less accumulated depreciation for:				
Buildings	(69,144,178)	(1,607,391)	90,303	(70,661,266)
Improvements other than buildings	(4,060,655)	(332,245)	-	(4,392,900)
Machinery and equipment	(26,410,204)	(3,696,795)	1,911,053	(28,195,946)
Infrastructure	(13,781,866)	(1,105,559)	-	(14,887,425)
Total accumulated depreciation	<u>(113,396,903)</u>	<u>(6,741,990)</u>	<u>2,001,356</u>	<u>(118,137,537)</u>
Total capital assets, being depreciated, net	<u>210,037,021</u>	<u>10,523,153</u>	<u>(6,279,845)</u>	<u>214,280,329</u>
Governmental activities capital assets, net	<u>\$ 242,943,713</u>	<u>23,502,059</u>	<u>(22,718,703)</u>	<u>243,727,069</u>
Business-type activities:				
Public Utilities:				
Capital assets, not being depreciated:				
Land	\$ 6,354,137	-	-	6,354,137
Construction in progress	7,860,370	10,933,033	(15,445,347)	3,348,056
Total capital assets, not being depreciated	<u>14,214,507</u>	<u>10,933,033</u>	<u>(15,445,347)</u>	<u>9,702,193</u>
Capital assets, being depreciated:				
Buildings	82,546,653	617,756	-	83,164,409
Improvements other than buildings	189,742,684	14,110,702	-	203,853,386
Machinery and equipment	6,887,814	1,506,419	(75,377)	8,318,856
Total capital assets, being depreciated	<u>279,177,151</u>	<u>16,234,877</u>	<u>(75,377)</u>	<u>295,336,651</u>
Less accumulated depreciation for:				
Buildings	(24,198,915)	(2,267,559)	-	(26,466,474)
Improvements other than buildings	(67,888,342)	(5,687,460)	-	(73,575,802)
Machinery and equipment	(5,550,388)	(428,964)	75,377	(5,903,975)
Total accumulated depreciation	<u>(97,637,645)</u>	<u>(8,383,983)</u>	<u>75,377</u>	<u>(105,946,251)</u>
Total capital assets, being depreciated, net	<u>181,539,506</u>	<u>7,850,894</u>	<u>-</u>	<u>189,390,400</u>
Public Utilities capital assets, net	<u>\$ 195,754,013</u>	<u>18,783,927</u>	<u>(15,445,347)</u>	<u>199,092,593</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

	Balance July 1	Increases	Decreases	Balance June 30
Airport Fund:				
Capital assets, not being depreciated:				
Land	\$ 3,932,827	558,865	-	4,491,692
Construction in progress	74,312	11,171	-	85,483
Total capital assets, not being depreciated	<u>4,007,139</u>	<u>570,036</u>	<u>-</u>	<u>4,577,175</u>
Capital assets, being depreciated:				
Buildings	3,669,137	-	-	3,669,137
Improvements other than buildings	8,090,789	-	-	8,090,789
Machinery and equipment	38,136	-	(8,353)	29,783
Total capital assets, being depreciated	<u>11,798,062</u>	<u>-</u>	<u>(8,353)</u>	<u>11,789,709</u>
Less accumulated depreciation for:				
Buildings	(337,804)	(118,079)	-	(455,883)
Improvements other than buildings	(3,272,482)	(277,616)	-	(3,550,098)
Machinery and equipment	(25,613)	(2,678)	8,353	(19,938)
Total accumulated depreciation	<u>(3,635,899)</u>	<u>(398,373)</u>	<u>8,353</u>	<u>(4,025,919)</u>
Total capital assets, being depreciated, net	<u>8,162,163</u>	<u>(398,373)</u>	<u>-</u>	<u>7,763,790</u>
Airport capital assets, net	<u>\$ 12,169,302</u>	<u>171,663</u>	<u>-</u>	<u>12,340,965</u>
Business-type activities capital assets, net	<u>\$ 207,923,315</u>	<u>18,955,590</u>	<u>(15,445,347)</u>	<u>211,433,558</u>
Total capital assets, net - Primary government	<u>\$ 450,867,028</u>	<u>42,457,649</u>	<u>(38,164,050)</u>	<u>455,160,627</u>

Capital assets activity for the School Component Unit for the year ended June 30, 2011 was as follows:

School Component Unit activities:

Capital assets, not being depreciated:				
Land	\$ 7,400,682	-	-	7,400,682
Construction in progress	3,286,190	8,376,141	(5,798,404)	5,863,927
Total capital assets, not being depreciated	<u>10,686,872</u>	<u>8,376,141</u>	<u>(5,798,404)</u>	<u>13,264,609</u>
Capital assets, being depreciated:				
Buildings	106,690,602	10,937,160	-	117,627,763
Improvements other than buildings	3,719,744	20,528	-	3,740,272
Machinery and equipment	22,309,853	452,940	(369,055)	22,393,738
Total capital assets, being depreciated	<u>132,720,199</u>	<u>11,410,628</u>	<u>(369,055)</u>	<u>143,761,773</u>
Less accumulated depreciation for:				
Buildings	(26,774,611)	(7,906,971)	-	(34,681,582)
Improvements other than buildings	(1,441,126)	(187,187)	-	(1,628,313)
Machinery and equipment	(12,673,478)	(1,739,587)	354,809	(14,058,256)
Total accumulated depreciation	<u>(40,889,215)</u>	<u>(9,833,745)</u>	<u>354,809</u>	<u>(50,368,151)</u>
Total capital assets, being depreciated, net	<u>91,830,984</u>	<u>1,576,883</u>	<u>(14,246)</u>	<u>93,393,622</u>
School Component Unit capital assets, net	<u>\$ 102,517,856</u>	<u>9,953,024</u>	<u>(5,812,650)</u>	<u>106,658,231</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

