Comprehensive Annual Financial Report for the Year Ended June 30, 2013

County of Hanover, Virginia

COUNTY OF HANOVER, VIRGINIA

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2013

Hanover: People, Tradition, and Spirit

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

HANOVER COUNTY
Birthplace of Patrick Henry-Henry Clay
Hanover Courthouse
built 1735
Formed in 1720
VIRGINIA

COUNTY OF HANOVER, VIRGINIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013

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INTRODUCTORY SECTION

BOARD OF SUPERVISORS

W. CANOVA PETERSON, CHAIRMAN
MECHANICSVILLE DISTRICT

SEAN M. DAVIS, VICE-CHAIRMAN
HENRY DISTRICT

WAYNE T. HAZZARD
SOUTH ANNA DISTRICT

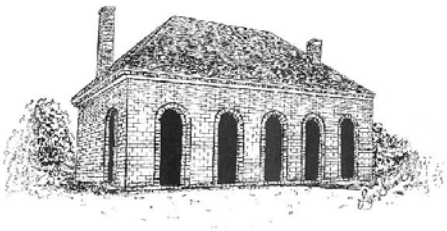
ANGELA KELLY-WIECEK
CHICKAHOMINY DISTRICT

AUBREY M. STANLEY
BEAVERDAM DISTRICT

G. E. "ED" VIA, III
ASHLAND DISTRICT

ELTON J. WADE, SR.
COLD HARBOR DISTRICT

CECIL R. HARRIS, JR.
COUNTY ADMINISTRATOR



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November 13, 2013

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

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the County of Hanover (the County) for the fiscal year ended June 30, 2013. The *Code of Virginia* requires that local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. This CAFR has been prepared by the County's Department of Finance and Management Services in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB) and the Auditor of Public Accounts of the Commonwealth of Virginia (APA).

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

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

The County's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The independent auditors planned and performed the audit to obtain reasonable assurance about whether the financial statements of the County as of and for the ended June 30, 2013, are free of material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit also involved evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The independent auditors concluded, based upon the audit evidence they obtained, that there was a reasonable basis for forming and expressing unmodified opinions that the County's financial statements as of and for the fiscal year ended June 30, 2013 are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report on the financial statements is presented as the first component of the Financial Section of this financial report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also report on the County's compliance with federal requirements for each major program as well as on internal control over compliance as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The independent auditors' report on the Single Audit for the County is available in the Compliance Section of this financial report.

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

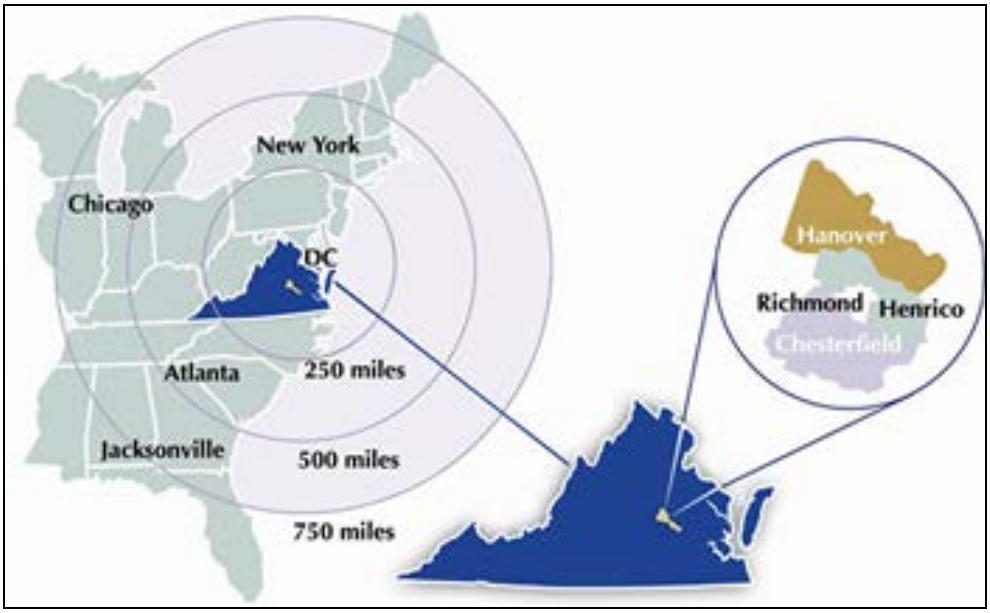
Profile of the County

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

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

Located in central Virginia, Hanover County is a 90-minute drive south of the nation's capital, Washington D.C., and 15 minutes north of the Commonwealth's capital, Richmond. Hanover County is more than 470 square miles in area, and is strategically located in the northern Greater Richmond Region, which also includes the City of Richmond and the counties of Chesterfield and Henrico. Hanover is bordered by the counties of Caroline, King William, New Kent, Henrico, Goochland, Spotsylvania and Louisa and by the Pamunkey, North Anna and Chickahominy Rivers. The South Anna River is also located in the County. Home of the internationally renowned Hanover tomato, the County offers an appealing blend of both historic houses and the latest new home

developments, a nationally recognized suburban school system, and a resilient economy with a balance between residential, commercial, industrial and agricultural tax bases.



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

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

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

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

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

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

The County's Department of Public Utilities operates and maintains public water and sanitary sewer systems in the "Suburban Service Area" (the crescent-shaped area north of the Chickahominy River, generally between Route 1 and Creighton Road including the Town of Ashland), the Doswell area, the Route 33 area, and the Hanover Courthouse area. The County provides utility service to approximately 19,200 water and 18,640 wastewater customers.

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

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

The County's adopted budget policy also requires Board of Supervisors approval of any budget transfer between departments and all requests for supplemental appropriations. The School Board is authorized to transfer budgeted amounts within the school funds, with any transfer that increases total revenues requiring subsequent Board of Supervisors approval. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented at Exhibit 6 as part of the basic financial statements. A more detailed General Fund budget-to-actual comparison by department is presented at Exhibit 13, and budget-to-actual comparisons for other governmental funds with appropriated annual budgets are presented in the Supplementary Information subsection of this report.

Factors Affecting Financial Condition

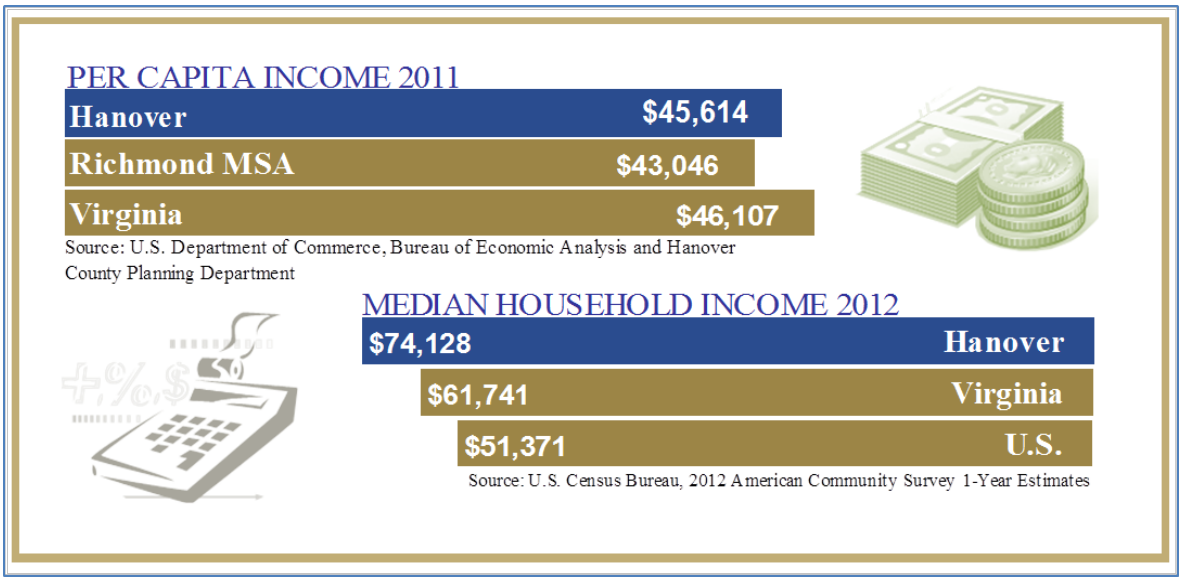
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy:

Based on its strategic location in the northern Greater Richmond region of the mid-Atlantic and its suburban/rural character, the County is an attractive location for businesses relocating or expanding and for developers interested in the opportunities in the area's residential and commercial markets. The County is primarily served by Interstates 95 and 295, with Interstate 95 connecting the County to the metropolitan Richmond area to the south and providing the passage to Washington, D.C. to the north. Interstate 295 connects the eastern and western portions of the County together and represents the northern "loop" around the Richmond metropolitan area.

Despite feeling the effects of a sluggish national economy since fall 2008, the County began to see signs of stabilization in the local economy in fiscal year 2013. While not immune to the fiscal impacts of the recession, Hanover County has remained in a favorable financial position due in large part to the financial strength and diversification of the County's business community, it's low reliance on federal jobs or procurement, and the County's close proximity to the Richmond Metropolitan Statistical Area's (MSA) economic base.

For example, as the following chart illustrates, based on the most recent estimates available, Hanover enjoys a high per capita income and a median household income higher than the national and State averages. Comparatively, Hanover's per capita income of $45,614 is 6.0% above the Richmond MSA per capita income of $43,046 and only 1.1% below the Commonwealth's, while its median (mid-point) household income (shown below) is 20.1% above the Commonwealth's and 44.3% above the national average. In addition, the U.S. Census Bureau's estimate of Hanover's mean (average) household income of $93,457 in 2011 is 9.5% above the Commonwealth's $85,323 and 28.8% higher than the United States' of $72,555. Per the Virginia Employment Commission, Hanover also has a low reliance on federal jobs, with only 150 federal employees resident within the County.



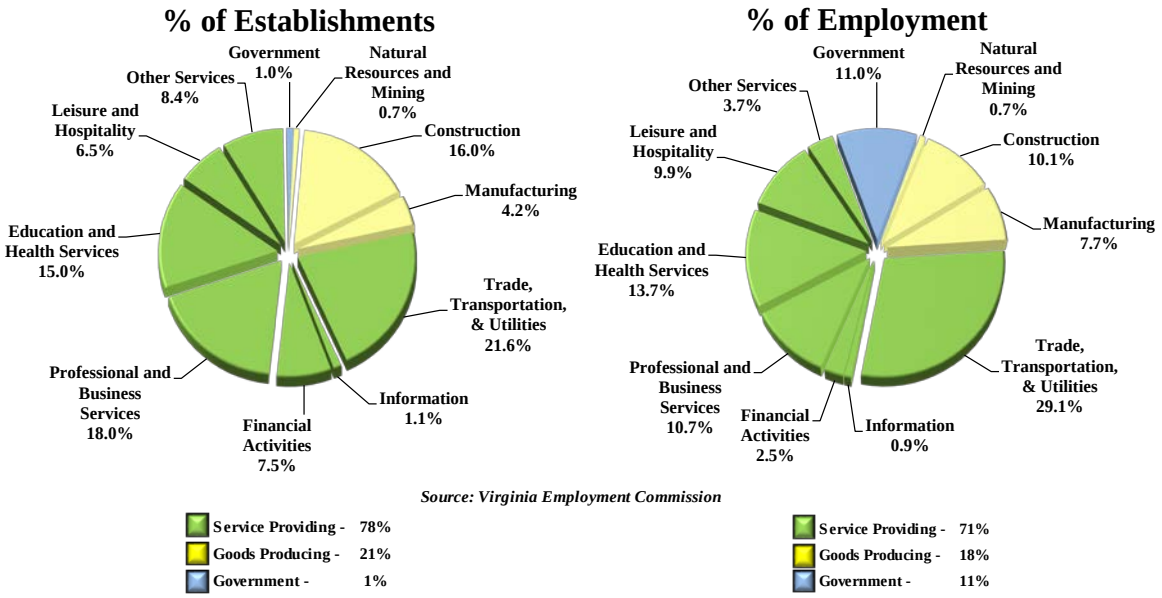
The County also continues to attract and maintain diverse sectors of employment. Historically, the County's major employment sectors have been in services, retail and wholesale trade, and construction. The County has benefited from the general stability each of these sectors has maintained in terms of each sector's percentage of total employment. As illustrated in the chart immediately below, this has contributed to comparably lower levels of unemployment than that of Virginia and the United States over the past five years.

	Hanover County	Virginia	United States
2008	3.4%	4.0%	5.8%
2009	6.8%	6.9%	9.3%
2010	6.7%	7.1%	9.6%
2011	6.0%	6.4%	8.9%
2012	5.5%	5.9%	8.1%

Source: Virginia Employment Commission, Local Area Unemployment Statistics

The subsequent chart illustrates Hanover's percentage of business establishments by industry sector for the first quarter of calendar year 2013:

Percentage of Business Establishments by Industry Sector - First Quarter Avg. 2013



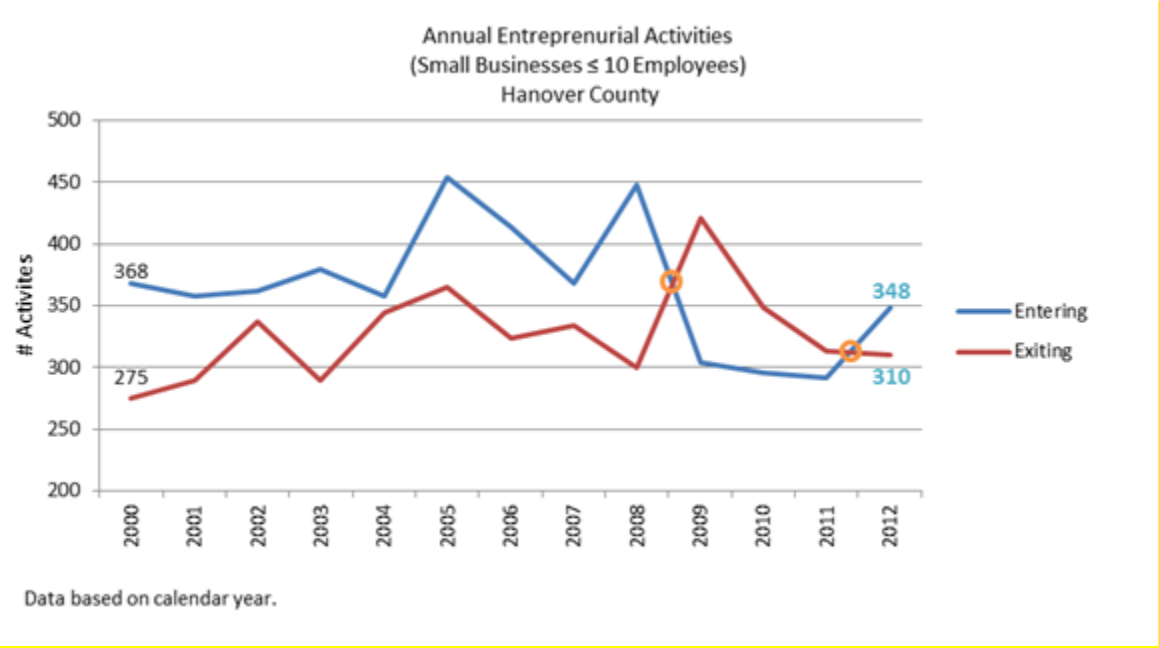
As shown in the following chart, another factor illustrating the resiliency of the County's economic base is the level of retail sales maintained in the County over a five year period on a per capita basis, with three of the five years reflecting annual growth. Although the impact of the recession is clearly seen in the numbers for calendar years 2008 and 2009, the County's 2010 taxable sales showed a 1.5% increase, and increases of 1.9% and 6.5% respectively thereafter.

	Hanover County Taxable Sales ($000)	% Increase (Decrease)	Per Capita Taxable Sales
2008	$ 1,605,944	-4.2%	$ 16,106
2009	1,438,741	-10.4%	14,380
2010	1,459,792	1.5%	14,539
2011	1,487,657	1.9%	14,755
2012	1,585,051	6.5%	15,603

Source: Commonwealth of Virginia, Department of Taxation

To foster employment growth and good jobs for its citizens, Hanover County continues to place a strong focus on economic development opportunities. This was confirmed by a local business outreach program, *Business First Hanover*. Of the over 100 companies interviewed, the interview results show a sense of overall optimism among business owners, with nearly 80% of businesses anticipating the business climate will improve over the next five years. Nearly 90% of companies interviewed rated local government operations as "excellent" or "good".

Hanover County is positioned for steady economic growth following the recent economic downturn. The overall trend was positive for fiscal year 2013. Hanover's unemployment rate came down slightly and job growth was steady. Existing businesses continue to be Hanover's major economic strength. These businesses purchased new equipment and expanded their operations to meet the demands of a more competitive business climate. Business attraction efforts continue with the Greater Richmond Partnership and the regional commercial brokerage communities. Business start-up activity picked up, as illustrated by the following chart:



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

- The County's commitment to remaining a low tax locality is reflected in its real property tax rate, which has remained at $0.81 cents per $100 of assessed value for the 2013 tax year. Hanover continues to have the lowest tax rate in the region combined with an overall positive economic environment, which has enabled the County to continue to thrive economically.
- Despite some signs of strengthening, the national housing market has continued to remain somewhat volatile. Overall, the County appears to be showing some increased local stabilization in that the 2013 real property tax base remained only 1.5% lower than the prior year's level.

Economic Development Update:

Hanover County competes regionally for new business investment, from the expansion of existing businesses and business investment recruited here from out-of-town. The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports growth of existing and new businesses. This plan outlines the County's four major economic development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, the utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to the County's development regulations.

Reflecting its newly expanded scope and mission, the Dominion Resources Innovation Center (www.dominnovation.com) created a new website and successfully launched and completed its first business accelerator competition, Tech Challenge Hanover in the fall of 2012. The competition, among technology and knowledge-based start-ups, attracted entrepreneurs from across the state, engaged the local business community and generated media exposure throughout its three month process. The competition generated a substantial number of qualified tenant leads and recruited new tenants to the facility.

Hanover seeks job growth; however, the long-term goal is to increase higher-wage job growth. This is done by the recruitment of targeted industries, so targeted for their many community benefits (including higher wages). The attainment of higher-wage jobs will increase the overall county "average wage." When these gains are realized, Hanover will provide more "in-county" job opportunities for its educated and skilled workforce, enjoy a more diverse and stable job base, and be able to offer a wide-range of employment opportunities for all qualified job-seekers.

The Vitamin Shoppe, a leading specialty retailer and direct marketer of nutritional products, established a distribution operation in the Town of Ashland in Hanover County this year that will create 174 new jobs. The total project, including jobs, capital and indirect investments will be a commitment of $39.4 million.

The Commonwealth of Virginia is planning to build a 45,000-square-foot headquarters in Northlake Business Center for the Department of Game and Inland Fisheries. The project is expected to cost nearly $10 million.

A developer purchased 43 acres in Northlake Business Center near Bass Pro Shops and the Winding Brook development in Ashland, where it plans a 392,000-square-foot outlet mall. The company purchased the land at the northeast corner of the intersection of Lewistown Road and Lakeridge Parkway just off Interstate 95. The cost of the development is estimated to exceed $50 million. The development is to be called Outlets at Richmond.

Tyson Foods Inc. recently expanded their processing plant, hiring an additional 120 employees and investing $14 million in new equipment. The new investment was necessary to increase the production capacity to meet new customer contracts and improve operational efficiencies.

Republic National Distributing Company (RNDC), the second largest beverage alcohol distributor of premium wine and spirits in the U.S., will be constructing a new distribution facility in the Town of Ashland located in Hanover County, Virginia. The 260,000-square-foot center will be constructed in the Virginia Transportation Park, located near Interstate 95. This expansion is slated to employ 300 employees.

Kings Dominion doubled the size of their Planet Snoopy children's area this year. Plans call to increase the "Peanut's" themed portion of the park to a total of 14 acres with at least 12 new or re-themed attractions. This will be parent company, Cedar Fair Entertainment's, and the world's largest Peanut's themed park.

Other major economic development news from fiscal year 2013 includes Americast and Hanson Pipe & Precast, LLC announcing a new joint venture. NewLine Hardscapes and EMSCO acquired facilities and expanded as well as UK-based Integrated Technologies Limited located its first U.S. office in Hanover County.

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

Long-Term Financial Planning:

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

- Capital Improvements Program (CIP): The CIP is the County's plan for investing in facilities, equipment, and vehicles over the next five years, and includes those items with a unit cost greater than $50,000. The fiscal year 2014 capital budget for County, School and Public Utility projects is $18.0 million, including $1.0 million of school projects to be funded by Virginia Public School Authority debt. The County's budget policies recommend the use of "pay-as-you-go" CIP funding of 10% or more, to recognize the need to balance the use of debt with the use of other resources for funding. The fiscal year 2014 CIP includes 87% of "pay-as-you-go" funding (from non-debt sources). The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan.
- Five-Year Financial Plan: The County's Five-Year Financial Plan represents the County's effort to quantify the fiscal impacts of future needs, matched with a projection of General Fund resources available to meet those needs. Each year this plan is adopted by the Board of Supervisors, thereby indicating to the public the County's expected tax rates, operating costs, capital improvements, debt service requirements, school allocations and service level plans. The plan is illustrated with detailed assumptions in the overview section of the budget document. Generally, the plan seeks to maintain or enhance all current budgetary objectives and Board-adopted initiatives.

Relevant Financial Policies:

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

Major Initiatives and Accomplishments:
The Hanover County Board of Supervisors began the 2012-2032 update to the Comprehensive Land Use Plan. The revised plan will be based on a predicted average population growth rate increase of 1.5% over the next 20 years and decreases to the maximum allowable residential density. It will also contain policies that encourage economic development.

The Cash Proffer and Capital Funding Committee was appointed by the Board in 2013 to develop a long range approach to funding investments in public facilities necessitated by residential growth. As a result, the Board eliminated its cash proffer policy and substituted an approach that focuses on project-specific relationships between development and road impacts created by the development. This revised approach considers existing baseline traffic contributions and incorporates provisions for growth rates to fund transportation needs. The Board's intent is to use debt service savings as a source of funding for other capital needs.

As one of the Board's 2013 initiatives, an update of the Public Safety Strategic Plan for 2013-2018 was adopted by the Board to ensure alignment with the County's overall Strategic Plan goals. The Board also continued to explore ways to achieve operational efficiencies through the collaboration between County and School departments that have related functions. In 2013, the County and Schools finance operations were consolidated and centrally relocated within the County's Department of Finance and Management Services.

A world-class education system is one of the County's top priorities. Hanover was the only locality in the Metro Richmond area to have all of its schools reach the full accreditation standard in 2013. Hanover has achieved this distinction for 12 consecutive years. Atlee and Hanover High Schools were recognized by Newsweek magazine as among the top 1,500 public high schools in the nation based on the number of Advanced Placement, International Baccalaureate and Cambridge tests compared to the number of graduating seniors.

For five consecutive years, Hanover has been recognized as one of America's "100 Best Communities for Young People". The most recent national award was given to Hanover County to recognize "its' outstanding and innovative work in addressing the high school dropout crisis and for its programs and services that make it an outstanding place for youth to live, learn and grow."

Awards and Acknowledgements

The Pamunkey Regional Library earned a Voice of the People "Transformation" award given by the International City/County Management Association (ICMA) and the National Research Center, Inc. (NRC). Hanover, through the regional library, was one of eight localities in the United States to receive the award. The Hanover County Sheriff's Office was one of only 12 agencies to win the Voice of the People "Award of Excellence" given by the same organizations. Both awards are linked to Hanover's 2011 Citizens Survey done by the NRC. According to the ICMA and NRC, communities receiving these awards showed the biggest improvement in service ratings and/or had the highest rated services according to a representative sample of their own residents. Award recipients were identified among all the jurisdictions that conducted the National Citizens Survey last year.

Hanover County continued to be recognized for excellent management during fiscal year 2013. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its CAFR for the fiscal year ended June 30, 2012. The County has received this prestigious award each fiscal year since 1985. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR, which satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2013. The County has received this prestigious award each fiscal year since 1990. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The County utilizes its website www.hanovercounty.gov for presentation of the CAFR and budget document. The budget document serves as the best source of information for County's current and five year financial plan, new initiatives, capital improvements program and changes in service levels. In addition, the website provides many other topics of interest to County residents and service providers, and provides an excellent forum to recognize outstanding employees and their accomplishments. While many of those accomplishments could also be highlighted in this report, the remainder of this financial report will focus on the County's fiscal year 2013 results of operations and on an analysis of the financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance and Management Services. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report, especially Karyn Tancredi, Accounting Division Director, and the Accounting Division team for their equally important contributions. Credit also must be given to the Board for their unfailing support for maintaining high standards of professionalism in the oversight of the County's finances.

Respectfully submitted,

Cecil R. Harris, Jr.
County Administrator

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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Hanover
Virginia

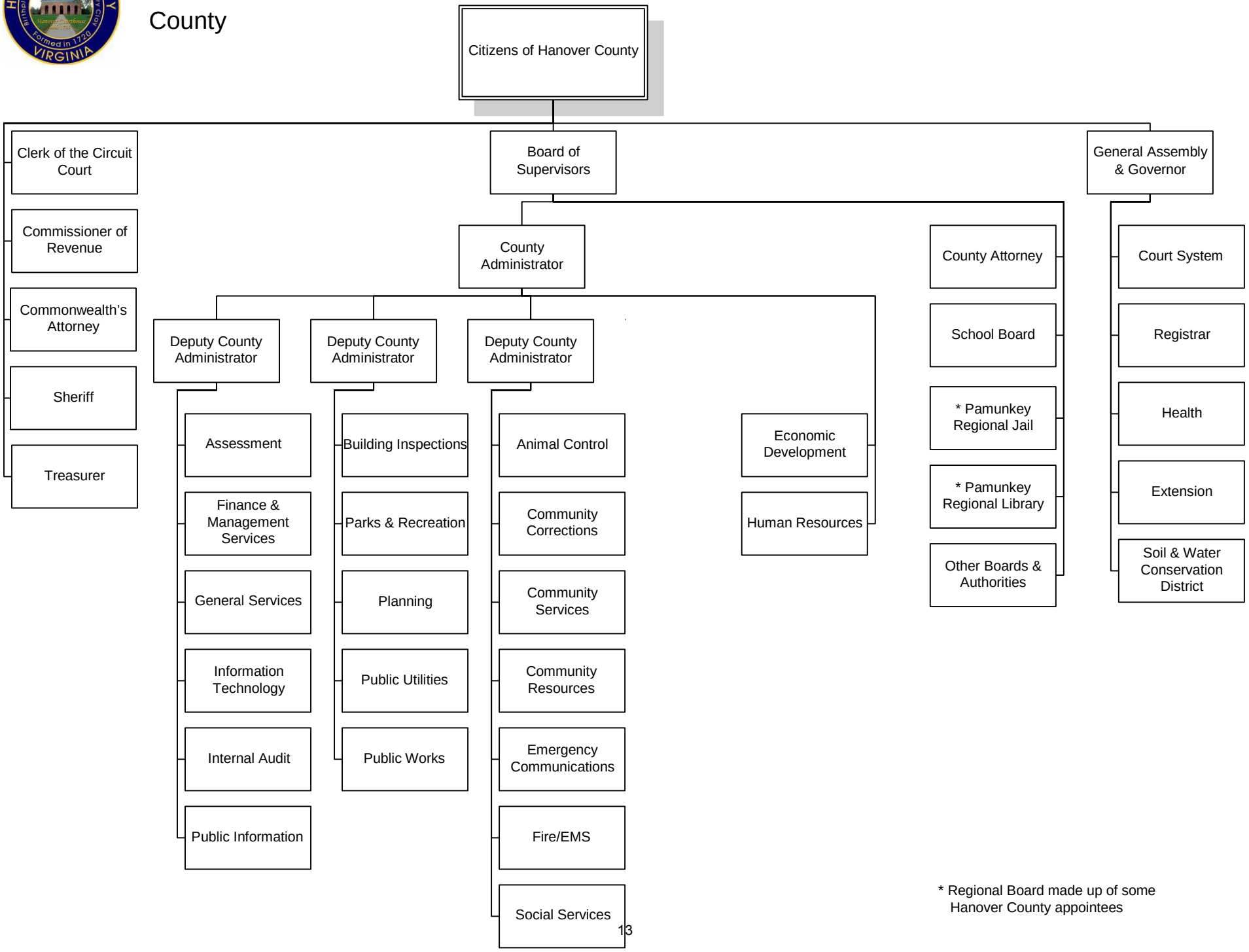
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Hanover County

Organizational Chart
June 30, 2013



* Regional Board made up of some Hanover County appointees

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2013

Board of Supervisors

W. Canova Peterson, Chairman	Mechanicsville District
Sean Davis, Vice-Chairman	Henry District
G. Ed Via, III	Ashland District
Aubrey M. Stanley	Beaverdam District
Angela Kelly-Wiecek	Chickahominy District
Elton J. Wade, Sr.	Cold Harbor District
Wayne T. Hazzard	South Anna District

Constitutional Officers

T. Scott Harris	Commissioner of Revenue
M. Scott Miller	Treasurer
Trip Chalkley	Commonwealth's Attorney
Col. David Hines	Sheriff
Frank D. Hargrove, Jr.	Clerk of the Circuit Court

County Administrative Officials

Cecil R. Harris, Jr.	County Administrator
Sterling E. Rives, III	County Attorney
Frank W. Harksen, Jr.	Deputy County Administrator
James P. Taylor	Assistant County Administrator
Kathleen T. Seay	Director of Finance & Management Services

School Board

Ann F. Hagan Gladstone, Chairman	South Anna District
Glenn T. Millican, Jr., Vice Chairman	Mechanicsville District
Henry (Hank) C. Lowry, Jr.	Ashland District
Robert L. Wood	Cold Harbor District
Earl J. Hunter, Jr.	Henry District
John F. Axselle, III	Beaverdam District
Robert L. Hundley, Jr.	Chickahominy District

School Administrative Officials

Dr. Jamelle S. Wilson	Superintendent of Schools
Thomas D. Myers	Asst. Superintendent for Business and Operations
Dr. Daryl H. Chesley	Asst. Superintendent of Instructional Leadership
Charla S. Cordle	Asst. Superintendent of Human Resources

FINANCIAL SECTION

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia (the County) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 20 through 31, and the Schedules of Funding Progress on page 85, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying supplementary information listed as Other Supplementary Information in the Financial Section in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* listed in the Compliance Section in the table of contents, and the Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

KPMG LLP

November 13, 2013

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

As management of the County of Hanover, Virginia (the County), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2013. We encourage readers to consider this discussion and analysis in conjunction with our letter of transmittal in the Introductory Section of this report, and the County's basic financial statements which follow this discussion and analysis.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2013 by $339.7 million (*net position*). Of this amount, $75.9 million (*unrestricted net position*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by $3.7 million, of which the governmental activities decreased by $0.7 million and business-type activities increased by $4.4 million.
- As of the close of fiscal year 2013, the County's governmental funds reported combined ending fund balances of $59.2 million, a decrease of $84,283 from prior year. Of the $59.2 million total, 91.1% ($53.5 million) is available for spending at the County's discretion (sum of *committed, assigned* and *unassigned fund balances*), while *unspendable and restricted fund balances* were 8.9% or $5.7 million of the total.
- The General Fund's unassigned fund balance remained at 12.6% of total General Fund revenues, but increased $1.3 million to $25.2 million at June 30, 2013. This balance continues to exceed the County's unassigned fund balance policy minimum of 10% of total General Fund revenues. In addition, the General Fund's assigned fund balance decreased $2.8 million to $17.8 million at June 30, 2013. The $2.8 million decrease is the net of increases and decreases to amounts assigned for various purposes, including education, public safety, economic development, the subsequent fiscal year's adopted budget, the subsequent five-year financial plan, capital projects, and other County services.
- The County's total debt decreased by $16.1 million (4.4%) to $179.8 million during fiscal year 2013 due to principal payments on existing debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the County's assets and deferred outflows and liabilities and deferred inflows, with the resulting difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of how the financial position of the County may be changing. Increases in net position may indicate an improved financial position;

however, even decreases in net position may reflect a changing manner in which the County may have used previously accumulated funds.

