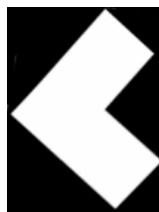


County of Henry, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2007



*Creedle, Jones
& Alga, P.C.
Certified Public Accountants*

County of Henry, Virginia

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FINANCIAL SECTION





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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Henry, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Henry, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Henry, Virginia, as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008, on our consideration of the County of Henry, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 42 through 53, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Henry, Virginia's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County of Henry, Virginia. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Credle, Jones & Alga, P.C.

Credle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the County of Henry, Virginia presents the following discussion and analysis as an overview of the County of Henry, Virginia's financial activities for the fiscal year ending June 30, 2007. We encourage readers to read this discussion and analysis in conjunction with the County's financial statements.

Financial Highlights for Fiscal Year 2007

Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the County, excluding its Component Units, exceeded its liabilities by \$36,218,967. Of this amount, \$19,228,987 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- For the fiscal year, general and program revenues of the County's governmental activities were \$46,914,625 and expenses amounted to \$40,958,221. The County's total net assets increased \$5,956,404.

Highlights for Fund Financial Statements

- As of June 30, 2007, the County's Governmental Funds reported combined fund balances of \$20,921,811, an increase of \$1,247,171 in comparison with the prior year. All of the combined fund balances are available to meet the County's current and future needs.
- The General Fund reported a fund balance of \$20,570,700, an increase of \$1,062,838 from June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report consists of two sections: financial and compliance.

- The ***financial section*** has three component parts - management's discussion and analysis (this section), the basic financial statements which include government-wide financial statements and fund financial statements, and required supplementary information.
- The ***compliance section*** is required under the provisions of *Governmental Auditing Standards* and, in some cases, the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Government-Wide Financial Statements

The government-wide financial statements report information about the County as a whole using accounting methods similar to those found in the private sector. They also report the County's net assets and how they have changed during the fiscal year.

The first government-wide statement - the Statement of Net Assets - presents information on all of the County's assets and liabilities. The difference between assets and liabilities, net assets, can be used as one way to measure the County's financial health, or financial condition. Over time, increases or decreases in the net assets can be one indicator of whether the County's financial condition is improving or deteriorating. Other nonfinancial factors will also need to be considered, such as changes in the County's property tax base and the condition of County facilities.

The second statement - the Statement of Activities - presents information using the accrual basis accounting method and shows how the County's net assets changed during the fiscal year. All of the current year's revenues and expenses are shown in the Statement of Activities, regardless of when cash is received or paid.

The government-wide statements are divided into the following three categories:

Governmental Activities: Most of the County's basic services are reported here, including general government administration; judicial administration; public safety; public works; health and welfare; education; parks, recreation, and cultural; and community development. These activities are financed primarily by property taxes, other local taxes, and Federal and State grants. Governmental Funds are included in the governmental activities.

Discretely Presented Component Units: The County has four component units: Southern Virginia Recreational Facility, the School Board, Industrial Development Authority, and the Henry-Martinsville Social Services. While Southern Virginia Recreational Facility, the School System, and the Industrial Development Authority are legally separate entities, the County is financially accountable and provides operating and capital funding to these component units. The County is the fiscal agent for the Henry-Martinsville Social Services, which is supported by funds from the Federal government, Commonwealth of Virginia, County General Fund, and the City of Martinsville, Virginia. Financial information for the component units are reported separately from the financial information presented for the primary government.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statements more familiar. These statements provide more detailed information about the County's most significant funds. Funds are used to ensure compliance with finance-related legal requirements and are used to keep track of specific sources of revenue and expenses for particular purposes. The County has three kinds of funds:

Governmental Funds - Most of the County's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). The General Fund is the main operating account of the County and, therefore, the largest of the Governmental Funds.

The County has five major funds because they all have legally adopted budgets. These funds are the General, Comprehensive Services Act, E-911 Central Dispatch, Law Library, and Capital Projects.

Proprietary Funds - Proprietary Funds, which consist of Enterprise Funds, operate in a manner similar to private business enterprises in which costs are recovered primarily through a user charge. Proprietary Fund financial statements provide both long and short-term financial information. The County has no proprietary funds at this time.

Fiduciary Funds - Fiduciary Funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the funds are not available to support the County's programs. The County's Fiduciary Funds consist of Agency Funds. The funds are used to account for monies received, held, and disbursed on behalf of the Special Welfare Fund and Jail Inmate Fund. The County maintains three fiduciary funds:

Special Welfare Fund – The Special Welfare Fund is used to reimburse the Comprehensive Service Act Fund, State Agencies, and others for expenses incurred on behalf of Henry-Martinsville Social Services welfare clients. Income is derived primarily from the Social Security Administration and other local organizations on behalf of the Social Services' clients.

Seizure Fund – The Seizure Fund is maintained by the Sheriff's Department and it holds funds collected from various arrests made by the Department.

Jail Inmate Fund – This fund is comprised of cash on inmates of the Henry County Jail at the time of their arrest or contributions to them from their family members. These funds can only be used for the health and welfare of specific County inmates.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

Summary of Net Assets		
As of June 30, 2007 and 2006		
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 31,453,640	\$ 29,900,661
Capital assets (net)	34,946,839	28,864,325
Total Assets	<u>\$ 66,400,479</u>	<u>\$ 58,764,986</u>
Liabilities		
Other liabilities	\$ 6,408,340	\$ 6,491,281
Long-term liabilities	23,773,172	19,166,057
Total Liabilities	30,181,512	25,657,338
Net Assets		
Invested in capital assets, net of related debt	13,518,016	12,134,090
Restricted for construction	3,471,964	-
Unrestricted	19,228,987	20,973,558
Total Net Assets	<u>36,218,967</u>	<u>33,107,648</u>
Total Liabilities and Net Assets	<u>\$ 66,400,479</u>	<u>\$ 58,764,986</u>

Statement of Activities

The following table summarizes revenues and expenses for the primary government as of June 30, 2007:

Summary of Changes in Net Assets

For the Fiscal Years Ended June 30, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenues		
Charges for services	\$ 641,376	\$ 604,233
Grants and contributions	6,911,415	12,057,684
General Revenues		
General property taxes, real and personal	21,803,751	20,461,080
Other taxes	14,274,440	14,408,533
Noncategorical aid from state	2,163,714	2,143,582
Use of property	169,698	-
Investment earnings	937,423	779,681
Miscellaneous	12,808	4,262
Total Revenues	<u>46,914,625</u>	50,459,055
Expenses		
General government administration	3,058,189	3,009,962
Judicial administration	2,629,779	2,595,433
Public safety	10,988,806	11,149,634
Public works	3,382,137	2,920,062
Health and welfare	1,825,364	1,791,182
Education	13,308,484	17,580,987
Parks, recreation, and cultural	1,779,200	1,702,188
Community development	3,129,817	3,436,973
Interest on long-term debt	856,445	662,333
Total Expenses	<u>40,958,221</u>	44,848,754
Increase in Net Assets	5,956,404	5,610,301
Beginning Net Assets	33,107,648	27,497,347
Prior Period Adjustment	(2,845,085)	-
Ending Net Assets	<u>\$ 36,218,967</u>	<u>\$ 33,107,648</u>

Governmental activities increased the County's net assets by \$1,062,838 for fiscal year 2007. Revenues from governmental activities totaled \$47,292,190. Taxes comprise the largest source of these revenues, totaling \$21,847,876 or 46.2% of all governmental activities revenue.

The total cost of all governmental activities for this fiscal year was \$46,081,768. Education is the County's largest program and highest priority with expenses totaling \$13,308,484. Public safety expenses, which total \$10,988,806, represent the second largest expense.

For the County's governmental activities, the net expense (total cost less fees generated by the activities and program-specific governmental aid) is illustrated in the following table:

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>		<u>2006</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 3,058,189	\$ (2,590,805)	\$ 3,009,962	\$ (2,474,754)
Judicial administration	2,629,779	(1,464,171)	2,595,433	(1,461,657)
Public safety	10,988,806	(5,786,712)	11,149,634	(4,293,688)
Public works	3,382,137	(3,166,207)	2,920,062	(2,588,531)
Health and welfare	1,825,364	(1,515,498)	1,791,182	(1,424,699)
Parks, recreation, and cultural	1,779,200	(1,736,636)	1,702,188	(1,656,186)
Community development	3,129,817	(2,980,472)	3,436,973	(167,428)
Education	13,308,484	(13,308,484)	17,580,987	(17,457,561)
Interest on long-term debt	<u>856,445</u>	<u>(856,445)</u>	<u>662,333</u>	<u>(662,333)</u>
Total	<u>\$ 40,958,221</u>	<u>\$ (33,405,430)</u>	<u>\$ 44,848,754</u>	<u>\$ (32,186,837)</u>

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As of June 30, 2007, the County's Governmental Funds reported a combined ending fund balance of \$20,921,811, an increase of \$1,247,171 in comparison with the prior year. All of this is available for spending at the government's discretion (unreserved/undesignated fund balance).

The General Fund is the main operating fund of the County. At the end of the current fiscal year, the General Fund had an unreserved fund balance of \$10,406,486. The General Fund's liquidity can be measured by comparing both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.6% of total fund expenditures.

- The General Fund contributed operating funds to finance the component units as follows: \$13,241,828 School Board operations; \$1,694,376 to finance the Industrial Development Authority; and \$505,861 to the Social Services Board.

BUDGETARY HIGHLIGHTS

General Fund

The following table provides a comparison of original budget, final budget, and actual revenues and expenditures in the General Fund:

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes	\$ 21,013,710	\$ 21,013,710	\$ 21,847,876	\$ 20,148,850	\$ 20,148,850	\$ 21,246,088
Other	16,375,298	16,902,022	17,136,303	15,905,904	15,995,228	16,932,610
Intergovernmental	<u>7,288,122</u>	<u>8,573,317</u>	<u>8,308,011</u>	<u>7,352,248</u>	<u>8,907,506</u>	<u>8,840,251</u>
Total	44,677,130	46,489,049	47,292,190	43,407,002	45,051,584	47,018,949
Expenditures	<u>44,599,783</u>	<u>57,683,155</u>	<u>46,081,768</u>	<u>42,693,460</u>	<u>51,098,995</u>	<u>44,744,456</u>
Excess (Deficiency) of Revenues Over Expenditures	77,347	(11,194,106)	1,210,422	713,542	(6,047,411)	2,274,493
Other Financing Sources (Uses)						
Proceeds from debt	-	4,000,000	-	-	3,011,578	2,473,755
Transfers out	<u>(327,347)</u>	<u>(327,347)</u>	<u>(147,584)</u>	<u>(713,542)</u>	<u>(785,046)</u>	<u>(316,059)</u>
Total	<u>(327,347)</u>	<u>3,672,653</u>	<u>(147,584)</u>	<u>(713,542)</u>	<u>2,226,532</u>	<u>2,157,696</u>
Net Change in Fund Balance Before Transfer from Surplus	(250,000)	(7,521,453)	1,062,838	-	(3,820,879)	4,432,189
Transfer from Surplus Funds	<u>250,000</u>	<u>7,521,453</u>	<u>-</u>	<u>-</u>	<u>3,820,879</u>	<u>-</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,062,838</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,432,189</u>

The final amended budget appropriations for expenditures exceeded the original appropriation by \$13,083,372. This increase is due primarily to the capital project for the communication center and contributions to the School Board for a new building.

Final amended budget revenues were more than the original budget by \$1,811,919 prior to transfers for a contingency reserve to finance the above projects.

Actual revenues were less than final budget amounts by \$803,141 prior to transfers while actual expenditures were \$11,601,387, or 20.1% less than final budget amounts because of the timing of the above capital projects.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2007, the County's investment in capital assets totals \$13,518,016, which are net capital assets less related debt for governmental activities.