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

Primary government:

Governmental activities:

General governmental administration	\$ 886,753
Judicial administration	177,035
Public safety	3,559,142
Public works	1,387,008
Human services	157,612
Parks, recreation and cultural	456,867
Community development	10,703
Education	5,868,530
Depreciation of capital assets held by the internal service funds is charged to various functions based on their usage of the assets	106,870
Total depreciation expense - governmental activities	12,610,520

Business-type activities:

Public Utilities	8,383,983
Airport	398,373
Total depreciation expense - business-type activities	8,782,356

Total depreciation expense - primary government \$ 21,392,876

School Component Unit \$ 3,874,912

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, 2011, the County had outstanding financial obligations related to the construction of school buildings totaling \$123,291,592. Accordingly, school buildings with a net book value of that amount are reported in the governmental activities of the Primary Government at June 30, 2011. During fiscal year 2011, the County’s financial obligations related to school buildings decreased by a net amount of \$6,183,665, 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 Component Unit increased by the same amount. Depreciation expense on school buildings is allocated to the Primary Government and the School Component Unit in proportion to the relative cost of the buildings reported by each entity. Accordingly, depreciation of School Component Unit capital assets totaled \$9,743,442 in fiscal year 2011, of which \$5,868,530 is reported by the Primary Government and \$3,874,912 is reported by the School Component Unit.

D. Interfund transfers

The primary purpose of interfund transfers is to provide funding for operations, including those of the Hanover Community Services Board and the Comprehensive Services Fund (other governmental funds, below), and capital projects. Interfund transfers for the year ended June 30, 2011 are as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Primary Government	Transfers In	Transfers Out
General Fund	\$ -	9,530,584
County Improvements Fund	2,129,800	-
School Improvements Fund	400,000	-
Other Governmental Funds	6,666,515	-
Fleet Management Fund	144,213	-
Airport Fund	190,056	-
Total primary government	\$ 9,530,584	9,530,584

E. Noncurrent liabilities

The following is a summary of changes in the government-wide noncurrent liabilities of the primary government and the School Component Unit for the year ended June 30, 2011:

<u>Primary Government</u>	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
Principal amount of bonds payable	\$ 162,781,312	17,840,000	23,162,542	157,458,770	11,805,485
Premium	6,800,542	629,650	589,169	6,841,023	547,840
Deferred amount on refunding	(1,844,500)	(406,830)	(453,681)	(1,797,649)	(206,180)
Total bonds payable	167,737,354	18,062,820	23,298,030	162,502,144	12,147,145
Capital lease obligations	3,330,677	-	618,253	2,712,424	451,337
Compensated absences	5,328,396	5,039,476	4,698,869	5,669,003	4,923,378
Liability for landfill closure	2,459,757	-	213,658	2,246,099	73,363
Support Agreement	-	7,327,036	12,852	7,314,184	620,000
Total governmental activities	178,856,184	30,429,332	28,841,662	180,443,854	18,215,223
Business-type activities:					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	33,321,625	-	12,690,610	20,631,015	906,831
Premium	459,344	-	28,499	430,845	28,498
Deferred amount on refunding	(824,457)	-	(54,964)	(769,493)	(54,964)
Total bonds payable	32,956,512	-	12,664,145	20,292,367	880,365
Compensated absences	553,213	480,639	442,464	591,388	472,996
Deposits	364,115	222,534	195,549	391,100	-
Capacity fee credits	1,457,359	-	284,684	1,172,675	-
Contractual obligations	487,075	-	161,016	326,059	161,016
Support Agreement	-	10,614,620	52,545	10,562,075	1,335,000
Total Public Utilities	35,818,274	11,317,793	13,800,403	33,335,664	2,849,377
Airport Fund:					
Taxable airport revenue bond payable	1,656,145	-	60,605	1,595,540	63,723
Compensated absences	4,964	5,562	2,402	8,124	3,931
Total Airport Fund	1,661,109	5,562	63,007	1,603,664	67,654
Total business-type activities	37,479,383	11,323,355	13,863,410	34,939,328	2,917,031
Total noncurrent liabilities - Primary government	\$ 216,335,567	41,752,688	42,705,072	215,383,182	21,132,254
School Component Unit					
Compensated absences	\$ 4,671,624	1,525,092	1,534,850	4,661,866	1,531,644
Total noncurrent liabilities - School Component Unit	\$ 4,671,624	1,525,092	1,534,850	4,661,866	1,531,644

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
Notes to Financial Statements
June 30, 2011

Liability for landfill closure

State and federal laws and regulations required the County to place a final cover on its landfill site when it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The landfill closed December 31, 2002 and a permanent cap was completed in 2003 over the 35-acre site. The \$2,246,099 reported as landfill closure and post closure care liability at June 30, 2011 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 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

General obligation bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds (including Virginia Public School Authority (VPSA) bonds) have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

On January 20, 2011, the primary government issued \$17,840,000 of Series 2011A General Obligation Public Improvement and Refunding Bonds (Series 2011A Bonds) with an average interest rate of 4.5%. The Series 2011 Bonds were issued to finance certain capital improvements for schools, public safety, and parks and libraries, and to refund existing bonds. Of the total issued, \$12,500,000 consisted of new general obligation debt for the purposes just described, \$1,015,000 was issued to current refund \$1,000,000 of outstanding Series 2002 bonds, and \$4,325,000 was issued to advance refund \$4,450,000 of outstanding Series 2002B bonds, which had average interest rates of 4.0% and 4.7% respectively. The refunding net proceeds of \$5,602,586 were used to purchase full faith and credit U.S. Government securities which were deposited in an irrevocable escrow account to provide the resources to pay all principal and interest on the refunded bonds when due from the date of issuance of the Series 2011A Bonds and to redeem the Series 2002 bonds on March 8, 2011 and the Series 2002B bonds on July 15, 2011. The reacquisition price exceeded the net carrying amount of the refunded bonds by \$422,587, and this amount is being amortized over the remaining life of the refunded bonds.