The *statement of activities* presents information showing how the County's total net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the County which are principally supported by taxes, intergovernmental revenues, and other non-exchange transactions (*governmental activities)* from other activities which are intended to recover all or a significant portion of their costs primarily through user fees charged to external parties (*business-type activities*). The governmental activities of the County include general government administration; judicial administration; public safety; public works; human services; parks, recreation and cultural; community development; education; and interest on long-term debt, as well as the County's self-insurance activities. The business-type activities consist of public utilities and the airport.

The government-wide financial statements (Exhibits 1 and 2) include not only the County itself (known as the *primary government*), but also a legally separate School Board and a legally separate Economic Development Authority for which the County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

With the exception of *internal service fund* activity, (described under *Proprietary Funds which follows)*, ***Governmental Funds*** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

During fiscal year 2013, the County maintained three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the County Improvements Fund and the School Improvements Fund; all three of which are considered to be *major funds*. The County did not maintain any *nonmajor* governmental funds as of and for the year ended June 30, 2013. The governmental fund financial statements can be found at Exhibits 3 through 6 of this report.

The County maintains two different types of ***Proprietary Funds***: enterprise and internal service. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its public utilities fund and its airport fund (a nonmajor fund). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its healthcare and other postemployment benefit self-insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found at Exhibits 7 through 9 of this report. Data for the internal service fund can also be found at Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources received and held in a fiduciary capacity for the benefit of individuals, private organizations, or other governments. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. However, the County is responsible for ensuring that fiduciary fund assets are used for their intended purposes. The County's fiduciary funds consist of an employee benefit trust fund, the Retiree Medical Benefits Trust Fund, and Agency Funds. The Retiree Medical Benefits Trust Fund is used to account for the receipt and disbursement of employer contributions and assets held in trust to provide healthcare benefits to retirees, and agency funds are used to report resources held in a purely custodial capacity for individuals, private organizations or other governments. The fiduciary fund financial statements can be found at Exhibits 10 and 11 of this report, while individual fund data for the agency funds can be found in the form of combining statements at Exhibits 16 and 17 of this report.

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

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

Other *supplementary information* is presented immediately following the required supplementary information at Exhibits 13 through 25 of this report. The County adopts an annual appropriated General Fund budget, for which a budgetary comparison statement has been provided to demonstrate compliance with this budget. This supplementary information can be found at Exhibit 13 of this report. The combining statements referred to earlier in connection with agency funds and individual fund statements and schedules are presented at Exhibits 14 through 25 of this report.

This report also contains a statistical section that supplements the basic financial statements by presenting detailed trend information, to assist the users to assess the economic condition of the County. We encourage our readers to review the statistical section, to better understand the County's operations, services and financial condition.

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

Financial Analysis of the County as a Whole

Statement of Net Position

Table 1 summarizes the Statements of Net Position for the primary government as of June 30, 2013 and 2012:

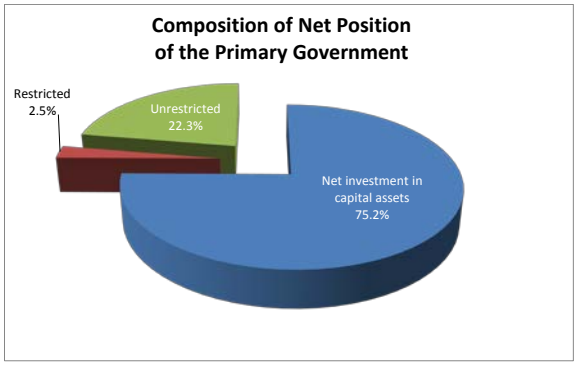
Table 1 — **County of Hanover, Virginia Summary of Net Position ($ in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 128.3	127.5	24.6	23.3	152.9	150.8
Capital assets	223.9	238.3	211.2	211.5	435.1	449.8
Total assets	352.2	365.8	235.8	234.8	588.0	600.6
Long-term liabilities outstanding	161.2	173.8	28.8	32.1	190.0	205.9
Other liabilities	56.5	56.8	1.8	1.9	58.3	58.7
Total liabilities	217.7	230.6	30.6	34.0	248.3	264.6
Net position:						
Net investment in capital assets	71.9	74.1	183.5	180.3	255.4	254.4
Restricted	5.0	5.0	3.4	3.4	8.5	8.4
Unrestricted	57.6	56.1	18.3	17.1	75.9	73.2
Total net position	$ 134.5	135.2	205.2	200.8	339.7	336.0

Over time, changes in net position may serve as a useful indicator of a County's financial position. Of interest, the County's assets exceeded liabilities by $339.7 million at the close of fiscal year 2013, representing an increase of $3.7 million from the net position at June 30, 2012.

As the following graph shows, by far the largest portion of the County's total net position ($255.4 million, 75.2% of total) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and intangibles); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, like water and wastewater services, schools, libraries, law enforcement, and fire and emergency medical services. Consequently, these assets are *not* available for future spending, as capital assets are generally not sold or otherwise disposed of during their useful life.

As also shown, an additional portion of the County's total net position ($8.5 million, 2.5% of total) represents resources that are subject to external restrictions on how they may be used, including amounts restricted for capital projects, grant programs, debt covenants and postemployment healthcare benefits. The remaining balance of unrestricted net position ($75.9 million, 22.3% of total) may be used to meet the County's ongoing obligations to citizens and creditors.



Statement of Activities

Table 2 summarizes the Statements of Activities of the primary government for the fiscal years ended June 30, 2013 and 2012:

Table 2 — **County of Hanover, Virginia**
Summary of Changes in Net Position
($ in millions)

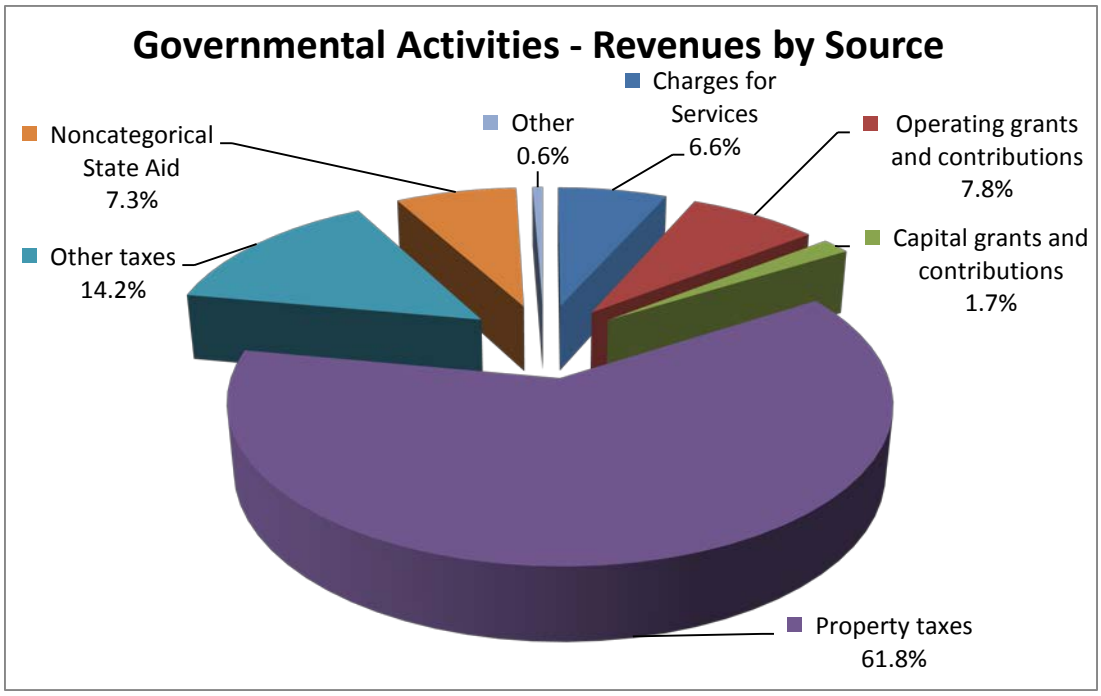
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenues:						
Program revenues:						
Charges for services	$ 13.4	12.3	22.7	21.9	36.1	34.2
Operating grants and contributions	15.9	16.7	-	-	15.9	16.7
Capital grants and contributions	3.5	2.0	8.6	4.9	12.1	6.9
General revenues:						
Property taxes	125.6	126.3	-	-	125.6	126.3
Other taxes	28.8	27.4	-	-	28.8	27.4
Noncategorical State aid	14.9	14.7	-	-	14.9	14.7
Grants and contributions	1.2	1.2	-	-	1.2	1.2
Other	0.2	0.3	-	0.1	0.2	0.4
Total revenues	203.5	200.9	31.3	26.9	234.8	227.8
Expenses:						
General government	13.2	14.3	-	-	13.2	14.3
Judicial administration	4.7	4.3	-	-	4.7	4.3
Public safety	51.5	49.0	-	-	51.5	49.0
Public works	12.2	11.5	-	-	12.2	11.5
Human services	21.5	22.9	-	-	21.5	22.9
Parks, recreation and cultural	6.2	6.5	-	-	6.2	6.5
Community development	4.8	4.6	-	-	4.8	4.6
Education	88.1	88.9	-	-	88.1	88.9
Interest on long-term debt *	2.0	1.5	-	-	2.0	1.5
Public utilities	-	-	26.5	26.1	26.5	26.1
Airport	-	-	0.6	0.8	0.6	0.8
Total expenses	204.2	203.5	27.1	26.9	231.3	230.4
(Decrease) Increase in net assets before transfers	(0.7)	(2.6)	4.2	-	3.5	(2.6)
Transfers	-	(0.2)	0.2	0.2	0.2	-
(Decrease) Increase in net position	(0.7)	(2.8)	4.4	0.2	3.7	(2.6)
Total net position - beginning of year	135.2	138.0	200.8	200.6	336.0	338.6
Total net position - end of year	$ 134.5	135.2	205.2	200.8	339.7	336.0

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

Governmental Activities: The decrease in net position attributable to the County's governmental activities totaled $0.7 million for fiscal year 2013. Generally, net position changes are the result of the difference between revenues and expenses. Fiscal year 2013 revenues of $203.5 million represent an increase of $2.5 million, or 1.2% in comparison to the prior year, while expenses of $204.2 million represent an increase of $0.7 million, or 0.3% compared to the prior year.

The following chart illustrates the County's fiscal year 2013 governmental revenues by source as a percentage of total governmental revenues:

(See chart on next page)



Taxes are the largest source of County revenues, totaling $154.5 million for fiscal year 2013, an increase of $0.8 million, or 0.5%, in comparison to fiscal year 2012. A decrease in general property taxes of $0.4 million, or 0.3% was largely attributable to lower real property taxes resulting from lower assessed values. This decrease was more than offset by an increase in sales tax revenue of $0.7 million, or 4.5%. General property taxes totaled $125.6 million for fiscal year 2013, and represent 81.3% of total taxes and 61.8% of all revenues.

Also in fiscal year 2013, $32.8 million, or 16.1% of total revenues, consisted of program revenues, including $13.4 million in charges for services, $15.9 million of operating grants and contributions, and $3.5 million of capital grants and contributions. General revenues, including $14.9 million of noncategorical state aid and $1.4 million of unrestricted grants and contributions and unrestricted investment earnings, accounted for the remaining revenues.

As shown in Table 2 (previous page) and Table 3 (following page), the total expenses of all the County's governmental activities for fiscal year 2013 were $204.2 million, which represents an increase of $0.7 million, or 0.3% higher than fiscal year 2012. Decreases in expenses for general government, human services, parks, recreation and cultural and education expenses of $1.1 million, $1.4 million, $0.3 million and $0.8 million, respectively, were offset by increases of $0.4 million, $2.5 million, $0.7 million, $0.2 million and $0.5 million, respectively in expenses of judicial administration, public safety, public works, community development and interest on long term debt expenses. As the following chart indicates, education continues to be the County's largest program and highest priority, with education expenses totaling $88.1 million in fiscal year 2013. Public safety is also a high County priority and the County's second largest expense, totaling $51.5 million in fiscal year 2013.

(See chart 3 on next page)

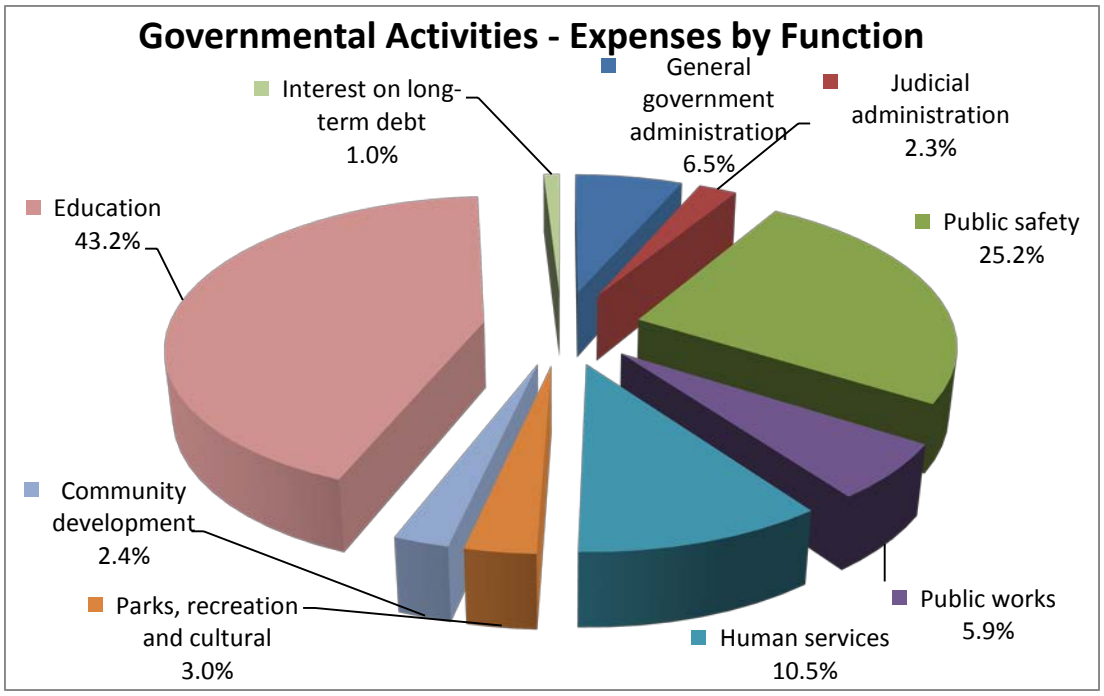


Table 3 presents the total cost of the County's governmental activities by function, as well as the net cost of each function (total cost less fees generated by each function and program-specific intergovernmental aid) for the fiscal year ended June 30, 2013 and 2012:

Table 3 — **Net Cost of Hanover County's Governmental Activities**
For the Fiscal Years Ended June 30
($ in millions)

	Total Cost of Services		Net Cost of Services	
Functions/Programs	**2013**	**2012**	**2013**	**2012**
General government	$ 13.2	$ 14.3	$ 10.5	$ 11.5
Judicial administration	4.7	4.3	2.1	1.8
Public safety	51.5	49.0	41.8	40.7
Public works	12.2	11.5	9.6	9.3
Human services	21.5	22.9	9.1	10.3
Parks, recreation and cultural	6.2	6.5	4.8	5.6
Community development	4.8	4.6	3.8	3.6
Education	88.1	88.9	87.6	88.3
Interest on long-term debt	2.0	1.5	2.0	1.5
Total	$ 204.2	$ 203.5	$ 171.4	$ 172.6

A portion of the $204.2 million cost of the County's governmental activities was paid by those who directly benefited from the programs (i.e., charges for services of $13.4 million), and other governments and organizations that subsidized certain programs (i.e., operating and capital grants and contributions of $19.4 million). These combined program revenues of $32.8 million reduced the total fiscal year 2013 cost of services from $204.2 million to the net cost of services of $171.4 million. The net cost of services was covered by the County's general revenues, consisting primarily of taxes and state aid.

Business-type Activities: Table 2 above also summarizes the business-type activities. The County's business-type activities consist of its Public Utilities water and wastewater treatment services and its airport activities. The increase in the net position attributable to the County's business-type activities

totaled $4.4 million for fiscal year 2013, consisting of a $4.4 million increase attributable to Public Utilities water and wastewater treatment activities, and an increase of $33,172 attributable to Airport activities.

Public Utilities revenues totaled $30.7 million, of which $22.5 million, or 73.2%, was generated from charges for services and user fees, down from 82.1% last year, due primarily to higher capital contributions in fiscal year 2013. Nonoperating capacity fee revenue increased to $4.7 million from $3.2 million last year, due to an increase in projects. Public Utilities expenses totaled $26.5 million in fiscal year 2013, compared to $26.2 million for fiscal year 2012, an increase of $0.3 million, or 1.1%.

Airport operating revenues totaled $189,412 in fiscal year 2013, compared to $184,550 last year, primarily due to increased rental revenue on existing airport facilities. The Airport's nonoperating revenues totaled $417,683 in fiscal year 2013, compared to $326,002 in fiscal year 2012, primarily due to fluctuating Federal Airport Improvement Program grant revenue and related revenue from the Commonwealth, which vary with supported capital project activity. Airport nonoperating expenses were $75,274 and $78,636 in fiscal years 2013 and 2012, respectively.

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In addition, the County's *fund balance classifications* are useful to identify the extent to which the County's fund balances are constrained and how binding those constraints are.

As of the end of fiscal year 2013, the County's governmental funds reported combined ending fund balances of $59.2 million (Exhibit 3), as compared to $59.3 million at June 30, 2012, a decrease of $0.1 million. Of the $59.2 million fiscal year 2013 fund balance, $197,871 is classified as *nonspendable* because it is invested in inventories and therefore is not in spendable form, $5.5 million (9.2%) is classified as *restricted* to indicate that it can only be spent for specific purposes as stipulated by external resource providers (for example, through debt covenants, grant agreements, or by laws or regulations of other governments), $0.5 million is classified as *committed* to indicate that it has been set aside for specific purposes by resolution of the County's Board of Supervisors, $27.8 million is *assigned* to indicate that County administration has identified specific purposes for the use of those funds, and the remaining $25.2 million is *unassigned.* Unassigned fund balances are technically available for any purpose, but are maintained at targeted levels in accordance with sound financial management practices.

The General Fund is the primary operating fund of the County (Exhibits 3 through 6). The General Fund's fund balance decreased $1.3 million (3.1%) during fiscal year 2013, to $44.2 million, of which $0.2 million is nonspendable, $0.6 million is restricted, $0.5 million is committed, $17.8 million is assigned and $25.2 million is unassigned. As one measure of the General Fund's liquidity, it is useful to compare the total of the County's committed, assigned and unassigned fund balances to total fund revenues. At the end of fiscal year 2013, the General Fund's committed, assigned and unassigned fund balances of $43.5 million represents 21.7% of total General Fund revenues of $200.0 million. In addition, General Fund's unassigned fund balance totaled $25.2 million, up from $23.9 million at the end of fiscal year 2012, which represents 12.6% of total General Fund revenues in both years, and continues to exceed the 10% minimum set by the County's fund balance policy. The $1.3 million fiscal year 2013 decrease in the General Fund's fund balance resulted from General Fund revenues of $200.0 million less expenditures

of $197.2 million and other financing uses of $4.2 million, and was primarily the result of revenue shortfalls as shown on Exhibit 6 to the financial statements.

The fund balance in the County Improvements Fund (Exhibit 4) increased by $0.5 million to $10.7 million during fiscal year 2013. The fund balance in the School Improvements Fund (Exhibit 4) increased by $0.8 million to $4.2 million during fiscal year 2013. The increase in the fund balance of both funds was primarily due to the receipt of revenues in advance of the expenditures being incurred.

Proprietary funds: The County's proprietary funds financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, as their basis of accounting is the same, but in more detail. Factors relating to the financial position and results of operations of the County's Public Utilities System and Airport have been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

General Fund budget amendments resulted in an increase of $3.5 million, or 1.7% between the originally-adopted fiscal year 2013 budget appropriation for expenditures and transfers out and the final budget, with $2.2 million of the increase resulting from reappropriation of fiscal year 2012 budget commitments for completion of ongoing projects in fiscal year 2013. Significant reappropriations included:

- $1,081,000 for public safety vehicles and equipment;
- $241,000 for technology systems and services
- $114,000 for facility maintenance and improvement projects;
- $100,000 for energy audit electrical cost reduction program; and
- $82,000 for community development projects.

The remaining $1.3 million in budget amendments was funded by various revenue sources or unassigned fund balance. Significant amendments included:

- $536,000 to fund an increase in Virginia Retirement System costs mandated by the State;
- $144,000 for public safety personal protective equipment funded by a Department of Homeland Security grant; and
- $171,000 for public safety mobile command unit communications equipment funded by an Urban Area Security Initiative Communications grant.

Capital Assets and Debt Administration

Capital assets: The County's investment in capital assets as of June 30, 2013, totals $435.1 million, net of accumulated depreciation. This represents a decrease of $14.8 million, or 3.3% over fiscal year 2012. Capital assets, net of accumulated depreciation, are illustrated in the following table:

	($ in millions)			
	Governmental Activities	Business-type Activities	Totals at June 30	
			2013	2012
Land	$ 9.0	11.1	20.1	19.9
Intangible assets	0.8	-	0.8	0.8
Buildings	153.8	56.6	210.4	223.3
Improvements other than buildings	5.3	135.0	140.3	139.3
Machinery and equipment	38.1	2.5	40.6	41.9
Infrastructure	15.8	-	15.8	15.8
Construction in progress	1.0	6.1	7.1	8.8
Total	$ 223.8	211.3	435.1	449.9

Major capital asset activity during fiscal year 2013 included the following:

- The costs of fire apparatus and ambulance replacement, vehicle replacement, technology and stormwater infrastructure assets totaling $1.0 million, funded through general revenues.
- Communication system upgrades totaling $456,000, funded through general revenues.
- Improvements to the Taylor Park Complex totaling $466,000, funded primarily through the 2005 bond referendum.
- Historic Courthouse improvements totaling $94,000, funded by Federal grant funds.
- The costs of completed water and wastewater infrastructure projects reported in the Public Utilities Fund totaling $7.5 million, funded by water and sewer user fees and capacity fees.
- Developers' contributions of water and wastewater lines totaled $3.6 million, and developers' conveyance or purchase of drainage, stormwater and access easements totaled $0.2 million.
- The costs of school facility improvements and equipment acquisition by the School Component Unit totaled $1.4 million, funded by the issuance of the County's 2011B General Obligation School Bonds, sold to the Virginia Public School Authority (VPSA) and County general revenues.

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

Long-term debt: In the Commonwealth of Virginia, there is no State statute that limits the amount of general obligation debt a County may issue. However, with limited exceptions as described under General Obligation Bonds in Note IV.E to the accompanying financial statements, general obligation bonded indebtedness must be approved by voter referendum prior to issuance. In addition, the County's Board of Supervisors and revenue bond covenants have established limits and coverage requirements with respect to long-term debt, and the County is in compliance with all debt policy limits and debt coverage requirements at June 30, 2013.

The following table illustrates the County's outstanding debt at June 30, 2013:

	($ in millions)		
	Governmental Activities	**Business-type Activities**	**Total**
General obligation bonds	$ 143.8	-	143.8
Revenue bonds	-	20.0	20.0
Support agreement	6.0	7.7	13.7
Capital lease obligations	2.3	-	2.3
Total	$ 152.1	27.7	179.8

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

Economic Factors and Next Year's Budgets and Rates

During fiscal year 2013, Hanover County's residents have continued to experience a welcome, though modest recovery from the effects of the national recession, while Hanover County government revenues continue, as expected, to lag behind this trend, primarily due to lower real property assessed valuations. Throughout fiscal year 2013, the County's unemployment rate continued to show modest but steady improvement over the prior year. In July 2012, the County's unemployment rate was 5.3%, which was 0.2% improved (lower) than the same month a year ago, and which continues to compare favorably to the State's average unemployment rate of 5.8% and the national average rate of 7.7%. For the four quarters ended June 30, 2013, the Federal Housing Finance Agency's purchase-only house price index, calculated using home sales price information from Fannie Mae- and Freddie Mac-acquired mortgages rose 5.3% for Virginia, compared to a 2.0% increase in the previous fiscal year. By a measure of total combined assessed value of residential and commercial real estate, Hanover experienced a decline in its total assessed value of 3.9% in fiscal year 2012 compared to declines of 3.0% and 3.3% reported by neighboring triple AAA rated counties. Hanover has again shared in the decline experienced by its neighboring triple AAA rated counties in total real estate assessed valuations in fiscal year 2013 with a decline of 3.1%. A smaller decline in total real estate assessed valuations is expected in 2014.

The latter part of fiscal year 2013 showed more positive and consistent revenue returns than had been reported earlier in the fiscal year. Fiscal year 2014 is anticipated to continue those trends, particularly in the areas of sales tax and personal property. Sales tax revenues have offset a portion of the housing decline, with an increase of 4.5% in fiscal year 2013 and a budgeted increase of 1.4% in fiscal year 2014 over the prior year actual. Personal property tax revenues are also helping to offset a significant portion of the decline in real property tax revenues, with steady increases in new car sales and the total valuation of the business and personal property. State and Federal revenues are budgeted to increase by $0.5 million, or 1.5% in fiscal year 2014, but with a corresponding increase in related program expenditures. With these factors in mind, net of the use of $8.7 million of prior year fund balance, the County's adopted fiscal year 2014 General Fund budget was set at $207.8 million, a decrease of $0.7 million or 0.3% in comparison to the fiscal year 2013 figure of $208.5 million. The County closely monitors and forecasts its revenues on a continual basis, and incorporates any significant changes in its current and subsequent fiscal year's budget plans in order to mitigate their impact and maintain the County's sound financial condition.

The County recognizes the value of properly illustrating year-end assignments of fund balance. Accordingly, at June 30, 2013, the County has assigned $8.7 million of fund balance in its General Fund

to fund a portion of the fiscal year 2014 adopted General Fund budget. In this manner, the County is able to utilize and reinvest all or portions of positive budget-to-actual variances at the end of the current fiscal year as a source of funding for the succeeding fiscal year's budget, while also meeting the County's fund balance policy and assigning amounts as deemed necessary to meet future needs. Accordingly, the County has assigned an additional $9.0 million to meet specifically identified future needs, including $1.0 million to fund future school budgets, $1.0 million for economic development, $2.1 million to fund a portion of the County's subsequent five-year financial plans, $4.0 million to fund capital projects, and $0.9 million to fund other specific purposes. In fiscal year 2010 and prior years, by formal resolution, the Board of Supervisors committed $0.5 million for economic development, which is available at the end of fiscal year 2013 to fund those additional future needs. All commitments and assignments of fund balance are illustrated in Note V.B to the accompanying financial statements.