For fiscal year 2007, the County's net capital assets activities are summarized in the following tables:

Change in Capital Assets

Primary Government

Governmental Activities

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Land and land improvements	\$ 1,638,587	\$ (307,454)	\$ 1,331,133
Construction in progress	1,502,096	35,354	1,537,450
Construction in progress - schools	1,629,834	4,330,637	5,960,471
Buildings and improvements	19,512,699	1,558,927	21,071,626
Buildings and improvements - schools	13,046,482	-	13,046,482
Furniture, equipment, and vehicles	8,578,260	33,243	8,611,503
Total Capital Assets	45,907,958	5,650,707	51,558,665
Less: Accumulated depreciation and amortization	<u>(15,413,799)</u>	<u>(1,198,027)</u>	<u>(16,611,826)</u>
Total Capital Assets, Net	<u>\$ 30,494,159</u>	<u>\$ 4,452,680</u>	<u>\$ 34,946,839</u>

Component Units

Southern Virginia Recreational Facility

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Land and improvements	\$ -	\$ 416,961	\$ 416,961
Less: Accumulated depreciation and amortization	-	-	-
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 416,961</u>	<u>\$ 416,961</u>

School Board

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Land and land improvements	\$ 605,774	\$ 136,516	\$ 742,290
Buildings and improvements	32,951,444	3,041,987	35,993,431
Furniture, equipment, and vehicles	7,918,429	779,722	8,698,151
Total Capital Assets	41,475,647	3,958,225	45,433,872
Less: Accumulated depreciation and amortization	<u>(28,829,824)</u>	<u>(1,049,461)</u>	<u>(29,879,285)</u>
Total Capital Assets, Net	<u>\$ 12,645,823</u>	<u>\$ 2,908,764</u>	<u>\$ 15,554,587</u>

Henry-Martinsville Social Services

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Machinery and equipment	\$ 248,247	\$ 19,877	\$ 268,124
Less: Accumulated depreciation and amortization	199,268	22,272	221,540
Total Capital Assets, Net	<u>\$ 48,979</u>	<u>\$ (2,395)</u>	<u>\$ 46,584</u>

Long-Term Debt

As of June 30, 2007, the County's long-term obligations, excluding the Component Units, are summarized below:

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Governmental Activities			
General obligation bonds	\$ 9,679,236	\$ 5,339,877	\$ 15,019,113
Literary Fund loans	7,050,999	(641,289)	6,409,710
Landfill obligation	1,083,000	(333,096)	749,904
Compensated absences	<u>1,352,822</u>	<u>241,623</u>	<u>1,594,445</u>
Total Governmental Activities	<u>\$ 19,166,057</u>	<u>\$ 4,607,115</u>	<u>\$ 23,773,172</u>

General obligation indebtedness must be approved by voter referendum prior to issuance except for debt incurred from the State Literary Fund or the Virginia Public School Authority.

More detailed information on the County's long-term obligations is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the County of Henry, Virginia in June 2007 was 6.0%, an increase of 1.4% from June 2006. This compares unfavorably to the state's rate of 3.2% and unfavorably to the national rate of 4.7%.
- According to the 2000 U.S. Census, the population in Henry County, Virginia was 57,930, an increase of 1.7%, since the 1990 U.S. Census.
- The per capita income in Henry County, Virginia was \$25,312, compared to \$37,503 for the state, according to the 2000 U.S. Census data.

The fiscal year 2008 Adopted Budget anticipates General Fund revenues and expenditures to be \$47,251,771, a 5.2% increase over the fiscal year 2007 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the County of Henry, Director of Accounting, P. O. Box 7, Collinsville, Virginia 24078-0007, telephone 276-634-4670, or visit the County's website at www.co.henry.va.us.

BASIC FINANCIAL STATEMENTS



County of Henry, Virginia

Statement of Net Assets

At June 30, 2007

	<u>Primary Government</u>		<u>Component Units</u>		
	<u>Governmental Activities</u>	<u>Southern Virginia Recreational Facility</u>	<u>School Board</u>	<u>Industrial Development Authority</u>	<u>Henry-Martinsville Social Services</u>
Assets					
Cash - unrestricted	\$ 19,100,320	\$ -	\$ 1,156,026	\$ 366,620	\$ 57,569
Receivables, net	2,189,896	4,633	505,479	8,132	-
Due from primary government	-	5,468	1,970,586	3,668	-
Due from component units	4,241,290	-	-	-	-
Due from other governments	2,434,243	-	2,998,494	-	421,630
Restricted cash	3,471,964	-	874,116	-	-
Inventory	15,927	-	-	8,951,337	-
Notes receivable	-	-	-	3,135,626	-
Capital Assets					
Land and construction in progress	8,829,054	416,961	742,290	-	-
Other capital assets, net of accumulated depreciation	26,117,785	-	14,812,297	-	46,584
Capital Assets, Net	34,946,839	416,961	15,554,587	-	46,584
Total Assets	\$ 66,400,479	\$ 427,062	\$ 23,059,288	\$ 12,465,383	\$ 525,783
Liabilities					
Accounts payable	\$ 738,565	\$ -	\$ 959,790	\$ 288,667	\$ 16,115
Accrued payroll and other liabilities	32,904	10,101	6,049,644	-	-
Accrued interest	455,719	-	-	2,802	-
Deferred revenue	70,430	-	-	-	-
Due to primary government	-	-	-	3,907,867	333,423
Due to component units	1,979,722	-	-	-	-
Due to other governments	-	-	-	-	129,661
Revenue anticipation note	3,131,000	-	-	-	-
Long-Term Liabilities					
<i>Due within one year</i>					
Bonds, loans, and capital leases payable	1,760,264	-	-	187,000	-
<i>Due in more than one year</i>					
Landfill obligation	749,904	-	-	-	-
Compensated absences	1,594,445	-	495,267	-	354,513
Bonds and loans payable	19,668,559	-	-	733,047	-
Total Liabilities	30,181,512	10,101	7,504,701	5,119,383	833,712
Net Assets					
Invested in capital assets, net of related debt	13,518,016	416,961	15,554,587	-	43,584
Restricted	3,471,964	-	-	-	-
Unrestricted	19,228,987	-	-	7,346,000	(351,513)
Total Net Assets	36,218,967	416,961	15,554,587	7,346,000	(307,929)
Total Liabilities and Net Assets	\$ 66,400,479	\$ 427,062	\$ 23,059,288	\$ 12,465,383	\$ 525,783

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

County of Henry, Virginia
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>				
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Southern Virginia Recreational Facility</u>	<u>School Board</u>	<u>Industrial Development Authority</u>	<u>Henry-Martinsville Social Services</u>
Primary Government									
Governmental Activities									
General government administration	\$ 3,058,189	\$ -	\$ 467,384	\$ -	\$ (2,590,805)				
Judicial administration	2,629,779	129,258	1,036,350	-	(1,464,171)				
Public safety	10,988,806	271,368	4,930,726	-	(5,786,712)				
Public works	3,382,137	198,186	17,744	-	(3,166,207)				
Health and welfare	1,825,364	-	309,866	-	(1,515,498)				
Parks, recreation, and cultural	1,779,200	42,564	-	-	(1,736,636)				
Community development	3,129,817	-	78,915	70,430	(2,980,472)				
Education	13,308,484	-	-	-	(13,308,484)				
Interest on long-term debt	856,445	-	-	-	(856,445)				
Total Primary Government	<u>\$ 40,958,221</u>	<u>\$ 641,376</u>	<u>\$ 6,840,985</u>	<u>\$ 70,430</u>	<u>\$ (33,405,430)</u>				
Component Units									
Southern Virginia Recreational Facility									
	\$ 102,005	\$ -	\$ 102,005	\$ -		\$ -			
School Board									
Instruction	42,973,256	-	55,944,272	-		\$ 12,971,016			
Administration, attendance, and health	3,524,426	-	-	-		(3,524,426)			
Pupil transportation	4,836,283	-	-	-		(4,836,283)			
Operation and maintenance	7,059,441	-	-	-		(7,059,441)			
Cafeterias	3,897,268	-	1,894,478	-		(2,002,790)			
Special grants	8,265,466	-	-	-		(8,265,466)			
Facilities	1,166,701	-	-	-		(1,166,701)			
Technology	1,654,634	-	-	-		(1,654,634)			
Total School Board	<u>73,377,475</u>	<u>-</u>	<u>57,838,750</u>	<u>-</u>		<u>(15,538,725)</u>			
Industrial Development Authority									
Economic development	1,073,363	-	-	-			\$ (1,073,363)		
Interest	26,770	-	-	-			(26,770)		
Total Industrial Development Authority	<u>1,100,133</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>(1,100,133)</u>		
Henry-Martinsville Social Services									
Health and welfare	5,898,353	-	5,370,934	-					\$ (527,419)
Total - Component Units	<u>\$ 80,375,961</u>	<u>\$ -</u>	<u>\$ 63,209,684</u>	<u>\$ -</u>					<u>(527,419)</u>
General Revenues									
Unrestricted									
General property taxes					21,803,751	-	-	-	-
Other local taxes					14,274,440	-	-	-	-
Payments County of Henry, Virginia					-	-	13,241,828	1,694,376	505,861
Use of property					169,698	-	-	79,570	-
Investment income					937,423	-	234,057	35,518	-
Miscellaneous					12,808	416,961	1,634,609	20,846	-
Noncategorical aid from state					2,163,714	-	-	-	-
Total General Revenues					<u>39,361,834</u>	<u>416,961</u>	<u>15,110,494</u>	<u>1,830,310</u>	<u>505,861</u>
Change in Net Assets					5,956,404	416,961	(428,231)	730,177	(21,558)
Net Assets - Beginning of Year					33,107,648	-	15,982,818	3,770,738	(286,371)
Prior Period Adjustment					(2,845,085)	-	-	2,845,085	-
Net Assets - End of Year					<u>\$ 36,218,967</u>	<u>\$ 416,961</u>	<u>\$ 15,554,587</u>	<u>\$ 7,346,000</u>	<u>\$ (307,929)</u>

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

County of Henry, Virginia

Balance Sheet

Governmental Funds

At June 30, 2007

	<u>General Fund</u>	<u>Comprehensive Services Act Fund</u>	<u>E-911 Central Dispatch Fund</u>	<u>Law Library Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets						
Cash	\$ 19,100,320	\$ -	\$ -	\$ -	\$ -	\$ 19,100,320
Receivables - net						
Taxes	1,124,113	-	-	-	-	1,124,113
Licenses	23,594	-	-	-	-	23,594
Accounts	1,040,232	-	-	1,957	-	1,042,189
Due from other funds	345,528	-	-	121,583	-	467,111
Due from component units	4,241,290	-	-	-	-	4,241,290
Due from other governments	1,789,272	84,293	456,269	-	104,409	2,434,243
Inventory	15,927	-	-	-	-	15,927
Total Assets	<u>\$ 27,680,276</u>	<u>\$ 84,293</u>	<u>\$ 456,269</u>	<u>\$ 123,540</u>	<u>\$ 104,409</u>	<u>\$ 28,448,787</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 669,658	\$ 60,253	\$ 2,571	\$ 873	\$ 5,210	\$ 738,565
Accrued liabilities	29,939	-	2,965	-	-	32,904
Deferred revenue	1,177,674	-	-	-	-	1,177,674
Due to other funds	121,583	14,170	260,875	-	70,483	467,111
Due to component units	1,979,722	-	-	-	-	1,979,722
Revenue anticipation note	3,131,000	-	-	-	-	3,131,000
Total Liabilities	<u>7,109,576</u>	<u>74,423</u>	<u>266,411</u>	<u>873</u>	<u>75,693</u>	<u>7,526,976</u>
Fund Balances						
Designated						
Subsequent years' expenditures	7,034,065	-	-	-	-	7,034,065
Long-term advances	3,114,222	-	-	-	-	3,114,222
Inventory	15,927	-	-	-	-	15,927
Unreserved/Undesignated	<u>10,406,486</u>	<u>9,870</u>	<u>189,858</u>	<u>122,667</u>	<u>28,716</u>	<u>10,757,597</u>
Total Fund Balances	<u>20,570,700</u>	<u>9,870</u>	<u>189,858</u>	<u>122,667</u>	<u>28,716</u>	<u>20,921,811</u>
Total Liabilities and Fund Balances	<u>\$ 27,680,276</u>	<u>\$ 84,293</u>	<u>\$ 456,269</u>	<u>\$ 123,540</u>	<u>\$ 104,409</u>	<u>\$ 28,448,787</u>

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

County of Henry, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

At June 30, 2007

Total fund balances for Governmental Funds		\$ 20,921,811
Total net assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land and construction in progress	8,829,054	
Buildings and improvements, net of accumulated depreciation	23,666,057	
Furniture, equipment, and vehicles, net of accumulated depreciation	<u>2,451,728</u>	
Total Capital Assets		34,946,839
Restricted cash for school construction project		3,471,964
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred revenue		1,107,244
Liabilities applicable to the County's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.		
Balances of long-term liabilities affecting net assets are as follows:		
Bonds and notes payable	(21,428,823)	
Accrued interest payable	(455,719)	
Landfill closure and post-closure liability	(749,904)	
Compensated absences	<u>(1,594,445)</u>	
Total		<u>(24,228,891)</u>
Total net assets of governmental activities		<u>\$ 36,218,967</u>