The County completed the refundings described above to reduce its total debt service payments over the next 12 years by approximately \$152,086 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and the new debt) of \$120,375.

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 \$29,372,994 as of June 30, 2011, 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, 2011 of approximately \$10.8 million annually, it is estimated that approximately 13 percent of future Utility Net Available Revenues are pledged through fiscal 2032, and will expire in that fiscal year with the 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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

2011, pledged Net Available Revenues totaled \$10,047,831, and the water and sewer revenue bond debt service requirement was \$3,671,737.

The County has also pledged future lease rental income from the airport's fixed base operator (FBO), or successor FBOs, in the approximate amount of \$2,375,621 as of June 30, 2011, to secure the then-remaining debt service requirements on the Airport VRA Series 2007 revenue bond (Bond), which financed airport improvements completed in fiscal 2008. This pledge obligates substantially all future FBO rental income through July 1, 2027, and will expire on that date with the final maturity of the Bond. During fiscal 2011, pledged rental receipts totaled \$157,330, and the debt service requirement was \$143,977.

County General Obligation Bonds and Revenue Bonds

Outstanding general obligation bonds and revenue bonds are comprised of the following issues:

(See schedule on following page)

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Purpose	Interest Rates (%)	Date Issued	Original Issue	Principal Outstanding
Governmental activities:				
General obligation bonds:				
County:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	\$ 7,440,000	\$ 5,945,000
Series 2006A Refunding	3.50 - 4.00	10-12-06	3,965,000	2,355,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	10,765,000	9,935,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	5,655,000	5,405,000
Series 2010B Public Improvement	4.73 - 6.02	01-14-10	7,850,000	7,850,000
Series 2011A Public Improvement	2.00 - 5.25	01-20-11	11,452,000	11,452,000
Total general obligation bonds - County				<u>42,942,000</u>
Schools:				
Series 2002B Public Improvement	3.00 - 4.60	12-01-02	21,500,000	1,150,000
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	10,710,000
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	9,145,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	9,450,000	7,895,000
Series 2009 Refunding	2.50 - 5.00	02-18-09	22,375,000	21,795,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	6,585,000	6,295,000
Series 2010B Public Improvement	4.73 - 6.02	01-14-10	6,275,000	6,275,000
Series 2011A Public Improvement	2.00 - 5.25	01-20-11	1,048,000	1,048,000
Series 2011A Refunding	2.00 - 5.25	01-20-11	5,340,000	5,340,000
VPSA Series 1991	4.85 - 6.60	07-31-91	2,069,507	123,330
VPSA Series 1992A	5.10 - 8.10	12-17-92	6,230,000	425,000
VPSA Series 1993A	4.475 - 5.00	11-18-93	3,620,000	85,000
VPSA Series 1994A Refunding	6.35 - 7.19	01-03-94	32,075,000	60,000
VPSA Series 1994A	6.10 - 6.30	05-05-94	4,900,000	755,000
VPSA Series 1994B	6.10 - 6.60	11-22-94	5,385,000	1,065,000
VPSA Series 1995A	5.20 - 5.75	12-21-95	1,580,000	380,000
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	1,730,000
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	2,520,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	2,083,150
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	12,075,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	5,311,510
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	5,245,000
VPSA Series 2007	4.10 - 5.10	11-08-07	13,838,206	11,885,780
VPSA Series 2009A Refunding	4.35 - 5.35	11-20-97	3,220,000	1,120,000
Total general obligation bonds - Schools				<u>114,516,770</u>
Total governmental activities - general obligation bonds				<u>157,458,770</u>
Business-type activities:				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	0.00	06-14-02	920,400	552,240
Series 2005A Refunding	3.10 - 4.64	01-31-05	14,065,000	11,400,000
Series 2006	3.63 - 4.98	05-08-06	9,000,000	8,155,000
Series 2007	0.00	07-19-07	616,206	523,775
Total Public Utilities				<u>20,631,015</u>
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,595,540
Total Airport Fund				<u>1,595,540</u>
Total Business-type activities				<u>22,226,555</u>
Total bond indebtedness - Primary government			<u>\$</u>	<u>179,685,325</u>

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Principal and interest to maturity for the County's governmental activities general obligation bonds and business-type activities revenue bonds outstanding at June 30, 2011, 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		
2012	\$ 11,805,485	6,778,884	906,831	868,311	63,723	80,254	12,776,039	7,727,449
2013	12,174,768	6,337,603	951,831	829,335	67,001	76,976	13,193,600	7,243,914
2014	12,237,349	5,897,725	986,831	791,650	70,448	73,529	13,294,628	6,762,904
2015	11,516,509	5,394,966	1,021,831	752,775	74,072	69,905	12,612,412	6,217,646
2016	11,247,200	4,909,138	1,071,831	709,167	77,883	66,094	12,396,914	5,684,399
2017-2021	50,652,247	17,500,322	6,039,155	2,848,351	453,799	266,086	57,145,201	20,614,759
2022-2026	33,856,102	7,698,016	6,361,095	1,436,666	583,172	136,713	40,800,369	9,271,395
2027-2031	13,969,110	1,627,535	2,686,610	490,647	205,442	10,524	16,861,162	2,128,706
2032	-	-	605,000	15,077	-	-	605,000	15,077
Totals	\$ 157,458,770	56,144,189	20,631,015	8,741,979	1,595,540	780,081	179,685,325	65,666,249

The County has no legal debt margin requirement. Any issuance of general obligation bonded debt, except State Literary Fund loans and Virginia Public School Authority (VPSA) bonds, must be approved by a voting majority of the qualified County voters. Revenue bonds, State Literary Fund loans and VPSA bonds may be issued by the adoption of a resolution by the Board of Supervisors.