The Generating Equipment Tax for fiscal year 2013 was increased from $0.55 to $0.81 to match the real property tax rate and remain consistent with that rate going forward. All other County general property tax rates remained unchanged for calendar year 2013. In fiscal year 2013, Public Utilities' water and sewer user fees increased by 1.0% each.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's financial condition and operations. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Director of Finance and Management Services, County of Hanover, P.O. Box 470, Hanover, VA 23069.

BASIC FINANCIAL STATEMENTS

COUNTY OF HANOVER, VIRGINIA **Exhibit 1**

Statement of Net Position

June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
ASSETS					
Current Assets:					
Pooled cash, cash equivalents and investments	$ 68,558,716	17,040,853	85,599,569	15,876,956	155,527
Receivables (net of allowance for uncollectibles)	59,255,458	4,107,263	63,362,721	5,259,698	-
Prepaid expenses	232,002	-	232,002	-	-
Support agreement receivable	-	-	-	-	2,010,000
Inventories	197,871	-	197,871	139,651	-
Total current assets	128,244,047	21,148,116	149,392,163	21,276,305	2,165,527
Noncurrent Assets:					
Pooled cash, cash equivalents and investments - restricted	62,526	3,431,374	3,493,900	-	-
Support agreement receivable	-	-	-	-	11,255,000
Prepaid postemployment healthcare benefits	-	-	-	145,088	-
Capital assets (net of accumulated depreciation):					
Land	8,981,987	11,117,119	20,099,106	7,400,682	-
Intangible assets	807,474	-	807,474	-	-
Buildings	153,834,782	56,528,675	210,363,457	91,464,325	-
Improvements other than buildings	5,308,611	135,047,734	140,356,345	2,627,262	-
Machinery and equipment	38,058,546	2,497,846	40,556,392	7,666,032	-
Infrastructure	15,836,727	-	15,836,727	-	-
Construction in progress	1,026,396	6,063,764	7,090,160	776,700	-
Total capital assets, net	223,854,523	211,255,138	435,109,661	109,935,001	-
Total noncurrent assets	223,917,049	214,686,512	438,603,561	110,080,089	11,255,000
Total assets	352,161,096	235,834,628	587,995,724	131,356,394	13,420,527
LIABILITIES					
Current Liabilities:					
Accounts payable	3,683,373	1,284,965	4,968,338	3,116,867	151
Incurred but not reported self-insurance claims	1,712,000	-	1,712,000	-	-
Accrued liabilities	2,640,039	226,081	2,866,120	13,551,671	-
Accrued bond interest	843,482	301,285	1,144,767	2,146,192	-
Unearned revenue	47,594,131	-	47,594,131	56,517	-
Current portion of bonds payable	13,263,869	1,030,813	14,294,682	-	2,010,000
Current portion of capital lease obligations	89,476	-	89,476	-	-
Current portion of compensated absences	4,346,224	494,644	4,840,868	1,455,640	-
Current portion of liaibility for landfill closure and postclosure costs	74,887	-	74,887	-	-
Current portion of support agreement	700,000	1,310,000	2,010,000	-	-
Total current liabilities	74,947,481	4,647,788	79,595,269	20,326,887	2,010,151
Noncurrent Liabilities:					
Bonds payable	130,583,290	18,920,640	149,503,930	-	11,255,000
Capital lease obligations	2,166,620	-	2,166,620	-	-
Compensated absences	1,806,544	101,266	1,907,810	3,234,744	-
Other post-employment benefit obligations	812,560	-	812,560	-	-
Deposits	-	460,519	460,519	-	-
Liability for landfill closure and postclosure costs	2,111,931	-	2,111,931	-	-
Support agreement	5,263,481	6,482,489	11,745,970	-	-
Total noncurrent liabilities	142,744,426	25,964,914	168,709,340	3,234,744	11,255,000
Total liabilities	217,691,907	30,612,702	248,304,609	23,561,631	13,265,151
NET POSITION					
Net investment in capital assets	71,850,313	183,511,196	255,361,509	109,935,001	-
Restricted for:					
Grant programs	581,242	-	581,242	-	-
Capital projects	4,453,185	-	4,453,185	-	-
Debt covenants	-	3,431,374	3,431,374	-	-
Postemployment healthcare benefits	-	-	-	145,088	-
Unrestricted (deficit)	57,584,445	18,279,356	75,863,801	(2,285,326)	155,376
Total net position	$ 134,469,185	205,221,926	339,691,111	107,794,763	155,376

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

COUNTY OF HANOVER, VIRGINIA

Exhibit 2

Statement of Activities

For the Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
Primary government:									
Governmental activities:									
General governmental administration	$ 13,251,586	1,989,140	763,204	-	(10,499,242)	-	(10,499,242)	-	-
Judicial administration	4,737,986	1,181,522	1,453,960	-	(2,102,504)	-	(2,102,504)	-	-
Public safety	51,534,448	4,261,351	4,978,697	412,691	(41,881,709)	-	(41,881,709)	-	-
Public works	12,115,168	1,172,975	21,315	1,361,789	(9,559,089)	-	(9,559,089)	-	-
Human services	21,502,295	3,400,041	8,689,821	335,300	(9,077,133)	-	(9,077,133)	-	-
Parks, recreation and cultural	6,141,549	477,202	-	819,749	(4,844,598)	-	(4,844,598)	-	-
Community development	4,809,867	926,660	-	-	(3,883,207)	-	(3,883,207)	-	-
Education	88,113,912	-	-	547,891	(87,566,021)	-	(87,566,021)	-	-
Interest on long-term debt	1,966,102	-	-	-	(1,966,102)	-	(1,966,102)	-	-
Total governmental activities	204,172,913	13,408,891	15,906,997	3,477,420	(171,379,605)	-	(171,379,605)	-	-
Business-type activities:									
Public Utilities	26,370,084	22,523,614	-	8,217,247	-	4,370,777	4,370,777	-	-
Airport	641,915	189,662	-	417,683	-	(34,570)	(34,570)	-	-
Total business-type activities	27,011,999	22,713,276	-	8,634,930	-	4,336,207	4,336,207	-	-
Total primary government	$ 231,184,912	36,122,167	15,906,997	12,112,350	(171,379,605)	4,336,207	(167,043,398)	-	-
Component Units:									
School Board	$ 179,053,629	7,101,216	88,728,372	-	-	-	-	(83,224,041)	-
Economic Development Authority	872,321	232,935	-	200,000	-	-	-	-	(439,386)
Total component units	$ 179,925,950	7,334,151	88,728,372	200,000	-	-	-	(83,224,041)	(439,386)
General revenues:									
Taxes:									
General property taxes					125,689,871	-	125,689,871	-	-
Sales taxes					17,357,257	-	17,357,257	-	-
Utility taxes					6,871,623	-	6,871,623	-	-
Recordation taxes					2,428,067	-	2,428,067	-	-
Other					2,184,430	-	2,184,430	-	-
Noncategorical State aid					14,850,432	-	14,850,432	-	-
Grants and contributions not restricted to specific programs					1,168,838	-	1,168,838	-	-
Payment from Hanover County					-	-	-	84,236,096	374,240
Unrestricted investment earnings					164,364	56,861	221,225	6,345	-
Transfers					(67,742)	67,742	-	-	-
Total general revenues and transfers					170,647,140	124,603	170,771,743	84,242,441	374,240
Change in net position					(732,465)	4,460,810	3,728,345	1,018,400	(65,146)
Total net position - beginning					135,201,650	200,761,116	335,962,766	106,776,363	220,522
Total net position - ending					$ 134,469,185	205,221,926	339,691,111	107,794,763	155,376

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 3**

Governmental Funds
Balance Sheet
June 30, 2013

	General	Capital Funds: County Improvements	Capital Funds: School Improvements	Total Governmental Funds
ASSETS				
Pooled cash, cash equivalents and investments	$ 42,553,860	10,246,722	5,017,969	57,818,551
Receivables (net of allowances for uncollectibles)	57,799,470	733,603	-	58,533,073
Prepaid Expenditures	-	232,002	-	232,002
Inventories	197,871	-	-	197,871
Pooled cash, cash equivalents and investments - restricted	-	62,526	-	62,526
Total assets	$ 100,551,201	11,274,853	5,017,969	116,844,023
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,325,840	554,009	788,808	3,668,657
Accrued liabilities	2,627,407	-	-	2,627,407
Deferred revenue	51,363,824	-	-	51,363,824
Total liabilities	56,317,071	554,009	788,808	57,659,888
Fund Balances:				
Nonspendable	197,871	-	-	197,871
Restricted	581,242	4,453,185	425,000	5,459,427
Committed	500,000	-	-	500,000
Assigned	17,754,733	6,267,659	3,804,161	27,826,553
Unassigned	25,200,284	-	-	25,200,284
Total fund balances	44,234,130	10,720,844	4,229,161	59,184,135
Total liabilities and fund balances	$ 100,551,201	11,274,853	5,017,969	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	$ 223,854,523
Receivables on the statement of net assets that do not provide current financial resources are not reported in the funds.	5,563,605
Postemployment healthcare benefits represent irrevocable payments made to the Retiree Medical Benefits Trust and VRS for retiree healthcare benefits. The liability is reported in the statement of net assets as a noncurrent liability and as expenditures in the funds when made.	(812,560)
The Self-Insurance Fund is an Internal Service Fund used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the Self-Insurance Fund are included in governmental activities in the statement of net assets.	7,929,286
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(161,249,804)
Net position of governmental activities	$ 134,469,185

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 4**

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2013

	General	County Improvements	School Improvements	Total Governmental Funds
REVENUES				
Revenue from local sources:				
General property taxes	$ 125,716,871	-	-	125,716,871
Other local taxes	28,841,377	-	-	28,841,377
Permits, privilege fees and regulatory licenses	2,117,648	-	-	2,117,648
Fines and forfeitures	1,122,896	-	-	1,122,896
Revenues from use of money and property	517,923	458	1,061	519,442
Charges for services	6,442,007	750,032	546,830	7,738,869
Miscellaneous	762,987	2,170	-	765,157
Recovered costs	3,720,996	364,955	-	4,085,951
Revenue from the Commonwealth	27,009,869	775,104	-	27,784,973
Revenue from the Federal government	3,749,701	815,777	-	4,565,478
Total revenues	200,002,275	2,708,496	547,891	203,258,662
EXPENDITURES				
General governmental administration	12,400,341	988,048	-	13,388,389
Judicial administration	4,479,175	146,347	-	4,625,522
Public safety	47,910,192	1,304,596	-	49,214,788
Public works	8,858,938	1,653,636	-	10,512,574
Human services	21,042,265	68,517	-	21,110,782
Parks, recreation and cultural	5,463,552	147,779	-	5,611,331
Community development	4,719,372	-	-	4,719,372
Education	87,837,783	-	2,091,321	89,929,104
Debt service:				
Principal retirement	2,541,464	-	-	2,541,464
Interest and fiscal charges	1,957,177	-	-	1,957,177
Total expenditures	197,210,259	4,308,923	2,091,321	203,610,503
Excess (deficiency) of revenues over (under) expenditures	2,792,016	(1,600,427)	(1,543,430)	(351,841)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,807,000	2,316,000	4,123,000
Transfers out	(4,190,742)	-	-	(4,190,742)
Sale of capital assets	-	335,300	-	335,300
Total other financing sources (uses)	(4,190,742)	2,142,300	2,316,000	267,558
Net change in fund balance	(1,398,726)	541,873	772,570	(84,283)
Total fund balances - beginning	45,632,856	10,178,971	3,456,591	59,268,418
Total fund balances - ending	$ 44,234,130	10,720,844	4,229,161	59,184,135

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 5**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balance - total governmental funds	$	(84,283)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($7,720,579) exceeded capital outlays ($3,126,556) in the current period.		(4,594,023)
Tenancy in Common (see note IV. C.) - Under Virginia law, the County has a tenancy in common for School Board Component Unit capital assets for which the County is obligated to repay outstanding "on-behalf" bonds. Under the tenancy in common, the County reports the net book value of School Component Unit capital assets in the amount of the outstanding principal balance of "on-behalf" bonds at year end, net of unspent bond proceeds. This amount is the decrease in the net book value of School Board Component Unit capital assets reported by the County for the fiscal year, which resulted primarily from a decrease in school construction activity during the fiscal year, and results in a decrease in net assets reported by the County (primary government) on the statement of activities.		(9,808,516)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (e.g., tax receivable accrual).		(85,771)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (including payments to the School Board Component Unit for that purpose) consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of debt principal payments ($2,541,464) and payments to the School Component Unit for debt principal reduction ($10,723,304).		13,264,768
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,418,222)
An internal service fund is used by management to charge the costs of self-insurance to individual funds. The change in internal service fund net position is reported with governmental activities.		1,993,582
Change in net position of governmental activities	$	(732,465)

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 6**

General Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Revenue from local sources:				
General property taxes	$ 123,685,500	123,685,500	125,716,871	2,031,371
Other local taxes	28,342,000	28,342,000	28,841,377	499,377
Permits, privilege fees and regulatory licenses	1,551,700	1,551,700	2,117,648	565,948
Fines and forfeitures	1,269,200	1,269,475	1,122,896	(146,579)
Revenues from use of money and property	759,000	759,000	517,923	(241,077)
Charges for services	6,369,471	6,369,471	6,442,007	72,536
Miscellaneous	992,750	853,276	762,987	(90,289)
Recovered costs	3,365,658	3,401,558	3,720,996	319,438
Revenue from the Commonwealth	27,249,624	27,365,470	27,009,869	(355,601)
Revenue from the Federal government	2,968,051	3,401,094	3,749,701	348,607
Total revenues	196,552,954	196,998,544	200,002,275	3,003,731
EXPENDITURES				
General governmental administration	12,493,818	13,059,935	12,400,341	659,594
Judicial administration	4,466,323	4,632,777	4,479,175	153,602
Public safety	47,236,471	49,123,780	47,910,192	1,213,588
Public works	9,340,461	9,945,117	8,858,938	1,086,179
Human services	23,207,682	23,313,805	21,042,265	2,271,540
Parks, recreation and cultural	5,587,760	5,654,205	5,463,552	190,653
Community development	4,517,337	4,902,013	4,719,372	182,641
Education	91,841,500	91,672,882	87,837,783	3,835,099
Debt service:				
Principal retirement	2,541,464	2,541,464	2,541,464	-
Interest and fiscal charges	3,721,435	2,906,916	1,957,177	949,739
Total debt service	6,262,899	5,448,380	4,498,641	949,739
Total expenditures	204,954,251	207,752,894	197,210,259	10,542,635
Excess of revenues over expenditures	(8,401,297)	(10,754,350)	2,792,016	13,546,366
OTHER FINANCING USES				
Transfers out	3,511,265	4,190,742	4,190,742	-
Total other financing uses	3,511,265	4,190,742	4,190,742	-
Net change in fund balance	(11,912,562)	(14,945,092)	(1,398,726)	13,546,366
Fund balances - beginning	11,912,562	45,632,856	45,632,856	-
Fund balances - ending	$ -	30,687,764	44,234,130	13,546,366

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 7**

Proprietary Funds
Statement of Net Position
June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
ASSETS				
Current Assets:				
Pooled cash, cash equivalents and investments	$ 16,246,119	794,734	17,040,853	10,740,165
Receivables (net of allowances for uncollectibles)	4,005,356	101,907	4,107,263	442,932
Total current assets	20,251,475	896,641	21,148,116	11,183,097
Noncurrent Assets:				
Pooled cash, cash equivalents and investments - restricted	3,431,374	-	3,431,374	-
Capital assets:				
Land	6,354,136	4,762,983	11,117,119	-
Buildings and system	84,603,267	3,669,137	88,272,404	-
Improvements other than buildings	216,571,413	8,090,789	224,662,202	-
Machinery and equipment	9,406,278	37,481	9,443,759	-
Construction in progress	5,627,201	436,563	6,063,764	-
Less accumulated depreciation	(123,505,553)	(4,798,557)	(128,304,110)	-
Total capital assets (net of accumulated depreciation)	199,056,742	12,198,396	211,255,138	-
Total noncurrent assets	202,488,116	12,198,396	214,686,512	-
Total assets	222,739,591	13,095,037	235,834,628	11,183,097
LIABILITIES				
Current Liabilities:				
Accounts payable	1,283,679	1,286	1,284,965	14,718
Incurred but not reported self-insurance claims	-	-	-	1,712,000
Accrued liabilities	222,123	3,958	226,081	12,632
Accrued bond interest	264,079	37,206	301,285	-
Unearned revenue	-	-	-	1,514,461
Current portion of bonds payable	960,365	70,448	1,030,813	-
Current portion of compensated absences	491,915	2,729	494,644	-
Current portion of support agreement	1,310,000	-	1,310,000	-
Total current liabilities	4,532,161	115,627	4,647,788	3,253,811
Noncurrent Liabilities:				
Bonds payable	17,526,272	1,394,368	18,920,640	-
Compensated absences	93,392	7,874	101,266	-
Deposits	460,519	-	460,519	-
Support agreement	6,482,489	-	6,482,489	-
Total noncurrent liabilities	24,562,672	1,402,242	25,964,914	-
Total liabilities	29,094,833	1,517,869	30,612,702	3,253,811
NET POSITION				
Net investment in capital assets	172,777,616	10,733,580	183,511,196	-
Restricted for debt covenants	3,431,374	-	3,431,374	-
Unrestricted	17,435,768	843,588	18,279,356	7,929,286
Total net position	$ 193,644,758	11,577,168	205,221,926	7,929,286

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 8**

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
OPERATING REVENUES				
Revenue from use of money and property	$ -	189,412	189,412	-
Charges for services	21,866,101	-	21,866,101	30,891,598
Capacity fees	249,220	-	249,220	-
Recovered cost	-	-	-	75,000
Miscellaneous	408,293	250	408,543	-
Total operating revenues	22,523,614	189,662	22,713,276	30,966,598
OPERATING EXPENSES				
Personal services	4,647,579	80,069	4,727,648	25,455
Fringe benefits	1,467,456	22,035	1,489,491	2,206
Health care claims and benefits	-	-	-	28,920,248
Contractual services	5,257,174	58,873	5,316,047	46,432
Internal services	1,530,080	-	1,530,080	-
Other charges	3,585,308	31,655	3,616,963	25,944
Depreciation	8,852,846	374,009	9,226,855	-
Total operating expenses	25,340,443	566,641	25,907,084	29,020,285
Operating income (loss)	(2,816,829)	(376,979)	(3,193,808)	1,946,313
NONOPERATING REVENUES (EXPENSES)				
Nonoperating revenues:				
Revenue from the Commonwealth	-	89,074	89,074	-
Revenue from the Federal government	-	328,609	328,609	-
Capacity fees - nonoperating	4,667,062	-	4,667,062	-
Interest income	56,861	-	56,861	47,269
Gain on sale of capital assets	-	-	-	-
Total nonoperating revenues	4,723,923	417,683	5,141,606	47,269
Nonoperating expenses:				
Interest expense and fiscal charges:				
Senior debt	1,029,248	75,274	1,104,522	-
Subordinate debt and fiscal charges	393	-	393	-
Interest expense and fiscal charges	1,029,641	75,274	1,104,915	-
Net nonoperating revenues (expenses)	3,694,282	342,409	4,036,691	47,269
Income (loss) before capital contributions and transfers	877,453	(34,570)	842,883	1,993,582
Capital contributions	3,550,185	-	3,550,185	-
Transfers in	-	67,742	67,742	-
Change in net position	4,427,638	33,172	4,460,810	1,993,582
Total net position- beginning	189,217,120	11,543,996	200,761,116	5,935,704
Total net position - ending	$ 193,644,758	11,577,168	205,221,926	7,929,286

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 9**

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Public Utilities	Non-major Airport	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$ 22,605,186	189,662	22,794,848	-
Receipts from interfund services provided	-	-	-	31,009,656
Payments to suppliers and service providers	(11,508,376)	(95,904)	(11,604,280)	(64,834)
Payments to employees	(4,804,832)	(100,780)	(4,905,612)	(27,661)
Claims and benefits paid	-	-	-	(29,431,180)
Net cash provided (used) by operating activities	6,291,978	(7,022)	6,284,956	1,485,981
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds - operating	-	67,742	67,742	-
Net cash provided by noncapital financing activities	-	67,742	67,742	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	300,000	-	300,000	-
Intergovernmental revenue received - capital grants	-	692,707	692,707	-
Capacity fees received	4,432,192	-	4,432,192	-
Acquisition and construction of capital assets	(6,028,889)	(392,897)	(6,421,786)	-
Payments on long-term contractual obligations	(165,042)	-	(165,042)	-
Principal payments on revenue bonds and support agreement debt	(2,281,830)	(67,001)	(2,348,831)	-
Interest payments on revenue bonds	(1,109,743)	(76,976)	(1,186,719)	-
Net cash provided (used) by capital and related financing activities	(4,853,312)	155,833	(4,697,479)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	56,861	-	56,861	47,269
Net cash provided by investing activities	56,861	-	56,861	47,269
Net increase in cash and cash equivalents	1,495,527	216,553	1,712,080	1,533,250
Pooled cash, cash equivalents and investments at beginning of year	18,181,966	578,181	18,760,147	9,206,915
Pooled cash, cash equivalents and investments at end of year	$ 19,677,493	794,734	20,472,227	10,740,165
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ (2,816,829)	(376,979)	(3,193,808)	1,946,313
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	8,852,846	374,009	9,226,855	-
(Increase) decrease in:				
Receivables	74,763	-	74,763	(442,932)
Increase (decrease) in:				
Customer deposits	6,809	-	6,809	-
Accounts payable	330,737	(5,376)	325,361	7,409
Incurred but not reported self-insurance claims	-	-	-	(68,000)
Accrued liabilities	(185,023)	150	(184,873)	133
Unearned revenue	-	-	-	43,058
Compensated absences	28,675	1,174	29,849	-
Total adjustments	9,108,807	369,957	9,478,764	(460,332)
Net cash provided (used) by operating activities	$ 6,291,978	(7,022)	6,284,956	1,485,981
Noncash investing, capital, and financing activities:				
Capital contributions	$ 3,250,185	-	3,250,185	-
Capitalized interest	$ 38,174	-	38,174	-
Accrued capital asset costs	$ 275,069	-	275,069	-

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 10**

Statement of Fiduciary Net Position

June 30, 2013

	Retiree Medical Benefits Trust	Agency Funds
ASSETS		
Pooled cash, cash equivalents and investments	$ -	$ 2,780,954
Receivables	998	1,366,816
Investments, at fair value (mutual funds):		
Money market	9,206	-
Domestic equity	2,372,531	-
Fixed income	1,178,539	-
Other	102,928	-
Total assets	$ 3,664,202	$ 4,147,770
LIABILITIES		
Accounts payable	$ -	$ 254,214
Accrued liabilities	-	2,324,124
Deposits	-	1,569,432
Total liabilities	$ -	$ 4,147,770
NET POSITION		
Held in trust for other postemployment benefits	$ 3,664,202	

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 11**

Retiree Medical Benefits Trust Fund
Statement of Changes in Plan Net Position
For the Year Ended June 30, 2013

	Retiree Medical Benefits Trust
ADDITIONS	
Contributions	
Employer	$ 661,239
Plan member	1,186,169
Total contributions	1,847,408
Investment earnings	388,614
Total additions	2,236,022
DEDUCTIONS	
Benefits	1,847,408
Net increase in plan net position	388,614
Net position held in trust for other postemployment benefits	
Beginning	3,275,588
Ending	$ 3,664,202

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

I. Summary of significant accounting policies

A. Reporting entity

The County of Hanover (the County) was established by an act of the Virginia General Assembly in 1720. It is a political subdivision of the Commonwealth of Virginia (the Commonwealth or State) operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and six other board members, each elected from the County's seven magisterial districts. The Board has responsibility for appointing the County Administrator. The County has taxing powers subject to statewide restrictions and tax limits. The accompanying financial statements present the County (the *primary government*) and its *component units*, entities for which the County is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the County. The County and its component units are together referred to herein as the *reporting entity*.

Discretely Presented Component Units

- **School Board:** The County provides education through its own public school system administered by the Hanover County School Board (the School Board). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate, but financially dependent through appropriations. The Board of Supervisors administers the School Board's appropriation of funds at the category level, approves transfers between categories, authorizes school debt issuances and appoints School Board members. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The School Board does not issue separate financial statements.

- **Economic Development Authority:** The Economic Development Authority of Hanover County, Virginia (the EDA) was established by ordinance of the Hanover County Board of Supervisors pursuant to the Industrial Development and Revenue Bond Act (Chapter 33, Title 15.1, Code of Virginia of 1950, as amended) so that such authorities may acquire, own, lease and dispose of properties to the end that such authorities may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate in or remain in the Commonwealth. Included in the discretely presented component unit EDA are the activities of economic development services. The County appoints the seven board members of the EDA representing each of the seven magisterial districts of the County. By statute, the EDA has the power to cause the issuance of tax-exempt industrial revenue bonds to qualifying enterprises wishing to utilize that form of financing. The County is involved in the day-to-day operations of the EDA, the determination of its operating budget and annual service fee rates and the approval of prospective private activity bond issues. Financial statements of the EDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The EDA does not issue separate financial statements.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position 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 financial statements. *Governmental activities,* which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not properly classified as program revenues, including all taxes, are reported as *general revenues.*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized when susceptible to accrual, (i.e., as soon as they are both measurable and available). Revenues from intergovernmental reimbursement grants are recorded when earned. Other revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers general property tax and other intergovernmental revenues to be available if they are collected within 31 days of the end of the current fiscal period, and are due on or before the last day of the current fiscal period. Sales taxes, which are collected by the State are not intergovernmental revenues. They are subsequently remitted to the County and are recognized consistent with the State's recognition policy. Accordingly, County revenues and receivables include May and June sales tax received from the State in July and August. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

The County has two proprietary funds. The *Public Utilities Fund*, a major fund, accounts for the activities and operations of the County's wastewater treatment and water distribution. The *Airport Fund*, a nonmajor fund, accounts for the activities and operations of the County's airport.

Additionally, the County reports the following fund categories:

> *Internal service fund* accounts for self-insurance activities of the County related to employee health insurance.
>
> *Fiduciary funds* consist of the *Retiree Medical Benefits Trust Fund* and *Agency Funds*. The agency funds include the *Bell Creek Community Development Authority Fund, the Lewistown Community Development Authority Fund,* and the *Escrow* and *Special Welfare* funds.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the County's internal service funds are charges to customers for sales and services, and internal charges, respectively. The Public Utilities Fund also recognizes as operating revenue the portion of capacity fees intended to recover the cost of connecting new customers to the utilities system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net position or equity

1. Deposits and investments

The County and its component units follow the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted cash and investments held by outside custodians in order to comply with the provisions of bond indentures, and the investments of the Retiree Medical Benefits Trust (Trust) held by the Trust's Finance Board. Investments are reported at fair value, based on quoted market prices at year end. As of June 30, 2013, the pooled cash and investments have been allocated between the County and the respective component units and Trust

based upon their respective ownership percentages. Investment earnings are allocated to the participating funds and component units based upon their respective average monthly equity balances in the pooled account. Cash, cash equivalents and investments – restricted, represent unspent bond proceeds for capital projects and, when applicable, accumulated interest thereon, as well as amounts set aside for bond debt service or to comply with other debt covenants. For purposes of the statements of cash flows, the amounts reported as cash and cash equivalents for the proprietary fund types represent amounts maintained in the reporting entity's investment pool, as they are considered to be demand deposits for the purpose of complying with U.S. generally accepted accounting principles (GAAP).

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the County's governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Accounts receivable and property tax receivables are shown net of an allowance for uncollectibles. Accounts receivable utilize percentage of receivable methods based upon aged receivable balances in determining allowances for uncollectibles. The property tax receivable allowance is calculated consistent with criteria established by the Auditor of Public Accounts of the Commonwealth of Virginia (APA), which uses historical collection data, specific account analysis and management's judgment.

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute. The real estate in the County is assessed each year as of January 1 on the estimated market value of the property. On January 1, the real estate taxes become an enforceable lien on the property. For real estate assessed on January 1, payment is due in two equal installments on June 5 and October 5. The real estate taxes reported as revenue are the second installment (October 5) of the levy on assessed value at January 1, 2011, and the first installment (June 5) of the levy on assessed value at January 1, 2012.

The County levies personal property taxes on motor vehicles, boats, mobile homes, aircraft and tangible business property. Personal property tax levies are based on the estimated fair market value as of January 1, with payment due on February 5 of the following year. On January 1, personal property taxes become an enforceable lien on the property. The tax on a vehicle may be prorated for the length of time the vehicle has situs (the place where the vehicle is usually kept) in the County.

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

The 1998 Virginia General Assembly enacted legislation providing property tax relief to citizens. The Personal Property Tax Relief Act (PPTRA) was intended to be phased in over five years on the first $20,000 of value for motor vehicles not used for business purposes. In 2005 the General Assembly capped PPTRA relief at $950 million statewide beginning with the 2006 tax year. Hanover receives a total of $15,002,000 in four payments annually. County 2012 tax bills, payable in fiscal year 2013, included a sixty-four percent reduction on the first $20,000 in value for qualifying vehicles. PPTRA payments received from the Commonwealth of Virginia are classified as noncategorical State aid in the General Fund.