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

County of Henry, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	<u>General Fund</u>	<u>Comprehensive Services Act Fund</u>	<u>E-911 Central Dispatch Fund</u>	<u>Law Library Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues						
General property taxes	\$ 21,847,876	\$ -	\$ -	\$ -	\$ -	\$ 21,847,876
Other local taxes	13,565,721	-	765,009	-	-	14,330,730
Permits, privilege fees, and regulatory licenses	116,515	-	-	-	-	116,515
Fines and forfeitures	203,468	-	-	-	-	203,468
Use of money and property	1,107,121	-	-	-	-	1,107,121
Charges for services	308,261	-	-	13,132	-	321,393
Miscellaneous	6,179	-	-	6,630	-	12,809
Recovered costs	1,829,038	30,435	249,550	-	22,268	2,131,291
Intergovernmental	8,308,011	309,866	386,822	-	70,430	9,075,129
Total Revenues	<u>47,292,190</u>	<u>340,301</u>	<u>1,401,381</u>	<u>19,762</u>	<u>92,698</u>	<u>49,146,332</u>
Expenditures						
Current						
General government administration	2,841,009	-	-	-	-	2,841,009
Judicial administration	2,368,268	-	-	12,974	-	2,381,242
Public safety	9,710,422	-	1,211,523	-	-	10,921,945
Public works	3,182,094	-	-	-	-	3,182,094
Health and welfare	1,279,674	494,521	-	-	-	1,774,195
Education	17,518,809	-	-	-	-	17,518,809
Parks, recreation, and cultural	1,718,770	-	-	-	-	1,718,770
Community development	3,566,503	-	-	-	98,375	3,664,878
Nondepartmental	12,822	-	-	-	-	12,822
<i>Debt service</i>						
Principal	560,000	-	-	-	-	560,000
Interest	354,308	-	-	-	-	354,308
Capital outlay	2,969,089	-	-	-	-	2,969,089
Total Expenditures	<u>46,081,768</u>	<u>494,521</u>	<u>1,211,523</u>	<u>12,974</u>	<u>98,375</u>	<u>47,899,161</u>
Excess (Deficiency) of Revenues Over Expenditures	1,210,422	(154,220)	189,858	6,788	(5,677)	1,247,171
Other Financing Sources (Uses)						
Transfers in	-	147,584	-	-	-	147,584
Transfers out	(147,584)	-	-	-	-	(147,584)
Total Other Financing Sources (Uses)	<u>(147,584)</u>	<u>147,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,062,838	(6,636)	189,858	6,788	(5,677)	1,247,171
Fund Balances - Beginning of Year	19,507,862	16,506	-	115,879	34,393	19,674,640
Fund Balances - End of Year	<u>\$ 20,570,700</u>	<u>\$ 9,870</u>	<u>\$ 189,858</u>	<u>\$ 122,667</u>	<u>\$ 28,716</u>	<u>\$ 20,921,811</u>

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

County of Henry, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2007

Net change in fund balances - total Governmental Funds		\$ 1,247,171
<p>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 exceeded capital outlays in the current period.</p>		
Capital outlays	\$ 2,312,857	
Disposals of assets	(416,962)	
Depreciation expense	<u>(1,773,853)</u>	
		122,042
<p>Revenues in the statement of activities that do not provide current financial resources are deferred in the fund statements. This negative amount represents that there were additional amounts deferred in the prior year which were recorded as revenue in the fund statements in the current year, but had already been recognized in the statement of activities during the previous year.</p>		
		(100,415)
<p>Bond and capital lease proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases the long-term liabilities and does not affect the Statement of Activities. Similarly, the repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the Statement of Net Assets.</p>		
Proceeds from issuance of debt, including premium	(6,191,173)	
Repayment of principal	1,492,585	
Change in accrued interest	<u>(137,714)</u>	
Net Adjustment		(4,836,302)
<p>Construction of the new school building requires that the building and related debt be held by the primary government until the debt is paid off. Therefore, the restricted cash held by the school and the construction in progress has to be transferred to the County</p>		
Construction account	3,471,964	
Construction in progress for the school building	<u>5,960,471</u>	
		9,432,435
<p>Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:</p>		
Landfill obligation	333,096	
Compensated absences	<u>(241,623)</u>	
Net Adjustment		<u>91,473</u>
Change in net assets of governmental activities		<u>\$ 5,956,404</u>

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

County of Henry, Virginia

Statement of Fiduciary Assets and Liabilities

Year Ended June 30, 2007

	<u>Special Welfare</u>	<u>Agency Funds Seizure</u>	<u>Jail Inmate</u>	<u>Total</u>
Assets				
Cash - unrestricted	<u>\$ 25,185</u>	<u>\$ 10,444</u>	<u>\$ 42,254</u>	<u>\$ 77,883</u>
Liabilities				
Amounts held for others	<u>\$ 25,185</u>	<u>\$ 10,444</u>	<u>\$ 42,254</u>	<u>\$ 77,883</u>

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

County of Henry, Virginia

Notes to Financial Statements

Year Ended June 30, 2007

1 Organization and Nature of Operations

Narrative Profile

The County of Henry, Virginia (the "County") has a population of approximately 57,930 living within an area of 382 square miles. The County is located in the foothills of the Blue Ridge Mountains, in the southern Piedmont region of Virginia. The borders are shared with Patrick County to the west, Franklin County to the north, Pittsylvania County to the east, and the North Carolina line to the south.

The County was named for Patrick Henry, who lived there from 1780 to 1784. They originally were part of Pittsylvania County, but then went on their own in 1777.

Reporting Entity

The County of Henry, Virginia (the "County") is governed under the County Administration-Board of Supervisors form of government. The County engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human service programs, transportation and environmental services, planning, community development and recreation, cultural, library, and historic activities.

2 Summary of Significant Accounting Policies

The financial statements of the County of Henry, Virginia and its component units 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 of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the County's accounting policies are described below.

A. Financial Reporting Entity

The County follows GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

- Management's Discussion and Analysis: A narrative introduction and analytical overview of the County's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- Government-Wide Financial Statements: These include the financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Activities.

- Statement of Net Assets: The Statement of Net Assets displays the financial position of the primary government (government) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and 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 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).
- Budgetary Comparison Schedules: Demonstrating compliance with the legally adopted budget is an important component of a government’s accountability to the public. Many citizens participate 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. The County and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and, therefore, data from these units are combined with data of the primary government. The County has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

B. Government-Wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the County as a whole) and fund accounting financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the County as a whole or major individual funds (within the fund financial statements). The focus is on both the County as a whole and the fund accounting financial statements, including the major individual funds of the governmental and business-type categories, as well as the Fiduciary Funds (by category), and the Component Units. Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, the governmental activities columns (a) are presented on a consolidated basis, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that 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. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Proprietary Fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings, and other revenues not directly derived from the providing of services.

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. The fund statements are presented on a current financial resource and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

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.

The County's Fiduciary Funds are presented in the fund financial statements by type (agency). Since by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the County in fiscal year 2007:

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. Each fund is considered a major fund because each one has a legally adopted budget. The individual Governmental Funds are:

a. *General Fund*

The General Fund is the primary operating fund of the County and accounts for all revenues and expenditures applicable to the general operations of the County which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes. A significant part of the General Fund's revenue is transferred to other funds and component units, principally to finance the operations of the County's Public Schools.

b. *Comprehensive Services Act Fund*

The Comprehensive Services Act Fund accounts for revenue derived from the Commonwealth of Virginia for the care of the localities' special needs children. This special revenue fund is considered a major governmental fund for reporting purposes.

c. *E-911 Central Dispatch Fund*

The E-911 Central Dispatch Fund accounts for the financial transactions associated with the operation of the County's 911 Emergency Services Center. Revenues are primarily derived from the consumers' E-911 telephone tax and reimbursements from the City of Martinsville, the State Compensation Board and Virginia Wireless Board. This special revenue fund is considered a major governmental fund for reporting purposes.

d. *Law Library Fund*

The Law Library Fund accounts for revenue received from other funds for the use of the library. This special revenue fund is considered a major governmental fund for reporting purposes.

e. *Capital Projects Fund*

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities. This fund is considered a major governmental fund for reporting purposes.

2. *Proprietary Fund*

The County has no proprietary funds at this time.

3. *Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, and other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The Special Welfare Fund is used to account for funds held for the benefit of children under the County's care. The Jail Inmate Fund accounts for funds received and disbursed for the benefit of the jail's inmates.

C. Discretely Presented Component Units

The County is the fiscal agent for the Southern Virginia Recreational Facility, another component unit of the County. The City of Martinsville and the County of Henry are currently helping construct the facility.

Henry County School Board (the "School Board") is organized as an independently governed school system for operating the public schools in the County. Citizens of the County elect school board members. The School Board is financially dependent on appropriations by the County Board of Supervisors for current operations, with any surplus funds returned to the County annually. In addition, major capital improvements are financed by long-term debt issued by the County. In accordance with requirements of the Auditor of Public Accounts of the Commonwealth of Virginia, the School Board is considered to be a major component unit of the County. The government-wide statements are shown on the Statement of Net Assets and the Statement of Activities, and the School Board governmental fund combining statements are shown in the Other Supplementary Information section.

The Industrial Development Authority of Henry County, Virginia (the "IDA") operates as an enterprise activity by assisting local industry with bond financing. The IDA is a legally separate organization; however, the Board of Supervisors of the County appoints a voting majority of the IDA's board, and the County is legally obligated for the debts of the IDA. The IDA is presented as a discretely presented component unit for reporting purposes. The government-wide statements are shown on the Statement of Net Assets and the Statement of Activities and the governmental fund statements are shown in the Other Supplementary Information section.

The Henry-Martinsville Social Services Board ("HMSS") operates the Department of Social Services for both the County and the City. This joint entity was established June 1, 1997. Of the nine board members, the County appoints six. The County is financially accountable for HMSS because it appoints a majority of the board members and because the County is legally obligated to finance the deficits of, and provide financial support to, the Board. The government-wide statements are shown on the Statement of Net Assets and the Statement of Activities, and the governmental fund statements are shown in the Other Supplementary Information section. These entities are collectively included and referred to as the "County".

D. Related Organizations

The primary function of Henry County Public Service Authority ("HCPSA") is to provide water and sewer services to areas of the County. The HCPSA Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for HCPSA comes from state and federal grants as well as from charges for services. The County provides some financial assistance, but HCPSA is not financially dependent on the County. Each member of the Board of Supervisors appoints one board member of the HCPSA from the members of their district. While not a component unit of the County, HCPSA is considered to be a related organization since the County has determinable ongoing financial interests in or responsibilities for HCPSA. The County contributed \$406,800 to the Authority for fire hydrant rental during the year and \$1,048,346 for Fieldale Water System improvements funded by grants.

E. Basis of Accounting

The government-wide Statements of Net Assets and Statement of Activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets.

The Statement of Fiduciary Assets and Liabilities is presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet in the funds statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The fund financial statements of the General, Comprehensive Services Act, E-911 Central Dispatch, Law Library, and Capital Projects funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collections within sixty days after the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Investment income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures are recorded when the fund liability is incurred.

F. Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General, Comprehensive Services Act, E-911 Central Dispatch, Law Library, and Capital Projects funds. Encumbrances which are carried over to the subsequent year are recorded as a designation of fund balance.

G. Cash and Cash Equivalents

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original or purchased maturities of three months or less from the date of acquisition.

H. Allowance for Uncollectible Accounts

The County calculates its allowance based on historical data. The allowance amounted to approximately \$2,344,797 at June 30, 2007 and is comprised solely of property taxes.

The IDA calculated an allowance of \$714,957 at June 30, 2007 based on the amount determined to be collectible.

The other component units' accounts receivable are considered fully collectible, and, therefore, an allowance for uncollectible accounts is not applicable to those receivables.

I. Land and Building – Held for Sale

The IDA has land and building that are held for resale to potential industries in the County. The assets are recorded at cost. Periodically, incidental rent is received for the use of these facilities.

J. Capital Assets

Capital outlays are recorded as expenditures of the General, Comprehensive Services Act, E-911 Central Dispatch, Law Library, and Capital Projects funds and as assets in the government-wide financial statements to the extent the County's capitalization thresholds are met. The capitalization threshold for capitalizing capital assets is \$5,000 and \$100,000 for building additions. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Depreciation is recorded on general capital assets on a government-wide basis.

In the fund financial statements, maintenance, repairs, and minor equipment costs are charged to operations when incurred. Expenditures that meet the County's capitalization policy and materially change capacities or extend useful lives are capitalized in the government-wide financial statements. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in current year's operations.

K. Compensated Absences and Other Employee Benefits

Expenditures for compensated absences, hospitalization and workers' compensation insurance in governmental funds are recorded when the obligations are paid. The current portions are not recorded as liabilities in governmental funds since these will not be liquidated with expendable available financial resources. The liability for compensated absences and other employee benefits is shown on the statement of net assets as part of long-term liabilities.

Compensated Absences

County employees earn vacation based on length of service and sick leave at the rate of one day per month. Twenty-five percent of the amount for unused sick leave is paid for upon termination. All accumulated unused vacation is paid upon termination.

Group Hospitalization

All permanent employees of the County, including elected officials and their staff, are eligible to participate in the County's group insurance program. The County contributes the entire premium for active participating employees.

Other Postemployment Benefits

All permanent employees of the County, with 15 years of service, are eligible to continue their hospitalization and group life insurance into retirement. The County does not contribute to the cost of this insurance.

L. Long-Term Debt

For governmental fund types, bond premiums or discounts as well as issuance costs are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

M. Fund Balance

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Reservations of Fund Balance

Except for those required to comply with accounting standards, any reservations and designations of the General Fund balance reflect a Board of Supervisors action in the context of adoption of the County's budget.

Encumbrances

These fund balances have been reserved for goods and services encumbered or ordered, before the end of the fiscal year, for which delivery of goods and services have not been made prior to the close of the fiscal year.

Approved Capital Projects

These balances are reserved for capital projects that the Board of Supervisors has already approved.

3 Deposit and Investments

Deposits

All cash of the County and its component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et seq.* of the *Code of Virginia* (the "Code") or covered by Federal depository insurance.