In November, 2005 the County's voters authorized the issuance of general obligation bonds in the amount of \$95,075,000. Of the total authorized, the County has issued \$94,068,206, and does not plan to issue the remainder. The final issuance of the 2005 bond referendum debt was the Series 2011A Bonds issued in January 2011 and described above. The County plans to complete all authorized capital projects in fiscal year 2012.

The County has overlapping debt with the Town of Ashland, Virginia of \$405,000, of which the share applicable to the County approximates \$326,059. The County's applicable share is for water and sewer bonds for which the County assumed ownership January 1, 1996, under an annexation agreement. The County has a contractual obligation to reimburse the Town for water and sewer line debt in accordance with the agreement. The bonds expire on August 1, 2012.

Conduit Debt Obligations

The County's Economic Development Authority Component Unit (EDA) is empowered by the Commonwealth of Virginia to issue Industrial Revenue Bonds (IRBs) on behalf of businesses relocating to or expanding their operations within the County. Principal and interest on the IRBs are paid entirely by the businesses. Neither the EDA nor the County guarantees the repayment of principal or interest to the bondholders, and the debt is not a pledge of the faith and credit of the EDA or the County. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2011, the principal amounts outstanding on these IRBs totaled \$182.6 million.

To assist Covenant Woods, a not-for-profit Virginia nonstock corporation that owns and operates a residential and health care facility for the aged in Hanover County, on December 22, 2010, the EDA issued \$29,575,000 of Residential Care Facility Refunding Revenue Bonds (Covenant Woods), Series 2010 to refund the EDA's Residential Care Facility Revenue Bonds (Covenant Woods), Series 1999 (the "Refunding Bonds") and to refinance a related promissory note issued by Covenant Woods to the purchaser of the bonds. The Refunding Bonds are limited obligations of the EDA payable solely from revenues pledged therefore pursuant to a loan agreement between Covenant Woods, the purchaser of the bonds and the EDA. As neither the County nor the EDA are otherwise obligated to pay the

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

principal or interest on the bonds, the related transactions, including the liability for the bonds, are not recorded in the County's or EDA's financial statements.

Support Agreement

On March 23, 2011 the EDA issued Revenue and Refunding Bonds, Series 2011 (EDA Bonds) in the amount of \$17,260,000, to provide financing to the County 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 to refund existing County general obligation school bonds and water and sewer revenue bonds. Of the total issued, \$2,205,000 consisted of new debt for acquisition and build-out of the building just described, \$10,190,000 was issued to current refund \$10,792,128 of outstanding Taxable Water and Sewer System Revenue Bond, Series 2002B, Water and Sewer System Revenue Bond, Series 2003A, and Water and Sewer System Revenue Bond, Series 2004, and \$4,856,000 was issued to refinance \$5,135,750 of Literary Fund Loans made to the Hanover County School Board by the Commonwealth of Virginia on May 5, 1997, June 8, 1999, January 14, 2000 and February 1, 2002. The County completed the refundings described above to reduce its total debt service over the next 12 years by approximately \$694,583 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and the new debt) of \$720,226. 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 of Supervisors. No support payments were due or paid by the County during the fiscal year.

The Support Agreement annual debt service requirements to maturity are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 620,000	233,692	1,340,000	307,024	1,960,000	540,717
2013	705,000	216,213	1,330,000	273,550	2,035,000	489,763
2014	700,000	202,113	1,310,000	246,950	2,010,000	449,063
2015	690,000	181,113	1,305,000	207,650	1,995,000	388,763
2016	690,000	160,413	1,305,000	161,500	1,995,000	321,913
2017-2021	2,290,000	500,025	3,410,000	240,650	5,700,000	740,675
2022-2026	745,000	242,175	190,000	15,400	935,000	257,575
2027-2031	630,000	80,750	-	-	630,000	80,750
Totals	\$ 7,070,000	1,816,494	10,190,000	1,452,724	17,260,000	3,269,218

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 minimum lease payments, and the present value of the minimum lease payments as of June 30, 2011, are as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Asset Class	Primary Government - Governmental Activities
Land	\$ 384,847
Buildings	13,804,580
Machinery and equipment	2,245,950
Total assets, at cost	16,435,377
Accumulated depreciation	(6,879,685)
Total assets, net	<u>\$ 9,555,692</u>

Fiscal Year	Minimum Lease Payments
2012	451,337
2013	187,295
2014	174,973
2015	173,088
2016	175,148
2017-2021	869,768
2022-2026	869,954
2027-2031	873,663
Total minimum lease payments	3,775,226
Portion representing interest	(1,062,800)
Present value of minimum lease payments	<u>\$ 2,712,426</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, 2011, the County had general obligation bonds that were outstanding but considered defeased totaling \$13,620,000, of which \$12,500,000 was paid off on July 15, 2011.

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 2011. All claims are paid in full at the time of damage. In addition, the County provides various surety bond coverages as required under regulations, generally at industry-recommended levels.

The County is a participating member in the Virginia Municipal League Insurance Program and the School Board is a participating member in the School Systems of Virginia Self Insurance Program.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Both of these not-for-profit entities provide workers' compensation coverage in compliance with the Virginia Workers' Compensation code.