3. Inventories

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

4. Restricted assets

In accordance with applicable bond covenants, governmental and business-type activities report restricted cash, cash equivalents and investments at June 30, 2013 of $3,493,900, which consists of unexpended bond proceeds and accumulated interest of $62,526 restricted for capital projects in the School and County Improvements Funds. Business-type activities report restricted cash, cash equivalents and investments of $3,431,374 maintained as reserves required by water and sewer revenue bond covenants.

5. Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed or purchased. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest cost of $38,174 was capitalized during the year-ended June 30, 2013.

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.

The estimated useful lives of capital assets are as follows:

Assets	Years
Buildings	40
Building improvements	20
Infrastructure	30
Durable Equipment	20
Vehicles, trucks, fire trucks	5-15
School Buses	12
Heavy Equipment and SCADA	10
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the County's policy to permit eligible employees to accumulate earned but unused vacation, compensatory time and sick pay benefits, subject to certain limitations. A liability for unused vacation pay and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of the liability is estimated based on historical leave usage. A liability for those amounts is reported in governmental funds only to the extent the liability has matured: for example, as a result of employee resignations or retirements. Sick leave is accrued under the vesting method which estimates the expected eligibility of all employees to receive termination payments.

7. Long-term obligations

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

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

8. Net positon / Fund balances

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

Fund balances in governmental funds are classified as follows:

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

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

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

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

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

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

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

9. New Accounting Pronouncement

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Inflows of Resources, Deferred Outflows of Resources, and Net Position* (GASB Statement No. 63). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The County retroactively implemented the provisions of GASB Statement No. 63 in fiscal year 2013 by replacing the previous term "net assets" with the new term "net position" in the accompanying financial statements.

10. Future Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The County has not completed the evaluation of

the impact that the implementation of this Statement will have on the financial statements. The County will adopt this Statement for the fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No.62*. This objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted for the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62. *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The County has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The County will adopt this Statement for the fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pension by State and Local Government Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*. The County has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The County will adopt this Statement for the fiscal year ending June 30, 2015.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state and local government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will make a payment under the guarantee. The statement also requires a government that receives a guarantee on its obligations and that is required to repay a guarantor for making a payment on a guaranteed obligation or for assuming an obligation, to report a liability until it is legally released as an obligor. Finally, the Statement requires disclosures by governments that extend or receive nonexchange financial guarantees. The County has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The County will adopt this Statement for the fiscal year ending June 30, 2014.

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 positon.

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

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

Bonds payable, net	$ 143,847,159
Accrued bond interest	843,482
Capital lease obligations	2,256,096
Support agreeement payable	5,963,481
Compensated absences (excludes internal services)	6,152,768
Liability for landfill closure and postclosure costs	2,186,818
Net adjustment to reduce total fund balances - total governmental funds to arrive at net position - governmental activities	$ 161,249,804

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

Capital outlay	$ 3,126,556
Depreciation expense	(7,720,579)
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net positon of governmental activities	$ (4,594,023)

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)	$ (378,513)
Liability for landfill closure and postclosure costs	28,552
Other postemployment benefit (OPEB) costs	(1,059,336)
Accrued interest	(434,425)
Amortization of bond premiums	609,539
Amortization of deferred amount on refunding	(184,039)
Net adjustment to increase the net change in fund balance - total governmental funds to arrive at the change in net position of governmental activities	$ (1,418,222)

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 $50,000 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 $50,000 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, 2013, the reporting entity's pooled cash and investments, including $2,780,954 held on behalf of agency funds, and amounts separately invested by the Retiree Medical Benefits Trust's Finance Board, were as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA/AAAm	AA	A	N/R	N/A
Pooled Investments:						
Cash on hand	$ 3,400	-	-	-	-	3,400
Cash deposits	18,951,757	-	-	-	-	18,951,757
Demand and time deposits	8,273,198	-	2,123,828	4,968,477	-	1,180,893
Money market mutual funds (AAAm ratings)	28,467,476	28,467,476	-	-	-	-
U.S. government and agency bonds	39,011,428	-	39,011,428	-	-	-
Corporate notes and bonds	10,580,160	1,062,687	9,408,141	109,332	-	-
Commercial paper	1,310,039	-	-	1,310,039	-	-
Municipal bonds	1,309,451	-	1,309,451	-	-	-
Total pooled deposits and investments	$ 107,906,909	29,530,163	51,852,848	6,387,848	-	20,136,050

		Fund Credit Quality Rating		
Retiree Medical Benefits Trust:	Fair Value	AAAm	N/R	N/A
Mutual funds:				
Money market	$ 9,206	9,206	-	-
Domestic equity	2,372,531	-	2,372,531	-
International equity	-	-	-	-
Fixed income	1,178,539	-	222,730	955,809
Other	102,928	-	102,928	-
Total trust investments	$ 3,663,204	9,206	2,698,189	955,809

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:

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

The County Policy expressly prohibits the following securities, unless specifically approved in writing by the Treasurer: derivative products; reverse repurchase agreements; and any other security not specifically authorized in the policy.

Retiree Medical Benefits Trust (Trust) Investments: The primary goal of the Trust is to meet the reporting entity's current and long-term retiree health care benefit obligations while minimizing required employer contributions. The Trust's investment policy (Trust Policy) objectives include maintenance of a moderate risk profile and a prudent degree of investment diversification, while optimizing long-term investment returns commensurate with minimizing volatility and the risk of loss over established time horizons. In addition to the investments permitted under Section 2.2-4000 of the Code as applicable to the County's pooled investments, the Code also authorizes the Trust to purchase other investments, including domestic and international stocks, REITS and corporate bonds that meet the prudent person standard set forth in the Code. To meet this standard, the Trust (Trust

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

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

The target asset classes and asset weightings are as follows:

		Trust Asset Weightings		
Trust Asset Class	Fair Value	Range	Target	Actual
Liquidity assets:				
Cash equivalent	$ 9,206	0 - 100%	100%	100%
Investment assets:				
Domestic equity	2,372,531	26 - 46%	36%	65%
International equity	-	13 - 33%	23%	0%
REITs	102,928	0 - 12%	6%	3%
Inflation hedged	-	0 - 10%	0%	0%
Fixed income	1,178,539	20 - 60%	35%	32%
Total investment assets	3,653,998		100%	100%
Total trust investments	$ 3,663,204			

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, 2013, deposits and fixed income investments are summarized at fair value and maturity as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1 to 3	More than 3
Pooled Investments:				
Cash on hand	$ 3,400	3,400	-	-
Cash deposits	18,951,758	18,951,758	-	-
Demand and time deposits	8,273,198	1,499,163	6,774,035	-
Money market mutual funds	28,467,476	28,467,476	-	-
U.S. Government and agency bonds	39,011,427	2,412,175	36,599,252	-
Corporate notes and bonds	10,580,160	1,095,845	9,484,315	-
Commercial paper	1,310,039	1,310,039	-	-
Municipal bonds	1,309,451	376,177	933,274	-
Total pooled deposits and investments	$ 107,906,909	54,116,033	53,790,876	-

Retiree Medical Benefits Trust:	Fair Value	Investment Maturities (in Years) Less than 1	1 to 5	More than 5
Money market mutual fund	$ 9,206	9,206	-	-
Fixed Income	3,653,998	-	219,104	3,434,894
Total trust deposits and investments	$ 3,663,204	9,206	219,104	3,434,894

Credit Risk: As required by State statute, the County Policy requires that commercial paper have a short-term debt rating of no less than A-1 (or its equivalent) from at least two of the nationally recognized statistical rating organizations, and that its maturity may not exceed 270 days and the issuing corporation.

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

The County’s rated pooled debt investments as of June 30, 2013 were rated by Standard & Poor’s and/or an equivalent nationally recognized statistical rating organization. Deposits and investments not exposed to credit quality risk, as defined by GAAP, are designated as not applicable (N/A) in the credit rating column, and those that are not rated are designated as N/R.

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

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

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

As of June 30, 2013, investments in the following issuers exceeded five percent of the pooled investments: US Treasury (23%), Federal Home Loan Mortgage Corporation (6%) and Federal National Mortgage Association (7%).

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, 2013 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, 2013, 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, 2013.

B. Receivables

Receivables and allowances for uncollectible receivables of the primary government and School Component Unit, excluding fiduciary funds, at June 30, 2013, are as follows:

	Primary Government						
	General Fund	County Improvements Fund	Public Utilities	Airport Fund	Internal Services Funds	Total Primary Government	School Component Unit
Receivables:							
Interest	$ 185,501	-	-	-	-	185,501	-
Taxes	52,700,746	-	-	-	-	52,700,746	-
Accounts	2,135,837	7,731	4,163,529	-	442,932	6,750,029	246,237
Commonwealth of Virginia	5,172,625	629,400	-	53,823	-	5,855,848	2,950,306
Federal government	292,147	96,472	-	48,084	-	436,703	2,063,155
Gross receivables	60,486,856	733,603	4,163,529	101,907	442,932	65,928,827	5,259,698
Allowance for uncollectibles	(2,407,933)	-	(158,173)	-	-	(2,566,106)	-
Net total receivables	$ 58,078,923	733,603	4,005,356	101,907	442,932	63,362,721	5,259,698

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 2012 real property tax levy, due on October 7, 2013, is reported as unearned revenue at June 30, 2013 in the government-wide financial statements, and as deferred revenue in the governmental fund financial statements. At June 30, 2013, 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	$ 46,079,670	$ 46,079,670
Past due taxes (net of allowance for uncollectibles)	5,229,000	-
EMS transport fees	55,154	-
Unearned health insurance premiums - Self Insurance Fund	-	1,514,461
Total deferred/unearned revenue - primary government	$ 51,363,824	$ 47,594,131

C. Capital assets

Capital asset activity for the primary government for the year ended June 30, 2013 was as follows:

Primary Government

Governmental activities:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	$ 8,826,159	155,828	-	8,981,987
Intangible assets	807,474	-	-	807,474
Construction in progress	1,473,014	2,820,567	(3,267,185)	1,026,396
Total capital assets, not being depreciated	11,106,647	2,976,395	(3,267,185)	10,815,857
Capital assets, being depreciated:				
Buildings	239,967,430	68,517	(8,026,214)	232,009,733
Improvements other than buildings	12,171,004	568,030	-	12,739,034
Machinery and equipment	69,987,883	3,071,854	(1,471,418)	71,588,319
Infrastructure	30,745,173	-	-	30,745,173
Total capital assets, being depreciated	352,871,490	3,708,401	(9,497,632)	347,082,259
Less accumulated depreciation for:				
Buildings	(74,360,688)	(3,905,878)	91,615	(78,174,951)
Improvements other than buildings	(5,856,815)	(1,573,608)	-	(7,430,423)
Machinery and equipment	(30,578,358)	(4,393,808)	1,442,393	(33,529,773)
Infrastructure	(14,908,446)	-	-	(14,908,446)
Total accumulated depreciation	(125,704,307)	(9,873,294)	1,534,008	(134,043,593)
Total capital assets, being depreciated, net	227,167,183	(6,164,893)	(7,963,624)	213,038,666
Governmental activities capital assets, net	$ 238,273,830	(3,188,498)	(11,230,809)	223,854,523

Business-type activities: **Public Utilities:**	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	$ 6,354,136	-	-	6,354,136
Construction in progress	7,255,569	5,899,876	(7,528,244)	5,627,201
Total capital assets, not being depreciated	13,609,705	5,899,876	(7,528,244)	11,981,337
Capital assets, being depreciated:				
Buildings	83,224,039	1,379,228	-	84,603,267
Improvements other than buildings	208,342,711	8,228,702	-	216,571,413
Machinery and equipment	8,830,979	591,107	(15,808)	9,406,278
Total capital assets, being depreciated	300,397,729	10,199,037	(15,808)	310,580,958
Less accumulated depreciation for:				
Buildings	(28,710,157)	(2,345,456)	-	(31,055,613)
Improvements other than buildings	(79,590,379)	(5,939,253)	-	(85,529,632)
Machinery and equipment	(6,352,001)	(584,115)	15,808	(6,920,308)
Total accumulated depreciation	(114,652,537)	(8,868,824)	15,808	(123,505,553)
Total capital assets, being depreciated, net	185,745,192	1,330,213	-	187,075,405
Public Utilities capital assets, net	$ 199,354,897	7,230,089	(7,528,244)	199,056,742

Airport Fund:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	$ 4,762,983	-		4,762,983
Construction in progress	43,667	409,154	(16,258)	436,563
Total capital assets, not being depreciated	4,806,650	409,154	(16,258)	5,199,546
Capital assets, being depreciated:				
Buildings	3,669,137	-	-	3,669,137
Improvements other than buildings	8,090,789	-	-	8,090,789
Machinery and equipment	37,481	-	-	37,481
Total capital assets, being depreciated	11,797,407	-	-	11,797,407
Less accumulated depreciation for:				
Buildings	(573,962)	(114,154)	-	(688,116)
Improvements other than buildings	(3,833,582)	(251,254)	-	(4,084,836)
Machinery and equipment	(17,004)	(8,601)	-	(25,605)
Total accumulated depreciation	(4,424,548)	(374,009)	-	(4,798,557)
Total capital assets, being depreciated, net	7,372,859	(374,009)	-	6,998,850
Airport capital assets, net	$ 12,179,509	35,145	(16,258)	12,198,396
Business-type activities capital assets, net	$ 211,534,406	7,265,234	(7,544,502)	211,255,138
Total capital assets, net - Primary government	$ 449,808,236	4,076,736	(18,775,311)	435,109,661

Capital assets activity for the School Board Component Unit for the year ended June 30, 2013 was as follows:

School Board Component Unit activities:	Balance July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated:				
Land	$ 7,400,682	-	-	7,400,682
Construction in progress	425,151	2,397,145	(2,045,596)	776,700
Total capital assets, not being depreciated	7,825,833	2,397,145	(2,045,596)	8,177,382
Capital assets, being depreciated:				
Buildings	130,969,267	7,672,569	-	138,641,836
Improvements other than buildings	3,740,272	901,016	-	4,641,288
Machinery and equipment	23,985,393	594,109	(377,096)	24,202,406
Total capital assets, being depreciated	158,694,932	9,167,694	(377,096)	167,485,530
Less accumulated depreciation for:				
Buildings	(40,921,821)	(6,255,690)	-	(47,177,511)
Improvements other than buildings	(1,816,013)	(198,013)	-	(2,014,026)
Machinery and equipment	(15,131,465)	(1,782,005)	377,096	(16,536,374)
Total accumulated depreciation	(57,869,299)	(8,235,708)	377,096	(65,727,911)
Total capital assets, being depreciated, net	100,825,633	931,986	-	101,757,619
School Board Component Unit capital assets, net	$ 108,651,466	3,329,131	(2,045,596)	109,935,001

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

Primary government:		
Governmental activities:		
General governmental administration	$	373,448
Judicial administration		188,005
Public safety		4,375,797
Public works		1,900,575
Human services		190,697
Parks, recreation and cultural		610,007
Community development		82,050
Education		4,550,340
Total depreciation expense - governmental activities		12,270,919
Business-type activities:		
Public Utilities		8,852,846
Airport		374,009
Total depreciation expense - business-type activities		9,226,855
Total depreciation expense - primary government	$	21,497,774
School Component Unit	$	5,838,083

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, 2013, the County had outstanding financial obligations related to the construction of school buildings totaling $163,495,419. Accordingly, school buildings with a net book value of that amount are reported in the governmental activities of the Primary Government at June 30, 2013. During fiscal year 2013, the County's financial obligations related to school buildings decreased by a net amount of $9,825,284, and, accordingly, the net book value of school buildings reported by the Primary Government decreased, and the net book value of buildings reported by the School Board Component Unit increased by the same amount. Depreciation expense on school buildings is allocated to the Primary Government and the School Board Component Unit in proportion to the relative cost of the buildings reported by each entity. Accordingly, depreciation of School Board Component Unit capital assets totaled $10,388,423 in fiscal year 2013, of which $4,550,340 is reported by the Primary Government and $5,838,083 is reported by the School Component Unit.

D. Interfund transfers

The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2013 are as follows:

Primary Government	Transfers In	Transfers Out
General Fund	$ -	4,190,742
County Improvements Fund	1,807,000	-
School Improvements Fund	2,316,000	-
Airport Fund	67,742	-
Total primary government	$ 4,190,742	4,190,742

E. Noncurrent liabilities

The following is a summary of changes in the government-wide noncurrent liabilities of the primary government and the School Board Component Unit for the year ended June 30, 2013:

Primary Government	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
Principal amount of bonds payable	$ 151,508,285	-	12,469,768	139,038,517	12,532,349
Premium	6,848,472	-	609,539	6,238,933	547,840
Deferred amount on refunding	(1,614,330)	-	(184,039)	(1,430,291)	183,680
Total bonds payable	156,742,427	-	12,895,268	143,847,159	13,263,869
Capital lease obligations	2,355,572	-	99,476	2,256,096	89,476
Compensated absences	5,774,255	4,565,090	4,186,577	6,152,768	4,346,224
Other post-employment benefit obligations	(246,776)	1,059,336	-	812,560	-
Liability for landfill closure	2,215,370		28,552	2,186,818	74,887
Support Agreement	6,681,332	-	717,851	5,963,481	700,000
Total governmental activities	173,522,180	5,624,426	17,927,724	161,218,882	18,474,456
Business-type activities:					
Public Utilities:					
Water and sewer revenue bonds payable:					
Principal amount of bonds payable	19,724,185	-	951,830	18,772,355	986,831
Premium	402,346	-	28,499	373,847	28,498
Deferred amount on refunding	(714,529)	-	(54,964)	(659,565)	(54,964)
Total bonds payable	19,412,002	-	925,365	18,486,637	960,365
Compensated absences	556,632	496,490	467,815	585,307	491,915
Deposits	453,710	244,364	237,555	460,519	-
Capacity fee credits	997,428	-	997,428	-	-
Contractual obligations	165,042	-	165,042	-	-
Support Agreement	9,172,282	-	1,379,793	7,792,489	1,310,000
Total Public Utilities	30,757,096	740,854	4,172,998	27,324,952	2,762,280
Airport Fund:					
VRA airport revenue bond payable	1,531,817	-	67,001	1,464,816	70,448
Compensated absences	9,429	3,601	2,427	10,603	2,729
Total Airport Fund	1,541,246	3,601	69,428	1,475,419	73,177
Total business-type activities	32,298,342	744,455	4,242,426	28,800,371	2,835,457
Total noncurrent liabilities - Primary government	$ 205,820,522	6,368,881	22,170,150	190,019,253	21,309,913
School Component Unit					
Compensated absences	$ 4,708,543	1,443,117	1,461,276	4,690,384	1,455,640
Total noncurrent liabilities - School Component Unit	$ 4,708,543	1,443,117	1,461,276	4,690,384	1,455,640

Capital lease obligations, support agreements, compensated absences and the liability for landfill closure reported as governmental activities liabilities of the primary government are liquidated by the General Fund.

Liability for landfill closure

State and federal laws and regulations required the County to place a final cover on its landfill site when it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The landfill closed December 31, 2002 and a permanent cap was completed in 2003 over the 35-acre site. The $2,186,818 reported as landfill closure and post closure care liability at June 30, 2013 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 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Capacity fee credits

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

General obligation bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds (including Virginia Public School Authority (VPSA) bonds) have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20 to 30-year serial bonds with equal amounts of principal maturing each year.

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 $25.8 million as of June 30, 2013, 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, 2013 of approximately $10.3 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 year 2013, pledged Net Available Revenues totaled $10,832,638, and the water and sewer revenue bond debt service requirement was $3,514,687.

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 $2,087,668 as of June 30, 2013, to secure the then-remaining debt service requirements on the Airport VRA Series 2007 revenue bond (Bond), which financed airport improvements completed in fiscal 2008. This pledge obligates substantially all future FBO rental income through July 1, 2027, and will expire on that date with the final maturity of the Bond. During fiscal year 2013, pledged rental receipts totaled $166,912, and the debt service requirement was $142,275.

County General Obligation Bonds and Revenue Bonds

Outstanding general obligation bonds and revenue bonds as of June 30, 2013 are comprised of the following issues:

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	$ 5,140,000
Series 2006A Refunding	4.00 - 5.00	10-12-06	3,965,000	1,550,000
Series 2009 Public Improvement	2.50 - 5.00	02-18-09	10,765,000	8,840,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	5,655,000	4,375,000
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	10,902,304
Total general obligation bonds - County				38,657,304
Schools:				
Series 2006A Public Improvement	4.00 - 5.00	10-12-06	13,710,000	9,295,000
Series 2006B Refunding	3.50 - 4.00	10-12-06	10,395,000	7,035,000
Series 2009 Public Improvement	2.00 - 5.00	02-18-09	9,450,000	6,335,000
Series 2009 Refunding	2.00 - 5.00	02-18-09	22,375,000	19,785,000
Series 2010A Public Improvement	2.00 - 5.00	01-14-10	6,585,000	5,105,000
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	997,696
Series 2011A Refunding	2.00 - 5.25	01-20-11	5,340,000	3,200,000
VPSA Series 1993A	4.475 - 5.00	11-18-93	3,620,000	20,000
VPSA Series 1994A	6.10 - 6.30	05-05-94	4,900,000	250,000
VPSA Series 1994B	6.10 - 6.60	11-22-94	5,385,000	530,000
VPSA Series 1995A	5.20 - 5.75	12-21-95	1,580,000	225,000
VPSA Series 1996A	5.10 - 6.10	11-14-96	7,495,000	1,160,000
VPSA Series 1999A	5.10 - 6.10	11-18-99	5,630,000	1,960,000
VPSA Series 1999B	5.10 - 6.10	11-18-99	4,384,934	1,645,099
VPSA Series 2005A	3.10 - 5.10	05-12-05	16,105,000	10,465,000
VPSA Series 2005B	4.60 - 5.10	11-10-05	6,995,000	4,633,508
VPSA Series 2005C	4.60 - 5.10	11-10-05	6,967,658	4,545,000
VPSA Series 2007	4.10 - 5.10	11-08-07	13,838,206	10,559,910
VPSA Series 2009A Refunding	4.35 - 5.35	11-20-97	3,220,000	800,000
VPSA Series 2011B	2.05 - 5.05	11-09-11	5,855,000	5,560,000
Total general obligation bonds - Schools				100,381,213
Total governmental activities - general obligation bonds				139,038,517
Business-type activities:				
Public Utilities:				
Water and sewer revenue bonds:				
Series 2002A	0.00	06-14-02	920,400	460,200
Series 2005A Refunding	3.10 - 4.64	01-31-05	14,065,000	10,170,000
Series 2006	3.63 - 4.98	05-08-06	9,000,000	7,680,000
Series 2007	0.00	07-19-07	616,206	462,155
Total Public Utilities				18,772,355
Airport Fund:				
Taxable airport revenue bond:				
VRA Series 2007	5.08	03-21-07	1,795,000	1,464,816
Total Airport Fund				1,464,816
Total Business-type activities				20,237,171
Total bond indebtedness - Primary government				$ 159,275,688

Principal and interest to maturity for the County's governmental activities general obligation bonds and business-type activities revenue bonds outstanding at June 30, 2013, are as follows:

	Governmental Activities		Business-type Activities					
	General Obligation Bonds		Water and Sewer Revenue Bonds		Taxable Airport Revenue Bond		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 12,532,349	6,141,956	986,831	791,650	70,448	73,529	13,589,628	7,007,135
2015	11,811,509	5,628,725	1,021,831	752,775	74,072	69,905	12,907,412	6,451,405
2016	11,542,200	5,129,474	1,071,831	709,167	77,883	66,094	12,691,914	5,904,735
2017	11,448,637	4,641,877	1,111,831	665,680	81,889	62,088	12,642,357	5,369,645
2018	10,770,718	4,161,271	1,156,831	621,334	86,102	57,875	12,013,651	4,840,480
2019-2023	46,048,853	13,830,977	6,574,155	2,318,972	501,692	218,194	53,124,700	16,368,143
2024-2028	28,049,251	5,216,786	4,589,045	952,769	572,730	75,167	33,211,026	6,244,722
2029-2032	6,835,000	572,233	2,260,000	231,986	-	-	9,095,000	804,219
Totals	$ 139,038,517	45,323,299	18,772,355	7,044,333	1,464,816	622,852	159,275,688	52,990,484

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.

The County had overlapping debt with the Town of Ashland, Virginia. The County's applicable share was for water and sewer bonds for which the County assumed ownership January 1, 1996, under an annexation agreement. Per the contractual obligation, the County reimbursed the Town for water and sewer line debt in accordance with the agreement. The bonds expired 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, 2013, the principal amounts outstanding on these IRBs totaled $166.6 million.

Support Agreement

On March 23, 2011 the EDA issued Revenue and Refunding Bonds, Series 2011 (EDA Bonds) in the amount of $17,260,000, of which $2,205,000 consisted of new debt for the acquisition and build-out of a building to be used by the Community Services Board, the Social Services Department, and the Registrar's Office and $15,046,000 was used to refund existing County general obligation school bonds and water and sewer revenue bonds. On March 1, 2011, the County and the EDA entered into a Support Agreement which obligates the County to make support payments on behalf of the EDA on a periodic basis in an amount equal to the debt service on the bonds. The EDA Bonds are limited obligations of the EDA, payable solely from payments made by the County, pursuant to the Support Agreement. Neither the EDA Bonds nor the Support Agreement are general obligation debt of the County, and payments made pursuant to the Support Agreement are subject to annual appropriation by the Board of Supervisors. Support payments of $2,524,763 were paid by the County during the fiscal year ended June 30, 2013.

The Support Agreement annual debt service requirements to maturity as of June 30, 2013 are as follows:

	Governmental Activities		Business-type Activities		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 700,000	202,113	1,310,000	246,950	2,010,000	449,063
2015	690,000	181,113	1,305,000	207,650	1,995,000	388,763
2016	690,000	160,413	1,305,000	161,500	1,995,000	321,913
2017	680,000	139,713	1,305,000	112,750	1,985,000	252,463
2018	675,000	119,313	1,305,000	73,600	1,980,000	192,913
2019-2023	1,275,000	355,350	925,000	67,100	2,200,000	422,450
2024-2028	705,000	183,575	65,000	2,600	770,000	186,175
2029-2032	330,000	25,000	-	-	330,000	25,000
Totals	$ 5,745,000	1,366,590	7,520,000	872,150	13,265,000	2,238,740

Capital leases

The County has financed the acquisition of office facilities and a communications system by entering into capital lease agreements. The balance of capital assets, net of accumulated depreciation, the future minimum lease payments, and the present value of the minimum lease payments as of June 30, 2013, are as follows:

(See schedule on following page)

Asset Class	Primary Government - Governmental Activities
Land	$ 384,847
Buildings	13,804,580
Machinery and equipment	1,967,033
Total assets, at cost	16,156,460
Accumulated depreciation	(7,358,185)
Total assets, net	$ 8,798,275

Fiscal Year	Future Minimum Lease Payments
2014	$ 174,973
2015	173,088
2016	175,148
2017	176,604
2018	172,655
2019-2023	870,072
2024-2028	870,446
2029-2032	523,610
Total minimum lease payments	3,136,596
Less: Portion representing interest	(880,500)
Present value of minimum lease payments	$ 2,256,096

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, 2013, the County had general obligation bonds that were outstanding but considered defeased totaling $800,000.

V. Other information

A. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries insurance through commercial carriers or through the Virginia Municipal Liability Pool. The County carries commercial insurance for all risks of loss including property, theft, auto liability, general liability and construction insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage for each of the past three years. There was no reduction in insurance coverage during fiscal year 2013. 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. 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 health insurance claim liabilities and IBNR during the past two years are as follows:

Fiscal Year	Payable (Receivable) Beginning of Year	Claims and Other Charges Processed	Claims and Benefit Payments	Payable (Receivable) End of Year	Incurred But Not Reported
2012	$ (69,066)	28,853,883	28,784,817	-	1,780,000
2013	-	26,294,429	26,737,361	(442,932)	1,712,000

B. Fund Balance Classifications

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

	Primary Government					
	General Fund	County Improvements Fund	School Improvements Fund	Total Governmental Funds	School Board Component Unit	Economic Deveopment Authority
Nonspendable:						
Inventory	$ 197,871	-	-	197,871	139,651	-
Restricted for:						
Public safety - asset forfeiture	62,874	-	-	62,874	-	-
Judicial Administration - asset forfeiture	389,352	-	-	389,352	-	-
Public works - recycling service districts	37,693	-	-	37,693	-	-
Health and human services - federal and state grants	91,323	-	-	91,323	-	-
Capital improvements	-	4,453,185	425,000	4,878,185	-	-
Committed to:						
Economic development	500,000	-	-	500,000	-	-
Assigned to:						
Education	1,000,000	-	-	1,000,000	4,411,599	-
Economic development	1,000,000	-	-	1,000,000	-	-
Other services	937,300	-	-	937,300	-	-
Funding of subsequent fiscal year's adopted budget	8,730,386	-	-	8,730,386	-	80,000
Funding of subsequent five-year financial plans	2,107,151	-	-	2,107,151	-	-
Capital improvements	3,979,896	6,267,659	3,804,161	14,051,716	-	-
Unassigned Fund Balance	25,200,284	-	-	25,200,284	-	75,376
Total fund balances	$ 44,234,130	10,720,844	4,229,161	59,184,135	4,551,250	155,376

C. Commitments and contingent liabilities

Other commitments

At June 30, 2013, the primary government had commitments for capital projects totaling $4,532,496 as follows:

	Primary Government			
	County Improvements Fund	School Improvements Fund	Public Utilities Fund	Total Primary Government
Total capital commitments	$ 1,479,733	1,265,529	1,699,888	4,532,496

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

Encumbrances

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

	Primary Government - Governmental Funds				
	General Fund	County Improvements Fund	School Improvements Fund	Total Primary Government	Schools Component Unit
Encumbrances outstanding at fiscal year-end	$ 570,968	24,350	1,265,529	1,860,847	561,042

Contingent liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although the County expects such amounts, if any, would not have a material effect on the financial position of the County.