Investments

Statutes authorize local governments and other public bodies 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, the State Treasurer's Local Government Investment Pool (LGIP), and the Virginia State Treasurer's Non-Arbitrage Program (SNAP).

The County has invested bond proceeds subject to rebate of arbitrage earnings in SNAP. SNAP is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities, and towns.

Interest Rate Risk

At year end, the County is only invested in SNAP, which has a dollar weighted average portfolio maturity of 90 days and money market funds which are readily available.

Custodial Credit Risk

As required by the Code of Virginia, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the County's investments are held in a bank's trust department in the County's name by the County's designated custodian. All investment activity during the year was in securities of the type held at year end.

The above items are reflected in the statements as follows:

	<u>Component Units</u>					<u>Total</u>
	<u>Primary Government (Includes Fiduciary)</u>	<u>Southern Virginia Recreational Facility</u>	<u>School Board</u>	<u>Industrial Development Authority</u>	<u>Henry-Martinsville Social Services</u>	
Deposits and Investments						
Cash on hand	\$ 8,751	\$ -	\$ -	\$ -	\$ -	\$ 8,751
Deposits	<u>22,641,416</u>	<u>-</u>	<u>2,030,142</u>	<u>366,620</u>	<u>57,569</u>	<u>25,095,747</u>
	<u>\$ 22,650,167</u>	<u>\$ -</u>	<u>\$ 2,030,142</u>	<u>\$ 366,620</u>	<u>\$ 57,569</u>	<u>\$ 25,104,498</u>
Statements of Net Assets						
Cash and cash equivalents	\$ 19,100,320	\$ -	\$ 1,156,026	\$ 366,620	\$ 57,569	\$ 20,680,535
Restricted cash	3,471,964	-	874,116	-	-	4,346,080
Fiduciary fund cash	<u>77,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,883</u>
	<u>\$ 22,650,167</u>	<u>\$ -</u>	<u>\$ 2,030,142</u>	<u>\$ 366,620</u>	<u>\$ 57,569</u>	<u>\$ 25,104,498</u>

Credit Risk

State statute requires that obligations of the Commonwealth of Virginia and its political subdivisions have a debt rating of at least AA by Standard & Poor's (S&P) or equivalent by Moody's Investors Service (Moody's). Repurchase agreements are collateralized by Treasury or Agency obligations of which the market value is at least 102% of the purchase price of the agreement. Commercial paper must be issued by an entity incorporated in the U.S. and rated at least A-1 by S&P and P-1 by Moody's. Corporate notes and bonds have a rating of at least AA by S&P and Aa by Moody's. Money market mutual funds must trade on a constant net asset value and invest solely in securities otherwise eligible for investment under these guidelines.

Concentration of Credit Risk

Although the intent of the County is to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the County places no limit on the amount it may invest in any one issuer.

4 Property Taxes Receivable

The County levies real estate taxes on all real property on a fiscal year basis, at a rate enacted by the County Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of Henry County. The Commonwealth of Virginia assesses public utility property. Neither the County nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and real estate is reassessed every four years. The Commissioner of Revenue prorates billings for property incomplete as of January 1, but completed during the year. Any taxes paid after the due date are subject to a 10% penalty and 8% interest charge.

Real estate taxes are billed annually and due by December 5. Liens are placed on the property on the date real estate taxes are delinquent, and interest at the rate of 10% per annum is added to the delinquent tax and penalty, and must be satisfied prior to the sale or transfer of the property. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance.

Personal property tax assessments on tangible business property are based on 71% of cost and all motor vehicles are based on 100% of loan value of the property as of January 1 of each year. Personal property taxes do not create a lien on property; however, County vehicle decals, which are required by law for all vehicles garaged in the County, may not be issued to any individual having outstanding personal property taxes. Any taxes paid after the due date are subject to a 10% penalty and 8% interest charge.

Property taxes receivable are included as deferred revenue in the fund financial statements since these taxes are not considered to be available to liquidate liabilities of the current period.

Any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the County receives taxpayers' payments in fiscal year 2007 from the State for its share of the local personal property tax payment (for personal use motor vehicles), with the remainder collected by the County.

5 Capital Assets

The table below is a summary of the changes in capital assets for the fiscal year ended June 30, 2007:

Primary Government

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 1,638,587	\$ 109,506	\$ 416,960	\$ 1,331,133
Construction in progress	1,502,096	1,078,881	1,043,527	1,537,450
Construction in progress - school building	<u>1,629,834</u>	<u>7,401,170</u>	<u>3,070,533</u>	<u>5,960,471</u>
Total Capital Assets Not Being Depreciated	4,770,517	8,589,557	4,531,020	8,829,054
Capital Assets, Depreciable				
Buildings and improvements	19,512,699	1,558,927	-	21,071,626
Buildings and improvements - Schools	13,046,482	-	-	13,046,482
Furniture, equipment, and vehicles	<u>8,578,260</u>	<u>609,069</u>	<u>575,826</u>	<u>8,611,503</u>
Total Capital Assets - Depreciable	41,137,441	2,167,996	575,826	42,729,611
Less: Accumulated depreciation for				
Buildings and improvements	7,956,713	527,668	-	8,484,381
Buildings and improvements - Schools	1,639,725	327,945	-	1,967,670
Furniture, equipment, and vehicles	<u>5,817,361</u>	<u>918,240</u>	<u>575,826</u>	<u>6,159,775</u>
Total Accumulated Depreciation	<u>15,413,799</u>	<u>1,773,853</u>	<u>575,826</u>	<u>16,611,826</u>
Other Capital Assets, Net	<u>25,723,642</u>	<u>394,143</u>	<u>-</u>	<u>26,117,785</u>
Net Capital Assets	<u>\$ 30,494,159</u>	<u>\$ 8,983,700</u>	<u>\$ 4,531,020</u>	<u>\$ 34,946,839</u>

Depreciation expense was allocated as follows:

General government administration	\$ 156,034
Judicial administration	248,537
Public safety	762,498
Public works	100,821
Education	327,945
Health and welfare	51,169
Parks, recreation, and cultural	60,430
Community development	<u>66,419</u>
Total Depreciation Expense	<u>\$ 1,773,853</u>

**Component Unit - Southern Virginia
Recreational Facility**

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ -	\$ 416,961	\$ -	\$ 416,961
Total Capital Assets Not Being Depreciated	-	416,961	-	416,961
Net Capital Assets	<u>\$ -</u>	<u>\$ 416,961</u>	<u>\$ -</u>	<u>\$ 416,961</u>

Component Unit - School Board

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 605,774	\$ 136,516	\$ -	\$ 742,290
Total Capital Assets Not Being Depreciated	605,774	136,516	-	742,290
Capital Assets, Depreciable				
Buildings and improvements	32,951,444	3,070,533	28,546	35,993,431
Furniture and equipment	7,918,429	1,200,596	420,874	8,698,151
Total Capital Assets, Depreciable	40,869,873	4,271,129	449,420	44,691,582
Less: Accumulated depreciation for				
Buildings and improvements	23,056,409	741,222	28,546	23,769,085
Furniture and equipment	5,773,415	680,985	344,200	6,110,200
Total Accumulated Depreciation	28,829,824	1,422,207	372,746	29,879,285
Other Capital Assets, Net	12,040,049	2,848,922	76,674	14,812,297
Net Capital Assets	<u>\$ 12,645,823</u>	<u>\$ 2,985,438</u>	<u>\$ 76,674</u>	<u>\$ 15,554,587</u>

Component Unit - Henry-Martinsville Social Services

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Other Capital Assets				
Machinery and equipment	\$ 248,247	\$ 19,877	\$ 20,000	\$ 248,124
Total Other Capital Assets	248,247	19,877	20,000	248,124
Less: Accumulated depreciation for				
Machinery and equipment	199,268	22,272	20,000	201,540
Total Accumulated Depreciation	199,268	22,272	20,000	201,540
Other Capital Assets, Net	48,979	(2,395)	-	46,584
Net Capital Assets	\$ 48,979	\$ (2,395)	\$ -	\$ 46,584

Component Unit – Industrial Development Authority

The Industrial Development Authority had no depreciable property at June 30, 2007 because it is held for resale.

Primary Government

Capital assets are stated at cost, less an allowance for accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated lives of the assets as follows:

Buildings	45 years
Equipment	5-60 years
Infrastructure	25-45 years

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

6 Commitments and Contingencies

A. Litigation

The County is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of County management and the County Attorney that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material.

B. Federally Assisted Grant Programs

The County participates in a number of federally assisted grant programs. Although the County has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, County management believes such disallowances, if any, will not be significant.

C. Performance Agreements

The County has signed performance agreements with various companies that have located within the County. As part of many of these agreements, the County has agreed to pay cash incentives to the companies. As of June 30, 2007, the County has outstanding commitments for future payments under these agreements as follows:

<u>Year Ended June 30,</u>	<u>Commitment</u>
2008	\$ 250,450
2009	250,450
2010	<u>751,350</u>
	<u>\$ 1,252,250</u>

D. 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; injuries to employees; and natural disasters. The County joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool and Virginia Association of Counties Group Self-Insurance Risk Pool, both public entity risk pools currently operating as a common risk management and insurance program for participating local governments. The County pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The County continues to carry insurance for all other risks of loss, including employee health, dishonesty, and surety bond insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The following Constitutional Officers and County employees are covered by surety bonds issued in the amounts shown as of June 30, 2007:

Treasurer	\$ 750,000
Commissioner of Revenue	3,000
Clerk of Circuit Court	124,000
Sheriff	30,000
Employees of above officers - blanket bond	1,000,000
County Administrator	1,000,000
Employees of County and Board members - blanket bond	1,000,000
Clerk of the School Board	10,000
Director of Public Welfare	100,000
Employees of Social Services - blanket bond	100,000

7 Long-Term Debt

A. Bonds Payable

The schedule below represents long-term debt payable at June 30, 2007:

<u>Description</u>	<u>Original Issue</u>	<u>Annual Amount</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>Outstanding June 30, 2007</u>
General Obligation Bonds - 2002	\$ 6,040,000	\$ 580,000	3.00-5.00	2014	\$ 5,260,000
Va. Public School Authority Bonds - 2006	6,009,728	229,167	4.60-5.10	2026	6,009,728
Va. Public School Authority Bonds - 2005	2,342,487	95,889	4.60-5.10	2025	2,253,588
Va. Public School Authority Bonds - 1994	1,565,000	100,000	6.00-8.60	2008	200,000
Va. Public School Authority Bonds - 1995	1,916,194	98,284	5.10-6.10	2015	989,647
Magna Vista Literary Loan - 1994	2,000,000	100,000	3.00	2008	300,000
Sanville Elementary Literary Loan - 1998	2,080,772	104,039	2.00	2018	1,144,421
Laurel Park Literary Loan - 1998	1,387,370	69,500	2.00	2018	761,870
Rich Acres Literary Loan - 1998	2,462,218	122,750	2.00	2018	1,357,468
Stanleytown Literary Loan - 1998	2,425,951	120,000	2.00	2018	1,345,951
Fieldale-Collinsville Literary Loan - 1998	2,500,000	125,000	2.00	2018	1,500,000
					<u>\$ 21,122,673</u>

B. Governmental Obligation

The following table is a summary of the changes in long-term liabilities that are recorded in the Statement of Net Assets for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
General obligations bonds - County	\$ 5,820,000	\$ -	\$ 560,000	\$ 5,260,000	\$ 580,000
General obligations bonds - public schools	3,727,968	6,009,728	284,733	9,452,963	523,340
Literary Fund loans	7,050,999	-	641,289	6,409,710	641,289
Subtotal	16,598,967	6,009,728	1,486,022	21,122,673	1,744,629
Add: Bond premiums	131,268	181,445	6,563	306,150	15,635
Subtotal after premiums	16,730,235	6,191,173	1,492,585	21,428,823	1,760,264
Landfill closure monitoring	1,083,000	-	333,096	749,904	-
Compensated absences	1,352,822	241,623	-	1,594,445	-
	<u>\$ 19,166,057</u>	<u>\$ 6,432,796</u>	<u>\$ 1,825,681</u>	<u>\$ 23,773,172</u>	<u>\$ 1,760,264</u>

Compensated absences expenses are allocated by department and by fund. The change in compensated absences for the Statement of Activities is charged to general government.