The County and School Board have chosen to retain the risk associated with the employee's health insurance plan. Risk is retained at 100% up to an individual stop loss amount of \$150,000 for individual claims paid during the contract year and an aggregate plan stop loss of 125% of expected claims. All County and School Board full-time and benefited part-time employees are eligible to participate. Premiums are paid for participating employees to the Self Insurance Fund, which is reported in the County's financial statements as an internal service fund. An administrator selected by the County processes all claims, and is reimbursed based on actual claims processed. Net asset balances in the Self Insurance Fund are used as a reserve to offset rate increases and to fund losses in future years. The County's benefits consultant has actuarially determined an estimated liability for combined County and School Board healthcare claims that have been incurred but not reported (IBNR) at fiscal year end, substantially all of which is expected to be liquidated within the following fiscal year, and which is reported in the Self Insurance Fund. Changes in balances of combined health insurance claim liabilities and IBNR during the past three years are as follows:

Fiscal Year	Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Claim Payments	Payable (Receivable) End of Year	Incurred but not reported
2009	(218,024)	25,176,493	24,683,562	274,907	2,265,000
2010	274,907	24,882,216	25,157,123	-	2,178,000
2011	-	25,522,957	25,592,023	(69,066)	2,030,000

B. Fund Balance Classifications

The accompanying financial statements display nonspendable, restricted, committed and assigned fund balance classifications in the aggregate using GASB 54 criteria. Specific purpose information for these fund balance classifications follows:

	Primary Government				Total Primary Government	School Component Unit	Economic Development Authority
	General Fund	County Improvements Fund	School Improvements Fund	Other Governmental Funds			
Fund Balances							
Nonspendable:							
Inventory	\$ 147,333	-	-	-	147,333	112,171	-
Restricted for:							
Debt Service Reserve	70,810	-	-	-	70,810	-	-
Public safety	38,008	-	-	-	38,008	-	-
Judicial Administration	376,507	-	-	-	376,507	-	-
Public works	38,629	-	-	-	38,629	-	-
Health and human services	8,891	-	-	55,489	64,380	-	-
Education	-	-	-	-	-	589,800	-
Capital improvements	-	6,048,439	-	-	6,048,439	-	-
Committed to:							
Funding of future school needs	2,000,000	-	-	-	2,000,000	-	-
Economic development	500,000	-	-	-	500,000	-	-
Assigned to:							
Education	7,461,111	-	-	-	7,461,111	4,821,514	-
Public safety	609,195	-	-	-	609,195	-	-
Other services	1,460,823	-	-	-	1,460,823	-	-
Funding of subsequent fiscal year's adopted budget	4,364,510	-	-	-	4,364,510	-	80,000
Funding of subsequent five-year financial plans	5,356,780	-	-	-	5,356,780	-	-
Health and human services	-	-	-	717,012	717,012	-	-
Capital improvements	300,000	9,084,736	2,761,566	-	12,146,302	-	-
Unassigned Fund Balance	24,565,863	-	-	-	24,565,863	159,895	238,444
Total fund balances	\$ 47,298,460	15,133,175	2,761,566	772,501	65,965,702	5,683,380	318,444

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

C. Commitments and contingent liabilities

Operating leases

The County leases office facilities and other equipment under various operating lease agreements, substantially all of which are subject to annual appropriation of funds. Total costs for such leases for the year ended June 30, 2011 are as follows, and are expected to remain at similar levels in future fiscal years, as expiring leases are renewed:

Governmental activities	\$ 606,349
Business-type activities	25,230
Total primary government	631,579
School component unit	92,145
Total reporting entity	\$ 723,724

Other commitments

At June 30, 2011, the primary government had commitments for capital projects totaling \$19,510,791 as follows:

	Primary Government				Total Primary Government
	County	School	Public	Airport	
	Improvements Fund	Improvements Fund	Utilities Fund		
Total capital commitments at June 30, 2011	\$ 8,124,644	2,787,807	8,561,033	37,307	19,510,791

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

Encumbrances

Encumbrance accounting, under which purchase orders for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in governmental funds. In accordance with the County's adopted Budget Policy, encumbered funds are reappropriated annually by the Board of Supervisors in the succeeding year's budget resolution. Encumbrances represent the estimated amount of expenditures that will ultimately result if open purchase orders are paid. Encumbrances outstanding at the end of the fiscal year are disclosed below, in accordance with GASB 54. 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	County	School	Other	Total	
	Fund	Improvements Fund	Improvements Fund	Governmental Funds	Primary Government	
Encumbrances outstanding at fiscal year-end	\$ 712,557	4,349,962	2,787,807	63,121	7,913,447	1,009,960

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

expenditures that may be disallowed by the grantors cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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 condition of the government.

D. Joint ventures

- **Capital Region Airport Commission:** The Capital Region Airport Commission (Commission) was established in 1975 by an Act of the Virginia General Assembly. The Commission owns and operates Richmond International Airport (Airport). The 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 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 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 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 Commission. The pro rata basis is to be determined by the percentage of the population of each locality to the combined total population of all participating localities according to the most recent census, with Hanover County's pro rata share approximating 10.8%. If actual revenues are less than estimated revenues identified in the budget (resulting in a deficit), the localities may, at their discretion, appropriate funds necessary to fund the deficit. To date, the County has not been required to fund any deficit. Complete financial statements for the Commission can be obtained from the Chief Financial Officer, 1 Richard E. Byrd Terminal Drive, Richmond International Airport, Richmond, VA 23250, or at <http://www.flyrichmond.com/Load.php?Content=Financials>.

- **Greater Richmond Convention Center Authority:** The Greater Richmond Convention Center Authority (GRCCA), a political subdivision of the Commonwealth of Virginia, was created on January 9, 1998 pursuant to the Public Recreational Facilities Authorities Act, Chapter 56, Title 15.2 of the Code of Virginia. The political subdivisions participating in the incorporation of the GRCCA are the City of Richmond and the Counties of Chesterfield, Hanover and Henrico. The GRCCA is governed by a five member commission comprised of the chief administrative officer of each of the four incorporating political subdivisions and the President/CEO of the Retail Merchants Association of Greater Richmond.