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

D. Joint ventures

- **Capital Region Airport Commission:** The Capital Region Airport Commission (Airport Commission) was established in 1975 by an Act of the Virginia General Assembly. The Airport Commission owns and operates Richmond International Airport (Airport). The Airport Commission is governed by 14 Commissioners, with four members each being appointed by the City of Richmond, County of Henrico and County of Chesterfield governing bodies and two members being appointed by the County of Hanover governing body. The

Airport Commission generates its revenues from service charges to users of the Airport facilities to recover the costs of maintaining, repairing and operating the Airport. Virginia law requires that the Airport Commission submit an annual budget showing estimated revenues and estimated expenditures to the governing bodies of the localities for their approval. After approval of the proposed budget by the governing bodies, if the Airport Commission's budget contains estimated expenditures that exceed estimated revenues, the governing bodies are required to fund the deficit in proportion to their pro rata financial basis in the Airport Commission. The pro rata basis is to be determined by the percentage of the population of each locality to the combined total population of all participating localities according to the most recent census, with Hanover County's pro rata share approximating 10.7%. If actual revenues are less than estimated revenues identified in the budget (resulting in a deficit), the localities may, at their discretion, appropriate funds necessary to fund the deficit. To date, the County has not been required to fund any deficit. Complete financial statements for the Airport Commission can be obtained from the Chief Financial Officer, 1 Richard E. Byrd Terminal Drive, Suite A, Richmond International Airport, Richmond, VA 23250-2400.

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

  The GRCCA was created for the purpose of acquiring, constructing, equipping, maintaining, and operating a regional convention center facility. In August 1996, each locality designated future revenue from the transient occupancy tax for expansion of the convention center. The GRCCA has issued $158,415,000 in Hotel Tax Revenue Bonds, which are secured by an eight percent transient occupancy tax imposed and collected by the localities. The County made an expenditure of $768,364 for transient occupancy tax to the GRCCA during fiscal year 2013. Complete financial statements for the GRCCA can be obtained from Chesterfield County, Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

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

  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 2013, the Hanover County EDA contributed $80,000. Neither the County nor its EDA have any ongoing financial interest in DRGI. Annual audited financial statements are available from DRGI.

E. Jointly governed organizations

- **Pamunkey Regional Library:** The Pamunkey Regional Library (Library) is a political subdivision of the Commonwealth of Virginia and is governed by a separate Board of Trustees, appointed for specific terms of office by the Boards of Supervisors of the counties to which it provides library services, including the Counties of Hanover, Goochland, King William, and King and Queen. Management and accountability for fiscal matters rest with the Library's Board, of which Hanover County appoints four of the ten members. The Library receives contributions from the participating counties, but invests its own funds and formulates and approves its own budget. Hanover County does not bear any direct or indirect liabilities for the operation of the Library, and has no equity interest in it. In fiscal year 2013, Hanover County contributed a total of $2,538,858 to the Library's operations. Complete financial statements for the Library can be obtained from the Director's office at P.O. Box 119, Hanover, Virginia 23069.

- **Pamunkey Regional Jail Authority:** The Pamunkey Regional Jail Authority (Jail Authority) is a political subdivision of the Commonwealth of Virginia. The participating jurisdictions of the Jail Authority are the Counties of Caroline and Hanover and the Town of Ashland. The Jail Authority is governed by a five-member board comprised of two members each from the Counties of Caroline and Hanover and one from the Town of Ashland. Management and accountability for fiscal matters rest with the Jail Authority. The County serves as fiscal agent for the Jail Authority; however, the board formulates and approves its own budget. The County of Hanover does not bear any direct or indirect liabilities for the operation of the Jail Authority and has no equity interest in it.

  The purpose of the Jail Authority is to maintain and operate a regional jail facility to meet the needs of the participating jurisdictions for jail facilities. The participating jurisdictions have entered into a Service Agreement which is a long-term contract which regulates usage of the Jail and establishes payment terms applicable to participating jurisdictions. Under the Service Agreement, the County is obligated to commit all of its prisoners to the Jail at a per diem rate to be determined annually by the Jail Authority. The County typically provides a majority of the inmates to the facility, and made per diem contributions totaling $4,644,959 in fiscal year 2013. Complete financial statements for the Jail Authority can be obtained from the Jail Superintendent's office at P.O. Box 510, Hanover, Virginia 23069.

- **Middle Peninsula Juvenile Detention Commission:** The Middle Peninsula Juvenile Detention Commission (Detention Commission) is a political subdivision of the Commonwealth of Virginia and is governed by a separate board. The Detention Commission was created by resolutions adopted in 1993 by its member jurisdictions, which include the Counties of Caroline, Charles City, Essex, Gloucester, Hanover, James City, King George, King and Queen, King William, Lancaster, Matthews, Middlesex, New Kent,

Northumberland, Richmond, Westmoreland, and York, and the Cities of Poquoson and Williamsburg. Each member jurisdiction appoints one member to the Detention Commission. The County of Hanover does not bear any direct or indirect liabilities for the operation of this organization, and has no equity interest in it.

The Detention Commission was created to enhance the protection of the region's citizens by the maintenance and operation of a juvenile detention facility (the Merrimac Center) to serve the member jurisdictions. The member jurisdictions have entered into a Service Agreement which is a long-term contract governing the parties' respective obligations. Under the Service Agreement, the County is obligated to pay a per diem rate to be determined annually by the Detention Commission for each day a juvenile from the County is held at the Center or in another detention facility secured by the Detention Commission. If the sum of all per diem rates paid during the fiscal year is below $2,500, the County shall pay the Detention Commission the amount equal to the difference. During fiscal year 2013, the County's per diem payments to the Detention Commission totaled $398,963. Complete financial statements for the Detention Commission can be obtained from the fiscal agent's office at James City County, Department of Financial and Management Services, P.O. Box 8784, Williamsburg, Virginia 23187.

- **Central Virginia Waste Management Authority:** The Central Virginia Waste Management Authority (Waste Authority) was established under the provisions of the Virginia Water and Sewer Authorities Act. The Waste Authority's board is comprised of representatives from the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan and Prince George; the Cities of Colonial Heights, Hopewell, Petersburg and Richmond; and the Town of Ashland. The 20 member board is comprised of no less than one and no more than three members from each of the participating jurisdictions, determined on a population basis. The County has two representatives serving on the Waste Authority's Board. The Waste Authority is responsible for creating and implementing recycling and solid waste management programs for its local member jurisdictions in order to meet waste reduction mandates set by the Virginia General Assembly. Seventeen subdivisions in the County participate in the Waste Authority's curbside recycling program. Except for contribution requirements and direct payments for special projects, no participant has any ongoing financial interest in the Waste Authority. The County's fiscal year 2013 payments to the Waste Authority totaled $263,415. Complete financial statements can be obtained from the Waste Authority at 2100 West Laburnum Avenue, Suite 105, Richmond, Virginia 23227.

- **Greater Richmond Partnership:** The Greater Richmond Partnership, Inc. (GRP) serves the Counties of Chesterfield, Hanover and Henrico, and the City of Richmond by seeking to enhance economic development in the participating localities. The County has one representative serving on GRP's Board of Directors. During fiscal year 2013, the County made payments to the GRP totaling $320,000. Complete financial statements can be obtained from GRP's office at Riverfront Plaza, 901 East Byrd Street, Suite 801, Richmond, Virginia 23219.

- **Richmond Region Tourism:** The Richmond Metropolitan Convention and Visitors Bureau (RMCVB) serves the Counties of Chesterfield, Hanover, New Kent and Henrico, and the City of Richmond by promoting conventions and tourism in the participating localities. The County has two representatives serving on RMCVB's Board of Directors, and made fiscal year 2013 contributions to RMCVB totaling $148,613. Complete financial statements can be obtained from the RMCVB's office at 401 North 3rd Street, Richmond, Virginia 23219.

- **Richmond Regional Planning District Commission**: The Richmond Regional Planning District Commission (RRPDC) is a regional planning agency serving the Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan, the City of Richmond and the Town of Ashland. The primary functions of the RRPDC are to promote regional cooperation; coordinate the activities and policies of member local governments; resolve service delivery problems involving more than one government within the region and provide planning assistance to local governments. In accordance with its Charter, the RRPDC promotes the orderly physical, social and economic development of the region through planning and encouraging local governments to plan for the future. The County paid member dues to the RRPDC totaling $49,242.67 in fiscal year 2013. Complete financial statements can be obtained from the RRPDC at 9211 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235.

F. Defined benefit pension plan – Virginia Retirement System

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

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

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 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 five years of service credit or age 50 with at least 10 years of service credit.

- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 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. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

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

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. 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/2012-annual-report.pdf or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

b. ***VRS funding policy -*** Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. The Hanover Board of Supervisors elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees through June 30, 2012. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Hanover Board of Supervisors elected to require that employees payr the 5%

member contribution effective July 1, 2012 and provided a salary increase equal to the 5% employee-paid member contribution. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees.

Agent Multiple-Employer Plan - The contribution rates for the County employee group and for the School Board's non-professional employee group for the fiscal year ended June 30, 2013, were 11.67% and 9.20%, respectively, of their annual covered payrolls.

Cost-Sharing Multiple-Employer Plan - The contribution rate for the School Board's professional employee group was 11.66% of covered payroll for the fiscal year ended June 30, 2013. For its professional group, the School Board's contributions to the teacher cost-sharing pool for the fiscal years ending 2013, 2012, and 2013 were $11,060,633, $10,706,699, and $8,340,187, respectively, equal to the required contributions for each year.

c. ***Agent multiple-employer plan annual pension cost*** **–** The following schedule shows the annual pension costs and the amounts contributed to the VRS for the current and preceding two fiscal years for the County employees and the School Board non-professional employee group:

Funds	Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Amount of APC Contributed	Percentage of APC Contributed	Net Pension Obligation
County employees					
Governmental	2013	$ 5,925,095	$ 5,925,095	100%	$ -
Enterprise	2013	516,841	516,841	100%	-
Governmental	2012	4,465,714	4,465,714	100%	-
Enterprise	2012	383,646	383,646	100%	-
Governmental	2011	4,420,928	4,420,928	100%	-
Enterprise	2011	379,766	379,766	100%	-
School Board - non-professional employee group					
Governmental	2013	$ 622,716	$ 622,716	100%	$ -
Governmental	2012	462,263	462,263	100%	-
Governmental	2011	498,106	498,106	100%	-

For the fiscal year ended June 30, 2013, the County's annual pension cost of $6,441,936 was equal to the required and actual contributions, and the School Board's non-professional group's annual pension cost of $622,716 was also equal to the required and actual contribution. The fiscal year 2013 required contributions were determined as part of the actuarial valuations for each group performed as of June 30, 2011 using the entry age actuarial cost method. The actuarial assumptions for each group at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (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 for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial values of the

County employee group's pension assets and the School Board non-professional employee group's pension assets are equal to the modified market values of those assets. This method uses techniques that smooth the effects of short-term 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, 2011 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

d. ***Agent multiple-employer plan funded status and funding progress*** **–** The following schedule presents information about the funded status of the County's employee group and the School Board's non-professional employee group as of June 30, 2012, the date of the most recent actuarial valuations for both groups:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
Primary Government						
Virginia Retirement System - County employee group						
6/30/2012	$ 142,359,676	$ 189,618,560	$ 47,258,884	75.1%	$ 54,051,309	87.4%
Component Unit - School Board						
Virginia Retirement System - non-professional employee group						
6/30/2012	$ 17,954,293	$ 21,164,287	$ 3,209,994	84.8%	$ 6,756,864	47.5%

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

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

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

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, 2013. Securities without an established market are reported at estimated fair value.

b. Plan description, contribution and funding information

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

	Primary Government	School Board Component Unit	Affiliates	Total
Retirees and beneficiaries receiving benefits	38	122	1	161
Terminated employees entitled to but not yet receiving benefits	-	-	-	-
Active employees	1,019	2,684	169	3,872
Total number of plan members	1,057	2,806	170	4,033
Number of participating employers	1	1	2	4

Plan description - The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to 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, 2013, ranged from $100 per month for employees with 10 but less than 15 years of service to $200 per month for 20 or more years of service. The subsidy for a retiree's spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of $251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility.

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan. Depending upon the health care plan selected, the net retiree premium amounts range from $425 to $875 per month, and for those electing retiree and family coverage, from $1,219 to $2,625 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

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

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

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

The following table shows the components of the reporting entity's annual OPEB cost, the amount of employer contributions to the Plan, and changes in the reporting entity's net OPEB obligation (asset) for fiscal year 2013 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) as of June, 30, 2013.

	OPEB Trust	Primary Government	School Board Component Unit
ARC, for the fiscal year ended June 30, 2013	$ 823,174	297,632	487,802
Interest on Net OPEB asset from prior year	(17,274)	(5,951)	(10,646)
Actuarial adjustment	20,713	7,136	12,765
Annual OPEB cost	826,613	298,817	489,921
Employer contributions:			
Cash contribution to OPEB trust	-	-	-
Subsidies paid under Plan on behalf of retirees	(661,239)	(166,373)	(482,928)
Total Employer contributions	(661,239)	(166,373)	(482,928)
Decrease in the net OPEB asset, for the fiscal year ended June 30, 2013	165,374	132,444	6,993
Net OPEB (asset), beginning of year	(246,776)	(85,017)	(152,081)
Net OPEB (asset) obligation, end of year	$ (81,402)	47,427	(145,088)

Reporting Entity	Fiscal Year Ended June 30	Annual OPEB Cost	Cash Contribution	Subsidies Paid on Behalf of Retirees	Total Percentage Contributed	Net OPEB (Asset) Obligation at End of Fiscal Year
OPEB Trust	2013	$ 826,613	0.0%	80.0%	80.0%	$ (81,402)
Primary Government	2013	298,817	0.0%	55.7%	55.7%	47,427
School Board Component Unit	2013	489,921	0.0%	98.6%	98.6%	(145,088)
OPEB Trust	2012	828,459	0.0%	84.0%	84.0%	(246,776)
OPEB Trust	2011	1,273,896	0.0%	45.3%	45.3%	(379,243)

Funded Status and Funding Progress - The funded status of the Plan as June 30, 2012, the date of the most recent actuarial valuation, was as follows:

Reporting Entity	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
OPEB Trust	6/30/2012	$ 3,380,679	$ 9,077,222	$ 5,696,543	37.2%	$ 160,140,920	3.6%
Primary Government	6/30/2012	1,164,715	3,127,200	1,962,485	37.2%	53,055,658	3.7%
School Board Component Unit	6/30/2012	2,083,379	5,594,039	3,510,660	37.2%	101,357,174	3.5%

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 June 30, 2012 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 7.0% annual investment rate of return (net of administrative expenses), including an inflation assumption of 2.5%, no escalation in retiree subsidies and an annual healthcare cost trend rate of 8.0% trending down over the next five years to a rate of 5.0% for future years. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

H. Health Insurance Credit program

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

b. ***Funding policy –*** The County employer contribution rate for the fiscal year ended June 30, 2013 was 0.15% of annual covered payroll.

c. ***Annual health credit cost and net health credit obligation*** – The following schedule shows the annual retiree health insurance credit cost for the current and two preceding fiscal years for the County employees:

Fiscal Year Ended June 30	Annual Health Credit Cost	Employer Contribution	Percentage of Annual Health Credit Cost Contributed	Net Health Credit (Obligation) Asset
2013	$ 61,551	$ 61,551	100.0%	$ -
2012	75,771	75,771	100.0%	-
2011	75,011	75,011	100.0%	-

d. ***Funded status and funding progress*** – As of June 30, 2012, the County's most recent actuarial valuation date, the plan was 23.6% funded. The AAL for benefits was $1,002,036 and the actuarial value of assets was $236,903, resulting in an UAAL of $765,133. The covered payroll (annual payroll of active employees covered by the plan) was $$36,747,184, and the ratio of the UAAL to the covered payroll was 2.1%.

The schedule of funding progress, presented as 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 AAL for benefits.

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

In the June 30, 2012 actuarial valuation, an entry age normal cost method was used. The actuarial assumptions included a 7.0% annual investment rate of return which includes inflation at 2.5%. the UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2012 was 29 years.

I. Special assessments and tax increment commitment

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

On September 25, 2002, the Board of Supervisors adopted an ordinance authorizing the levy of Special Assessments on abutting property within the boundaries of the District. On February 5, 2003, the Bell Creek Community Development Authority issued its $12,135,000 Special Assessment Bonds, Series 2003A (the "2003A Bonds") and its $3,845,000 Special Assessment Bonds, Series 2003B (the "2003B Bonds" and together with the 2003A Bonds, the "2003 Bonds"), in accordance with the provision of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2003 Bonds were issued to finance the acquisition and construction of certain infrastructure improvements to benefit the District. Neither the faith and credit of the Bell Creek CDA, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the 2003 Bonds. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2013, the total 2003 Bonds outstanding were $2,712,000. The Bell Creek CDA is obligated to make all debt service payments on the 2003 Bonds.

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

During fiscal year 2013, special assessments on property within the District totaled $296,010, and payments to the Bell Creek CDA of special assessments collected totaled $310,329.

- **Lewistown Commerce Center Community Development Authority**:
  The Lewistown Commerce Center Community Development Authority (Lewistown CDA) was created by an ordinance adopted by the Board of Supervisors on October 25, 2006. The creation of the Lewistown CDA was a result of a petition filed with the Board of Supervisors by the owners of 100% of the land area within the Lewistown Commerce Center Community Development Authority District (District). The District consists of approximately 186.5 acres of land within the County. The District is part of a planned business complex that is expected to provide commercial and retail spaces, recreation and tourism facilities and other amenities that are expected to be developed in phases by different entities. The overall development has been named *The Shops at Winding Brook* (hereinafter referred to as the Development).

  By ordinances adopted by the Board of Supervisors on May 9, 2007 and March 23, 2011, the Board of Supervisors authorized the levy of Special Assessments on abutting property within the bounds of the District. On October 23, 2007 the Lewistown CDA issued the Lewistown Commerce Center Community Development Authority (Virginia), $37,675,000 Revenue Bonds, Series 2007 (2007 Bonds) in accordance with the provisions of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950, as amended. The 2007 Bonds were issued to finance the acquisition of certain land and the construction of certain infrastructure improvements to benefit the District, in accordance with a Development/Acquisition Agreement dated September 1, 2007 and amended March 23, 2011. Also in March 2011, pursuant to a revised Indenture of Trust, the 2007 Bonds were exchanged for Amended 2007 Bonds to extend their maturity, revise the schedule for sinking fund redemptions, and allow interest on the bonds to be paid by the bond's

debt service reserve fund through March 1, 2014, dependent upon the developer meeting agreed-upon construction milestones. At June 30, 2013, the Lewistown CDA's Amended 2007 Bonds outstanding totaled $37,675,000. The Lewistown CDA is obligated to make all debt service payments on the Amended 2007 Bonds, in accordance with the revised Indenture of Trust. The principal of and the interest on the Amended 2007 Bonds are not deemed to constitute a pledge of the faith and credit of Hanover County, and neither the faith nor credit of the Lewistown CDA, nor the faith and credit of Hanover County are pledged to the payment of the principal of or interest on the Amended 2007 bonds.

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

The County functions as an agent for the Lewistown CDA by collecting and making the Payments to the Lewistown CDA annually, and has agreed to pursue collection of delinquent special assessments, including, at its discretion, initiation of foreclosure procedures. However, the Payments described above to the Lewistown CDA are not deemed general obligations of Hanover County, but are dependent upon appropriation and paid only to the extent the Special Real Property Tax, Incremental Tax Revenues, or Special Assessments have been received by the County.

During fiscal year 2013, Special Assessment Tax levy on property within the district totaled $1,605,998. The 2013 Special Real Estate Property Tax (Valorem) levy was $31,537. Incremental tax collections owed to the Lewistown CDA totaled $432,319 and are payable semiannually by February 1 and May 1 of each year.

REQUIRED

SUPPLEMENTARY INFORMATION

(Unaudited)

COUNTY OF HANOVER, VIRGINIA **Exhibit 12**

Virginia Retirement System, Hanover County Retiree Medical Benefits Trust and Health Insurance Credit Program
Schedules of Funding Progress (Unaudited)
June 30, 2013

Virginia Retirement System

Primary Government:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ 142,359,676	$ 189,618,560	$ 47,258,884	75.1%	$ 54,051,309	87.4%
6/30/2011	137,947,416	176,392,248	38,444,832	78.2%	53,425,123	72.0%
6/30/2010	130,362,535	164,550,752	34,188,217	79.2%	54,117,586	63.2%
6/30/2009	125,028,726	143,483,901	18,455,175	87.1%	55,549,937	33.2%
6/30/2008	117,271,164	130,477,444	13,206,280	89.9%	53,105,207	24.9%

Component Unit - School Board:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ 17,954,293	$ 21,164,287	$ 3,209,994	84.8%	$ 6,756,864	47.5%
6/30/2011	17,604,376	20,349,135	2,744,759	86.5%	6,822,801	40.2%
6/30/2010	16,764,772	18,981,992	2,217,220	88.3%	6,786,343	32.7%
6/30/2009	16,103,027	16,784,912	681,885	95.9%	6,998,093	9.7%
6/30/2008	15,163,247	15,340,091	176,844	98.8%	6,538,543	2.7%

Hanover County Retiree Medical Benefits Trust

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ 3,380,679	$ 9,077,222	$ 5,696,543	37.2%	$ 160,140,920	3.6%
6/30/2011	3,278,003	12,046,156	8,768,153	27.2%	153,707,760	5.7%
6/30/2010	1,756,769	11,355,467	9,598,698	15.5%	166,583,838	5.8%

Health Insurance Credit Program

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ 236,903	$ 1,002,036	$ 765,133	23.6%	$ 36,747,184	2.1%
6/30/2011	197,743	937,871	740,128	21.1%	35,669,865	2.1%
6/30/2010	128,965	885,003	756,038	14.6%	54,117,586	1.4%

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

GENERAL FUND

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

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 13**

General Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Revenues from local sources:				
General property taxes:				
Real property taxes	$ 91,150,000	91,150,000	91,585,580	435,580
Public service corporation property taxes	4,050,000	4,050,000	4,564,338	514,338
Personal property taxes	22,603,000	22,603,000	23,978,256	1,375,256
Machinery and tools taxes	1,663,000	1,663,000	1,675,830	12,830
Merchants' capital taxes	780,500	780,500	935,255	154,755
Delinquent taxes	2,338,000	2,338,000	1,893,908	(444,092)
Penalties and interest	1,101,000	1,101,000	1,083,704	(17,296)
Total general property taxes	123,685,500	123,685,500	125,716,871	2,031,371
Other local taxes:				
Local sales and use taxes	17,113,000	17,113,000	17,357,257	244,257
Consumer utility taxes	1,800,000	1,800,000	1,776,703	(23,297)
Contractor license taxes	400,000	400,000	297,844	(102,156)
Franchise license taxes	750,000	750,000	674,516	(75,484)
Lodging taxes	711,000	711,000	768,364	57,364
Bank stock tax	500,000	500,000	443,706	(56,294)
Taxes on recordation and wills	1,699,000	1,699,000	2,428,067	729,067
Communication sales tax	5,369,000	5,369,000	5,094,920	(274,080)
Total other local taxes	28,342,000	28,342,000	28,841,377	499,377
Permits, privilege fees and regulatory licenses:				
Public Safety				
Animal licenses	114,000	114,000	95,850	(18,150)
Building permits	420,000	420,000	615,972	195,972
Heating and air conditioning	179,000	179,000	255,936	76,936
Electrical permits	144,000	144,000	195,006	51,006
Plumbing permits	76,000	76,000	101,293	25,293
Septic tank permits	3,700	3,700	4,257	557
Inspection fees	148,000	148,000	147,900	(100)
Public Works				
Erosion and sediment inspections	159,000	159,000	285,979	126,979
Stormwater management	155,000	155,000	155,000	-
Human Services				
Well and septic inspection	3,000	3,000	2,925	(75)
Community Development				
Planning fees	150,000	150,000	257,530	107,530
Total permits, privilege fees and regulatory licenses	1,551,700	1,551,700	2,117,648	565,948
Fines and Forfeitures:				
Public Works				
Erosion and sediment fines	2,200	2,475	25,500	23,025
Judicial Administration				
Court fines and forfeitures	1,008,000	1,008,000	807,830	(200,170)
Courthouse maintenance fees	120,000	120,000	118,138	(1,862)
Court appointed attorney fees	29,000	29,000	29,740	740
Public Safety				
Criminal Justice Academy training fees	65,000	65,000	99,038	34,038
Security alarm fines	45,000	45,000	42,650	(2,350)
Total fines and forfeitures	1,269,200	1,269,475	1,122,896	(146,579)
Revenues from use of money and property:				
Revenue from use of money	449,000	449,000	165,644	(283,356)
Revenue from use of property	310,000	310,000	352,279	42,279
Total revenues from use of money and property	759,000	759,000	517,923	(241,077)
Charges for services:				
EMS cost recovery	2,000,000	2,000,000	2,256,711	256,711
Landfill fees	530,000	530,000	326,313	(203,687)
Recreation fees	575,000	575,000	477,202	(97,798)
Community Services	3,050,183	3,050,183	3,006,217	(43,966)
Other	214,288	214,288	375,564	161,276
Total charges for services	6,369,471	6,369,471	6,442,007	72,536

Continued

COUNTY OF HANOVER, VIRGINIA **Exhibit 13**

General Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Miscellaneous:				
Refunds	$ 270,000	280,029	307,176	27,147
Insurance recoveries	31,000	133,682	103,023	(30,659)
Gifts and donations	50,000	64,110	16,764	(47,346)
Other miscellaneous revenue	291,750	302,191	336,024	33,833
Reserve for revenue transfers	350,000	73,264	-	(73,264)
Total miscellaneous	992,750	853,276	762,987	(90,289)
Recovered costs:				
General Government Administration				
Pamunkey Regional Jail	421,200	421,200	412,000	(9,200)
Public Utilities Fund				
Cost allocation	1,067,500	1,067,500	1,140,468	72,968
Service assessment	326,013	326,013	389,602	63,589
Treasurer	85,000	104,603	103,910	(693)
General Services	82,212	82,212	25,372	(56,840)
Judicial Administration				
Clerk of Circuit Court	10,000	10,000	22,232	12,232
General District Court	9,000	9,000	8,129	(871)
Commonwealth Attorney	-	-	4,405	4,405
Public Safety				
Community Corrections	63,000	63,000	54,531	(8,469)
Sheriff	42,000	53,297	104,689	51,392
Animal Control	2,000	2,000	1,127	(873)
Fire	70,000	70,000	82,173	12,173
Human Services				
Social Services	26,000	26,000	26,881	881
Community Resources	5,000	5,000	5,000	-
Comprehensive Services	85,000	85,000	119,293	34,293
Community Services	150,000	150,000	89,256	(60,744)
Health Department	46,350	51,350	86,353	35,003
Public Works				
Solid Waste Management	359,397	359,397	404,521	45,124
Community Development				
Contributions: Greater Richmond Convention Center	318,450	318,450	449,519	131,069
Planning	1,000	1,000	-	(1,000)
CDA	26,226	26,226	26,225	(1)
Economic Development	165,310	165,310	165,310	-
Total recovered costs	3,365,658	3,401,558	3,720,996	319,438
Total revenues from local sources	166,335,279	166,231,980	169,242,705	3,010,725
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Vehicle rental tax	133,000	133,000	185,898	52,898
Personal property taxes (state remittance)	15,002,000	15,002,000	15,002,745	745
Rolling Stock Tax	71,000	71,000	75,368	4,368
Total non-categorical aid	15,206,000	15,206,000	15,264,011	58,011
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	230,798	230,798	231,527	729
Treasurer	207,798	207,798	205,335	(2,463)
Registrar	58,359	58,359	50,575	(7,784)
Clerk of Circuit Court	516,474	516,474	518,628	2,154
Commonwealth's Attorney	803,742	803,742	802,086	(1,656)
Sheriff	3,184,763	3,229,583	3,240,358	10,775
Total shared expenses	5,001,934	5,046,754	5,048,509	1,755
Other categorical aid:				
Social Services	1,228,955	1,232,492	1,117,002	(115,490)
Comprehensive Services	2,780,929	2,780,929	2,474,655	(306,274)
Community Services	2,255,906	2,255,906	2,274,233	18,327
Other	1,275,900	1,343,389	1,245,038	(98,351)
State Reversion Clearing Account	(500,000)	(500,000)	(413,579)	86,421
Total other categorical aid	7,041,690	7,112,716	6,697,349	(415,367)
Total categorical aid	12,043,624	12,159,470	11,745,858	(413,612)
Total revenue from the Commonwealth	27,249,624	27,365,470	27,009,869	(355,601)