Debt service on the preceding long-term debt in future years is as follows:

Fiscal Year Ending June 30.	General Obligation Bonds		General Obligation Bonds - School Board		Literary Fund Loans		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 580,000	\$ 203,000	\$ 523,340	\$ 500,982	\$ 641,289	\$ 131,197	\$ 1,744,629	\$ 835,179
2009	595,000	183,887	545,703	418,597	641,289	117,371	1,781,992	719,855
2010	615,000	162,713	455,690	391,311	641,289	103,545	1,711,979	657,569
2011	640,000	139,950	466,198	367,803	541,289	89,720	1,647,487	597,473
2012	665,000	114,650	477,255	343,745	541,289	78,894	1,683,544	537,289
2013-2017	2,165,000	162,175	2,441,734	1,344,520	2,706,445	232,082	7,313,179	1,738,777
2018-2022	-	-	2,209,457	794,294	696,820	16,439	2,906,277	810,733
2023-2027	-	-	2,333,586	259,162	-	-	2,333,586	259,162
	<u>\$ 5,260,000</u>	<u>\$ 966,375</u>	<u>\$ 9,452,963</u>	<u>\$ 4,420,414</u>	<u>\$ 6,409,710</u>	<u>\$ 769,248</u>	<u>\$ 21,122,673</u>	<u>\$ 6,156,037</u>

C. General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a County may issue.

The legal debt margin of the County at June 30, 2007 is computed as follows:

Total assessed value of taxed real property	<u>\$ 2,474,852,700</u>
Debt limits per Constitution of Virginia - 10% assessed value	\$ 247,485,270
Amount of debt applicable to debt limit:	
Gross debt	<u>21,122,673</u>
Legal debt margin - June 30, 2007	<u>\$ 226,362,597</u>

⁽¹⁾Includes all long-term general obligation bonded debt and Literary Fund Loans. Excludes capital leases, landfill closure, postretirement health care benefits, and compensated absences.

D. Component Units

Following is a summary of the changes in long-term liabilities that are recorded in the component units for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
School Board					
Compensated absences	\$ 463,562	\$ 31,705	\$ -	\$ 495,267	\$ -
Henry-Martinsville Social Services					
Compensated absences	\$ 335,350	\$ 19,163	\$ -	\$ 354,513	\$ -
Industrial Development Authority					
Economic Development					
Revenue Anticipation Note	\$ 523,000	\$ -	\$ 336,000	\$ 187,000	\$ 187,000
Series 2006 Lease Revenue Bonds	-	733,047	-	733,047	-
Total	\$ 523,000	\$ 733,047	\$ 336,000	\$ 920,047	\$ 187,000

The Economic Development Revenue Anticipation note is comprised of the following:

\$3,360,000 note issued February 10, 1998 for the acquisition of real property, quarterly payments of \$84,000 plus interest at 4.65% through February 2008. Payments of principal and interest is provided, if necessary, by an Industrial Park Support Agreement with Henry County.

\$ 187,000

The IDA is constructing a shell building in the Industrial Park. A loan with Carter Bank and Trust has been approved. As of June 30, 2007, only \$733,047 has been drawn down. Interest is payable at 3.62%.

733,047

Total Industrial Development Authority

\$ 920,047

Estimated principal maturities for future years ended June 30 follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 187,000	\$ 2,319
	<u>\$ 187,000</u>	<u>\$ 2,319</u>

8 Interfund Receivables/Payables

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
County of Henry, Virginia		
General Fund	\$ 345,528	\$ 121,583
Comprehensive Services Act Fund	-	14,170
E-911 Central Dispatch Fund	-	260,875
Law Library Fund	121,583	-
Capital Projects Fund	-	70,483
	<u>\$ 467,111</u>	<u>\$ 467,111</u>
Component Units Interfund Accounts - Due to's		
From County to Southern Virginia Recreational Facility	\$ 3,668	\$ -
From County to HCO/MTSV Industrial Site Project Fund - IDA	5,468	-
From County to School	1,948,680	-
From County to School Food Service	21,906	-
To School Food Service from County	-	21,906
To Southern Virginia Recreational Facility from County	-	3,668
To HCO/MTSV Industrial Site Project Fund - IDA from County	-	5,468
To School From County	-	1,948,680
	<u>\$ 1,979,722</u>	<u>\$ 1,979,722</u>
Component Units Interfund Accounts - Due from's		
To County from Industrial Development Authority	\$ 3,907,867	\$ -
To County from Social Services	333,423	-
From Industrial Development Authority to County	-	3,907,867
From Social Services to County	-	333,423
	<u>\$ 4,241,290</u>	<u>\$ 4,241,290</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
County of Henry, Virginia		
General Fund		
From General Fund to Comprehensive Services	\$ 147,584	\$ -
Comprehensive Services Act Fund		
From General Fund to Comprehensive Services	-	147,584
	<u>\$ 147,584</u>	<u>\$ 147,584</u>
County of Henry, Virginia to Component Units		
Primary Government - County of Henry, Virginia		
To Component Unit - Social Services	\$ 505,861	\$ -
To Component Unit - Industrial Development Authority	1,694,376	-
To Component Unit - School Board	13,241,828	-
Component Unit - Social Services		
From Primary Government - County of Henry, Virginia	-	505,861
Component Unit - Industrial Development Authority		
From Primary Government - County of Henry, Virginia	-	1,694,376
Component Unit - School Board		
From Primary Government - County of Henry, Virginia	-	13,241,828
	<u>\$ 15,442,065</u>	<u>\$ 15,442,065</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
Component Unit - School Board		
School Fund		
From School to School Textbook Fund	\$ 564,332	\$ -
From School to School Cafeteria Fund	21,906	-
School Textbook Fund		
From School to School Textbook Fund	-	564,332
School Cafeteria Fund		
From School to School Cafeteria Fund	-	21,906
	<u>\$ 586,238</u>	<u>\$ 586,238</u>

9 Due from Other Governments

	<u>County of Henry, Virginia</u>	<u>School Board</u>	<u>Henry-Martinsville Social Services</u>
Commonwealth of Virginia			
Local sales taxes	\$ 726,326	\$ -	\$ -
Communications tax	247,096	-	-
ABC Profits	33,477	-	-
Wine tax	35,091	-	-
Auto rental tax	36,106	-	-
Mobile home tax	91,490	-	-
Compensation Board	471,219	-	-
Recordation tax	12,333	-	-
Rolling stock tax	34,856	-	-
Comprehensive Services	84,293	-	-
School funds	-	2,952,599	-
School lunch and breakfast program	-	45,895	-
Other reimbursements	109,879	-	-
Public assistance	-	-	421,630
	<u>1,882,166</u>	<u>2,998,494</u>	<u>421,630</u>
Federal Government			
Homeland security	65,457	-	-
Other reimbursements	<u>30,351</u>	-	-
	95,808	-	-
City of Martinsville			
E-911 Taxes	<u>456,269</u>	-	-
	<u>\$ 2,434,243</u>	<u>\$ 2,998,494</u>	<u>\$ 421,630</u>

10 Defined Benefit Pension Plan

A. Plan Description

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 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at

least 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. 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 increases limited to 5 percent per year beginning in their second year of retirement. 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 downloaded from their website at <http://www.varetire.org/Pdf/2006AnnuRept.pdf> or obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. *Funding Policy*

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. In addition, the County is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2007 was 6.64 percent of annual covered payroll. The Component Unit – School Board's contribution rate for non-professional employees for the fiscal year ended 2007 was 7.18 percent of annual covered payroll. The Component Unit – School Board contributed \$3,121,496 to the teacher cost-sharing pool at a rate of 9.20 percent.

C. *Annual Pension Cost*

For fiscal year 2007, the annual pension cost of \$1,478,052 and \$368,378 for the County and the County School Board non-professionals, respectively, was equal to the County's required and actual contributions. 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 included (a) 7.50 percent investment rate of return, (b) projected salary increases ranging from 3.75 percent to 6.20 percent per year, and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the County's assets is equal to the modified market value of 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 unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Three-Year Trend Information for County

	<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County	2005	1,446,985	100%	\$ -
	2006	1,512,695	100%	-
	2007	\$ 1,478,052	100%	-
School Board Non-Professional	2005	324,917	100%	\$ -
	2006	440,337	100%	-
	2007	\$ 368,378	100%	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for County

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
County of Henry, Virginia						
June 30, 2004	\$ 36,687,114	\$ 38,492,405	\$ 1,805,291	95.31%	\$ 10,501,437	17.19%
June 30, 2005	38,288,414	41,193,392	2,904,978	92.95%	11,608,484	25.02%
June 30, 2006	41,208,785	42,077,205	868,420	97.94%	12,400,546	7.00%
Component Unit - School Board						
June 30, 2004	11,722,877	11,570,719	(152,158)	101.32%	3,573,285	-4.26%
June 30, 2005	11,854,935	13,349,309	1,494,374	88.81%	3,574,927	41.80%
June 30, 2006	12,564,743	13,425,181	860,438	93.59%	4,922,706	17.48%

Notes to Required Supplementary Information

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>County</u>	<u>Component Unit - School Board</u>
Valuation Date	June 30, 2006	June 30, 2006
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent, Open	Level Percent, Open
Payroll Growth Rate	2.50%	2.50%
Remaining Amortization Period	20 years	20 years
Asset Valuation Method	Modified Market	Modified Market
Actuarial Assumptions		
Investment rate of return ¹	7.50%	7.50%
Projected salary increases ¹		
NonLaw Enforcement Officer Employees	3.75% to 5.60%	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%	3.50% to 4.75%
Cost-of-living adjustments	2.50%	2.50%

¹Includes inflation of 2.50%.

11 Landfill Post-Closure Care Cost

The County maintains a landfill, which was closed in 1993. In accordance with state and federal laws and regulations, the County placed a final cover on this site and was required to perform certain maintenance and monitoring functions at the site for a minimum of ten years after closure. A high concentration of methane has been detected at the landfill; therefore, the Department of Environmental Quality ("DEQ") has required an additional monitoring period as well as the installation of certain equipment at the landfill for remediation of the high methane concentrations. The County expects the methane monitoring to continue for approximately twenty years. The County is currently in compliance with groundwater protection standards and as such expects the DEQ to allow the County to stop groundwater monitoring within the next two years.

The \$749,904 reported as landfill post-closure care liability at June 30, 2007 represents what it would cost to perform all post-closure care in 2007. The estimated liability is based on the DEQ accepting the active remedy proposed by the County. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs for post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

12 Revenue Anticipation Note

On January 18, 2006, the County issued revenue anticipation notes Series 2006 in the amount of \$4,196,000 carrying an interest rate of 3.17 percent. The principal balance was due on January 17, 2007. This note was paid in full on January 4, 2007. The proceeds of these notes were used for cash management purposes.

On January 17, 2007, the County issued revenue anticipation notes, Series 2007 in the amount of \$3,484,000 carrying an interest rate of 3.47 percent. The County made a principal payment on the note of \$353,000 during fiscal year 2007. The remaining principal balance is due on January 17, 2008. The proceeds of this note were used for cash management purposes.

13 Notes Receivable – Component Unit

The Component Unit – Industrial Development Authority has notes receivable from two companies in the combined amount of \$3,135,626. One note for \$92,843 is paid monthly with an interest rate of 5.30 percent and one note is paid in accordance with a bankruptcy decree with no interest.

14 Budgets and Budgetary Accounting

Prior to April 18, 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 budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain citizen comments. Prior to June 30, the budget is legally adopted through passage of an Appropriations Resolution. The Appropriations Resolution places legal restrictions on expenditures at the department 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 general government departments; however, the School Board and Henry-Martinsville Social Services are authorized to transfer budgeted amounts within each of their respective budget categories. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

15 Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet recognizable. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund			
Taxes	\$ 1,005,231	\$ -	\$ 1,005,231
Business licenses	23,594	-	23,594
Meals tax	32,696	-	32,696
Deposits and prepayments on miscellaneous accounts	45,723	-	45,723
Grant Draw Downs Prior to Meeting All Eligibility Requirements	<u>-</u>	<u>70,430</u>	<u>70,430</u>
Total	<u>\$ 1,107,244</u>	<u>\$ 70,430</u>	<u>\$ 1,177,674</u>

16 Appropriations from General Fund

Following is a summary of adjustments made to the local school appropriation when converting from fund financial statements to government-wide statements:

	<u>School Board</u>
Appropriation from General Fund	\$ 17,452,153
Debt proceeds received for construction on new school building	6,191,173
Depreciation expense on the school buildings related to the debt on the school building in the County's name	327,945
Transfer of school construction in progress since the County owns the building until the debt is paid off	(5,960,471)
Transfer of restricted cash for school construction	(3,471,964)
Debt paid by the School Board for debt held by the County of the new school buildings	<u>(1,297,008)</u>
Appropriation to School Fund per Government-Wide Statements	<u>\$ 13,241,828</u>

17 New Accounting Standard

The Governmental Accounting Standards Board ("GASB") has issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is, therefore, unable to disclose the impact of adoption. The Statement becomes effective for the County during the fiscal year ending June 30, 2009.