The GRCCA was created for the purpose of acquiring, constructing, equipping, maintaining, and operating a regional convention center facility. In August 1996, each locality designated future revenue from the transient occupancy tax for expansion of the convention center. The GRCCA has issued \$158,415,000 in Hotel Tax Revenue Bonds, which are secured by an eight percent transient occupancy tax imposed and collected by the localities. The County made an expenditure of \$679,376 for transient occupancy tax to the GRCCA during fiscal year 2011. Complete financial statements for the GRCCA can be obtained from Chesterfield County, Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

- **Dominion Resources GreenTech Incubator:** The Dominion Resources GreenTech Incubator (DRGI), a Virginia non-profit, non-stock corporation, was created on September 9, 2009, under authority granted by the Virginia General Assembly to the Virginia

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Biotechnology Research Partnership Authority, pursuant to an Agreement between Hanover County, the Town of Ashland, their respective Economic Development Authorities (EDA), 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 Hanover County, by incubating member companies via the provision of affordable facilities, assistance with strategic business planning, access to business advisory boards, introduction to potential sources of investment capital, and other benefits. Under the Agreement and subject to annual appropriation, beginning in fiscal year 2010, Hanover County and its EDA have agreed to provide \$80,000, prorated annually for each of the DRGI's first five years to cover start-up costs, and have also agreed to contribute amounts necessary to cover the costs of materials and labor for tenant improvements in the space leased by DRGI. The Participants are committed to ensuring the long-term financial viability of DRGI, without the requirement for major cash subsidies after the first five years of operation. During fiscal year 2011, the Hanover County EDA contributed \$108,937 to DRGI including \$80,000 for start-up costs as agreed upon under the agreement. Neither the County nor its EDA have any ongoing financial interest in DRGI. Annual audited financial statements are available from DRGI.

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (Library) is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed for specific terms of office by the Boards of Supervisors of the counties to which it provides library services, including the Counties of Hanover, Goochland, King William and King and Queen. Management and accountability for fiscal matters rest with the Library's Board, of which Hanover County appoints four of the ten members. The Library receives contributions from the participating counties, but invests its own funds and formulates and approves its own budget. Hanover County does not bear any direct or indirect liabilities for the operation of the Library, and has no equity interest in it. In fiscal year 2011, Hanover County contributed a total of \$2,722,328 to the Library's operations. Complete financial statements for the Library can be obtained from the Director's office at P.O. Box 119, Hanover, Virginia 23069.
- **Pamunkey Regional Jail Authority:** The Pamunkey Regional Jail Authority (Jail Authority) is a political subdivision of the Commonwealth of Virginia. The participating jurisdictions of the Jail Authority are the Counties of Caroline and Hanover and the Town of Ashland. The Jail Authority is governed by a five-member board comprised of two members each from the Counties of Caroline and Hanover and one from the Town of Ashland. Management and accountability for fiscal matters rest with the Jail Authority. The County serves as fiscal agent for the Jail Authority; however, the board formulates and approves its own budget. The County of Hanover does not bear any direct or indirect liabilities for the operation of the Jail Authority and has no equity interest in it.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

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. The County typically provides a majority of the inmates to the facility, and made per diem contributions totaling \$4,608,143 in fiscal year 2011. Complete financial statements for the Jail can be obtained from the Superintendent's office at P.O. Box 510, Hanover, Virginia 23069.

- **Middle Peninsula Juvenile Detention Commission:** The Middle Peninsula Juvenile Detention Commission (Commission) is a political subdivision of the Commonwealth of Virginia and is governed by a separate board. The Commission was created by resolutions adopted in 1993 by its member jurisdictions, which include the Counties of Caroline, Charles City, Essex, Gloucester, Hanover, James City, King George, King and Queen, King William, Lancaster, Matthews, Middlesex, New Kent, Northumberland, Richmond, Westmoreland, and York and the Cities of Poquoson and Williamsburg. Each member jurisdiction appoints one member to the 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 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 Commission for each day a juvenile from the County is held at the Center or in another detention facility secured by the Commission. If the sum of all per diem rates paid during the fiscal year is below \$2,500, the County shall pay the Commission the amount equal to the difference. During fiscal year 2011, the County's per diem payments to the Commission totaled \$324,043. Complete financial statements for the Commission can be obtained from the fiscal agent's office at James City County, Department of Financial and Management Services, P.O. Box 8784, Williamsburg, Virginia 23187.

- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (Waste Authority) was established under the provisions of the Virginia Water and Sewer Authorities Act. The Waste Authority's board is comprised of representatives from the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan and Prince George; the Cities of Colonial Heights, Hopewell, Petersburg and Richmond; and the Town of Ashland. The 20 member board is comprised of no less than one and no more than three members from each of the participating jurisdictions, determined on a population basis. The County has two representatives serving on the Waste Authority's Board. The Waste Authority is responsible for creating and implementing recycling and solid waste management programs for its local member jurisdictions in order to meet waste reduction mandates set by the Virginia General Assembly. Seventeen subdivisions in the County participate in the Waste Authority's curbside recycling program. Except for contribution requirements and direct payments for special projects, no participant has any ongoing financial interest in the Waste Authority. The County's fiscal year 2011 payments to the Waste Authority totaled \$264,297. Complete financial statements can be obtained from the Waste Authority at 2100 West Laburnum Avenue, Suite 105, Richmond, Virginia 23227.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

