

## COUNTY OF CAROLINE, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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#### **NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The County of Caroline, Virginia (the "County") is governed by an elected five member Board of Supervisors. The County provides a full range of services for its citizens. These services include police and volunteer fire protection and rescue services; sanitation services; recreational activities, cultural events, education, and social services.

The financial statements of the County of Caroline, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

#### **Financial Statement Presentation**

The County's financial report is prepared in accordance with GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

#### **Government-wide and Fund Financial Statements**

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component unit for which the primary government is financially accountable.

Statement of Net Assets - The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

## COUNTY OF CAROLINE, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 (CONTINUED)

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#### **NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Taxes and other items not properly included among program revenues are reported instead 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.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports including the original budget, final budget and actual results.

#### **A. Financial Reporting Entity**

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the County of Caroline (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

#### **B. Individual Component Unit Disclosures**

*Blended Component Unit.* The Industrial Development Authority of the County of Caroline is reported as a blended component unit, meaning that it has been fully integrated into the financial statements as part of the primary government. The Authority was created by the County in 1973 under provisions of the Code of Virginia and is governed by a seven member Board of Directors appointed by the County Board of Supervisors. The Authority's activities are comprised solely of assisting the County in its economic development functions and in the financing of capital improvements. The Authority does not issue a separate financial report.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**B. Individual Component Unit Disclosures (Continued)**

*Discretely Presented Component Unit.* The County's government-wide financial statements include component unit columns that reflect the financial data of the Caroline County School Board. This data is reported in a separate column to emphasize that the School Board is legally separate from the County.

The Caroline County School Board is responsible for operating the elementary and secondary public schools and is fiscally dependent upon the County. The five members of the School Board are elected by the citizens of the County. The County Board of Supervisors has the ability to approve its budget and any amendments. The primary funding of the School Board is from the General Fund of the County. The School Board does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation in the County financial statements for fiscal year ended June 30, 2008.

**C. Other Related Organizations**

The Middle Peninsula Juvenile Detention Commission (the Commission) was created to enhance the region for protection of the citizens by the construction, equipping, maintenance and operation of a new juvenile detention facility serving the eighteen member jurisdictions. The Commission is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs. Separate audited financial statements are available from the Commission, c/o the County of James City at P.O. Box 8784, Williamsburg, VA 23187-8784.

Other Agencies-Certain agencies and commissions service both the County of Caroline and surrounding localities. Board membership is allocated among the localities and their governing bodies appointments. These agencies include: George Washington Regional Commission, Fredericksburg Regional Alliance, Peninsula Council Workforce.

**Included in the County's Financial Report**

None

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues 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 have been met.

The government-wide statement of activities reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, the unrestricted resources as they are needed.

The County's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the County.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time other specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds – are those through which most governmental functions typically are financed. The County reports the General Fund, Debt Service Fund, Capital Improvements Fund, Proffers Fund and Virginia Public Assistance fund as major governmental funds.

General Fund – is the primary operating fund of the County. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board. The General Fund is considered a major fund for fund reporting purposes.

Debt Service Fund – accounts for debt service expenditures for the County including the school system. Payment of principal and interest on the County and school system's general long-term debt financing is provided by appropriations from the General Fund.

Capital Projects Funds – accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds.

The County reports the following non-major governmental funds:

Special Revenue Funds – accounts for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the following funds: Comprehensive Services Act, Law Library, E-911, Courthouse Maintenance, Housing, Tourism, Industrial Development Authority and Sheriff's Grant.

Fiduciary Funds – (Trust and Agency Funds) – accounts for assets held by the County unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Private Purpose Trust and Agency Funds. Private Purpose Trust and Agency Funds utilize the accrual basis of accounting. Fiduciary funds are not included in the government-wide financial statements. The County's Agency Funds include amounts held for others in a fiduciary capacity, which includes social services clients, technology education consortium program and refundable escrow deposits.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)**

2. **Proprietary Funds** – accounts for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds and Internal Service Funds.

**Enterprise Funds** – Enterprise funds distinguish operating revenues and expenses from non-operating 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The County's Enterprise Funds consists of the Caroline County Utility Fund, Milford Sanitary District Fund and Dawn Wastewater System Fund, which account for the operations of sewage pumping stations and collection systems, and the water distribution system.

**Internal Service Funds** – account for the financing of goods or services provided by one department or agency to other departments or agencies of the County government, on a cost reimbursement basis. The County's internal service is the Vehicle Maintenance Fund.

**E. Cash and Cash Equivalents:**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments for the government, as well as for its component units, are reported at fair value.

**F. Investments**

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

**G. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$687,599 at June 30, 2008 and is comprised solely of property taxes.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**G. Receivables and Payables: (Continued)**

Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	June 5/December 5 (50% each date)	June 5/December 5 (50% each date)
Lien Date	June 6/December 6	June 6/December 6

The County bills and collects its own property taxes. The County reassess all existing real property every four years and the last reassessment was done as of January 1, 2006.