18 Prior Period Adjustment

The fund called Industrial Site Project #37 has been reclassified as part of the Component Unit – Industrial Development Authority. In addition, the inventory from the prior year audit from this fund has also been reclassified to the Industrial Development Authority. Therefore, a prior period adjustment has been made as follows:

Inventory of land reclassified from primary government to the Component Unit - Industrial Development Authority	\$ 2,832,411
Reclassification of the ending unrestricted net assets of Fund #37 Industrial Site Project to the Component Unit - Industrial Development Authority	<u>12,674</u>
Total Prior Period Adjustment	<u>\$ 2,845,085</u>

REQUIRED SUPPLEMENTARY INFORMATION



County of Henry, Virginia
 Budgetary Comparison Schedule
General Fund
 Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Current year property taxes	\$ 19,846,760	\$ 19,846,760	\$ 20,503,319	\$ 656,559
Prior years property taxes	761,950	761,950	904,648	142,698
Penalties - all tax years	260,000	260,000	244,587	(15,413)
Interest - all tax years	145,000	145,000	195,322	50,322
Total General Property Taxes	21,013,710	21,013,710	21,847,876	834,166
Other Local Taxes				
Local sales and use taxes	3,861,475	3,861,475	4,215,254	353,779
Consumer utility tax	4,540,096	4,540,096	4,318,036	(222,060)
Business license taxes	1,434,000	1,434,000	1,517,579	83,579
Franchise license taxes	239,715	239,715	138,602	(101,113)
Motor vehicle licenses	1,047,475	1,047,475	1,009,183	(38,292)
Bank franchise taxes	219,460	219,460	132,817	(86,643)
Transient occupancy taxes	102,000	102,000	115,144	13,144
Taxes on recordation and wills	253,000	253,000	303,529	50,529
Restaurant food taxes	1,710,000	1,710,000	1,815,577	105,577
Total Other Local Taxes	13,407,221	13,407,221	13,565,721	158,500
Permits, Privilege Fees, and Regulatory Licenses				
Animal licenses	10,234	10,234	9,430	(804)
Building and related permits	108,555	108,555	100,099	(8,456)
Other permits, licenses, and fees	8,450	8,450	6,986	(1,464)
Total Permits, Privilege Fees, and Regulatory Licenses	127,239	127,239	116,515	(10,724)
Fines and Forfeitures				
Court fines and forfeitures	165,905	165,905	203,468	37,563
Revenue from Use of Money and Property				
Revenue from use of money	353,657	353,657	937,423	583,766
Revenue from use of property	156,500	156,500	169,698	13,198
Total Revenue from Use of Money and Property	510,157	510,157	1,107,121	596,964
Charges for Services				
Court costs	920	920	624	(296)
Sheriff fees	14,954	14,954	17,046	2,092
Excess fees of clerk	1,040	1,040	1,448	408
Commonwealth's attorney	2,700	2,700	3,234	534
County and hired attorneys	40,000	40,000	116,958	76,958
Law enforcement and traffic control	35,000	35,000	51,639	16,639
Charges for sanitation and waste removal	44,200	44,200	53,259	9,059
Animal warden	630	630	905	275
Demolition fees	-	-	4,264	4,264
Parks and recreation	43,700	43,700	42,564	(1,136)
Utility bill collection	9,000	9,000	12,890	3,890
Miscellaneous other charges for services	3,700	3,700	3,430	(270)
Total Charges for Services	195,844	195,844	308,261	112,417

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Recovered Costs				
Jail costs - Commonwealth of Virginia	503,000	505,505	581,458	75,953
Salary - court secretary	20,400	20,400	27,647	7,247
City share of extension services	9,000	9,000	9,000	-
School share of school resource officer	223,662	223,662	210,827	(12,835)
M/HC Economic Development Corporation	806,756	806,756	500,004	(306,752)
Harvest Foundation Grant	31,087	52,201	44,490	(7,711)
Donations and special gifts	-	12,776	12,776	-
Transportation Grant	48,356	62,781	49,702	(13,079)
Other recovered costs	-	-	23,093	23,093
Insurance recoveries	-	13,904	49,476	35,572
Miscellaneous refunds	326,671	785,171	320,565	(464,606)
Total Recovered Costs	1,968,932	2,492,156	1,829,038	(663,118)
Miscellaneous	3,500	3,500	6,179	2,679
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
ABC profits	33,477	33,477	33,477	-
Wine taxes	35,000	35,000	35,091	91
Rolling stock taxes - motor vehicle carriers tax	33,000	33,000	34,857	1,857
Mobile home titling tax	40,000	40,000	120,647	80,647
Tax on deeds	40,000	40,000	59,064	19,064
Auto rentals sales tax	40,800	40,800	61,372	20,572
Personal Property Tax Relief Act funds	1,771,828	1,771,828	1,770,331	(1,497)
PARA mutual tax	38,400	38,400	48,875	10,475
Total Noncategorical Aid	2,032,505	2,032,505	2,163,714	131,209
<i>Categorical Aid</i>				
<i>Shared Expenses</i>				
Commonwealth's Attorney	436,811	576,059	524,719	(51,340)
Sheriff and Sheriff's auto	3,800,000	4,139,955	4,106,278	(33,677)
Commissioner of the Revenue	181,000	203,302	197,500	(5,802)
Treasurer	181,000	195,685	195,715	30
Medical Examiners	1,000	1,000	30	(970)
Electoral Board and General Registrar	42,000	42,000	59,511	17,511
Clerk of Circuit Court	380,000	395,127	408,833	13,706
Total Categorical Aid	5,021,811	5,553,128	5,492,586	(60,542)
<i>Other Categorical Aid</i>				
Emergency services grant	-	46,700	301	(46,399)
Fire programs fund	-	138,511	138,511	-
Victim witness program	18,000	18,000	20,560	2,560
Transportation grant funds	31,558	30,073	30,073	-
Litter control program	21,864	21,864	17,744	(4,120)
State EMS Two for Life funds	-	45,030	45,029	(1)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Other State grants	-	253,920	5,994	(247,926)
Asset forfeiture funds	-	10,503	2,452	(8,051)
Total Other Categorical Aid	<u>71,422</u>	<u>564,601</u>	<u>260,664</u>	<u>(303,937)</u>
Total Revenue from the Commonwealth of Virginia	7,125,738	8,150,234	7,916,964	(233,270)
Revenue from the Federal Government				
Payments in lieu of taxes	1,777	1,777	1,840	63
Forfeited property	-	-	3,196	3,196
Emergency services	24,874	113,549	113,445	(104)
Law enforcement grants	4,000	102,484	98,659	(3,825)
Victim Witness Program	72,000	72,000	82,238	10,238
Transportation grants	56,233	82,318	48,842	(33,476)
Hazard mitigation	-	50,955	33,205	(17,750)
Miscellaneous refunds	-	-	9,622	9,622
Total Revenue from the Federal Government	<u>158,884</u>	<u>423,083</u>	<u>391,047</u>	<u>(32,036)</u>
Total Intergovernmental Revenue	<u>7,284,622</u>	<u>8,573,317</u>	<u>8,308,011</u>	<u>(265,306)</u>
Total Revenues	44,677,130	46,489,049	47,292,190	803,141
Expenditures				
Current				
<i>General Government Administration</i>				
Board of Supervisors	131,895	178,552	143,359	35,193
County Administrator	305,705	305,705	291,460	14,245
Independent auditor	50,000	50,000	35,860	14,140
Human resources/training	47,495	47,495	42,667	4,828
County Attorney	121,623	121,623	128,935	(7,312)
Commissioner of Revenue	501,376	517,713	490,535	27,178
Assessors	141,779	134,252	123,261	10,991
Treasurer	542,218	543,086	558,384	(15,298)
Accounting	323,057	324,575	319,247	5,328
Information services	344,216	389,319	365,283	24,036
Central purchasing	173,978	176,713	177,435	(722)
Board of Elections - registrar	205,287	205,287	164,583	40,704
Total General Government Administration	<u>2,888,629</u>	<u>2,994,320</u>	<u>2,841,009</u>	<u>153,311</u>
<i>Judicial Administration</i>				
Circuit Court	87,387	87,387	71,460	15,927
General District Court	16,275	16,275	15,411	864
Magistrates	4,500	4,500	2,529	1,971
Juvenile and Domestic Relations	13,590	13,590	13,420	170
Clerk of the Circuit Court	623,721	623,721	608,753	14,968
Sheriff Civil and Court Security	946,915	947,724	871,463	76,261

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Victim/Witness Assist	122,394	122,394	120,179	2,215
Commonwealth's Attorney	570,007	723,963	665,053	58,910
Total Judicial Administration	2,384,789	2,539,554	2,368,268	171,286
<i>Public Safety</i>				
Law enforcement and traffic control	4,713,434	4,772,976	4,624,472	148,504
School resource officer	133,140	133,140	124,334	8,806
Fire and rescue services	1,111,095	1,526,494	1,306,271	220,223
Emergency medical services	185,321	187,969	165,285	22,684
Harvest Rescue	57,283	57,283	52,635	4,648
Harvest Fire	93,261	114,375	84,294	30,081
Fire marshal	246,161	246,525	248,558	(2,033)
Correction and detention	2,225,380	2,283,475	2,016,864	266,611
Probation	318,468	318,468	237,526	80,942
Code enforcement	302,071	334,441	309,173	25,268
Homeland security	-	45,842	45,824	18
Public Safety	113,356	131,728	122,951	8,777
Electronic monitoring	70	16,635	16,589	46
Animal control	154,321	154,348	154,154	194
Other protection	13,250	219,235	201,492	17,743
Total Public Safety	9,666,611	10,542,934	9,710,422	832,512
<i>Public Works</i>				
Maintenance of highways, streets, bridges, sidewalks	37,390	85,968	48,101	37,867
Refuse collection	1,779,464	1,779,464	1,619,396	160,068
Refuse disposal - closure maintenance	60,500	126,833	98,189	28,644
Maintenance of buildings and grounds				
General engineering	232,237	199,237	186,040	13,197
Communication equipment	53,028	53,035	56,719	(3,684)
Administrative building	315,242	345,613	307,252	38,361
Courthouse	250,291	271,568	271,469	99
Sheriff's office	44,475	55,242	35,527	19,715
Jail	213,800	216,785	215,094	1,691
Other	151,767	161,517	133,403	28,114
Dupont property	232,890	232,890	210,904	21,986
Total Maintenance of Buildings and Grounds	1,493,730	1,535,887	1,416,408	119,479
Total Public Works	3,371,084	3,528,152	3,182,094	346,058
<i>Health and Welfare</i>				
Henry County Social Services	566,941	566,958	505,861	61,097
Health Department	294,896	316,282	294,896	21,386
Mental health and retardation	122,789	122,789	122,789	-
Transportation grants	136,145	175,170	128,617	46,553
Property tax relief for the elderly	110,000	110,000	85,396	24,604
Group home services	73,343	73,343	73,343	-
Other welfare and social services	69,971	75,971	68,772	7,199
Total Health and Welfare	1,374,085	1,440,513	1,279,674	160,839

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Education</i>				
Contributions to community colleges	66,656	66,656	66,656	-
Contributions to component unit - school board	<u>16,923,028</u>	<u>19,665,650</u>	<u>17,452,153</u>	<u>2,213,497</u>
Total Education	16,989,684	19,732,306	17,518,809	2,213,497
<i>Parks, Recreation, and Cultural</i>				
Parks, recreation, and cultural	831,368	831,674	821,023	10,651
Cultural enrichment	58,000	58,000	58,000	-
Library	<u>839,747</u>	<u>839,747</u>	<u>839,747</u>	<u>-</u>
Total Parks, Recreation, and Cultural	1,729,115	1,729,421	1,718,770	10,651
<i>Community Development</i>				
Planning and community development	252,509	253,139	246,148	6,991
Engineering and mapping	235,588	238,788	229,611	9,177
M/HC Economic Development Corporation	806,756	806,756	699,931	106,825
Economic development agencies	510,000	510,000	510,004	(4)
Cooperative extension program	48,688	57,130	46,347	10,783
Henry County Industrial Development Authority	1,779,733	1,878,781	1,694,376	184,405
Other community and economic development	<u>137,202</u>	<u>149,162</u>	<u>140,086</u>	<u>9,076</u>
Total Community Development	3,770,476	3,893,756	3,566,503	327,253
<i>Nondepartmental</i>				
Employee benefits, pooled vehicles, mobile command	115,615	116,415	12,822	103,593
Contingency reserve	<u>120,000</u>	<u>1,260</u>	<u>-</u>	<u>1,260</u>
Total Nondepartmental	235,615	117,675	12,822	104,853
<i>Capital Projects</i>				
Purchase of land or buildings	-	1,653,000	1,658,433	(5,433)
Communication system	836,195	5,799,298	352,846	5,446,452
Construction of police academy building	-	1,600,000	710,926	889,074
Other miscellaneous capital projects	<u>167,000</u>	<u>925,726</u>	<u>246,884</u>	<u>678,842</u>
Total Capital Projects	1,003,195	9,978,024	2,969,089	7,008,935
<i>Debt Service</i>				
Principal	810,000	810,000	560,000	250,000
Interest and other costs	<u>376,500</u>	<u>376,500</u>	<u>354,308</u>	<u>22,192</u>
Total Debt Service	1,186,500	1,186,500	914,308	272,192
Total Expenditures	<u>44,599,783</u>	<u>57,683,155</u>	<u>46,081,768</u>	<u>11,601,387</u>
Excess (Deficiency) of Revenues Over Expenditures	77,347	(11,194,106)	1,210,422	12,404,528