- **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 2011, the County made payments to the GRP totaling \$370,000. Complete financial statements can be obtained from Partnership's office at Riverfront Plaza, 901 East Byrd Street, Suite 801, Richmond, Virginia 23219.
- **Richmond Metropolitan Convention and Visitors Bureau:** The Richmond Metropolitan Convention and Visitors Bureau (RMCVB) serves the Counties of Chesterfield, Hanover 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 2011 contributions to RMCVB totaling \$147,530. Complete financial statements can be obtained from the Bureau's office at 401 North 3rd Street, Richmond, Virginia 23219.
- **Richmond Regional Planning District Commission:** The Richmond Regional Planning District Commission (RRPDC) is a regional planning agency serving the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan, the City of Richmond and the Town of Ashland. The primary functions of the RRPDC are to promote regional cooperation; coordinate the activities and policies of member local governments; resolve service delivery problems involving more than one government within the region and provide planning assistance to local governments. In accordance with its Charter, the RRPDC promotes the orderly physical, social and economic development of the region through planning and encouraging local governments to plan for the future. The County paid member dues to the RRPDC totaling \$55,737 in fiscal year 2011. Complete financial statements can be obtained from the RRPDC at 9211 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235.

F. Defined benefit pension plan – Virginia Retirement System

The County and the School Board contribute to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan. 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. 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.

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

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

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

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information VRS. A copy of the report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

- b. Funding Policy** - Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer, which the County and School Board have done. In addition, the County and School Board are required to contribute 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. The contribution rates for the County employee group and for the School Board's non-professional employee group for the fiscal year ended June 30, 2011, were 8.82% and 6.74%, respectively, of their annual covered payrolls. The contribution rate for the School Board's professional employee group was 3.93% of covered payroll for the fiscal year ended June 30, 2011. For its professional group, the School Board's contributions to the teacher cost-sharing pool for the fiscal years ending 2011, 2010, and 2009 were \$8,340,187, \$12,823,970, and \$15,077,404, respectively, equal to the required contributions for each year.
- c. Annual Pension Cost** – The following schedule shows the annual pension costs and the amounts contributed to the VRS for the current and preceding two fiscal years for the County employees and the School Board non-professional employee group:

Funds	Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
County employees					
Governmental	2011	\$ 4,420,928	\$ 4,420,928	100%	\$ -
Enterprise	2011	379,766	379,766	100%	-
Governmental	2010	4,039,915	4,039,915	100%	-
Enterprise	2010	354,701	354,701	100%	-
Governmental	2009	3,917,972	3,917,972	100%	-
Enterprise	2009	341,356	341,356	100%	-
School Board - non-professional employee group					
Governmental	2011	\$ 460,352	\$ 460,352	100%	\$ -
Governmental	2010	498,106	498,106	100%	-
Governmental	2009	503,581	503,581	100%	-

For the fiscal year ended June 30, 2011, the County's annual pension cost of \$4,800,694 was equal to the required and actual contributions, and the School Board's non-professional group's annual pension cost of \$460,352 was also equal to the required and actual contribution. The fiscal year 2011 required contributions were determined as part of the previous actuarial valuations for each group performed as of June 30, 2009 using the entry age actuarial cost method. The actuarial assumptions for each group at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial values of the County employee group's pension assets and the School Board non-professional

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

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

- d. Funded Status and Funding Progress** – The following schedule presents information about the funded status of the County's employee group and the School Board's non-professional employee group as of June 30, 2010, the date of the most recent actuarial valuations for both groups:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded ALL (UALL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
<u>Primary Government</u>						
Virginia Retirement System - County employee group						
6/30/2010	\$ 130,362,535	\$ 164,550,752	\$ 34,188,217	79.2%	\$ 54,117,586	63.2%
<u>Component Unit - School Board</u>						
Virginia Retirement System - non-professional employee group						
6/30/2010	\$ 16,764,772	\$ 18,981,992	\$ 2,217,220	88.3%	\$ 6,786,343	32.7%

The June 30, 2010 actuarial valuations were computed consistently with the June 30, 2009 valuations in that there were no significant changes in benefit provisions or actuarial methods or assumptions for either group, except that the projected investment rate of return was revised downward from 7.50% to 7.00% in the June 30, 2010 valuations. The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

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

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

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Hanover's financial reporting entity and is included in the County's financial statements as an Other Postemployment Benefits Trust Fund. Accordingly, audited financial statements are not separately available.

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, 2011. Securities without an established market are reported at estimated fair value.

Plan description, contribution and funding information

Membership - The Plan covers all employees of the reporting entity and its Affiliates (Employers) who retire and meet certain eligibility requirements. At July 1, 2009, the date of the most recent biennial actuarial valuation, membership in the Plan consisted of the following:

	Primary Government and Affiliates	School Component Unit	Total
Retirees and beneficiaries receiving benefits	55	124	179
Terminated employees entitled to but not yet receiving benefits	-	-	-
Active employees	1,272	2,863	4,135
Total number of plan members	1,327	2,987	4,314
Number of participating employers	4	1	5

Plan description - The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to Hanover County employees at date of separation. In addition, participants must meet the Virginia Retirement System (VRS) retirement age and service retirement requirements, and, if hired after September 30, 2007, must have five years of service with an Employer, or retire pursuant to the disability requirements of Social Security or the VRS. The amount of monthly subsidy provided by the Plan is based on years of service and, as of June 30, 2011, ranged from \$111 per month for employees with 10 but less than 15 years of service to \$222 per month for 20 or more years of service. The subsidy for a retiree's spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of \$251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility.

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan. Depending upon the health care plan selected, the net retiree premium amounts range from \$404 to \$875 per month, and for those electing retiree and family coverage, from \$1,039 to \$2,625 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

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

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

Annual OPEB cost - The Employers' OPEB cost (expense) under the Plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of the Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the reporting entity's annual OPEB cost, the amount of employer contributions to the Plan, and changes in the reporting entity's net OPEB obligation (asset) for fiscal year 2011 and the reporting entity's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) for fiscal year 2011 and the two preceding fiscal years.