**H. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements for both the County and the Component Unit School Board. Capital assets are defined by the County as land, buildings, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. The County does not have any infrastructure in its capital assets since roads, streets, bridges and similar assets within its boundaries are the property of the Commonwealth of Virginia. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. There is no capitalized interest for the year ended June 30, 2008.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Motor vehicles and equipment	3-10
Improvements other than buildings	5-50

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**I. Compensated Absences**

Vested or accumulated vacation leave is reported in governmental funds only if it has matured, for example, as a result of employee resignations and retirements. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to received sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

**J. Retirement Plan**

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service cost over a 30-year period. The County's policy is to fund pension cost as it accrues.

**K. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**L. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated portions of fund balance are established to indicate tentative plans for financial resource utilization in a future period.

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**M. Net Assets**

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

**N. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximate the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while 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.

**O. Prepaid Items**

Prepaid expenditures in governmental funds are offset by reservation of fund balance.

**P. Restricted Assets**

Proceeds of the County's bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**Q. Encumbrances**

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations, is utilized by the Caroline County School Board. There were no encumbrances outstanding in June 30, 2008.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTING:**

The following procedures are used by the County in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. The Board of Supervisors conducts work sessions to review the budget and public hearings are required to be conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Board of Supervisors. The County Administrator is authorized to transfer budgeted amounts within the primary government's departments; however, the Component Unit School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds of the Primary Government and Component Unit – School Board.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units.
8. The Original Budget presented in the accompanying financial statements is the budget as provided in the Appropriation Resolution adopted by the Board of Supervisors. The Final Amended Budget presented in the financial statements is the budget, amended as indicated above, as of the June 30<sup>th</sup> year end.

**Expenditures and Appropriations**

Expenditures exceeded appropriations in the following funds at June 30, 2008:

General Fund	\$	221,224
Debt Service Fund		7,252,327
Capital Projects Fund		8,741,476
Proffers Fund		304,908
Comprehensive Services Fund		126,256
Law Library Fund		6,606
Housing Fund		33,809
School Cafeteria Fund		80,949

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 3—DEPOSITS AND INVESTMENTS:**

**Deposits**

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

**Investments**

Statutes authorize the County to invest in obligations of the United States or agencies thereof, 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 and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

**Custodial Credit Risk (Investments)**

The County's investment policy does not specifically address custodial credit risk.

**Credit Risk of Debt Securities**

The County's investment policy allows for investments whose ratings are A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record.

The County's rated debt investments as of June 30, 2008 were rated by Standard and Poor's and the ratings are presented in the following table using the Standard and Poor's rating scale.

**Locality's Rated Debt Investments' Values**

<b><u>Rated Debt Investments</u></b>	<b><u>Fair Quality Ratings</u></b>		
	<b><u>AAA</u></b>	<b><u>AAAm</u></b>	<b><u>Unrated</u></b>
Local Government Investment Pool	\$ -	\$ 4,585,364	\$ -
Virginia State Non-Arbitrage Pool	-	1,394,664	-
U.S. Treasury Securities	-	4,940,349	-
Money Market Funds	-	2,162,715	-
Repurchase Agreements - Underlying: U.S. Agency Securities	<u>2,431,318</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>2,431,318</u></b>	<b>\$ <u>13,083,092</u></b>	<b>\$ <u>-</u></b>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)**

**Interest Rate Risk**

The County's investment policy does not specifically address interest rate risk.

**Investment Maturities (in years)**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Greater Than 10 Years</u>
Money Market Funds	\$ 2,162,718	\$ 2,162,715	\$ -	\$ -	-
U.S. Treasury Securities	4,940,349	4,940,349	-	-	-
Repurchase Agreements - Underlying:					
U.S. Agency Securities	2,431,318	2,431,318	-	-	-
Total	<u>\$ 9,534,385</u>	<u>\$ 9,534,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

**External Investment Pools**

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission (SEC). The fair value of the positions in the Local Government Investment Pool (LGIP) are the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 4—DUE FROM OTHER GOVERNMENTS:**

At June 30, 2008, the County has receivables from other governments as follows:

	Component Unit	
	Primary Government	School Board
Other Local Governments:		
County of Caroline	\$ -	\$ 2,565,253
Commonwealth of Virginia:		
Local sales tax	251,661	-
Communications tax	81,559	-
Mobile home titling tax	11,074	-
Victim witness grant	27,337	-
School fund grants	-	9,492
VPA funds	48,166	-
State sales tax	-	784,155
Constitutional officer reimbursements	202,088	-
Rolling stock tax	79,205	-
Comprehensive service	88,586	-
Rental vehicle tax	669	-
Personal property tax relief funds	1,147,226	-
Jury duty reimbursement	7,200	-
Wireless funds	16,493	-
Registrar reimbursement	58,586	-
Domestic violence grant	18,431	-
DMV license agent fee	2,214	-
Recordation tax	43,817	-
Water quality initiative funds	50,000	-
School resource officer	36,735	-
Federal Government:		
School fund grants	-	160,308
CDBG funds	168,134	-
VDOT Grant	6,528	-
VPA funds	75,386	-
Other federal grants	8,215	-
Total due from other governments	\$ <u>2,429,310</u>	\$ <u>3,519,208</u>

Amounts due to other governments are as follows:

Other Local Governments:		
Caroline County School Board	\$ <u>2,565,253</u>	\$ <u>-</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 5-INTERFUND OBLIGATIONS:**

Details of the Primary Government's interfund receivables and payables as of June 30, 2008, are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 5,803,857	\$ 785,386
County Capital Projects	-	500,000
Proffers	629,050	-
Comprehensive Services Act	-	88,586
Housing	-	329,736
Debt Service	-	304,658
Virginia Public Assistance	-	84,591
Total Governmental Funds	<u>\$ 6,432,907</u>	<u>\$ 2,092,957</u>
Enterprise Funds:		
Caroline County Utility	\$ 1,013,194	\$ 4,907,038
Milford Sanitary District	-	81,369
Dawn Wastewater System	-	364,737
Total Enterprise Funds	<u>\$ 1,013,194</u>	<u>\$ 5,353,144</u>
Total-All Funds	<u>\$ 7,446,101</u>	<u>\$ 7,446,101</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These balances also include the amount of working capital loans made to internal service funds that the general fund expects to collect in the subsequent year.