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Other Financing Sources (Uses)				
Proceeds from debt	-	4,000,000	-	(4,000,000)
Transfers to other funds	<u>(327,347)</u>	<u>(327,347)</u>	<u>(147,584)</u>	<u>179,763</u>
Total Other Financing Sources (Uses)	<u>(327,347)</u>	<u>3,672,653</u>	<u>(147,584)</u>	<u>(3,820,237)</u>
Net Change in Fund Balance Before Transfer from Surplus	(250,000)	(7,521,453)	1,062,838	8,584,291
Transfer from Surplus Funds	<u>250,000</u>	<u>7,521,453</u>	-	<u>(7,521,453)</u>
Net Change in Fund Balance After Transfer from Surplus	<u>\$ -</u>	<u>\$ -</u>	1,062,838	<u>\$ 1,062,838</u>
Fund Balance - Beginning of Year			<u>19,507,862</u>	
Fund Balance - End of Year			<u>\$ 20,570,700</u>	

Comprehensive Services Act Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Recovered costs	\$ 30,435	\$ 30,435	\$ 30,435	\$ -
Intergovernmental				
Revenue from the Commonwealth of Virginia	652,295	652,295	309,866	(342,429)
Revenue from the Federal Government	<u>7,603</u>	<u>7,603</u>	-	<u>(7,603)</u>
Total Intergovernmental Revenue	<u>659,898</u>	<u>659,898</u>	<u>309,866</u>	<u>(350,032)</u>
Total Revenues	690,333	690,333	340,301	(350,032)
Expenditures				
Current				
<i>Health and Welfare</i>				
Welfare and social services	<u>1,017,680</u>	<u>1,017,680</u>	<u>494,521</u>	<u>523,159</u>
Total Expenditures	<u>1,017,680</u>	<u>1,017,680</u>	<u>494,521</u>	<u>523,159</u>
Excess (Deficiency) of Revenues Over Expenditures	(327,347)	(327,347)	(154,220)	173,127
Other Financing Sources (Uses)				
Transfers in	<u>327,347</u>	<u>327,347</u>	<u>147,584</u>	<u>(179,763)</u>
Total Other Financing Sources (Uses)	<u>327,347</u>	<u>327,347</u>	<u>147,584</u>	<u>(179,763)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(6,636)	<u>\$ (6,636)</u>
Fund Balance - Beginning of Year			<u>16,506</u>	
Fund Balance - End of Year			<u>\$ 9,870</u>	

E-911 Central Dispatch Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Other local taxes	\$ 786,000	\$ 786,000	\$ 765,009	\$ (20,991)
Recovered costs	289,423	289,944	249,550	(40,394)
Intergovernmental				
Revenue from the Commonwealth of Virginia	<u>299,856</u>	<u>329,856</u>	<u>386,822</u>	<u>56,966</u>
Total Intergovernmental Revenue	<u>299,856</u>	<u>329,856</u>	<u>386,822</u>	<u>56,966</u>
Reserve from surplus	<u>-</u>	<u>1,216</u>	<u>-</u>	<u>(1,216)</u>
Total Revenues	1,375,279	1,407,016	1,401,381	(5,635)
Expenditures				
Current				
Public Safety	<u>1,375,279</u>	<u>1,407,016</u>	<u>1,211,523</u>	<u>195,493</u>
Total Expenditures	<u>1,375,279</u>	<u>1,407,016</u>	<u>1,211,523</u>	<u>195,493</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	189,858	<u>\$ 189,858</u>
Fund Balance - Beginning of Year			<u>-</u>	
Fund Balance - End of Year			<u>\$ 189,858</u>	

Law Library Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Charges for services	\$ 15,700	\$ 15,700	\$ 13,132	\$ (2,568)
Recovered costs	8,400	8,400	6,630	(1,770)
Reserve to balance budget	-	2,055	-	(2,055)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	24,100	26,155	19,762	(6,393)
Expenditures				
Current				
Judicial administration	24,100	26,155	12,974	13,181
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	24,100	26,155	12,974	13,181
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ -	\$ -	6,788	\$ 6,788
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - Beginning of Year			115,879	
			<hr/>	
Fund Balance - End of Year			\$ 122,667	
			<hr/>	

Henry County School Board
School Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenue from the use of money and property	\$ 37,500	\$ 348,020	\$ 273,150	\$ (74,870)
Charges for services	575,716	575,716	518,318	(57,398)
Recovered costs	411,000	411,000	502,681	91,681
Miscellaneous				
Harvest Foundation	-	577,097	561,247	(15,850)
Educational Technology	518,000	518,000	492,000	(26,000)
Other miscellaneous	405,000	405,000	581,362	176,362
Contribution - County of Henry, Virginia	16,923,028	19,665,650	17,452,153	(2,213,497)
Reserve to balance budget	-	1,005,983	-	(1,005,983)
Intergovernmental				
Revenue from the Commonwealth of Virginia	45,664,650	48,186,175	47,532,185	(653,990)
Revenue from the Federal Government	<u>9,500,000</u>	<u>6,757,760</u>	<u>5,802,403</u>	<u>(955,357)</u>
Total Intergovernmental Revenue	<u>55,164,650</u>	<u>54,943,935</u>	<u>53,334,588</u>	<u>(1,609,347)</u>
Total Revenues	74,034,894	78,450,401	73,715,499	(4,734,902)
Expenditures				
Instruction	43,668,222	43,836,693	43,180,152	656,541
Administration, attendance, and health	3,705,759	3,622,335	3,470,920	151,415
Pupil transportation	5,281,371	5,435,011	5,166,411	268,600
Operation and maintenance	6,676,723	7,810,188	7,237,493	572,695
Facilities	1,652,110	12,682,999	7,607,242	5,075,757
Special grants	9,500,000	9,500,000	8,265,466	1,234,534
Technology	1,695,191	1,711,857	1,646,071	65,786
Contingency reserve	100	100	-	100
Debt service				
Principal	936,022	936,022	926,022	10,000
Interest and other charges	<u>355,064</u>	<u>370,990</u>	<u>370,986</u>	<u>4</u>
Total Expenditures	<u>73,470,562</u>	<u>85,906,195</u>	<u>77,870,763</u>	<u>8,035,432</u>
Excess (Deficiency) of Revenues Over Expenditures	564,332	(7,455,794)	(4,155,264)	3,300,530
Other Financing Sources (Uses)				
Proceeds from bonds	-	8,020,126	6,191,173	(1,828,953)
Virginia loan subsidy	-	-	565,640	565,640
Transfers out	<u>(564,332)</u>	<u>(564,332)</u>	<u>(586,238)</u>	<u>(21,906)</u>
Total Other Financing Sources (Uses)	<u>(564,332)</u>	<u>7,455,794</u>	<u>6,170,575</u>	<u>(1,285,219)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	2,015,311	<u>\$ 2,015,311</u>
Fund Balance - Beginning of Year			<u>1,005,983</u>	
Fund Balance - End of Year			<u>\$ 3,021,294</u>	

Henry County School Board
School Textbook Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenue from the use of money and property	\$ -	\$ -	\$ 22,394	\$ 22,394
Total Revenues	-	-	22,394	22,394
Expenditures				
Textbooks	<u>564,332</u>	<u>564,332</u>	<u>288,117</u>	<u>276,215</u>
Total Expenditures	<u>564,332</u>	<u>564,332</u>	<u>288,117</u>	<u>276,215</u>
Excess (Deficiency) of Revenues Over Expenditures	(564,332)	(564,332)	(265,723)	298,609
Other Financing Sources (Uses)				
Transfers in	<u>564,332</u>	<u>564,332</u>	<u>564,332</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>564,332</u>	<u>564,332</u>	<u>564,332</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	298,609	<u>\$ 298,609</u>
Fund Balance - Beginning of Year			<u>647,328</u>	
Fund Balance - End of Year			<u>\$ 945,937</u>	

Henry County School Board
School Cafeteria Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenue from the use of money and property	\$ 18,000	\$ 18,000	\$ 15,187	\$ (2,813)
Charges for services	2,146,236	2,146,236	1,376,160	(770,076)
Reserve fund	100,000	100,000	-	(100,000)
Intergovernmental				
Revenue from the Commonwealth of Virginia	-	-	63,990	63,990
Revenue from the Federal Government	<u>1,660,794</u>	<u>1,660,794</u>	<u>1,980,054</u>	<u>319,260</u>
Total Intergovernmental Revenue	<u>1,660,794</u>	<u>1,660,794</u>	<u>2,044,044</u>	<u>383,250</u>
Total Revenues	3,925,030	3,925,030	3,435,391	(489,639)
Expenditures				
Cafeteria	<u>3,925,030</u>	<u>3,925,030</u>	<u>3,974,710</u>	<u>(49,680)</u>
Total Expenditures	<u>3,925,030</u>	<u>3,925,030</u>	<u>3,974,710</u>	<u>(49,680)</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	(539,319)	(539,319)
Other Financing Sources (Uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>21,906</u>	<u>21,906</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>21,906</u>	<u>21,906</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(517,413)	<u>\$ (517,413)</u>
Fund Balance - Beginning of Year			<u>517,413</u>	
Fund Balance - End of Year			<u>\$ -</u>	

OTHER SUPPLEMENTARY INFORMATION



County of Henry, Virginia

Statement of Net Assets

Southern Virginia Recreational Facility Fund

At June 30, 2007

Assets

Current Assets

Receivables - net	\$ 4,633
Due from primary government	<u>5,468</u>
Total Current Assets	10,101

Capital Assets

Land and land rights	<u>416,961</u>
Total Noncurrent Assets	<u>416,961</u>
Total Assets	<u><u>\$ 427,062</u></u>

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	<u>\$ 10,101</u>
Total Current Liabilities	<u>10,101</u>
Total Liabilities	10,101

Net Assets

Invested in capital assets, net of related debt	<u>416,961</u>
Total Net Assets	<u>416,961</u>
Total Liabilities and Net Assets	<u><u>\$ 427,062</u></u>

County of Henry, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Southern Virginia Recreational Facility Fund

Year Ended June 30, 2007

Operating Revenues

Operating grants and donations	<u>\$ 102,005</u>
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Total Operating Revenues	102,005
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Operating Expenses

Salaries and wages	6,756
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Fringe benefits	2,387
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Professional services	78,268
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Other operating costs	<u>14,594</u>
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Total Operating Expenses	<u>102,005</u>
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Operating Income	-
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Donation of Land	<u>416,961</u>
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Change in Net Assets	416,961
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Total Net Assets - Beginning of Year	<u>-</u>
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Total Net Assets - End of Year	<u>\$ 416,961</u>
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County of Henry, Virginia

Statement of Cash Flows

Southern Virginia Recreational Facility Fund

Year Ended June 30, 2007

Cash Flows from Operating Activities

Receipts from grants	\$ 102,005
Cash paid for operations	<u>(102,005)</u>
Net Cash Provided by (Used in) Operating Activities	-

Cash Flows from Capital and Related Financing Activities

Donation of land	416,961
Payments for land	<u>(416,961)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>-</u>

Net Increase (Decrease) in Cash and Cash Equivalents	-
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Cash and Cash Equivalents - Beginning of Year	<u>-</u>
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Cash and Cash Equivalents - End of Year	<u>\$ -</u>
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Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities

Operating income	\$ -
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Changes in assets and liabilities	
Receivables	(4,633)
Due from other funds	(5,468)
Accounts payable	<u>10,101</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ -</u>

County of Henry, Virginia

Combining Balance Sheet

Component Unit - School Board

Year Ended June 30, 2007

	<u>School Fund</u>	<u>School Textbook Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Public Schools</u>
Assets				
Cash	\$ 21,413	\$ 948,632	\$ 185,981	\$ 1,156,026
Receivables - net	505,479	-	-	505,479
Due from primary government	1,948,680	-	21,906	1,970,586
Due from other governments	2,952,599	-	45,895	2,998,494
Restricted cash	<u>4,346,080</u>	<u>-</u>	<u>-</u>	<u>4,346,080</u>
 Total Assets	 <u>\$ 9,774,251</u>	 <u>\$ 948,632</u>	 <u>\$ 253,782</u>	 <u>\$ 10,976,665</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 905,472	\$ 2,695	\$ 51,623	\$ 959,790
Accrued salaries and benefits	<u>5,847,485</u>	<u>-</u>	<u>202,159</u>	<u>6,049,644</u>
 Total Liabilities	 6,752,957	 2,695	 253,782	 7,009,434
Fund Balances				
Reserved for construction	3,021,294	-	-	3,021,294
Unreserved	<u>-</u>	<u>945,937</u>	<u>-</u>	<u>945,937</u>
 Total Fund Balances	 <u>3,021,294</u>	 <u>945,937</u>	 <u>-</u>	 <u>3,967,231</u>
 Total Liabilities and Fund Balances	 <u>\$ 9,774,251</u>	 <u>\$ 948,632</u>	 <u>\$ 253,782</u>	 <u>\$ 10,976,665</u>
				Fund balances - per above \$ 3,967,231
				Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 15,554,587
				A portion of restricted cash belongs to the County Primary Government until funds are used for construction. (3,471,964)
				Compensated absences are long-term liabilities and are not due and payable in the current period, therefore, are not reported in the funds. <u>(495,267)</u>
				Net assets of governmental activities <u>\$ 15,554,587</u>