Fiscal Year Ended June 30:	2011			
ARC, for the fiscal year ended June 30, 2011	\$	1,284,600		
Interest on Net OPEB obligation (asset) from prior year		(75,300)		
Actuarial adjustment		64,596		
Annual OPEB cost		1,273,896		
Employer contributions:				
Cash contribution to OPEB trust		-		
Subsidies paid under Plan on behalf of retirees		(577,420)		
Total Employer contributions		(577,420)		
(Increase) decrease in the net OPEB obligation (asset), for the fiscal year ended June 30, 2011		696,476		
Net OPEB obligation (asset), beginning of year		(1,075,719)		
Net OPEB obligation (asset), end of year	\$	(379,243)		
Fiscal Year Ended June 30	2011		2010	2009
Annual OPEB cost	\$	1,273,896	\$ 1,225,228	\$ 1,228,846
Percentage of annual OPEB cost contributed by Employer:				
Cash contributions to OPEB Trust		0.0%	67.0%	89.6%
Subsidies paid under Plan on behalf of retirees		45.3%	52.8%	58.9%
Total percentage contributed		45.3%	119.8%	148.5%
Net OPEB obligation (asset) at end of fiscal year	\$	(379,243)	\$ (1,075,719)	\$ (833,065)

Funded Status - The funded status of the Plan as July 1, 2009, the date of the most recent actuarial valuation, was as follows:

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded ALL (UALL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ 1,756,769	\$ 11,355,467	\$ 9,598,698	15.5%	166,583,838	5.8%

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

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

In the July 1, 2009 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 7.0 percent annual investment rate of return (net of administrative expenses), including an inflation assumption of 2.5% and an annual healthcare cost trend rate consisting of assumed growth in the retiree subsidies of 3.0 percent annually, until the maximum monthly subsidy of \$753 is reached. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

H. Special assessments and tax increment commitment

• **Bell Creek Community Development Authority:**

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

On September 25, 2002, the Board of Supervisors adopted an ordinance authorizing the levy of Special Assessments on abutting property within the boundaries of the District. On February 5, 2003, the Bell Creek Community Development Authority issued its \$12,135,000 Special

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Assessment Bonds, Series 2003A (the “2003A Bonds”) and its \$3,845,000 Special Assessment Bonds, Series 2003B (the “2003B Bonds” and together with the 2003A Bonds, the “2003 Bonds”), in accordance with the provision of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2003 Bonds were issued to finance the acquisition and construction of certain infrastructure improvements to benefit the District. Neither the faith and credit of the Authority, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the 2003 Bonds. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2011, the total 2003 Bonds outstanding were \$3,161,000. The Authority is obligated to make all debt service payments on the 2003 Bonds.

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

During fiscal 2011, special assessments on property within the District totaled \$374,000, and payments to the Authority of special assessments collected totaled \$285,181.

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

The Lewistown Commerce Center Community Development Authority (Authority) was created by an ordinance adopted by the Board of Supervisors on October 25, 2006. The creation of the Authority was a result of a petition filed with the Board of Supervisors by the owners of 100% of the land area within the Lewistown Commerce Center Community Development Authority District (District). The District consists of approximately 186.5 acres of land within the County. The District is part of a planned business complex that is expected to provide commercial and retail spaces, recreation and tourism facilities and other amenities that are expected to 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 Authority issued the Lewistown Commerce Center Community Development Authority (Virginia), \$37,675,000 Revenue Bonds, Series 2007 (2007 Bonds) in accordance with the provisions of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2007 Bonds were issued to finance the acquisition of certain land and the construction of certain infrastructure improvements to benefit the District, in accordance with a Development/Acquisition Agreement dated September 1, 2007 and amended March 23, 2011. Also in March 2011, pursuant to a revised Indenture of Trust, the 2007 Bonds were exchanged for Amended 2007 Bonds to extend their maturity, revise the schedule for sinking fund redemptions, and allow interest on the bonds to be paid by the bond’s debt service reserve fund through March 1, 2014, dependent upon the developer meeting agreed-upon construction milestones. At June 30, 2011, the Authority’s Amended 2007 Bonds outstanding totaled \$37,675,000. The Authority is obligated to make all debt service payments on the

COUNTY OF HANOVER
Notes to Financial Statements
June 30, 2011

Amended 2007 Bonds, in accordance with the revised Indenture of Trust. The principal of and the interest on the Amended 2007 Bonds are not deemed to constitute a pledge of the faith and credit of Hanover County, and neither the faith nor credit of the Authority, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the Amended 2007 bonds.

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

The County functions as an agent for the Authority by collecting and making the Payments to the Authority 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 Authority are not deemed general obligations of Hanover County, but are dependent upon appropriation and paid only to the extent the Special Real Property Tax, Incremental Tax Revenues, or Special Assessments have been received by the County.

There was no special assessment during fiscal year 2011. The 2011 Special Real Estate Property Tax levy was \$32,415 and incremental tax collections totaled \$407,946. Incremental taxes are payable to the Authority semiannually by February 1 and May 1 of each year.

I. Reassignment of Fleet Management Fund to General Fund

In fiscal 2011 and prior years, the County reported its Fleet Management activities as an Internal Service Fund. For operating efficiency, at June 30, 2011, the County reassigned Fleet Management to the General Fund, and transferred its end-of-year assets, liabilities and net assets to the General Fund at book value. Accordingly, all Fleet Management assets, liabilities and fund balances are included in the General Fund as of June 30, 2011.

J. Subsequent Event

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