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COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 6—CAPITAL ASSETS:**

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2008:

**Primary Government:**

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
<b>Governmental activities:</b>				
Capital assets not subject to depreciation:				
Land	\$ 717,866	\$ 341,317	\$ -	\$ 1,059,183
Construction in progress	<u>17,706,635</u>	<u>15,647,955</u>	<u>9,119,809</u>	<u>24,234,781</u>
Total capital assets not subject to depreciation	<u>\$ 18,424,501</u>	<u>\$ 15,989,272</u>	<u>\$ 9,119,809</u>	<u>\$ 25,293,964</u>
Capital assets subject to depreciation:				
Buildings	\$ 24,788,886	\$ 10,640,062	\$ 282,015	\$ 35,146,933
Improvements other than buildings	4,667,800	416,050	-	5,083,850
Equipment	<u>5,641,372</u>	<u>2,058,386</u>	<u>2,275</u>	<u>7,697,483</u>
Total capital assets being depreciated	<u>\$ 35,098,058</u>	<u>\$ 13,114,498</u>	<u>\$ 284,290</u>	<u>\$ 47,928,266</u>
Less accumulated depreciation for:				
Buildings	\$ (9,019,855)	\$ (930,865)	\$ (282,015)	\$ (9,668,705)
Improvements other than buildings	(1,246,655)	(236,233)	-	(1,482,888)
Equipment	<u>(2,447,636)</u>	<u>(735,972)</u>	<u>(2,275)</u>	<u>(3,181,333)</u>
Total accumulated depreciation	<u>\$ (12,714,146)</u>	<u>\$ (1,903,070)</u>	<u>\$ (284,290)</u>	<u>\$ (14,332,926)</u>
Total capital assets being depreciated, net	<u>\$ 22,383,912</u>	<u>\$ 11,211,428</u>	<u>\$ -</u>	<u>\$ 33,595,340</u>
Governmental capital assets, net	<u>\$ 40,808,413</u>	<u>\$ 27,200,700</u>	<u>\$ 9,119,809</u>	<u>\$ 58,889,304</u>

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COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 6—CAPITAL ASSETS: (CONTINUED)**

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2008:

**Component Unit - School Board:**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Governmental activities:</b>				
Capital assets not subject to depreciation:				
Land	\$ 697,162	\$ -	\$ -	\$ 697,162
Total capital assets not subject to depreciation	<u>\$ 697,162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,162</u>
Capital assets subject to depreciation:				
Buildings	\$ 7,882,196	\$ -	\$ -	\$ 7,882,196
Improvements other than buildings	92,806	-	-	92,806
Equipment	4,798,436	253,585	-	5,052,021
Total capital assets being depreciated	<u>\$ 12,773,438</u>	<u>\$ 253,585</u>	<u>\$ -</u>	<u>\$ 13,027,023</u>
Less accumulated depreciation for:				
Buildings	\$ (5,832,122)	\$ (155,198)	\$ -	\$ (5,987,320)
Improvements other than buildings	(8,894)	(4,640)	-	(13,534)
Equipment	(2,023,218)	(327,001)	-	(2,350,219)
Total accumulated depreciation	<u>\$ (7,864,234)</u>	<u>\$ (486,839)</u>	<u>\$ -</u>	<u>\$ (8,351,073)</u>
Total capital assets being depreciated, net	<u>\$ 4,909,204</u>	<u>\$ (233,254)</u>	<u>\$ -</u>	<u>\$ 4,675,950</u>
Governmental capital assets, net	<u>\$ 5,606,366</u>	<u>\$ (233,254)</u>	<u>\$ -</u>	<u>\$ 5,373,112</u>

Depreciation expense was charged to functions/programs/funds as follows:

Governmental activities:

General government	\$ 456,118
Judicial administration	128,817
Public safety	549,997
Public works	349,442
Health and welfare	2,301
Education	381,571
Parks, recreation and cultural	23,115
Community development	11,709
Total Governmental activities	<u>\$ 1,903,070</u>
Component Unit School Board	<u>\$ 486,839</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 6—CAPITAL ASSETS: (CONTINUED)**

Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia, 1950, as amended, has changed the reporting of local school capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments "on-behalf" of school boards was reported in the school board's discrete column along with the related capital assets. Under the new law, local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one fiscal year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the County of Caroline, Virginia for the year ended June 30, 2008, is that school financed assets in the amount of \$34,313,443 and related accumulated depreciation of \$5,168,166 are reported in the Primary Government for financial reporting purposes.