Continued

COUNTY OF HANOVER, VIRGINIA **Exhibit 13**

General Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenue from the Federal government:				
Categorical aid:				
Department of Interior	$ 2,000	2,000	2,141	141
Build America Bonds (direct credit)	272,459	272,459	260,607	(11,852)
FEMA	-	-	108,775	108,775
Department of Justice	36,000	36,000	36,418	418
Department of Transportation	-	11,078	62,798	51,720
Fire; Federal grants	-	349,680	356,583	6,903
Sheriff: Federal grants	-	65,203	88,488	23,285
Commonwealth Attorney: Federal grants	-	-	66,891	66,891
Comprehensive Services - TANF/SSBG	-	-	46,417	46,417
Community Services: Federal grants	456,831	458,831	479,062	20,231
Health and Human Services	2,200,761	2,205,843	2,241,521	35,678
Total revenue from the Federal government	2,968,051	3,401,094	3,749,701	348,607
Total intergovernmental	30,217,675	30,766,564	30,759,570	(6,994)
Total revenues	196,552,954	196,998,544	200,002,275	3,003,731
EXPENDITURES				
General government administration:				
Legislative - Board of Supervisors	491,310	512,413	504,372	8,041
General and financial administration:				
County Administrator	1,157,282	1,160,347	1,107,508	52,839
Human Resources	696,046	698,705	681,689	17,016
County Attorney	1,021,997	1,027,901	1,008,241	19,660
Commissioner of the Revenue	1,234,939	1,309,443	1,231,354	78,089
Assessor	803,693	806,876	768,754	38,122
Treasurer	1,327,994	1,342,387	1,303,835	38,552
Finance	1,336,148	1,366,428	1,342,336	24,092
Management Services	250,353	244,347	185,203	59,144
Information Technology	3,883,546	4,210,447	3,895,582	314,865
Total general and financial administration	11,711,998	12,166,881	11,524,502	642,379
Board of elections - Registrar and Electoral Board	290,510	380,641	371,467	9,174
Total general government administration	12,493,818	13,059,935	12,400,341	659,594
Judicial administration:				
Courts:				
Circuit Court	70,766	95,531	89,777	5,754
General District Court	90,671	92,171	79,077	13,094
Magistrates	2,889	2,889	2,852	37
Juvenile and Domestic Relations District Court	21,110	22,266	20,509	1,757
Clerk of the Circuit Court	1,258,473	1,307,961	1,250,505	57,456
Court Services	1,404,241	1,479,251	1,437,024	42,227
Total courts	2,848,150	3,000,069	2,879,744	120,325
Commonwealth's Attorney	1,618,173	1,632,708	1,599,431	33,277
Total judicial administration	4,466,323	4,632,777	4,479,175	153,602
Public safety:				
Sheriff	20,040,920	21,258,565	20,933,608	324,957
Fire and rescue services:				
Fire and Emergency Management Services	14,480,890	15,072,626	14,750,055	322,571
Total fire and rescue services	14,480,890	15,072,626	14,750,055	322,571
Correction and Detention:				
Pamunkey Regional Jail	4,744,599	4,744,599	4,644,959	99,640
Juvenile Court Services	706,442	707,053	634,297	72,756
Community Corrections	442,909	445,691	442,194	3,497
Total correction and detention	5,893,950	5,897,343	5,721,450	175,893
Inspections - Building Inspections	1,247,994	1,252,657	1,231,978	20,679
Other protection:				
Emergency Communications	4,624,171	4,678,343	4,354,984	323,359
Animal Control	948,546	964,246	918,117	46,129
Total other protection	5,572,717	5,642,589	5,273,101	369,488
Total public safety	47,236,471	49,123,780	47,910,192	1,213,588

Continued

COUNTY OF HANOVER, VIRGINIA **Exhibit 13**

General Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Public works:				
Sanitation and waste removal:				
Public Works	$ 1,752,445	1,944,207	1,744,466	199,741
Solid Waste Services	3,778,943	3,901,525	3,523,285	378,240
Recycling Service Districts	74,397	74,397	66,222	8,175
Total sanitation and waste removal	5,605,785	5,920,129	5,333,973	586,156
Maintenance of buildings, grounds and equipment:				
Facilities and Vehicle Management	3,734,676	4,024,988	3,524,965	500,023
Total maintenance of buildings, grounds and equip.	3,734,676	4,024,988	3,524,965	500,023
Total public works	9,340,461	9,945,117	8,858,938	1,086,179
Health and human services:				
Health	496,000	501,000	501,000	-
Human Services:				
Social Services	5,053,161	5,102,014	4,671,821	430,193
Community Resources	409,977	419,930	310,961	108,969
Comprehensive Services	5,443,956	5,416,314	4,715,062	701,252
Community Services	10,174,588	10,244,547	9,269,501	975,046
Tax Relief	1,630,000	1,630,000	1,573,920	56,080
Total human services	22,711,682	22,812,805	20,541,265	2,271,540
Total health and human services	23,207,682	23,313,805	21,042,265	2,271,540
Parks, recreation and cultural:				
Parks and Recreation	3,048,902	3,115,347	2,924,694	190,653
Pamunkey Regional Library	2,538,858	2,538,858	2,538,858	-
Total parks, recreation and cultural	5,587,760	5,654,205	5,463,552	190,653
Community development:				
Planning and community development:				
Planning	1,778,675	1,792,555	1,683,621	108,934
Economic development	1,467,046	1,820,378	1,727,700	92,678
Community support	1,080,731	1,098,195	1,136,801	(38,606)
Total planning and community development	4,326,452	4,711,128	4,548,122	163,006
Environmental mgmt. - Soil and Water Conservation District	92,680	92,680	92,680	-
Cooperative extension program - VPI Extension	98,205	98,205	78,570	19,635
Total community development	4,517,337	4,902,013	4,719,372	182,641
Education:				
School Fund	91,841,500	91,672,882	87,837,783	3,835,099
Total education	91,841,500	91,672,882	87,837,783	3,835,099
Total payments to component units	91,841,500	91,672,882	87,837,783	3,835,099
Debt service:				
Principal retirement	2,541,464	2,541,464	2,541,464	-
Interest and fiscal charges	3,721,435	2,906,916	1,957,177	949,739
Total debt service	6,262,899	5,448,380	4,498,641	949,739
Total expenditures	204,954,251	207,752,894	197,210,259	10,542,635
Excess of revenues over expenditures	(8,401,297)	(10,754,350)	2,792,016	13,546,366
OTHER FINANCING SOURCES (USES)				
Other financing uses:				
Transfers to governmental funds:				
County Improvements Fund	1,757,000	1,807,000	1,807,000	-
School Improvements Fund	1,687,000	2,316,000	2,316,000	-
Total transfers to governmental funds	3,444,000	4,123,000	4,123,000	-
Transfers to Proprietary Funds:				
Airport Fund	67,265	67,742	67,742	-
Total other financing uses	3,511,265	4,190,742	4,190,742	-
Net change in fund balance	(11,912,562)	(14,945,092)	(1,398,726)	13,546,366
Fund balance - beginning	11,912,562	45,632,856	45,632,856	-
Fund balance - ending	$ -	30,687,764	44,234,130	13,546,366

See accompanying independent auditors' report.

COUNTY IMPROVEMENTS FUND

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 14**

County Improvements Fund

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

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Revenue from local sources:				
Revenues from use of money and property	$ -	-	458	458
Charges for services	354,000	354,000	750,032	396,032
Recovered costs	-	2,792,308	364,955	(2,427,353)
Miscellaneous	-	-	2,170	2,170
Total revenue from local sources	354,000	3,146,308	1,117,615	(2,028,693)
Intergovernmental:				
Revenue from the Commonwealth	1,000,000	25,336,494	775,104	(24,561,390)
Revenue from the Federal government	-	15,860,335	815,777	(15,044,558)
Total intergovernmental	1,000,000	41,196,829	1,590,881	(39,605,948)
Total revenues	1,354,000	44,343,137	2,708,496	(41,634,641)
EXPENDITURES				
General government administration	815,000	1,201,885	988,048	213,837
Judicial administration	-	148,084	146,347	1,737
Public safety	626,000	1,948,304	1,304,596	643,708
Public works	1,670,000	50,068,728	1,653,636	48,415,092
Human services	-	68,600	68,517	83
Parks, recreation and cultural	-	178,414	147,779	30,635
Total expenditures	3,111,000	53,614,015	4,308,923	49,305,092
Excess (deficiency) of revenues over (under) expenditures	(1,757,000)	(9,270,878)	(1,600,427)	7,670,451
OTHER FINANCING SOURCES				
Transfers in	1,757,000	1,807,000	1,807,000	-
Sale of capital assets	-	-	335,300	335,300
Total other financing sources	1,757,000	1,807,000	2,142,300	335,300
Net change in fund balance	-	(7,463,878)	541,873	8,005,751
Fund balance - beginning	-	10,178,971	10,178,971	-
Fund balance - ending	$ -	2,715,093	10,720,844	8,005,751

See accompanying independent auditors' report.

SCHOOL IMPROVEMENTS FUND

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 15**

School Improvements Fund

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

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	$ 50,000	50,000	1,061	(48,939)
Charges for services:				
Proffers	780,000	780,000	546,830	(233,170)
Total charges for services	780,000	780,000	546,830	(233,170)
Total revenues	830,000	830,000	547,891	(282,109)
EXPENDITURES				
Capital outlay:				
Education	4,517,000	8,453,412	2,091,321	6,362,091
Debt service:				
Interest and fiscal charges	-	110,000	-	110,000
Total expenditures	4,517,000	8,563,412	2,091,321	6,472,091
Excess (deficiency) of revenues over (under) expenditures	(3,687,000)	(7,733,412)	(1,543,430)	6,189,982
OTHER FINANCING SOURCES (USES)				
Other financing sources:				
Transfers in	1,687,000	2,316,000	2,316,000	-
Issuance of general obligation bonds	2,000,000	1,365,000	-	(1,365,000)
Premium on general obligation bonds issued	-	635,000	-	(635,000)
Total other financing sources	3,687,000	4,316,000	2,316,000	(2,000,000)
Net change in fund balance	-	(3,417,412)	772,570	4,189,982
Fund balance - beginning	-	3,456,591	3,456,591	-
Fund balance - ending	$ -	39,179	4,229,161	4,189,982

See accompanying independent auditors' report.

AGENCY FUNDS

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

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

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

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

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 16**

Agency Funds

Combining Balance Sheet

June 30, 2013

	Bell Creek Community Development Authority	Lewistown Community Development Authority	Escrow	Special Welfare	Total
ASSETS					
Pooled cash, cash equivalents and investments	$ -	161,357	2,584,443	35,154	2,780,954
Accounts receivable	162,411	1,204,405	-	-	1,366,816
Total assets	$ 162,411	1,365,762	2,584,443	35,154	4,147,770
LIABILITIES					
Accounts payable	$ -	161,357	92,857	-	254,214
Accrued liabilities	162,411	1,204,405	957,308	-	2,324,124
Deposits	-	-	1,534,278	35,154	1,569,432
Total liabilities	$ 162,411	1,365,762	2,584,443	35,154	4,147,770

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 17**

Agency Funds

Combining Statement of Changes in Assets and Liabilities

For the Year Ended June 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Bell Creek Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	$ 80,137	314,061	394,198	-
Accounts receivable	169,252	305,262	312,103	162,411
Total assets	249,389	619,323	706,301	162,411
Liabilities:				
Accounts payable	78,567	307,660	386,227	-
Accrued liabilities	170,822	309,129	317,540	162,411
Total liabilities	249,389	616,789	703,767	162,411
Lewistown Community Development Authority				
Assets:				
Pooled cash, cash equivalents and investments	149,313	1,276,221	1,264,177	161,357
Accounts receivable	340,794	1,646,427	782,816	1,204,405
Total assets	490,107	2,922,648	2,046,993	1,365,762
Liabilities:				
Accounts payable	149,313	1,227,179	1,215,135	161,357
Accrued liabilities	340,794	1,816,032	952,421	1,204,405
Total liabilities	490,107	3,043,211	2,167,556	1,365,762
Escrow				
Assets:				
Pooled cash, cash equivalents and investments	1,615,915	35,479,946	34,511,418	2,584,443
Accounts receivable	-	56,394	56,394	-
Total assets	1,615,915	35,536,340	34,567,812	2,584,443
Liabilities:				
Accounts payable	792,662	4,806,221	5,506,026	92,857
Accrued liabilities	169,488	33,567,135	32,779,315	957,308
Deposits	653,765	2,149,479	1,268,966	1,534,278
Total liabilities	1,615,915	40,522,835	39,554,307	2,584,443
Special Welfare				
Assets:				
Pooled cash, cash equivalents and investments	31,548	135,824	132,218	35,154
Total assets	31,548	135,824	132,218	35,154
Liabilities:				
Deposits	31,548	135,824	132,218	35,154
Total liabilities	31,548	135,824	132,218	35,154
Total Agency Funds				
Assets:				
Pooled cash, cash equivalents and investments	1,876,913	37,206,052	36,302,011	2,780,954
Accounts receivable	510,046	2,008,083	1,151,313	1,366,816
Total assets	2,386,959	39,214,135	37,453,324	4,147,770
Liabilities:				
Accounts payable	1,020,542	6,341,060	7,107,388	254,214
Accrued liabilities	681,104	35,692,296	34,049,276	2,324,124
Deposits	685,313	2,285,303	1,401,184	1,569,432
Total liabilities	$ 2,386,959	44,318,659	42,557,848	4,147,770

See accompanying independent auditors' report.

HANOVER COUNTY
Birthplace of Patrick Henry-Henry Clay
Hanover Courthouse
built 1735
Formed in 1720
VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Governmental Funds:

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

***Textbook* –** Accounts for the distribution of textbooks to students.

***Cafeteria* –** Accounts for the operations of school food services.

COUNTY OF HANOVER, VIRGINIA **Exhibit 18**

Discretely Presented Component Unit - School Board
Combining Balance Sheet
June 30, 2013

	Governmental Funds			
	School	Textbook	Cafeteria	Totals
ASSETS				
Pooled cash, cash equivalents and investments	$ 12,932,375	1,703,841	1,240,740	15,876,956
Accounts receivable	246,237	-	-	246,237
Due from other governmental units	5,013,461	-	-	5,013,461
Inventory	-	-	139,651	139,651
Total assets	$ 18,192,073	1,703,841	1,380,391	21,276,305
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2,903,677	115,541	97,649	3,116,867
Accrued liabilities	13,108,552	2,227	440,892	13,551,671
Deferred revenue	56,517	-	-	56,517
Total liabilities	16,068,746	117,768	538,541	16,725,055
Fund balances:				
Nonspendable	-	-	139,651	139,651
Assigned	2,123,327	1,586,073	702,199	4,411,599
Total fund balances	2,123,327	1,586,073	841,850	4,551,250
Total liabilities and fund balances	$ 18,192,073	1,703,841	1,380,391	
Out of balance amount	-	-	-	
Cash balancing amount	-	-	-	

Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		$ 109,935,001
Prepaid postemployment healthcare benefits represent irrevocable payments made to the Retiree Medical Benefits Trust for retiree healthcare benefits in advance of total actuarial requirements to date. The advance payments are reported in the statement of net assets as a noncurrent asset, but as expenditures in the funds when made.		145,088
Long-term liabilities and some accrued liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	$ (4,690,384)	
Accrued bond interest	(2,146,192)	(6,836,576)
Net position of School Board Component Unit activities		$ 107,794,763

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 19**

Discretely Presented Component Unit - School Board

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2013

	Governmental Funds			
	School	Textbook	Cafeteria	Totals
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	$ -	2,883	3,462	6,345
Charges for services - operating	802,676	-	4,989,876	5,792,552
Miscellaneous	628,517	-	24,053	652,570
Recovered costs	656,094	-	-	656,094
Payments from primary government	87,837,783	-	-	87,837,783
Revenue from the Commonwealth	79,896,913	277,379	65,475	80,239,767
Revenue from the Federal government	6,815,952	-	1,672,653	8,488,605
Total revenues	176,637,935	280,262	6,755,519	183,673,716
EXPENDITURES				
Education	161,311,560	376,462	6,912,358	168,600,380
Debt service:				
Principal retirement	10,723,304	-	-	10,723,304
Interest and fiscal charges	4,992,396	-	-	4,992,396
Total expenditures	177,027,260	376,462	6,912,358	184,316,080
Excess (deficiency) of revenues over (under) expenditures	(389,325)	(96,200)	(156,839)	(642,364)
Net change in fund balance	(389,325)	(96,200)	(156,839)	(642,364)
Fund balances - beginning	2,512,652	1,682,273	998,761	5,193,686
Decrease in reserve for inventory	-	-	(72)	(72)
Fund balances - ending	$ 2,123,327	1,586,073	841,850	4,551,250

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 20**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Discretely Presented School Component Unit to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds	$ (642,364)
The County's School Improvements Fund accounts for the construction and acquisition of School Board capital assets. As the School Improvements Fund makes capital outlay expenditures, the capital assets, and a corresponding increase in the "Payment from Hanover County" are recorded by the School Board Component Unit in the government-wide financial statements. After their completion, the cost of the capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense ($10,388,422) exceeded the increase in the Payment from Hanover County due to capital asset acquisitions ($1,863,441) in the current period.	(8,524,981)
Under Virginia law, the County has a tenancy in common for School Board Component Unit capital assets for which the County is obligated to repay outstanding "on-behalf" bonds. Under the tenancy in common, the County reports the net book value of School Board Component Unit capital assets up to the outstanding principal balance of "on-behalf" bonds at year end. This amount is the decrease in the net book value of School Board Component Unit capital assets reported by the County for the fiscal year, which resulted primarily from a decrease in school construction activity during the fiscal period.	9,808,516
Some expenses reported in this statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	377,229
Changes in net position of School Board Component Unit activities	$ 1,018,400

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 21**

School Fund - School Board

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

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Charges for services:				
Tuition and other charges for services	$ 897,000	957,000	802,676	(154,324)
Total charges for services	897,000	957,000	802,676	(154,324)
Miscellaneous:				
Sale of assets	2,000	2,000	-	(2,000)
Miscellaneous	1,320,000	1,289,377	628,517	(660,860)
Total miscellaneous revenue	1,322,000	1,291,377	628,517	(662,860)
Recovered costs:				
Recovered costs	744,000	753,900	656,094	(97,806)
Total recovered costs	744,000	753,900	656,094	(97,806)
Payments from primary government:				
General Fund	91,841,500	91,672,882	87,837,783	(3,835,099)
Total payments from primary government	91,841,500	91,672,882	87,837,783	(3,835,099)
Total revenue from local sources	94,804,500	94,675,159	89,925,070	(4,750,089)
Revenue from the Commonwealth:				
Non-categorical aid:				
Lottery proceeds and basic school aid	60,699,507	61,231,980	61,191,702	(40,278)
Total non-categorical aid	60,699,507	61,231,980	61,191,702	(40,278)
Categorical aid:				
Categorical aid programs	18,132,799	18,164,232	18,705,211	540,979
Total categorical aid	18,132,799	18,164,232	18,705,211	540,979
Total revenue from the Commonwealth	78,832,306	79,396,212	79,896,913	500,701
Revenue from the Federal government:				
Categorical aid:				
Department of Education	6,092,982	7,150,587	6,815,952	(334,635)
Total revenue from the Federal government	6,092,982	7,150,587	6,815,952	(334,635)
Total revenues	179,729,788	181,221,958	176,637,935	(4,584,023)
EXPENDITURES				
Education:				
General support	9,336,478	9,323,244	9,033,759	289,485
Pupil transportation	8,167,102	8,258,503	8,225,935	32,568
Operations and maintenance	12,668,524	12,738,113	11,785,496	952,617
Instruction	132,972,734	135,546,699	131,130,303	4,416,396
Facilities	868,950	2,152,051	1,136,067	1,015,984
Total education	164,013,788	168,018,610	161,311,560	6,707,050
Debt service:				
Principal retirement	15,716,000	15,716,000	10,723,304	4,992,696
Interest and fiscal charges	-	-	4,992,396	(4,992,396)
Total debt service	15,716,000	15,716,000	15,715,700	300
Total expenditures	179,729,788	183,734,610	177,027,260	6,707,350
Net change in fund balance	-	(2,512,652)	(389,325)	2,123,327
Fund balance - beginning	-	2,512,652	2,512,652	-
Fund balance - ending	$ -	-	2,123,327	2,123,327

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 22**

Textbook Fund - School Board

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

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of property	$ -	-	2,883	2,883
Total revenue from local sources	-	-	2,883	2,883
Revenue from the Commonwealth:				
Categorical aid:				
Textbook	540,732	540,732	277,379	(263,353)
Total revenue from the Commonwealth	540,732	540,732	277,379	(263,353)
Total revenues	540,732	540,732	280,262	(260,470)
EXPENDITURES				
Education:				
Textbook	540,732	540,732	376,462	164,270
Total expenditures	540,732	540,732	376,462	164,270
Net change in fund balance	-	-	(96,200)	(96,200)
Fund balance - beginning	-	-	1,682,273	1,682,273
Fund balance - ending	$ -	-	1,586,073	1,586,073

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 23**

Cafeteria Fund - School Board

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

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Revenue from local sources:				
Revenue from use of money and property	$ 8,000	8,000	3,462	(4,538)
Charges for services	5,449,800	5,449,800	4,989,876	(459,924)
Miscellaneous revenue	25,000	25,000	24,053	(947)
Total revenue from local sources	5,482,800	5,482,800	5,017,391	(465,409)
Revenue from the Commonwealth:				
Categorical aid:				
School food programs	58,800	58,800	65,475	6,675
Total revenue from the Commonwealth	58,800	58,800	65,475	6,675
Revenue from the Federal government:				
Categorical aid:				
USDA donated commodities	210,136	210,136	266,637	56,501
School food programs	1,086,111	1,086,111	1,145,025	58,914
Breakfast reimbursement	260,014	260,014	260,991	977
Total revenue from the Federal government	1,556,261	1,556,261	1,672,653	116,392
Total revenues	7,097,861	7,097,861	6,755,519	(342,342)
EXPENDITURES				
Education:				
Cafeteria	7,205,088	7,205,088	6,912,358	292,730
Total expenditures	7,205,088	7,205,088	6,912,358	292,730
Net change in fund balance	(107,227.00)	(107,227.00)	(156,839)	(49,612)
Fund balance - beginning	107,227.00	107,227.00	998,761	891,534
Decrease in reserve for inventory	-	-	(72)	(72)
Fund balance - ending	$ -	-	841,850	841,850

See accompanying independent auditors' report.

DISCRETELY PRESENTED COMPONENT UNIT – ECONOMIC DEVELOPMENT AUTHORITY

Governmental Fund:

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

COUNTY OF HANOVER, VIRGINIA **Exhibit 24**

Discretely Presented Component Unit - Economic Development Authority

Balance Sheet

June 30, 2013

ASSETS	
Pooled cash, cash equivalents and investments	$ 155,527
Support agreement receivable	13,265,000
Total assets	$ 13,420,527
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 151
Bonds payable	13,265,000
Total liabilities	13,265,151
Fund balances:	
Assigned	80,000
Unassigned	75,376
Total fund balances	155,376
Total liabilities and fund balances	$ 13,420,527

See accompanying independent auditors' report.

COUNTY OF HANOVER, VIRGINIA **Exhibit 25**

Discretely Presented Component Unit - Economic Development Authority
Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Charges for services:				
Economic development fees	$ 170,710	170,710	207,935	37,225
Recovered costs	-	50,000	25,000	(25,000)
Revenue from the Commonwealth	-	200,000	200,000	-
Payments from primary government:				
General Fund	-	324,240	324,240	-
Public Utilities	-	50,000	50,000	-
Total revenues	170,710	794,950	807,175	12,225
EXPENDITURES				
Community Development:				
Economic development	250,710	874,950	872,321	2,629
Total expenditures	250,710	874,950	872,321	2,629
Excess of revenues over expenditures	(80,000.00)	(80,000.00)	(65,146)	14,854
Net change in fund balance	(80,000)	(80,000)	(65,146)	14,854
Fund balance - beginning	80,000	220,522	220,522	-
Fund balance - ending	$ -	140,522	155,376	14,854

See accompanying independent auditors' report.

STATISTICAL SECTION
(Unaudited)

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

Pages

Financial trends information ..... 125 - 131
Financial trends information is intended to help the reader understand and assess how the County's financial position has changed over time.

Revenue capacity information ..... 132 - 135
Revenue capacity information is intended to help the reader understand and assess the County's ability to generate its most significant local revenue source, the property tax.

Debt capacity information..... 136 - 138
Debt capacity information is intended to help the reader understand and assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.

Demographic and economic information..... 139 - 140
Demographic and economic information is intended to help the reader understand the socioeconomic environment within which the County's financial activities take place.

Operating information..... 141 - 143
Operating information is intended to provide information about the County's services and capital asset resources to help the reader understand how the information in the financial report relates to the services the County provides and the activities it performs.

COUNTY OF HANOVER, VIRGINIA

Table 1

Net Position by Component (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities: [1]											
Net investment in capital assets	$	62,499,667	64,429,211	67,583,618	61,976,094	65,019,988	75,900,088	76,120,457	81,246,238	74,105,915	71,850,313
Restricted		6,124,298	6,379,543	7,058,772	9,599,544	10,833,093	6,765,782	6,606,606	5,594,093	5,054,300	5,034,427
Unrestricted		20,741,027	20,659,883	29,453,112	41,592,279	41,446,839	38,277,590	49,631,805	51,276,177	56,041,435	57,584,445
Total net position, governmental activities	$	89,364,992	91,468,637	104,095,502	113,167,917	117,299,920	120,943,460	132,358,868	138,116,508	135,201,650	134,469,185
Business-type activities:											
Invested in capital assets, net of related debt	$	123,953,003	130,259,289	136,220,116	144,494,562	154,625,394	163,313,856	171,366,224	188,046,917	180,255,835	183,511,196
Restricted		4,318,022	3,151,730	3,716,918	3,445,443	3,374,603	3,445,007	3,488,079	3,454,766	3,400,179	3,431,374
Unrestricted		14,229,206	13,975,727	13,986,263	24,492,963	33,756,282	30,802,106	23,610,692	9,143,399	17,105,102	18,279,356
Total net position, business-type activities	$	142,500,231	147,386,746	153,923,297	172,432,968	191,756,279	197,560,969	198,464,995	200,645,082	200,761,116	205,221,926
Primary government:											
Invested in capital assets, net of related debt	$	186,452,670	194,688,500	203,803,734	206,470,656	219,645,382	239,213,944	247,486,681	269,293,155	254,361,750	255,361,509
Restricted		10,442,320	9,531,273	10,775,690	13,044,987	14,207,696	10,210,789	10,094,685	9,048,859	8,454,479	8,465,801
Unrestricted		34,970,233	34,635,610	43,439,375	66,085,242	75,203,121	69,079,696	73,242,497	60,419,576	73,146,537	75,863,801
Total net position, primary government	$	231,865,223	238,855,383	258,018,799	285,600,885	309,056,199	318,504,429	330,823,863	338,761,590	335,962,766	339,691,111