A summary of proprietary fund property, plant, and equipment at June 30, 2008 follows:

**Primary Government:**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Enterprise activities:</b>				
<b>Caroline County Utility Fund:</b>				
Capital assets not subject to depreciation:				
Land	\$ 67,794	\$ -	\$ -	\$ 67,794
Construction in progress	2,662,363	1,045,233	124,952	3,582,644
Total capital assets not subject to depreciation	<u>\$ 2,730,157</u>	<u>\$ 1,045,233</u>	<u>\$ 124,952</u>	<u>\$ 3,650,438</u>
Capital assets subject to depreciation:				
Buildings	\$ 204,131	\$ -	\$ -	\$ 204,131
Improvements other than buildings	18,561,361	4,270,038	-	22,831,399
Equipment	1,028,418	44,999	-	1,073,417
Total capital assets being depreciated	<u>\$ 19,793,910</u>	<u>\$ 4,315,037</u>	<u>\$ -</u>	<u>\$ 24,108,947</u>
Less accumulated depreciation for:				
Buildings	\$ (61,380)	\$ (4,083)	\$ -	\$ (65,463)
Improvements other than buildings	(3,749,440)	(534,638)	-	(4,284,078)
Equipment	(350,652)	(86,614)	-	(437,266)
Total accumulated depreciation	<u>\$ (4,161,472)</u>	<u>\$ (625,335)</u>	<u>\$ -</u>	<u>\$ (4,786,807)</u>
Total capital assets being depreciated, net	<u>\$ 15,632,438</u>	<u>\$ 3,689,702</u>	<u>\$ -</u>	<u>\$ 19,322,140</u>
Enterprise capital assets, net	<u>\$ 18,362,595</u>	<u>\$ 4,734,935</u>	<u>\$ 124,952</u>	<u>\$ 22,972,578</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 6—CAPITAL ASSETS: (CONTINUED)**

A summary of proprietary fund, property, plant, and equipment at June 30, 2008 follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Enterprise activities:</b>				
<b>Milford Sanitary District Fund:</b>				
Capital assets subject to depreciation:				
Buildings	\$ 1,588	\$ -	\$ -	\$ 1,588
Improvements other than buildings	424,515	-	-	424,515
Equipment	<u>4,274</u>	<u>-</u>	<u>-</u>	<u>4,274</u>
Total capital assets being depreciated	\$ <u>430,377</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>430,377</u>
Less accumulated depreciation for:				
Buildings	\$ (1,588)	\$ -	\$ -	\$ (1,588)
Improvements other than buildings	(284,550)	(8,113)	-	(292,663)
Equipment	<u>(4,274)</u>	<u>-</u>	<u>-</u>	<u>(4,274)</u>
Total accumulated depreciation	\$ <u>(290,412)</u>	\$ <u>(8,113)</u>	\$ <u>-</u>	\$ <u>(298,525)</u>
Total capital assets being depreciated, net	\$ <u>139,965</u>	\$ <u>(8,113)</u>	\$ <u>-</u>	\$ <u>131,852</u>
Enterprise capital assets, net	<u>\$ 139,965</u>	<u>\$ (8,113)</u>	<u>\$ -</u>	<u>\$ 131,852</u>
<b>Enterprise activities:</b>				
<b>Dawn Wastewater System Fund:</b>				
Capital assets not subject to depreciation:				
Construction in progress	\$ <u>3,770,159</u>	\$ <u>735,719</u>	\$ <u>-</u>	\$ <u>4,505,878</u>
Total capital assets not subject to depreciation	<u>\$ 3,770,159</u>	<u>\$ 735,719</u>	<u>\$ -</u>	<u>\$ 4,505,878</u>

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COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 7—INTERFUND TRANSFERS:**

Interfund transfers for the year ended June 30, 2008, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
Governmental Funds:		
General Fund	\$ 32,285	\$ (3,392,138)
Debt Service	1,912,053	(113,592)
County Capital Projects	1,597,857	-
Virginia Public Assistance	364,921	-
E-911	105,556	-
Proffers	-	(798,778)
Courthouse Maintenance	-	(32,285)
Tourism	-	(251,341)
Comprehensive Services Act	459,824	-
Total Governmental Funds	<u>\$ 4,472,496</u>	<u>\$ (4,588,134)</u>
Enterprise Funds:		
Caroline County Utility	\$ 2,046	\$ -
Milford Sanitary District	113,592	-
Total Enterprise Funds	<u>\$ 115,638</u>	<u>\$ -</u>
Total-All Funds	<u>\$ 4,588,134</u>	<u>\$ (4,588,134)</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

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COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS:**

**Details of Long-Term Indebtedness:**

**Primary Government:**

A summary of long-term obligation transactions for the year ended June 30, 2008 is as follows:

	<u>Amounts Payable at July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2008</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Obligations:</b>					
Incurred by County					
Compensated absences payable	\$ 401,323	\$ 71,744	\$ -	\$ 473,067	\$ 47,307
Lease revenue bonds	22,997,410	-	837,186	22,160,224	1,002,087
Bond anticipation notes payable	10,430,000	19,881,000	7,500,000	22,811,000	2,930,000
Capital lease obligations	1,354,617	-	168,324	1,186,293	175,537
Landfill closure liability	4,529,493	-	542,405	3,987,088	398,709
Revenue bond debt allocable from Business type activities	2,083,481	-	85,000	1,998,481	90,000
				-	
Total incurred by County	<u>\$ 41,796,324</u>	<u>\$ 19,952,744</u>	<u>\$ 9,132,915</u>	<u>\$ 52,616,153</u>	<u>\$ 4,643,640</u>
Incurred by School Board:					
General obligation bonds payable	\$ 4,978,973	\$ 6,364,713	\$ 888,841	\$ 10,454,845	\$ 1,155,303
Add deferred amounts:					
For issuance premium	-	343,349	-	343,349	-
Total incurred by School Board	<u>\$ 4,978,973</u>	<u>\$ 6,708,062</u>	<u>\$ 888,841</u>	<u>\$ 10,798,194</u>	<u>\$ 1,155,303</u>
Total Governmental Obligations	<u>\$ 46,775,297</u>	<u>\$ 26,660,806</u>	<u>\$ 10,021,756</u>	<u>\$ 63,414,347</u>	<u>\$ 5,798,943</u>
<b>Enterprise Obligations:</b>					
Compensated absences payable	\$ 28,688	\$ 19,254	\$ -	\$ 47,942	\$ 4,794
Lease revenue bonds payable	97,607	-	10,593	87,014	10,593
Revenue bonds payable	18,760,130	7,797,591	767,055	25,790,666	968,894
Revenue bond debt allocable from Business type activities	(2,083,481)	-	(85,000)	(1,998,481)	(90,000)
Less deferred amounts:					
For issuance discount	(284,935)	15,507	-	(269,428)	-
For issuance premium	54,131	-	4,669	49,462	-
Total Enterprise Obligations	<u>\$ 16,572,140</u>	<u>\$ 7,832,352</u>	<u>\$ 697,317</u>	<u>\$ 23,707,175</u>	<u>\$ 894,281</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	County Obligations					
	Capital Leases		Lease Revenue Bonds		Bond Anticipation Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 175,537	\$ 38,856	\$ 1,002,087	\$ 1,062,854	\$ 2,930,000	\$ 1,103,493
2010	177,823	32,875	1,020,705	1,012,252	-	976,884
2011	185,182	26,731	1,061,405	961,047	19,881,000	488,442
2012	192,618	20,335	1,182,206	907,930	-	-
2013	200,133	13,684	993,405	849,697	-	-
2014	125,000	6,776	1,044,706	802,450	-	-
2015	130,000	2,288	1,066,305	753,039	-	-
2016	-	-	1,098,206	702,516	-	-
2017	-	-	805,305	650,791	-	-
2018	-	-	829,768	609,603	-	-
2019	-	-	737,979	566,776	-	-
2020	-	-	765,980	528,700	-	-
2021	-	-	789,267	489,352	-	-
2022	-	-	585,100	456,322	-	-
2023	-	-	614,100	429,598	-	-
2024	-	-	638,400	401,523	-	-
2025	-	-	668,100	372,335	-	-
2026	-	-	698,200	341,770	-	-
2027	-	-	733,600	309,272	-	-
2028	-	-	769,500	275,088	-	-
2029	-	-	800,800	239,198	-	-
2030	-	-	842,500	201,841	-	-
2031	-	-	879,700	162,491	-	-
2032	-	-	922,400	121,385	-	-
2033	-	-	965,500	78,244	-	-
2034	-	-	645,000	33,056	-	-
Total	\$ <u>1,186,293</u>	\$ <u>141,545</u>	\$ <u>22,160,224</u>	\$ <u>13,319,130</u>	\$ <u>22,811,000</u>	\$ <u>2,568,819</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	School Obligations	
	General Obligation Bonds Payable	
	Principal	Interest
2009	\$ 1,155,303	\$ 589,523
2010	1,159,967	461,434
2011	1,111,420	394,589
2012	838,883	337,893
2013	513,600	300,291
2014	440,316	275,607
2015	434,366	253,494
2016	422,993	231,984
2017	432,198	210,704
2018	414,045	189,695
2019	423,701	168,787
2020	322,887	147,738
2021	328,240	131,135
2022	333,874	114,251
2023	338,501	98,375
2024	343,369	82,256
2025	349,794	64,580
2026	356,556	46,569
2027	363,672	28,203
2028	371,160	9,465
Total	\$ <u>10,454,845</u>	\$ <u>4,136,573</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

Primary Government: (Continued)  
NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Indebtedness: (Continued)

Primary Government: (Continued)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	Enterprise Obligations			
	Revenue Bonds Payable		Lease Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2009	\$ 968,894	\$ 904,137	\$ 10,593	\$ 4,411
2010	991,276	1,023,983	8,474	3,874
2011	8,673,880	826,227	8,474	3,445
2012	1,051,715	630,657	8,474	3,023
2013	1,084,786	597,883	8,474	2,585
2014	1,123,101	561,796	8,474	2,156
2015	1,009,584	519,386	8,474	1,726
2016	899,674	481,969	8,474	1,300
2017	944,675	445,069	8,474	867
2018	619,674	405,756	8,629	437
2019	639,674	377,069	-	-
2020	664,675	351,806	-	-
2021	689,674	325,200	-	-
2022	719,674	297,250	-	-
2023	749,675	269,063	-	-
2024	594,675	239,337	-	-
2025	565,360	217,556	-	-
2026	465,000	194,750	-	-
2027	490,000	170,919	-	-
2028	515,000	145,806	-	-
2029	540,000	119,413	-	-
2030	570,000	91,738	-	-
2031	595,000	62,525	-	-
2032	625,000	32,031	-	-
Total	\$ 25,790,666	\$ 9,291,326	\$ 87,014	\$ 23,824

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

	<b><u>Amount Outstanding</u></b>
<b><u>General Long-Term Debt:</u></b>	
<b><u>Bond Anticipation Notes Payable:</u></b>	
\$8,830,000 bond anticipation note due January 2009. Interest is payable semi-annually at 4.13%.	\$ 1,330,000
\$1,600,000 bond anticipation note due January 2009. Interest is payable semi-annually at 4.48%.	1,600,000
\$15,290,000 lease revenue bond anticipation note (2007A) issued August 1, 2007, due August 2010. Interest is payable semi-annually at 5.20%.	15,290,000
\$4,591,000 lease revenue bond anticipation note (2007B) issued October 18, 2007, due August 2010. Interest is payable semi-annually at 3.96%.	<u>4,591,000</u>
Total Bond Anticipation Notes Payable	\$ <u>22,811,000</u>
<b><u>Capital Lease Obligations:</u></b>	
\$700,000 capital lease obligation (payable from the General Fund) issued March 18, 2003, secured by equipment, principal due in various annual installments through 2013, interest payable semi-annually at 3.24%.	\$ 376,293
\$1,100,000 capital lease obligation (payable from the General Fund) issued August 1, 2004, secured by E-911 equipment, principal due in various annual installments through 2015, interest payable semi-annually at 3.52%.	<u>810,000</u>
Total Capital Lease Obligations	\$ <u>1,186,293</u>
Landfill closure and post closure costs	\$ <u>3,987,088</u>
Compensated absences (payable from the General Fund)	\$ <u>473,067</u>
<b><u>Lease Revenue Bonds:</u></b>	
\$2,400,000 lease revenue bond payable in varying annual installments through 2012. Interest payable semi-annually at rates varying from 5.20% to 6.00%.	\$ 785,000
\$2,950,000 lease revenue bond payable in varying annual installments through 2018. Interest payable semi-annually at rates 5.00%. General government portion of debt is \$2,734,497.	1,104,105
\$866,867 lease revenue bond payable in varying annual installments through 2020. Interest payable semi-annually at rates varying from 5.60%.	536,632
\$3,730,000 lease revenue bond payable in annual principal installments of \$186,500 through 2020. Interest payable semi-annually at 6.60%.	2,424,487
\$10,455,000 lease revenue bond payable in varying annual installments through 2034. Interest payable semi-annually at rates varying from 2.70% to 5.125%.	9,720,000
\$7,800,000 lease revenue bond payable in varying annual installments through 2033. Interest payable semi-annually at 3.90%.	<u>7,590,000</u>
Total revenue bonds	\$ <u>22,160,224</u>
Revenue Bond Debt Allocable from Caroline County Utility Fund	\$ <u>1,998,481</u>
Total incurred by the County	\$ <u><u>52,616,153</u></u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

	<u>Amount Outstanding</u>
<b><u>General Obligation Bonds: (Continued)</u></b>	
<b><u>School Bonds Payable:</u></b>	
\$3,075,000 School Bonds issued 1994, maturing annually with interest payable semi-annually at varying rates through December 2011	\$ 485,000
\$5,500,000 School Bonds (1991A) issued May 23, 1991, maturing annually with interest payable semi-annually at 6.35% through 2010.	870,000
\$2,425,000 School Bonds (1993) issued 1994, maturing annually with interest payable semi-annually at rates varying from 4.475% to 5.00% through July 2013.	250,000
\$3,183,824 School Bonds (1991B) issued July 31, 1991, maturing annually with interest payable semi-annually at 6.60% through July 2011.	784,284
\$1,407,825 School Bonds (1992) issued November 12, 1992, maturing annually with interest payable semi-annually at varying rates through July 2012.	408,466
\$315,997 School Bonds (1994B) issued November 22, 1994, maturing annually with interest payable semi-annually at varying rates through July 2014.	128,086
\$456,597 School Bonds (1996B) issued November 14, 1996, maturing annually with interest payable semi-annually at varying rates through July 2016.	226,215
\$1,179,008 Virginia Retirement System Obligation Refunding Bonds (Taxable Series 2003) issued July 1, 2003, maturing annually with interest payable annually at 4.61% through July 2018.	938,081
\$6,364,713 School Bonds (2007B) issued November 8, 2007, maturing annually with interest payable semi-annually at rates varying from 4.35% to 5.10% through July 15, 2027. Carrying amount of bonds including unamortized bond issuance premium of \$343,349.	<u>6,708,062</u>
Total school bonds payable	\$ <u>10,798,194</u>
Total School Board Long-Term Debts Issued, payable from the General Fund	\$ <u>10,798,194</u>
Total Governmental Obligations	\$ <u><u>63,414,347</u></u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