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

COUNTY OF HANOVER, VIRGINIA

Table 2

Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2004	2005 (2)	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government administration	$ 10,712,124	11,897,058	12,118,463	13,312,730	14,671,166	14,093,119	13,554,927	13,686,641	14,324,220	13,251,586
Judicial administration	3,057,632	3,663,672	3,978,959	3,930,945	4,385,408	4,785,034	4,420,920	4,447,352	4,338,334	4,737,986
Public safety	29,003,658	33,111,907	35,956,589	39,333,719	43,545,081	46,110,980	45,610,131	47,946,531	49,003,762	51,534,448
Public works	9,254,986	11,304,517	9,570,693	8,741,705	12,431,287	16,093,111	11,102,331	9,891,396	11,407,634	12,115,168
Human services	17,441,669	18,840,933	19,849,312	21,269,844	23,096,023	24,258,087	23,880,094	24,165,944	22,925,913	21,502,295
Parks, recreation and cultural	4,649,850	4,894,299	5,260,603	4,732,962	6,413,393	8,453,137	6,523,401	6,444,651	6,531,096	6,141,549
Community development	4,289,916	4,582,344	4,878,481	5,306,364	5,593,695	5,969,406	5,797,455	5,318,097	4,625,376	4,809,867
Education	73,124,850	78,974,707	83,003,947	81,203,331	100,925,769	92,993,766	86,294,322	86,779,122	88,976,562	88,113,912
Interest on long-term debt	590,519	462,760	314,867	627,078	503,177	772,402	836,290	1,536,631	1,494,308	1,966,102
Total governmental activities expenses	152,125,204	167,732,197	174,931,914	178,458,678	211,564,999	213,529,042	198,019,871	200,216,365	203,627,205	204,172,913
Business-type activities:										
Public utilities	17,142,203	20,491,371	21,848,595	22,688,647	23,823,738	25,318,192	26,625,112	24,915,456	26,264,524	26,370,084
Airport [1]	-	-	-	465,203.00	626,257	1,434,208	616,225	696,323	759,169	641,915
Total business-type activities expenses	17,142,203	20,491,371	21,848,595	23,153,850	24,449,995	26,752,400	27,241,337	25,611,779	27,023,693	27,011,999
Total expenses, primary government	$ 169,267,407	188,223,568	196,780,509	201,612,528	236,014,994	240,281,442	225,261,208	225,828,144	230,650,898	231,184,912
Program Revenues										
Governmental activities:										
Charges for services:										
General governmental administration	$ 1,826,275	2,391,346	2,489,994	2,313,953	1,614,956	1,664,898	1,798,980	1,919,228	2,015,327	1,989,140
Judicial administration	1,220,044	1,329,836	1,415,939	1,420,359	1,340,222	1,380,219	1,321,041	1,295,959	1,121,848	1,181,522
Public safety	1,359,546	2,079,389	3,375,762	2,954,680	3,716,157	3,274,434	3,354,180	4,170,594	3,077,467	4,261,351
Public works	556,516	674,414	695,494	899,047	1,232,908	1,226,498	1,132,817	1,347,446	1,260,824	1,172,975
Human services	2,947,057	2,889,334	3,493,429	3,550,827	3,283,721	3,778,613	3,748,484	3,876,950	3,332,257	3,400,041
Parks, recreation and cultural	269,206	302,452	401,075	547,094	553,811	531,639	543,768	571,427	498,989	477,202
Community development	1,631,596	2,509,039	2,825,277	2,147,341	1,028,076	888,838	789,276	725,907	1,005,930	926,660
Operating grants and contributions	15,127,498	14,390,381	14,310,471	15,408,252	16,589,245	16,736,272	16,020,098	17,075,125	16,696,451	15,906,997
Capital grants and contributions	4,819,588	7,417,338	7,205,048	5,902,858	9,696,499	7,814,843	4,474,879	2,521,940	1,993,464	3,477,420
Total governmental activities program revenues	29,757,326	33,983,529	36,212,489	35,144,411	39,055,595	37,296,254	33,183,523	33,504,576	31,002,557	32,793,308
Business-type activities:										
Charges for services:										
Public utilities	14,920,100	15,463,650	19,226,205	19,584,259	21,328,133	21,237,074	21,462,492	21,981,551	21,715,203	22,523,614
Airport [1]	-	-	-	33,861.00	46,658	109,168	170,730	178,080	184,550	189,662
Operating grants and contributions	471,777	451,600	75,300	-	-	-	-	-	-	-
Capital grants and contributions	7,824,732	8,901,655	8,495,258	10,776,808	20,831,594	9,781,068	5,961,957	5,289,134	4,936,335	8,634,930
Total business-type activities program revenues	23,216,609	24,816,905	27,796,763	30,394,928	42,206,385	31,127,310	27,595,179	27,448,765	26,836,088	31,348,206
Total program revenues, primary government	$ 52,973,935	58,800,434	64,009,252	65,539,339	81,261,980	68,423,564	60,778,702	60,953,341	57,838,645	64,141,514
Net (Expense) Revenue										
Governmental activities	$ (122,367,878)	(133,748,668)	(138,719,425)	(143,314,267)	(172,509,404)	(176,232,788)	(164,836,348)	(166,711,789)	(172,624,648)	(171,379,605)
Business-type activities	6,074,406	4,325,534	5,948,168	7,241,078	17,756,390	4,374,910	353,842	1,836,986	(187,605)	4,336,207
Total net expense, primary government	$ (116,293,472)	(129,423,134)	(132,771,257)	(136,073,189)	(154,753,014)	(171,857,878)	(164,482,506)	(164,874,803)	(172,812,253)	(167,043,398)

(continued)

COUNTY OF HANOVER, VIRGINIA

Table 2

Changes in Net Position (Unaudited)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2004	2005 (2)	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 86,761,263	94,939,793	104,905,885	117,152,314	128,411,615	135,784,877	133,924,474	129,565,022	126,263,780	125,689,871
Sales taxes	12,354,866	14,361,323	16,235,682	17,352,664	17,903,788	15,831,268	15,118,688	15,981,340	16,607,323	17,357,257
Utility taxes	4,224,798	4,418,593	4,403,173	5,358,588	7,317,207	7,207,864	7,100,382	6,939,774	6,869,415	6,871,623
Motor vehicle licenses (3)	2,291,651	2,359,824	2,437,925	-	-	-	-	-	-	-
Recordation taxes	2,054,751	2,313,113	2,741,419	2,863,512	2,415,144	1,877,835	1,730,678	1,556,422	1,695,512	2,428,067
Other	2,133,494	2,022,926	2,371,936	2,378,024	2,317,560	2,133,154	2,127,589	2,378,684	2,190,557	2,184,430
Noncategorical State aid	14,289,391	14,066,416	15,674,963	14,895,053	15,419,398	14,985,990	14,948,811	14,716,447	14,746,150	14,850,432
Grants and contributions not restricted to specific programs	835,610	693,279	1,144,348	849,714	1,119,078	1,224,305	1,029,730	1,165,499	1,215,096	1,168,838
Unrestricted investment earnings	140,128	411,689	1,427,007	1,790,177	1,967,295	1,164,116	472,107	356,297	314,846	164,364
Gain (loss) on sale of capital assets	18,668	-	3,951.57	-	-	-	-	-	-	-
Transfers	-	-	-	(619,072.00)	(229,678)	(333,081)	(200,703)	(190,056)	(192,889)	(67,742)
Total general revenues and other changes in net position, governmental activities	125,104,620	135,586,956	151,346,290	162,020,974	176,641,407	179,876,328	176,251,756	172,469,429	169,709,790	170,647,140
Business-type activities:										
Public utilities - unrestricted investment earnings	31,330	560,981	588,383	1,015,229	1,337,243	1,096,699	349,481	153,045	110,750	56,861
Transfers - Airport fund	-	-	-	619,072.00	229,678	333,081	200,703	190,056	192,889	67,742
Total general revenues and other changes in net position, business-type activities	31,330	560,981	588,383	1,634,301	1,566,921	1,429,780	550,184	343,101	303,639	124,603
Total general revenues and other changes in net position, primary government	$ 125,135,950	136,147,937	151,934,673	163,655,275	178,208,328	181,306,108	176,801,940	172,812,530	170,013,429	170,771,743
Change in Net Position										
Governmental activities	$ 2,736,742	1,838,288	12,626,865	18,706,707	4,132,003	3,643,540	11,415,408	5,757,640	(2,914,858)	(732,465)
Business-type activities	6,105,736	4,886,515	6,536,551	8,875,379	19,323,311	5,804,690	904,026	2,180,087	116,034	4,460,810
Total change in net position, primary government	$ 8,842,478	6,724,803	19,163,416	27,582,086	23,455,314	9,448,230	12,319,434	7,937,727	(2,798,824)	3,728,345

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

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

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

COUNTY OF HANOVER, VIRGINIA **Table 3**

Fund Balances, Governmental Funds (Unaudited)

Last Ten Fiscal Years [1]

(modified accrual basis of accounting)

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

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

(2) Beginning in fiscal year 2005, the School Improvements Fund was included as a major fund of the primary government. Fiscal years 2002 through 2004 above also include the School Improvements Fund to be consistent with fiscal 2005 and subsequent presentation.

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

	Fiscal Year Ended June 30, (see note 1 below)		
	2011	**2012**	**2013**
General Fund:			
Nonspendable	$ 147,333	170,004	197,871
Restricted	532,845	467,104	581,242
Committed	2,500,000	500,000	500,000
Assigned	19,552,419	20,567,906	17,754,733
Unassigned	24,565,863	23,927,842	25,200,284
Total General Fund	$ 47,298,460	45,632,856	44,234,130
All other governmental funds: (2)			
Nonspendable	$ -	-	-
Restricted	6,103,928	4,113,255	4,878,185
Committed	-	-	-
Assigned	12,563,314	9,522,307	10,071,820
Unassigned	-	-	-
Total All Other Governmental Funds	$ 18,667,242	13,635,562	14,950,005

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

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

HANOVER COUNTY
Birthplace of Patrick Henry-Henry Clay
Hanover Courthouse
built 1735
Formed in 1720
VIRGINIA

COUNTY OF HANOVER, VIRGINIA **Table 4**

Changes in Fund Balances, Governmental Funds [(3), (4)] (Unaudited)

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year				
Primary Government:	2004	2005	2006	2007	2008
REVENUES					
General property taxes	$ 87,102,894	94,604,793	104,909,885	116,138,314	127,752,615
Other local taxes	23,059,560	25,475,779	28,190,135	27,952,788	29,953,700
Permits, privilege fees and regulatory licenses	2,382,618	2,723,338	2,741,893	2,840,734	2,570,668
Fines and forfeitures	755,612	900,479	922,784	979,511	967,867
Revenues from use of money and property	469,494	739,604	1,778,603	2,948,143	2,507,279
Charges for services	6,808,704	7,763,532	9,799,667	9,163,731	8,165,843
Miscellaneous	651,467	341,392	902,337	534,902	654,065
Recovered costs	3,465,357	4,025,895	4,938,320	4,901,798	6,824,257
Intergovernmental (state and federal)	31,953,115	30,661,978	31,784,408	31,601,395	34,398,123
Total revenues	156,648,821	167,236,790	185,968,032	197,061,316	213,794,417
EXPENDITURES					
General governmental administration	9,996,622	10,820,949	11,842,572	12,998,848	13,604,057
Judicial administration	2,904,596	3,417,726	3,797,463	3,864,913	4,342,825
Public safety	28,867,772	33,448,190	36,508,483	40,357,437	47,391,988
Public works	11,347,662	10,121,770	8,691,474	8,361,994	12,212,146
Human services	17,409,953	18,643,912	20,000,898	21,453,342	22,960,809
Parks, recreation and cultural	4,314,220	4,780,299	5,393,280	6,564,538	9,221,302
Community development	4,254,248	4,507,798	4,920,539	5,313,263	5,547,312
Education expenditures, for:					
Instruction, operations and administration	59,586,631	60,195,699	65,364,031	67,881,714	75,940,541
Capital outlay	11,261,499	9,924,452	23,847,050	21,461,655	22,020,675
Debt service:					
Principal retirement	8,055,740	8,873,194	8,666,075	10,064,060	10,888,261
Interest and fiscal charges	5,794,545	5,268,461	5,389,377	5,592,647	5,936,066
Total education, primary government	84,698,415	84,261,806	103,266,533	105,000,076	114,785,543
Debt service:					
Principal retirement	1,527,625	1,448,913	1,185,722	1,220,185	1,578,504
Interest and fiscal charges	605,076	476,297	408,199	292,753	696,081
Bond issuance costs	-	-	-	160,802	31,161
Total expenditures	165,926,189	171,927,660	196,015,163	205,588,151	232,371,728
Excess of revenues over (under) expenditures	(9,277,368)	(4,690,870)	(10,047,131)	(8,526,835)	(18,577,311)
OTHER FINANCING SOURCES (USES)					
Transfers in	7,742,528	9,472,429	12,732,206	12,970,459	16,327,577
Transfers out	(6,282,077)	(9,527,429)	(12,982,206)	(13,589,531)	(16,557,255)
Sale of capital assets	-	-	-	-	-
Bonds issued	-	17,097,408	14,739,643	21,487,759	14,614,880
Refunding bonds issued	-	-	-	14,653,901	-
Payments to escrow agent	-	-	-	(14,538,703)	-
Support agreement	-	-	-	-	-
Total other financing sources (uses)	1,460,451	17,042,408	14,489,643	20,983,885	14,385,202
Net change in fund balances	$ (7,816,917)	12,351,538	4,442,512	12,457,050	(4,192,109)
County capital outlay (other than for education) contained in functional expenditure categories, above	$ 5,722,320	3,651,890	4,724,911	7,706,846	11,459,039
GASB 44 debt service disclosure (primary government): (2)					
Debt service as a percentage of noncapital expenditures, primary government, governmental funds	10.7%	10.1%	9.3%	9.7%	9.6%
Self-imposed debt margin compliance (total reporting entity): (1)					
Noncapital expenditures - total reporting entity	$ 214,131,882	232,429,030	249,296,596	273,302,713	292,793,745
Debt service as a percent of noncapital expenditures - total reporting entity	7.5%	6.9%	6.3%	6.3%	6.5%

Notes: **(1)** **Self-imposed debt limit information**

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

(2) **GASB 44 debt service disclosure**

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

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

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

Continued

COUNTY OF HANOVER, VIRGINIA **Table 4**

Changes in Fund Balances, Governmental Funds [(3), (4)] (Unaudited)

Last Ten Fiscal Years

(modified accrual basis of accounting)

Fiscal Year 2009	2010	2011	2012	2013	
					REVENUES
134,631,877	132,160,474	130,806,022	126,110,780	125,716,871	General property taxes
27,050,122	26,077,337	26,856,220	27,362,807	28,841,377	Other local taxes
1,756,291	1,493,234	1,771,735	1,555,734	2,117,648	Permits, privilege fees and regulatory licenses
1,111,383	1,145,092	1,234,619	1,123,148	1,122,896	Fines and forfeitures
1,386,151	747,670	663,868	730,397	519,442	Revenues from use of money and property
7,982,604	7,758,435	7,734,023	7,383,203	7,738,869	Charges for services
839,426	621,088	728,750	720,888	765,157	Miscellaneous
6,677,511	3,366,236	3,939,877	3,899,087	4,085,951	Recovered costs
33,571,769	32,739,887	32,981,600	32,212,010	32,350,451	Intergovernmental (state and federal)
215,007,134	206,109,453	206,716,714	201,098,054	203,258,662	Total revenues
					EXPENDITURES
13,221,357	13,065,175	13,264,877	14,078,620	13,388,389	General governmental administration
5,603,761	4,452,332	4,238,674	4,365,516	4,625,522	Judicial administration
61,749,637	56,977,215	52,271,337	50,485,129	49,214,788	Public safety
15,502,385	10,387,021	9,048,288	10,938,918	10,512,574	Public works
24,195,148	25,624,808	26,117,943	23,259,647	21,110,782	Human services
10,083,714	7,231,464	7,567,583	6,886,334	5,611,331	Parks, recreation and cultural
5,940,549	6,360,382	5,474,907	4,659,812	4,719,372	Community development
					Education expenditures, for:
79,411,219	70,527,127	67,587,462	72,974,302	72,349,963	Instruction, operations and administration
9,706,041	7,868,873	7,700,153	6,591,609	1,863,441	Capital outlay
					Debt service:
11,336,693	11,932,672	11,111,792	10,502,253	10,723,304	Principal retirement
6,061,070	5,495,314	5,546,302	5,092,904	4,992,396	Interest and fiscal charges
106,515,023	95,823,986	91,945,709	95,161,068	89,929,104	Total education, primary government
					Debt service:
1,697,930	2,155,086	2,065,489	2,201,996	2,541,464	Principal retirement
514,194	862,522	1,518,217	2,001,749	1,957,177	Interest and fiscal charges
360,492	287,099	326,444	35,649	-	Bond issuance costs
245,384,190	223,227,090	213,839,468	214,074,438	203,610,503	Total expenditures
(30,377,056)	(17,117,637)	(7,122,754)	(12,976,384)	(351,841)	Excess of revenues over (under) expenditures
					OTHER FINANCING SOURCES (USES)
16,039,580	9,930,074	9,196,315	10,061,563	4,123,000	Transfers in
(16,372,661)	(10,130,777)	(9,530,584)	(10,254,452)	(4,190,742)	Transfers out
-	-	-	-	335,300	
21,679,548	27,228,580	12,809,071	6,471,989	-	Bonds issued
24,962,676	-	5,660,579	-	-	Refunding bonds issued
(24,758,539)	-	(10,844,571)	-	-	Payments to escrow agent
-	-	7,327,036	-	-	Support agreement
21,550,604	27,027,877	14,617,846	6,279,100	267,558	Total other financing sources (uses)
(8,826,452)	9,910,240	7,495,092	(6,697,284)	(84,283)	**Net change in fund balances**
22,252,664	18,214,702	13,066,182	7,641,249	3,126,556	County capital outlay (other than for education) contained in functional expenditure categories, above
					GASB 44 Debt Service Disclosure (primary government): (2)
9.2%	10.4%	10.5%	9.9%	10.2%	Debt service as a percentage of noncapital expenditures, primary government, governmental funds
					Self-imposed debt margin compliance (total reporting entity): (1)
307,559,903	296,946,733	289,156,980	295,486,002	294,560,877	Noncapital expenditures - total reporting entity
6.5%	7.0%	7.1%	6.7%	6.9%	Debt service as a percent of noncapital expenditures - total reporting entity

To assist the reader, the fiscal year 2013 percentages, calculated in accordance with the County's self-imposed debt margin, and with GASB 44, respectively, are as follows:

Debt Margin Information (1), (2)

Fiscal Year 2013	Self-imposed	GASB 44
	Total Reporting Entity (Note 1)	Primary Government (Note 2)
Total expenditures	$ 300,961,121	203,610,503
Less:		
Capital Outlay	(6,400,244)	(4,989,997)
Noncapital expenditures	$ 294,560,877	198,620,506
Debt service expenditures	$ 20,214,341	20,214,341
As a % of noncapital expenditures	6.9%	10.2%

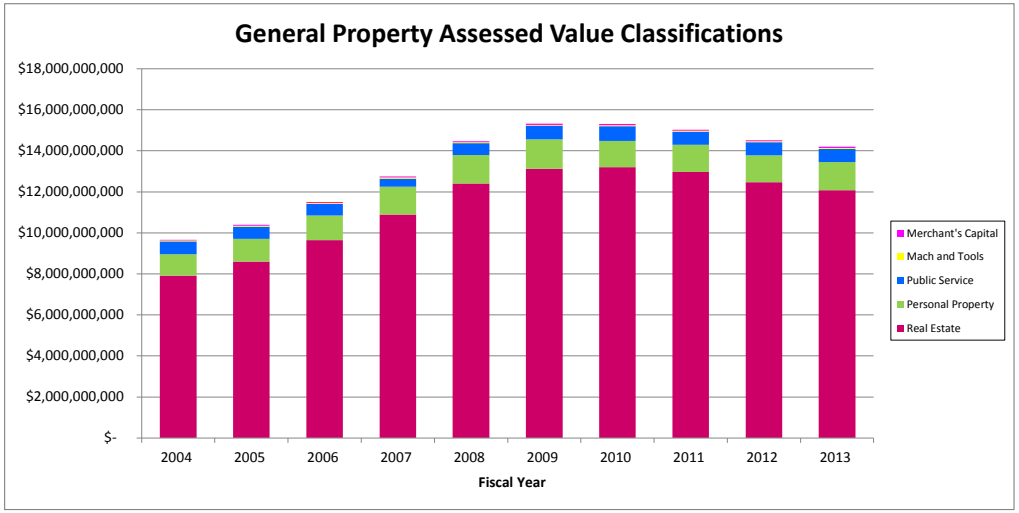
COUNTY OF HANOVER, VIRGINIA **Table 5**

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools (3)	Merchant's Capital	Public Service Corporations (4)	Total Taxable Assessed Value	Total Direct Tax Rate (5)	Estimated Actual Taxable Value (6)	Taxable Assessed Value as a % of Actual Taxable Value
2004	$ 7,911,038,250	$ 1,052,222,261	$ 43,715,905	$ 37,951,150	$ 618,887,688	$ 9,663,815,254	1.16	$ 10,734,661,024	90.0%
2005	8,602,251,150	1,104,271,432	44,360,770	42,696,180	599,353,434	10,392,932,966	1.17	11,517,095,356	90.2%
2006	9,642,919,834	1,207,102,828	43,255,420	45,487,432	557,153,154	11,495,918,668	1.16	12,689,954,469	90.6%
2007	10,887,416,600	1,360,895,130	51,135,605	48,916,675	398,554,972	12,746,918,982	1.14	13,888,502,922	91.8%
2008	12,406,058,400	1,394,357,395	47,647,920	51,861,300	570,955,157	14,470,880,172	1.08	15,673,250,517	92.3%
2009	13,125,005,050	1,437,119,361	43,260,613	50,228,645	664,757,197	15,320,370,866	1.07	16,533,565,376	92.7%
2010	13,200,604,700	1,289,239,482	49,736,420	53,188,390	710,146,172	15,302,915,164	1.05	16,555,688,273	92.4%
2011	12,976,492,850	1,317,726,666	46,767,920	56,331,127	636,154,791	15,033,473,354	1.06	16,251,114,190	92.5%
2012	12,473,065,850	1,305,637,852	48,382,950	50,402,585	640,206,513	14,517,695,750	1.06	15,721,793,938	92.3%
2013	12,085,083,900	1,362,897,839	52,410,151	54,335,585	641,273,699	14,196,001,174	1.09	15,420,048,309	92.1%
% Change	-3.1%	4.4%	8.3%	7.8%	0.2%	-2.2%		-1.9%	
% Ch. Since 2004	52.8%	29.5%	19.9%	43.2%	3.6%	46.9%		43.6%	
% of Total	85.1%	9.6%	0.4%	0.4%	4.5%	100.0%			

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

Source: County of Hanover, Virginia Treasurer's Office and Commissioner of Revenue's Office



COUNTY OF HANOVER, VIRGINIA **Table 6**

Direct and Overlapping Property Tax Rates (Unaudited)

Last Ten Calendar (Tax) Years

Calendar (Tax) Year (1)	County of Hanover, Virginia Direct Rates (1,2)							County Total Direct Tax Rate For each *Fiscal* Year Shown (3)	Town of Ashland (Overlapping Rates) (4)		
	Real Property	Power Generating Equipment	Personal Property	Fire and Rescue Volunteers	Aircraft	Machinery and Tools	Merchant's Capital		Real Property	Personal Property	Machinery and Tools
2004	0.86	0.49	3.64	1.82	1.00	3.64	1.90	1.16	0.09	0.77	0.77
2005	0.86	0.49	3.64	1.82	1.00	3.64	1.90	1.17	0.09	0.77	0.77
2006	0.86	0.55	3.57	1.78	1.00	3.57	1.90	1.16	0.07	0.77	0.77
2007	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.14	0.07	0.77	0.77
2008	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.08	0.09	0.77	0.77
2009	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.07	0.09	0.77	0.77
2010	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.05	0.09	0.77	0.77
2011	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.06	0.09	0.77	0.77
2012	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.06	0.09	0.77	0.77
2013	0.81	0.55	3.57	1.78	0.50	3.57	1.90	1.09	0.09	0.77	0.77
% Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	0.0%	0.0%	0.0%
% Ch. Since 2004	-5.8%	12.2%	-1.9%	-2.2%	-50.0%	-1.9%	0.0%	-6.0%	0.0%	0.0%	0.0%

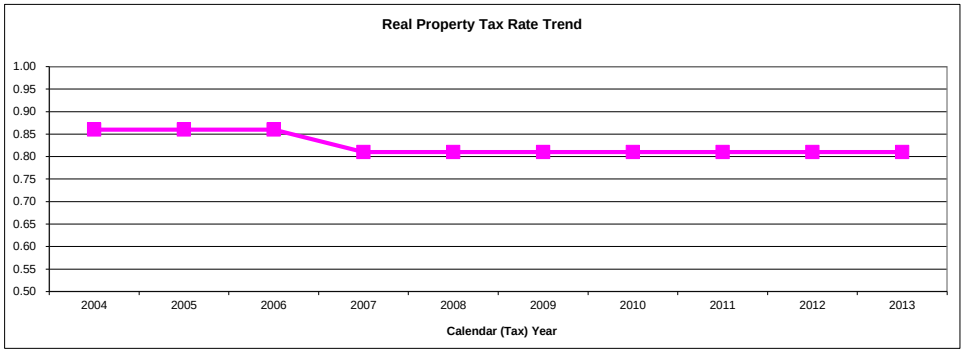
Notes: (1) The individual tax rates are per $100 of assessed value, which is generally determined as of January 1 of each year, and are used to determine tax payments due within the same calendar (tax) year.

(2) Real property taxes are payable in two equal installments, on June 5 and October 5. Personal property taxes are due on February 5 of the following calendar year.

(3) The County prepares its budgets and its Comprehensive Annual Financial Report on a fiscal year basis (July 1 through June 30), as required by Section 15.2-2500 of the Code of Virginia, and levies taxes to support County activities for the fiscal year in which the tax payments are due. Accordingly, the Total Direct Tax Rates are applicable to the fiscal year for which the taxes are levied and due. The total direct tax rates are calculated per $100 of assessed valuation and calculated on the weighted average basis.

(4) These overlapping rates are in addition to the County rates, but only apply to taxpayers owning property within the borders of the Town of Ashland, Virginia, which lies within the County.

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



COUNTY OF HANOVER, VIRGINIA **Table 7**

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

Taxpayer	Type of Business	2013 General Property Taxable Assessed Value	2013 Rank	2013 Percentage of Total Taxable Assessed Value	2004 General Property Taxable Assessed Value	2004 Rank	2004 Percentage of Total Taxable Assessed Value
Doswell Limited Partnership	Power generation facility	$ 222,743,569	1	1.6%	$ 301,753,937	1	3.1%
Virginia Electric and Power Company	Electric company	176,812,528	2	1.2%	108,680,470	2	1.1%
Memorial Regional Medical Center	Hospital/medical center	118,724,145	3	0.8%	84,255,885	3	0.9%
Cedar Fair Southwest(2013)/Paramount Parks(2004)	Entertainment	86,692,640	4	0.6%	72,260,945	4	0.7%
Virginia Natural Gas	Natural gas distributor	48,652,073	5	0.3%	24,658,684	9	0.3%
Verizon Virginia	Telecommunications	47,983,360	6	0.3%	61,479,003	6	0.6%
Bear Island Paper Company	Paper mill	45,309,970	7	0.3%	48,456,635	8	0.5%
Richfood, Inc.	Grocery wholesaler	43,504,660	8	0.3%	51,077,545	7	0.5%
Covenant Woods	Nursing home	42,220,800	9	0.3%	-	n/a	
Rappahannock Electric Coop	Electric company	34,599,434	10	0.2%	23,767,023	10	0.2%
Richmond Newspaper, Inc./Media General, Inc.	Newspaper publisher	-	n/a	-	70,200,555	5	0.7%
		$ 867,243,179		6.1%	$ 846,590,682		8.8%
Total taxable assessed values		$ 14,196,001,174			$ 9,663,815,254		

Notes: (1) Source: Hanover County Commissioner of the Revenue's Office
(2) n/a = not applicable (taxpayer not in top 10 taxpayers of applicable year)

COUNTY OF HANOVER, VIRGINIA **Table 8**

Property Tax Levies and Collections (Unaudited)

Last Ten Fiscal Years

Fiscal Year	General Property Taxes Levied for the Fiscal Year (1,2)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	$ 98,276,555	$ 95,328,641	97.0%	$ 2,925,356	$ 98,253,997	100.0%
2005	106,293,313	102,152,923	96.1%	4,113,538	106,266,461	100.0%
2006	117,153,995	113,003,453	96.5%	4,114,189	117,117,642	100.0%
2007	128,606,341	123,943,881	96.4%	4,353,106	128,296,987	99.8%
2008	139,951,410	134,776,945	96.3%	4,665,681	139,442,626	99.6%
2009	146,731,880	140,814,064	96.0%	4,776,821	145,590,885	99.2%
2010	142,757,714	137,896,486	96.6%	2,922,275	140,818,761	98.6%
2011	141,464,681	136,643,777	96.6%	2,329,676	138,973,453	98.2%
2012	138,147,691	136,569,536	98.9%	860,540	137,430,076	99.5%
2013	136,956,978	135,351,034	98.8%	-	135,351,034	98.8%

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

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

COUNTY OF HANOVER, VIRGINIA **Table 9**

Ratios of Outstanding Debt by Type, and

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

Last Ten Fiscal Years

	Governmental Activities									
	General Bonded Debt Outstanding (1)									
Fiscal Year	General Obligation Bonds	Virginia Public School Authority Bonds	State Literary Fund Loans	Total General Bonded Debt	Estimated Actual Value of Taxable Property	Percent of General Bonded Debt to Estimated Actual Value of Taxable Property	Population (2)	General Bonded Debt per Capita	Capital Leases	Support Agreement
2004	$ 68,635,000	$ 38,532,153	$ 9,909,250	$ 117,076,403	$ 10,734,661,024	1.1%	95,459	$ 1,226	$ 6,272,492	$ -
2005	64,740,000	51,086,117	9,079,500	124,905,617	11,517,095,356	1.1%	96,520	1,294	5,218,579	-
2006	60,745,000	61,505,178	8,249,750	130,499,928	12,689,954,469	1.0%	98,126	1,330	4,427,857	-
2007	78,337,181	55,737,611	7,519,000	141,593,792	13,888,502,922	1.0%	99,047	1,430	3,602,672	-
2008	73,175,988	64,533,826	6,788,250	144,498,064	15,673,250,517	0.9%	99,713	1,449	2,739,169	-
2009	89,665,816	58,168,234	6,156,000	153,990,050	16,533,565,376	0.9%	100,051	1,539	1,836,239	-
2010	110,157,033	52,027,571	5,552,750	167,737,354	16,555,688,273	1.0%	100,408	1,671	3,330,677	-
2011	115,745,603	46,756,541	-	162,502,144	16,251,114,190	1.0%	100,822	1,612	2,712,424	7,314,184
2012	107,857,328	48,885,099	-	156,742,427	15,721,793,938	1.0%	101,586	1,543	2,355,572	6,681,332
2013	99,349,768	44,497,391	-	143,847,159	15,420,048,309	0.9%	102,623	1,402	2,256,096	5,963,481
% Change	-7.9%	-9.0%	0.0%	-8.2%	-1.9%	-6.4%	1.0%	-9.2%	-4.2%	-10.7%
% Ch. Since 2004	44.8%	15.5%	-100.0%	22.9%	43.6%	-14.5%	7.5%	14.3%	-64.0%	100.0%

	Business-type Activities		Total Primary Government					Self-Imposed Debt Limit Information (3)			
				Demographic Information							
Fiscal Year	Revenue Bonds	Support Agreement	Total Primary Government	Total Personal Income (2) (000's)	Per Capita Personal Income (2)	Total Primary Government Debt as a Percentage of Personal Income	Total Primary Government Debt Per Capita	Outstanding Debt Funded by General Governmental Expenditures (4)	Ratio of Outstanding Debt Funded by General Governmental Expenditures to Assessed Value (4)	Outstanding Debt Funded by General Governmental Expenditures per Capita (5)	Ratio of Total General Bonded Debt per Per Capita Income (6)
2004	$ 35,914,656	$ -	$ 159,263,551	$ 3,534,059	$ 37,022	4.5%	$ 1,668	$ 123,348,895	1.3%	$ 1,292	$ 3,162
2005	33,211,383	-	163,335,579	3,758,827	38,944	4.3%	1,692	130,124,196	1.3%	1,348	3,207
2006	40,580,754	-	175,508,539	4,008,876	40,854	4.4%	1,789	134,927,785	1.2%	1,375	3,194
2007	40,509,437	-	185,705,901	4,306,337	43,478	4.3%	1,875	145,196,464	1.1%	1,466	3,257
2008	38,906,488	-	186,143,721	4,533,546	45,466	4.1%	1,867	147,237,233	1.0%	1,477	3,178
2009	36,836,758	-	192,663,047	4,311,228	43,090	4.5%	1,926	155,826,289	1.0%	1,557	3,574
2010	34,612,657	-	205,680,688	4,382,550	43,647	4.7%	2,048	171,068,031	1.1%	1,704	3,843
2011	21,887,907	10,562,075	204,978,734	4,598,907	45,614	4.5%	2,033	172,528,752	1.1%	1,711	3,563
2012	20,943,819	9,172,282	195,895,432	4,633,756	45,614	4.2%	1,928	165,779,331	1.1%	1,632	3,436
2013	19,951,453	7,792,489	179,810,678	4,681,058	45,614	3.8%	1,752	152,066,736	1.1%	1,482	3,154
% Change	-4.7%	-15.0%	-8.2%	1.0%	0.0%	-9.1%	-9.1%	-8.3%	-6.2%	-9.2%	-8.2%
% Ch. Since 2003	-44.4%	-100.0%	12.9%	32.5%	23.2%	-14.8%	5.0%	23.3%	-16.1%	14.7%	-0.3%

Notes:

(1) See Financial Statement Note IV-E for additional information on outstanding debt.