	<u>Amount Outstanding</u>
<b><u>Enterprise Obligations:</u></b>	
<b><u>Revenue Bond Obligations:</u></b>	
\$4,291,207 revenue bond issued 1994, maturing annually with interest payable semi-annually at varying rates through October 2016.	\$ 1,725,516
\$13,155,000 revenue bond issued October 1, 2001, maturing annually through 2032 with interest payable semi-annually at varying rates 2.50% - 5.25%. Face amount of bonds outstanding, \$11,885,000 less unamortized bond discount of \$180,413.	11,704,587
\$3,420,000 infrastructure revenue bonds (2003 C/D) issued August 7, 2003, maturing annually with interest payable semi-annually at varying rates through October 2016. Face amount of bonds outstanding, \$1,695,000 plus unamortized premium of \$49,462, less unamortized deferred amount of \$89,015.	1,655,447
\$2,835,150 revenue bond issued March 3, 2006, maturing in equal annual installments through 2025. No interest is payable on the bond.	2,835,150
Less: Revenue bond debt allocable to general government	(1,998,481)
\$4,640,000 revenue bond issued October 1, 2000, payable in various annual installments through October 1, 2021 interest payable semi-annually at varying rates 4.70% - 5.10%	7,650,000
Total revenue bond obligations	<u>\$ 23,572,219</u>
<b><u>Lease Revenue Bond Obligations:</u></b>	
\$2,950,000 lease revenue bond payable in annual installments thru 2018. Interest payable semi-annually at 5%. Utility fund portion of the debt is \$215,503.	\$ 87,014
Compensated absences (Payable from the Enterprise Funds)	\$ 47,942
Total enterprise obligations	<u>\$ 23,707,175</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Primary Government: (Continued)**

**Capital Leases**

The County has entered into lease agreements as lessee for financing the acquisition of fire and rescue emergency response equipment, a solid waste collection truck and for emergency dispatch and general radio communications equipment. The Caroline County School Board has also entered into lease agreements for the acquisition of school buses. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Component Unit- School Board</u></b>
Asset:		
Machinery and equipment	\$ 1,584,409	\$ -
School buses	-	1,350,406
Less: Accumulated depreciation	<u>(548,577)</u>	<u>(126,354)</u>
Net asset value	<u>\$ 1,035,832</u>	<u>\$ 1,224,052</u>

**Capital Leases: (Continued)**

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Governmental Activities</u></b>	<b><u>Component Unit- School Board</u></b>
2009	\$ 214,393	\$ 289,592
2010	210,698	289,592
2011	211,913	263,849
2012	212,953	26,691
2013	213,817	26,690
2014	131,776	-
2015	<u>132,288</u>	<u>-</u>
Total minimum lease payments	\$ 1,327,838	\$ 896,414
Less: amount representing interest	<u>(141,545)</u>	<u>(84,455)</u>
Present value of minimum lease payments	<u>\$ 1,186,293</u>	<u>\$ 811,959</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

**Component Unit—School Board:**

The following is a summary of long-term debt transactions of the Component Unit—School Board for the year ended June 30, 2008:

	<u>Amounts Payable at July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Compensated absences payable (payable from the School Fund)	\$ 434,497	\$ -	\$ 19,953	\$ 414,544	\$ 41,454
Capital lease obligations	<u>930,874</u>	<u>145,989</u>	<u>264,904</u>	<u>811,959</u>	<u>249,855</u>
Total component unit School Board	<u>\$ 1,365,371</u>	<u>\$ 145,989</u>	<u>\$ 284,857</u>	<u>\$ 1,226,503</u>	<u>\$ 291,309</u>

<u>Year Ending June 30,</u>	<u>Capital lease</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 249,855	\$ 39,737
2010	262,236	27,356
2011	249,490	14,359
2012	24,701	1,990
2013	<u>25,677</u>	<u>1,014</u>
Total	<u>\$ 811,959</u>	<u>\$ 84,456</u>

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)**

**Details of Long-Term Indebtedness: (Continued)**

	<u>Amount Outstanding</u>
<u>Capital lease obligations:</u>	
\$117,132 capital lease obligation (payable from the School Capital Projects Fund) issued April 13, 2006, secured by school buses, due in annual installments of \$25,743 including principal and interest through 2010, interest at 4.95%	\$ 47,901
\$153,989 capital lease obligation (payable from the School Capital Projects Fund) issued June 19, 2008, secured by school buses, due in annual installments of \$26,691 including principal and interest through 2013, interest at 3.95%	118,989
\$1,079,285 capital lease obligation (payable from the School Capital Projects Fund) issued July 3, 2006, secured by school buses, due in annual installments of \$237,158 including principal and interest through July 3, 2010, interest at 4.95%	<u>645,069</u>
Total capital lease obligations	\$ 811,959
Compensated absences (payable from the School Fund)	<u>414,544</u>
Total Debt incurred by the Component Unit School Board	<u>\$ 1,226,503</u>

**NOTE 9—LANDFILL POST CLOSURE COSTS:**

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 thirty years after closure. The landfill operated by Caroline County was certified by the Virginia Department of Environmental Quality as closed on December 8, 2003 and all obligations of the County with regard to closure have been met. The \$3,987,088 reported as landfill postclosure care liability at June 30, 2008, represents the remaining engineering estimate for 25 years of postclosure monitoring and care. These amounts are based on what it would cost to perform all postclosure care in 2008. Actual cost may be higher due to inflation, changes in technology, or changes in regulation. The County intends to fund these costs from general tax revenues and from any special revenue source that may become available for this purpose. The County has demonstrated financial assurance requirements for closure and post-closure care costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 10—DEFERRED REVENUE:**

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$3,213,480 is comprised of the following:

Deferred Property Tax Revenue: Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$2,880,487 at June 30, 2008.