(2) Population estimates at June 30th for each year from Hanover County Planning Department. Per Capita Personal Income is calculated by dividing Personal Income by the population estimate for each fiscal year. Personal income data for 2004 through 2010 (the last year available) is obtained from the Bureau of Economic Analysis, U.S.Department of Commerce. Per Capita Personal Income for 2012 and 2013 is assumed to be equal to 2011, the last year for which Personal Income data is available from the U.S. Department of Commerce. Personal Income amounts for 2012 and 2013 are calculated by multiplying the population estimates by the Per Capita Personal Income estimates for each year.

(3) **Self-imposed debt limit information:**
The Commonwealth of Virginia does not impose a legal limit on the amount of long-term indebtedness the County can incur or have outstanding. The Board of Supervisors, however, has imposed limits in the County's Debt Policy. These limits, and relevant information pertaining to them are described in this table, and on Table 4 of this Statistical Section.

(4) The County's debt policy provides that outstanding debt funded by general government expenditures as a percentage of Assessed Value will not exceed 2.5 percent. Outstanding debt funded by general governmental expenditures includes general bonded debt, governmental activity capital lease obligations, and governmental activies support agreements presented above.

(5) The County's debt policy provides that outstanding debt funded by general government expenditures per Capita will not exceed $1,900 at June 30, 2007, growing at two percent annually ($2,140 for fiscal year 2013). The policy ceiling was $1,400 through 2005, and $1,800 for 2006.

(6) The County's debt policy provides that general bonded debt per Per Capita Income will not exceed $5,000.

COUNTY OF HANOVER, VIRGINIA **Table 10**

Direct and Overlapping Governmental Activities Debt (Unaudited)

June 30, 2013

	Governmental Unit	General Bonded Debt Outstanding	Estimated Percentage Applicable to County of Hanover	Estimated Share of Direct and Overlapping Debt	Legal Debt Margin
Overlapping debt (1)	Town of Ashland	$ -	80.5%	$ -	
Direct debt	County of Hanover	146,103,255		146,103,255	(2)
Total direct and overlapping debt				$ 146,103,255	

Notes: (1) The estimated percentage of the Town of Ashland's net general bonded debt outstanding applicable to the County is based upon a 1996 agreement under which the County assumed ownership of the Town's water and sewer system, and agreed to reimburse the Town for 80.5 percent of the debt service on the applicable water and sewer bonds.

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

COUNTY OF HANOVER, VIRGINIA **Table 11**

Pledged Revenue Coverage (1) (Unaudited)

Last Ten Fiscal Years

Utility - Water and Sewer Revenue Bonds

Fiscal Year	Utility Revenues (3,8)	Less: Operating Expenses (4)	Net Available Revenues	Debt Service Requirements Principal	Debt Service Requirements Interest	Net Available Revenues Coverage (5)	Utility - Debt Covenant Coverage Ratio (1,2,6) Debt Service Senior Debt Service	Debt Service Subordinate Debt Service	Debt Covenant Coverage Test
2004	$ 20,204,934	$ 11,575,054	$ 8,629,880	$ 1,563,339	$ 1,419,537	2.9	$ 1,996,845	$ 986,031	2.6
2005	22,269,236	13,583,502	8,685,734	2,357,376	1,511,269	2.2	3,076,445	792,200	2.0
2006	24,926,132	14,357,272	10,568,860	1,633,184	1,312,498	3.6	2,750,338	195,344	3.1
2007	24,793,867	14,376,026	10,417,841	2,033,670	1,680,484	2.8	3,513,739	200,415	2.5
2008	34,519,573	15,127,475	19,392,098	2,254,088	1,572,342	5.1	3,622,625	203,805	4.4
2009	25,584,480	16,429,026	9,155,454	2,304,393	1,494,361	2.4	3,627,119	171,635	2.1
2010	24,194,254	17,331,485	6,862,769	2,345,892	1,404,572	1.8	3,583,203	167,261	1.6
2011	25,293,064	15,245,233	10,047,831	2,214,772	1,355,549	2.8	3,399,595	170,726	2.5
2012	24,767,507	16,260,265	8,507,242	2,407,847	1,137,247	2.4	3,378,974	166,120	2.1
2013	27,320,235	16,487,597	10,832,638	2,446,872	1,067,815	3.1	3,349,252	165,435	2.7
% Change			27.3%	1.6%	-6.1%	28.4%	-0.9%	-0.4%	28.4%
% Ch. Since 2004			25.5%	56.5%	-24.8%	6.5%	67.7%	-83.2%	2.6%

Airport Revenue Bond

Fiscal Year	Rent received from Airport Fixed Base Operator	Less: Operating Expenses	Net Available Revenues	Debt Service Requirements Principal	Debt Service Requirements Interest	Available Revenues Coverage (5)	Airport - Debt Covenant Coverage Ratio (1,7) Rent Received	Restricted cash - (used during current FY or available at FYE for debt service)	Lessee irrevocable letter of credit pledged for satisfaction of debt covenant ratio	Debt Covenant Coverage Test
2008	$ 61,039	$ -	$ 61,039	$ 26,396	$ 70,922	0.6	$ 61,039	$ 156,081	$ 36,000	2.6
2009	88,093	-	88,093	54,820	89,158	0.6	88,093	156,081	36,000	1.9
2010	152,748	-	152,748	57,640	86,337	1.1	152,748	12,361	36,000	1.4
2011	157,330	-	157,330	60,605	83,372	1.1	157,330	-	36,000	1.3
2012	162,050	-	162,050	63,723	80,254	1.1	162,050	-	36,000	1.4
2013	166,912	-	166,912	67,001	75,274	1.2	166,912	-	36,000	1.4
% Change			3.0%	5.1%	-6.2%	4.2%	3.0%	0.0%	0.0%	3.7%
% Ch. Since 2008			173.5%	153.8%	6.1%	87.0%	173.5%	-100.0%	0.0%	-45.2%

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

(2) For comparability, the utility debt covenant coverage test for 2004 and 2005 has been restated to comply with current water and sewer system revenue bond covenants. The County was in compliance with all utility debt coverage ratios applicable to those years before restatement, as demonstrated in the statistical sections of the Comprehensive Annual Financial Reports for those years.

(3) Utility revenues exclude donated capital assets.

(4) Utility operating expenses exclude depreciation.

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

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

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

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

COUNTY OF HANOVER, VIRGINIA **Table 12**

Demographic Statistics (Unaudited)

Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (1) *(000's)*	Per Capita Personal Income (1)	Median Age (2)	Unemployment Rate (3)	School Enrollment (4)	School Instructional Positions (5)	School Enrollment to Instructional Positions Ratio
2004	95,459	$ 3,534,059	$ 37,022	37.4	3.0%	17,979	1,381	13.0
2005	96,520	3,758,827	38,944	39.5	2.9%	18,150	1,434	12.7
2006	98,126	4,008,876	40,854	39.2	2.5%	18,518	1,485	12.5
2007	99,047	4,306,337	43,478	38.9	2.5%	18,844	1,563	12.1
2008	99,713	4,533,546	45,466	40.4	3.5%	18,686	1,577	11.8
2009	100,051	4,311,228	43,090	41.1	6.6%	18,566	1,614	11.5
2010	100,408	4,382,550	43,647	41.0	6.7%	18,420	1,569	11.7
2011	100,822	4,598,907	45,614	41.0	6.0%	18,191	1,489	12.2
2012	101,586	4,633,756	45,614	41.0	5.5%	18,125	1,487	12.2
2013	102,623	4,681,058	45,614	41.0	5.4%	17,942	1,426	12.6
% Change	1.0%	1.0%	0.0%	0.0%	-1.8%	-1.0%	-4.1%	3.3%
% Ch. Since 2004	7.5%	32.5%	23.2%	9.6%	80.0%	-0.2%	3.2%	-3.3%

Notes:

(1) Population estimates at June 30th for each year from Hanover County Planning Department. Per Capita Personal Income is calculated by dividing Personal Income by the population estimate for each fiscal year. Personal income data for 2004 through 2011 (the last year available) is obtained from the U. S. Department of Commerce, Bureau of Economic Analysis. Per Capita Personal Income for 2012 and 2013 is assumed to be equal to 2011, the last year for which Personal Income data is available from the U.S. Department of Commerce, Bureau of Economic Analysis. Personal Income amounts for 2012 and 2013 are calculated by multiplying the population estimates by the Per Capita Personal Income estimates for each year.

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

(3) Virginia Employment Commission

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

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

COUNTY OF HANOVER, VIRGINIA **Table 13**

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

		2012			2003		
Employer	Type of Business	Employees	Rank	Percentage of Total County Employment (2)	Employees	Rank	Percentage of Total County Employment (2)
Hanover County Schools	Education	2,532	1	4.9%	2,373	1	4.8%
Bon Secours Memorial Regional Medical	Hospital/Medical Center	1,000 and over	2	3.9%	1,000 and over	2	4.0%
County of Hanover	Government	1,090	3	2.1%	969	3	1.9%
Randolph-Macon College	Education	500-999	4	1.4%	500-999	6	1.5%
Tyson Foods	Food Manufacturing	500-999	5	1.4%	500-999	5	1.5%
SuperValu	Food Distributor	500-999	6	1.4%	500-999	4	1.5%
Paramount Kings Dominion	Entertainment	500-999	7	1.4%	500-999	8	1.5%
Wal-Mart Stores	Retail	250-499	8	1.4%	500-999	7	1.5%
Sales Mark	Wholesale Electronic Markets	250-499	9	0.7%		n/a	
Acosta Sales & Marketing Co	Sales & Marketing	250-499	10	0.7%		n/a	
Culpeper Star Exponent	Newspaper Publisher		n/a		250-499	9	0.7%
Ukrops	Food and Beverage Stores		n/a		250-499	10	0.7%
Totals				**19.5%**			**19.7%**
Total County Employment (3)		**51,922**			**49,886**		

Notes:

(1) Sources: County and Schools employment levels provided by the Hanover County Department of Finance and Management Services, Budget Division.
Other data provided by the Virginia Employment Commission (VEC).
Employment levels represent full-time equivalents. The most recent year for which this data is available is 2012.

(2) Employment ranges for the private sector are as published by the VEC to ensure confidentiality. Percentages are based on the midpoint of the employment range.

(3) VEC Annual not Seasonally Adjusted Labor Force

COUNTY OF HANOVER, VIRGINIA

Table 14

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

	Full-time Equivalent Employees as of June 30									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Function/Program										
Primary government:										
General governmental administration	126	131	135	138	140	145	141	137	132	123
Judicial administration	49	52	54	54	57	59	59	57	57	55
Public safety	345	381	415	433	457	472	474	464	462	449
Public works	61	64	66	71	73	73	73	60	88	83
Human services	214	220	230	235	221	227	226	198	189	183
Parks, recreation and cultural	42	45	46	47	49	50	50	37	37	33
Community development	31	32	31	33	34	31	35	29	29	25
Public utilities	88	92	92	93	95	96	96	95	95	93
Fleet management (2)	26	26	26	27	28	29	29	29	-	-
Self insurance fund	-	-	-	-	-	1	1	1	1	1
Totals - Primary government	982	1,043	1,095	1,131	1,154	1,183	1,184	1,107	1,090	1,045
Component Unit:										
School Board	2,548	2,673	2,713	2,827	2,903	2,973	2,678	2,544	2,532	2,462
Total:	3,530	3,716	3,808	3,958	4,057	4,156	3,862	3,651	3,622	3,507

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

COUNTY OF HANOVER, VIRGINIA
Operating Indicators by Function (1,2) (Unaudited)
Last Ten Fiscal Years

Table 15

Function/Program	Fiscal Year 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Primary government:										
General governmental administration										
Number of registered voters	56,000	58,741	62,960	63,059	65,290	67,322	68,294	68,968	71,832	71,010
Number of real estate transfers	4,024	3,689	3,490	3,293	3,564	2,173	2,874	2,800	3,027	3,065
State income tax returns processed	25,000	12,529	10,200	12,225	10,790	8,038	7,757	7,545	8,696	7,514
Judicial administration										
Judgments docketed	2,540	2,513	3,104	3,330	3,330	3,388	3,740	4,321	4,041	3,543
Public safety										
Sheriff incidents	49,788	49,783	46,259	42,340	42,928	41,863	40,189	46,077	38,819	37,125
Number of sworn officers	160	170	180	189	196	201	201	201	201	201
Fire/EMS incidents	8,725	8,789	9,401	10,712	7,954	10,735	11,705	13,381	14,216	13,620
Animal control incidents	6,169	6,720	6,866	8,018	7,881	8,508	7,029	6,720	6,485	6,009
Commercial building plan reviews	358	532	467	517	624	414	439	377	414	412
Residential building plan reviews	1,643	1,518	1,608	1,427	1,330	1,051	1,025	1,092	1,098	1,278
Public works										
Tons of solid waste received	34,600	37,714	37,710	37,086	39,306	38,243	37,700	37,600	36,599	32,571
Tons of solid waste recycled	-	14,342	13,716	14,000	13,300	17,000	18,000	18,500	20,000	21,418
Human services										
Communicable disease visits/investigations	300	585	873	689	533	969	429	262	405	370
Immunization visits (3)	3,300	1,650	1,005	693	501	358	9,454	1,210	312	636
Restaurant inspection visits	330	689	590	1,068	1,449	1,024	560	894	710	911
Social services lobby visits	9,866	9,764	9,425	10,150	12,143	16,271	15,377	17,632	20,027	19,018
Social services telephone calls received	43,288	35,950	30,521	28,206	22,413	25,679	24,089	25,997	29,323	25,315
Number of Hanover Youth Service Council (HYSC) projects	29	30	26	30	36	34	39	48	48	44
HYSC Volunteer hours reported	594	618	508	762	711	780	1,406	1,793	1,847	1,353
County employees United Way contribution	45,943	51,958	55,344	60,115	64,896	60,294	60,945	56,816	54,522	48,520
Parks, recreation and cultural										
Active Library borrowers	37,641	45,422	49,311	52,657	50,149	56,968	65,558	74,382	79,700	80,553
Internet sessions	41,765	61,023	66,218	70,189	72,130	84,423	114,945	150,295	103,700	134,980
Library reference questions answered	-	148,470	169,834	193,942	214,409	240,776	295,810	356,454	365,265	330,062
Community development										
Economic development services to existing/prospective businesses	410	455	423	350	350	311	311	311	286	253
Public utilities										
Water customers	18,389	18,825	19,260	19,472	19,742	19,930	20,125	20,381	20,592	19,198
Wastewater customers	16,597	17,001	17,384	17,661	17,931	18,178	18,367	18,604	18,816	18,640
Daily average water distributed (million gallons/day)	6.52	6.35	7.30	8.80	8.50	8.20	8.70	9.04	8.70	8.60
Maximum daily water capacity (million gallons/day)	16.00	19.95	19.95	19.95	19.95	19.95	19.95	19.95	19.95	19.95
Daily average wastewater treatment (million gallons/day)	6.06	6.29	5.43	6.20	5.60	6.70	6.93	6.94	6.07	5.99
Maximum daily capacity of wastewater treatment plant (mg/d)	8.48	13.48	13.48	13.50	13.50	13.50	15.50	15.50	15.50	15.50
General services										
School buses serviced	261	302	305	302	301	309	311	303	310	303
Public safety vehicles serviced	371	410	420	425	434	433	442	438	421	470
Fleet availability	96%	97%	96.5%	96.8%	96.7%	97.0%	97.0%	96.2%	95.4%	95.2%

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

COUNTY OF HANOVER, VIRGINIA

Table 16

Capital Asset Statistics by Function (1) (Unaudited)
Last Ten Fiscal Years

Function/Program	Fiscal Year 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Primary government:										
General governmental administration										
Estimated square feet- all general administrative office space	42,552	42,552	42,552	42,552	43,436	43,436	43,436	47,436	47,436	47,571
Judicial administration										
Estimated square feet - all judicial buildings	40,796	40,796	40,796	58,460	58,460	58,460	58,460	58,460	58,460	58,460
Public safety										
Estimated square feet - all public safety buildings	177,577	177,577	177,577	177,577	177,577	200,804	208,804	213,447	213,447	214,604
Number of sheriff's stations	1	1	1	1	1	1	1	1	1	1
Correctional facility inmate capacity	429	429	429	437	437	437	437	437	437	437
Number of fire/EMS stations	16	16	16	16	16	16	16	16	16	16
Public works										
Estimated square feet - all public works	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,565	17,665
Number of solid waste convenience centers	6	6	6	6	6	6	6	6	6	6
County Airport - acres in facility	210	210	232	232	232	232	232	257	260	260
Aircraft hanger spaces - County Airport	40	40	40	46	54	54	54	54	54	54
Aircraft tie-down spaces	56	56	56	56	56	56	56	56	56	55
Length of runway (ft)	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,402
Human services										
Estimated square feet of facilities	53,120	53,120	53,120	53,120	53,120	52,939	52,939	62,939	62,939	62,939
Parks, recreation and cultural										
Number of County parks/boat launch	11	11	11	12	14	14	14	14	14	14
Park acreage (2)	705	756	756	809	1,081	1,116	1,116	1,190	1,282	1,282
Public utilities										
Miles of water mains	351	354	355	366	380	387	389	398	412	419
Number of fire hydrants	1,826	1,915	1,941	2,041	2,162	2,245	2,309	2,367	2,422	2,475
Miles of sanitary sewers	333	346	348	347	356	360	362	369	379	383
Number of wastewater treatment plants	4	4	4	4	4	4	4	4	4	4
General services										
Number of vehicles maintained	982	1,075	1,085	1,100	1,145	1,200	1,220	1,204	1,193	1,189
School Board Component Unit:										
Number of elementary schools	13	13	13	14	14	15	15	15	15	15
Number of secondary schools	8	8	8	8	8	8	8	8	8	8
Alternative Education Facility	-	-	-	-	1	1	1	1	1	1
Number of Technology Centers	-	-	-	-	-	1	1	1	1	1

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

COMPLIANCE SECTION

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Passed Through the Commonwealth of Virginia:			
Department of Agriculture and Consumer Services:			
National School Lunch Program - Cafeteria (commodities)	10.555	$ 267,464	
Department of Education:			
School Breakfast Program	10.553	260,991	
National School Lunch Program	10.555	1,141,828	
Department of Health:			
Summer Food Service Program for Children	10.559	3,197	
Total Child Nutrition Cluster			$ 1,673,480
Department of Health:			
Child & Adult Care Food Program	10.558		37,123
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	627,835	
Total SNAP Cluster			627,835
DEPARTMENT OF DEFENSE:			
Direct Payments:			
JROTC	12.000		199,891
DEPARTMENT OF THE INTERIOR:			
Direct Payments:			
Payments in Lieu of Taxes (PILT)	15.226		2,141
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607		8,687
Passed Through the Commonwealth of Virginia:			
Department of Criminal Justice Services:			
Crime Victim Assistance (13-P9600VW12)	16.575		66,891
Local Law Enforcement Block Grants Program (12-B2132AD09)	16.592		6,044
Edward Byrne Memorial Justice Assistance Grant Program (12-F1220LO11, 13-A2604AD11)	16.738	5,308	
Total JAG Program Cluster			5,308
Department of Social Services:			
Crime Victim Assistance (FAM-12-052-21)	16.575		27,731
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Department of Aviation:			
Airport Improvement Program	20.106		328,610
Passed Through the Commonwealth of Virginia:			
Department of Transportation:			
Highway Planning and Construction	20.205	575,018	
Passed Through to:			
Pole Green Church Foundation	20.205	81,454	
Montpelier Center	20.205	159,342	
Total Highway Planning and Construction Cluster			815,814
Department of Motor Vehicles:			
Alcohol Open Container Requirements (154AL-2012-52075-4453)	20.607		53,793
DEPARTMENT OF EDUCATION:			
Direct Payments:			
Virginia Department of Education	84.323		5,287
Passed Through the Commonwealth of Virginia:			
Department of Education:			
Adult Education - Basic Grants to States (V002A120047, V002A110047)	84.002		76,069
Title I Grants to Local Educational Agencies (S010A110046, S010A120046)	84.010	968,105	
Total Title I, Part A Cluster			968,105
Career and Technical Education - Basic Grants to States (V048A120046)	84.048		153,226

Continued

COUNTY OF HANOVER, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Program Clusters	Federal Expenditures
DEPARTMENT OF EDUCATION, CONTINUED:			
Special Education_Grants to States (H027A120107, H027A110107, H027A100107)	84.027	$ 3,310,260	
Special Education_Preschool Grants (H173A120112)	84.173	75,602	
Total Special Education Cluster (IDEA)			$ 3,385,862
English Language Acquisition State Grants (S365A120046, S365A110046, S365A100046)	84.365		14,211
Improving Teacher Quality State Grants (S367A110044, S367A120044)	84.367		382,907
Department of Behavioral Health & Developmental Services:			
Special Education - Grants for Infants & Families (720C-04334-12D01-017)	84.181	131,926	
Total Early Intervention Services (IDEA) Cluster			131,926
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Payments:			
Head Start (03CH0337)	93.600		932,475
Passed Through the Commonwealth of Virginia:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556		20,685
Temporary Assistance for Needy Families	93.558	385,715	
Total TANF Cluster			385,715
Refugee & Entrant Assistance_State Administered Programs	93.566		1,888
Low-Income Home Energy Assistance	93.568		15,837
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	55,851	
Total CCDF Cluster			55,851
Chafee Education and Training Vouchers Program (ETV)	93.599		3,419
Stephanie Tubbs Jones Child Welfare Services Program	93.645		1,681
Foster Care_Title IV-E	93.658		343,284
Adoption Assistance	93.659		219,069
Social Services Block Grant	93.667		263,704
Chafee Foster Care Independence Program	93.674		6,242
Department of Medical Assistance Services:			
Children's Health Insurance Program	93.767		14,474
Department of Medical Assistance Services:			
Medical Assistance Program	93.778	328,251	
Total Medicaid Cluster			328,251
Department of Behavioral Health and Developmental Services:			
Passed Through VCU - Hanover Cares Coalition:			
Substance Abuse & Mental Health Services_Projects of Regional & National Significance	93.243		8,178
Block Grants for Community Mental Health Services (44506-50138)	93.958		76,946
Block Grants for Prevention and Treatment of Substance Abuse (44501-50148 & 50178; 720C-04220-09M06)	93.959		375,020
DEPARTMENT OF HOMELAND SECURITY:			
Direct Payments:			
Assistance to Firefighters Grant	97.044		144,000
Staffing for Adequate Fire & Emergency Response (SAFER)	97.083		47,581
Passed Through the Commonwealth of Virginia:			
Department of Emergency Management:			
Non-Profit Security Program	97.008		170,993
Homeland Security Grant Program	97.067		34,392
State Homeland Security Program (SHSP)	97.073		25,349
			$12,445,975

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

1. GENERAL

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

2. BASIS OF ACCOUNTING

The Schedule is presented using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, as described in Note I. C. to the County's basic financial statements. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. For the year ended June 30, 2013, the County participated in the following federal programs in which non-cash benefits were provided through the State to eligible participants:

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

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

3. RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* provides that grant revenue should be recognized when all applicable eligibility requirements are met, and, under modified accrual accounting, when the resources are available. Therefore, the proceeds of grants which do not specify time requirements, and for which all other eligibility requirements have been met, are recognized as revenues in the current fiscal year. Expenditures, however, are recognized in the fiscal year spent for the required purpose. In addition, direct Federal interest rate subsidies related to the County's Build America Bonds totaling $260,607 are included in revenues from the Federal government in the General Fund, but the related expenditures are not subject to the Single Audit Act and are not reported on the SEFA.

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

Fund	Federal Expenditures
Primary Government:	
Governmental Activities:	
General	$ 3,361,088
County Improvements	815,814
Total Governmental Activities	4,176,902
Business-type Activities:	
Non-major - Airport	328,610
Total Business-type Activities	328,610
Total Primary Government	4,505,512
Component Unit:	
School Board	7,940,463
Total Component Unit	7,940,463
Total Federal expenditures	$ 12,445,975

4. SUB-RECIPIENT PAYMENTS

$240,796 was received by pass-through entities from the County during the fiscal year from Highway Planning and Construction Program (CFDA Number 20.205).

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hanover, Virginia (the County) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

November 13, 2013

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

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Federal Program

We have audited the County of Hanover, Virginia's (the County) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of County's compliance.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

November 13, 2013

COUNTY OF HANOVER, VIRGINIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNMODIFIED OPINION**

2. Significant deficiencies in internal control over financial reporting disclosed by the audit of the basic financial statements: **NONE REPORTED**

3. Material weaknesses in internal control over financial reporting disclosed by the audit of the basic financial statements: **NONE**

4. Noncompliance, which is material to the basic financial statements: **NONE**

5. Significant deficiencies in internal control over major programs: **NONE REPORTED**

6. Material weaknesses in internal control over major programs: **NONE**

7. The type of report issued on compliance for major programs: **UNMODIFIED OPINION**

8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NONE**

9. The programs tested as major programs were:

Name of Federal Program or Cluster	CFDA Numbers
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561
Highway Planning and Construction	20.205
Improving Teacher Quality State Grants	84.367
Temporary Assistance for Needy Families	93.558
Head Start	93.600
Block Grants for Prevention and Treatment of Substance Abuse	93.959

10. Dollar threshold to distinguish between Types A and B Programs: **$373,379**

11. Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: **YES**

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

C. Findings and Questioned Costs - Major Federal Awards
NONE

D. Findings and Questioned Costs – Commonwealth of Virginia Compliance
NONE

E. Resolution of Prior Year's Findings
There were no findings reported in the prior year.

HANOVER COUNTY DEPARTMENT OF FINANCE AND MANAGEMENT SERVICES

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

ACCOUNTING DIVISION

Karyn A. Tancredi, CPA, Accounting Division Director
Lauren N. Brown, CPA, Senior Accountant
Jacqueline A. Manzer, CPA, Accountant
Wayne A. Cosby, Payroll Manager
Debbie C. Clark, Financial Technician
Bonnica H. Cotman, Financial Technician
Kelli M. Hoffner, Financial Technician
Nancy M. Mancuso, Financial Technician
Connie L. Mills, Financial Technician
Donna B. Neely, Financial Technician
Suzanne M. Palmiter, Financial Technician
Amy L. Sylvia, Financial Technician

BUDGET DIVISION

Shelly H. Wright, Budget Division Director
Les E. Beasley, Analyst
Caitlin A. Farrell, Analyst
M. Bryant Phillips, Analyst

PURCHASING DIVISION

Steven K. Rush, Purchasing Division Director
Angela P. Melton, Contracts Manager
Patti M. Beasley, Purchasing Officer
Trena A. Ponton, Purchasing Officer
Kristin St. Germain, Financial Technician

Hanover: People, Tradition and Spirit

HANOVER COUNTY

PEOPLE, TRADITION AND SPIRIT

OUR VISION

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

OUR MISSION

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

OUR VALUES

Integrity

Accountability

Respect

Inclusiveness