Prepaid Property Taxes: Property taxes due subsequent to June 30, 2008, but paid in advance by the tax payers totaled \$332,993 at June 30, 2008.

**NOTE 11—COMMITMENTS AND CONTINGENCIES:**

Federal programs in which the County and all discretely presented component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

The County is committed on a construction contract with Branch and Associates for construction of a new elementary school. The construction contract totals \$19,109,188 with \$1,356,307 outstanding at June 30, 2008.

The County is also committed on a construction contract with A. D. Whittaker Construction for renovation work at Bowling Green Primary School. The construction contract totals \$890,000 with \$750,704 outstanding at June 30, 2008.

**NOTE 12—LITIGATION:**

At June 30, 2008, there were no matters of litigation involving the County or which would materially affect the County's financial position should any court decisions on pending matters not be favorable to such entities.

**NOTE 13—RISK MANAGEMENT:**

The County and Component Unit School Board are exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County and School Board participate with other Virginia localities in public entity risk pools for the provision of insurance coverage. The County receives workers compensation, liability and property loss coverage through the Virginia Association of Counties Group Self Insurance Risk Pool. The School Board receives its workers compensation coverage from the Virginia Municipal League and all other coverage from the Virginia School Board Association. The County and School Board pay an annual premium to the pools for insurances through member premiums. There have been no reductions in any insurance coverage from the previous year and settled claims resulting from these risk have not exceeded insurance coverage in any of the past three fiscal years.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 14—DEFINED BENEFIT PENSION PLAN:**

**A. Plan Description**

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating local law enforcement officers, firefighters and sheriffs) and at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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 that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by downloading from their website at <http://www.varetire.org/Pdf/Publications/2007annurept.pdf> or writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their reported compensation to the VRS. This 5% member contribution has been assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The County and School Board non-professional employees' contribution rates for the fiscal year ended 2008 were 5.82% and 5.54% of annual covered payroll, respectively.

The School Board's professional employees contributed \$1,821,376, \$1,544,300, and \$1,045,867, to the teacher cost-sharing pool for the fiscal years ended June 30, 2008, 2007, and 2006 respectively and these contributions represented 10.30%, 9.20%, and 6.62% respectively, of current covered payroll.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

**NOTE 14—DEFINED BENEFIT PENSION PLAN: (CONTINUED)**

**C. Annual Pension Cost**

For fiscal 2008, the County's annual pension cost of \$480,371 was equal to the County's required and actual contributions.

For fiscal 2008, the County School Board's annual pension cost for the Board's non-professional employees were \$64,577, which was equal to the Board's required and actual contributions.

**Three-Year Trend Information  
County and School Board Non-Professional Employees**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County:			
June 30, 2008	\$ 480,371	100%	\$ -
June 30, 2007	416,697	100%	-
June 30, 2006	375,737	100%	-
School Board:			
Non-Professional:			
June 30, 2008	\$ 64,577	100%	\$ -
June 30, 2007	62,529	100%	-
June 30, 2006	11,182	100%	-

(1) Employer portion only

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.73% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the County's assets is equal to the modified market value assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

**D. Funded Status and Funding Progress**

As of June 30, 2007, the most recent actuarial valuation date, the County plan was 97.80% funded. The actuarial accrued liability for benefits was \$17,062,270 and the actuarial value of assets was \$16,687,213, resulting in an unfunded actuarial accrued liability (UAAL) of \$375,057. The covered payroll (annual payroll of active employees covered by the plan) was \$7,332,912 and ratio of the UAAL to the covered payroll was 5.11%.

COUNTY OF CAROLINE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 (CONTINUED)

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**NOTE 14—DEFINED BENEFIT PENSION PLAN: (CONTINUED)**

**D. Funded Status and Funding Progress (Continued)**

As of June 30, 2007, the most recent actuarial valuation date, the School Board Non-Professional plan was 98.25% funded. The actuarial accrued liability for benefits was \$3,921,962, and the actuarial value of assets was \$3,853,455, resulting in an unfunded actuarial accrued liability (UAAL) of \$68,507. The covered payroll (annual payroll of active employees covered by the plan) was \$1,126,598 and ratio of the UAAL to the covered payroll was 6.08%.

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

**NOTE 15—SURETY BONDS:**

	<u>Amount</u>
Commonwealth of Virginia - Division of Risk Management - Surety	\$ 400,000
Margaret Walker, Clerk of the Circuit Court	400,000
Elizabeth B. Curran, Treasurer	3,000
Sharon Carter, Commissioner of the Revenue	30,000
Anthony "Tony" Lippa, Sheriff	50,000
The above constitutional officer's employees blanket bond	
VACO Self Insurance Program - Surety	
All County Employees - blanket bond	250,000
Fidelity and Deposit Company of Maryland – Surety	
Social Services Employees – blanket bond	100,000
RISK 2 - Surety	
All Social Services Employees - Blanket Bond	1,000,000