County of Henry, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Component Unit - School Board

Year Ended June 30, 2007

	<u>School Fund</u>	<u>School Textbook Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Public Schools</u>
Revenues				
Revenue from use of money and property	\$ 273,150	\$ 22,394	\$ 15,187	\$ 310,731
Charges for services	518,318	-	1,376,160	1,894,478
Recovered costs	502,681	-	-	502,681
Miscellaneous	1,634,609	-	-	1,634,609
Intergovernmental				
County of Henry, Virginia	17,452,153	-	-	17,452,153
Commonwealth of Virginia	47,532,185	-	63,990	47,596,175
Federal	5,802,403	-	1,980,054	7,782,457
Total Revenues	<u>73,715,499</u>	<u>22,394</u>	<u>3,435,391</u>	<u>77,173,284</u>
Expenditures				
Current				
Instruction	43,180,152	288,117	-	43,468,269
Administration, attendance, and health	3,470,920	-	-	3,470,920
Pupil transportation	5,166,411	-	-	5,166,411
Operation and maintenance	7,237,493	-	-	7,237,493
Cafeteria	-	-	3,974,710	3,974,710
Facilities	7,607,242	-	-	7,607,242
Special grants	8,265,466	-	-	8,265,466
Technology	1,646,071	-	-	1,646,071
Debt service				
Principal	926,022	-	-	926,022
Interest and other charges	370,986	-	-	370,986
Total Expenditures	<u>77,870,763</u>	<u>288,117</u>	<u>3,974,710</u>	<u>82,133,590</u>
Excess (Deficiency) of Expenditures Over Revenues	(4,155,264)	(265,723)	(539,319)	(4,960,306)
Other Financing Sources (Uses)				
Proceeds of debt	6,191,173	-	-	6,191,173
Virginia loan subsidy	565,640	-	-	565,640
Transfers in	-	564,332	21,906	586,238
Transfers out	(586,238)	-	-	(586,238)
Total Other Financing Sources (Uses)	<u>6,170,575</u>	<u>564,332</u>	<u>21,906</u>	<u>6,756,813</u>
Net Change in Fund Balances	2,015,311	298,609	(517,413)	1,796,507
Fund Balances - Beginning of Year	1,005,983	647,328	517,413	2,170,724
Fund Balances - End of Year	<u>\$ 3,021,294</u>	<u>\$ 945,937</u>	<u>\$ -</u>	<u>\$ 3,967,231</u>
Net change in fund balances - per above				\$ 1,796,507
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.				(1,498,881)
Construction for the new school building is part of the County Primary Government since the debt is in the County name. Thus, the school building belongs to the County until such time the debt is paid off. The construction activity has to be transferred to the County. This consists of the restricted cash as well as the fixed assets.				5,266,318
Change in compensated absences				(31,705)
Change in net assets of governmental activities				<u>\$ 5,532,239</u>

County of Henry, Virginia

Statement of Net Assets

Component Unit - Industrial Development Authority

At June 30, 2007

	<u>Industrial Site Project Fund #37</u>	<u>Main Operating Fund Fund #45</u>	<u>Total Industrial Development Authority</u>
Assets			
Current Assets			
Cash - unrestricted	\$ -	\$ 366,620	\$ 366,620
Receivables - net	5,330	2,802	8,132
Due from primary government	3,668	-	3,668
Inventory	-	8,951,337	8,951,337
Total Current Assets	8,998	9,320,759	9,329,757
Noncurrent Assets			
Notes receivables - net	-	3,135,626	3,135,626
Total Noncurrent Assets	-	3,135,626	3,135,626
Total Assets	<u>\$ 8,998</u>	<u>\$ 12,456,385</u>	<u>\$ 12,465,383</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 2,418	\$ 286,249	\$ 288,667
Accrued interest payable	-	2,802	2,802
Current portion of long-term debt	-	187,000	187,000
Total Current Liabilities	2,418	476,051	478,469
Long-Term Liabilities			
Long term debt - due in more than one year	-	733,047	733,047
Due to primary government - County of Henry, Virginia	-	3,907,867	3,907,867
Total Long-Term Liabilities	-	4,640,914	4,640,914
Total Liabilities	2,418	5,116,965	5,119,383
Net Assets			
Unrestricted	6,580	7,339,420	7,346,000
Total Net Assets	6,580	7,339,420	7,346,000
Total Liabilities and Net Assets	<u>\$ 8,998</u>	<u>\$ 12,456,385</u>	<u>\$ 12,465,383</u>

County of Henry, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Component Unit - Industrial Development Authority

Year Ended June 30, 2007

	Industrial Site Project Fund #37	Main Operating Fund Fund #45	Total Industrial Development Authority
Operating Revenues			
Payment from primary government	\$ -	\$ 1,694,376	\$ 1,694,376
Sale of real estate	-	79,570	79,570
Miscellaneous	1,806	19,040	20,846
	<u>1,806</u>	<u>1,792,986</u>	<u>1,794,792</u>
Total Operating Revenues	1,806	1,792,986	1,794,792
Operating Expenses			
Economic development	<u>7,900</u>	<u>1,065,463</u>	<u>1,073,363</u>
Total Operating Expenses	<u>7,900</u>	<u>1,065,463</u>	<u>1,073,363</u>
Operating Income (Loss)	(6,094)	727,523	721,429
Nonoperating Revenues (Expenses)			
Interest income	-	35,518	35,518
Interest expense	-	(26,770)	(26,770)
	<u>-</u>	<u>8,748</u>	<u>8,748</u>
Total Nonoperating Revenues (Expenses)	-	8,748	8,748
Change in Net Assets	(6,094)	736,271	730,177
Total Net Assets - Beginning of Year	12,674	3,770,738	3,783,412
Prior Period Adjustment - Inventory of Land	<u>-</u>	<u>2,832,411</u>	<u>2,832,411</u>
Total Net Assets - End of Year	<u>\$ 6,580</u>	<u>\$ 7,339,420</u>	<u>\$ 7,346,000</u>

Note: A prior period adjustment has been made to the Component Unit – Industrial Development Authority (the "IDA") for \$2,832,411 for land improvements made in the prior fiscal year. These were expensed in the prior year audit, but should be added to the cost of inventory of land owned by the IDA which will be sold to future businesses moving to the area.

County of Henry, Virginia

Statement of Cash Flows

Component Unit - Industrial Development Authority

Year Ended June 30, 2007

	<u>Industrial Site Project Fund #37</u>	<u>Main Operating Fund Fund #45</u>	<u>Total Industrial Development Authority</u>
Cash Flows from Operating Activities			
Receipts from primary government	\$ -	\$ 1,694,376	\$ 1,694,376
Receipts from receivables	-	352,819	352,819
Miscellaneous income	1,806	19,040	20,846
Sale of real estate	-	79,570	79,570
Cash paid for economic development	<u>(7,372)</u>	<u>(782,957)</u>	<u>(790,329)</u>
Net Cash Provided by (Used in) Operating Activities	(5,566)	1,362,848	1,357,282
Cash Flows from Noncapital Financing Activities			
Payments for due to primary government	5,566	466,421	471,987
Cash Flows from Capital and Related Financing Activities			
Payments for investments in inventory	-	(2,399,211)	(2,399,211)
Principal proceeds from long-term debt	-	733,047	733,047
Payments of principal on long-term debt	-	(336,000)	(336,000)
Interest payments on long-term debt	<u>-</u>	<u>(26,770)</u>	<u>(26,770)</u>
Net Cash Used in Capital and Related Financing Activities	-	(2,028,934)	(2,028,934)
Cash Flows from Investing Activities			
Interest income	<u>-</u>	<u>35,518</u>	<u>35,518</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>35,518</u>	<u>35,518</u>
Net Decrease in Cash and Cash Equivalents	-	(164,147)	(164,147)
Cash and Cash Equivalents - Beginning of Year	<u>-</u>	<u>530,767</u>	<u>530,767</u>
Cash and Cash Equivalents - End of Year	<u>\$ -</u>	<u>\$ 366,620</u>	<u>\$ 366,620</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (6,094)	\$ 727,523	\$ 721,429
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in assets and liabilities			
Receivables	-	352,819	352,819
Accounts payable	<u>528</u>	<u>282,506</u>	<u>283,034</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (5,566)</u>	<u>\$ 1,362,848</u>	<u>\$ 1,357,282</u>

County of Henry, Virginia

Balance Sheet

Component Unit - Henry-Martinsville Social Services

At June 30, 2007

Assets

Cash - unrestricted	\$ 57,569
Due from other governments	<u>421,630</u>

Total Assets	<u><u>\$ 479,199</u></u>
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Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 16,115
Due to primary government	333,423
Due to City of Martinsville	<u>129,661</u>

Total Liabilities	479,199
-------------------	---------

Fund Balance

Total Liabilities and Fund Balance	<u><u>\$ 479,199</u></u>
------------------------------------	--------------------------

Fund balance - per above	\$ -
--------------------------	------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,584
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Compensated absences are long-term liabilities and are not due and payable in the current period, therefore, are not reported in the funds.	<u>(354,513)</u>
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Net assets (deficit) of governmental activities	<u><u>\$ (307,929)</u></u>
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County of Henry, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Component Unit - Henry-Martinsville Social Services

Year Ended June 30, 2007

Revenues

Payments from County of Henry, Virginia	\$ 505,861
Payments from City of Martinsville	282,360
Intergovernmental	<u>5,088,574</u>
Total Revenues	5,876,795

Expenditures

Health and welfare	<u>5,876,795</u>
Excess of Expenditures Over Revenues	-

Other Financing Sources

Transfers in from primary government	<u>-</u>
Net Change in Fund Balance	-
Fund Balance - Beginning of Year	<u>-</u>
Fund Balance - End of Year	<u><u>\$ -</u></u>
Net change in fund balance - per above	\$ -

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays.

Change in compensated absences	<u>(19,163)</u>
Change in net assets of governmental activities	<u><u>\$ (21,558)</u></u>

OTHER INFORMATION SECTION



County of Henry, Virginia

General Governmental Revenues by Source⁽¹⁾

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Property Taxes</u>	<u>Other Local Taxes</u>	<u>Permits, Privilege Fees, and Regulatory Licenses</u>	<u>Fines and Forfeitures</u>	<u>Use of Money and Property</u>	<u>Charges for Services</u>	<u>Miscellaneous</u>	<u>Recovered Costs</u>	<u>Inter-Governmental</u>	<u>Total</u>
1998	\$ 19,030,302	\$ 10,522,349	\$ 157,137	\$ 94,600	\$ 1,245,665	\$ 1,553,351	\$ 287,604	\$ 873,870	\$ 43,835,112	\$ 77,599,990
1999	19,318,706	11,588,424	138,305	88,505	1,288,012	1,619,171	490,944	1,102,034	48,660,661	84,294,762
2000	17,597,548	12,988,309	182,326	62,470	1,201,632	1,639,948	582,603	979,384	55,129,281	90,363,501
2001	17,944,315	13,301,181	176,659	82,052	904,631	1,694,676	601,516	1,149,867	54,581,733	90,436,630
2002	19,800,777	13,473,128	152,142	147,622	373,032	1,697,004	627,045	1,606,255	55,777,001	93,654,006
2003	20,180,396	13,123,865	103,648	166,977	326,701	1,909,088	754,844	1,364,305	57,793,692	95,723,516
2004	19,208,175	13,357,655	119,802	155,089	297,645	2,051,700	966,811	1,531,942	58,602,306	96,291,125
2005	19,540,174	13,780,132	112,369	161,990	454,669	2,027,306	726,790	1,862,503	66,312,679	104,978,612
2006	21,246,088	14,408,533	112,336	202,521	899,919	2,127,892	361,981	2,615,293	65,747,399	107,721,962
2007	21,847,876	14,330,730	116,515	203,468	1,417,852	2,215,871	1,647,418	2,633,972	69,824,695	114,238,397

⁽¹⁾ Includes General and Special Revenue Funds of the Primary Government and Component Units - School Board and Social Services.

⁽²⁾ Payments from Henry County to the Component Units - School Board and Social Services are excluded from intergovernmental revenues.

County of Henry, Virginia

General Governmental Expenditures by Function ⁽¹⁾⁽²⁾

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Administration</u>	<u>Judicial Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Health and Welfare</u>	<u>Education</u>	<u>Parks, Recreation, and Cultural</u>	<u>Community Development</u>	<u>Non-Departmental</u>	<u>Debt Service</u>	<u>Capital Projects⁽³⁾</u>	<u>Total</u>
1998	\$ 2,342,597	1,312,471	\$ 7,360,093	\$ 1,938,933	\$ 6,047,453	\$ 52,126,233	\$ 1,296,176	\$ 1,694,786	\$ -	\$ 2,632,777	\$ -	\$ 76,751,519
1999	2,595,493	1,349,565	7,579,675	1,783,126	6,030,722	56,700,176	1,335,499	1,948,899	-	3,755,332	-	83,078,487
2000	2,818,843	1,762,423	8,230,921	2,125,696	6,197,017	61,968,057	1,456,746	6,259,854	-	3,766,602	-	94,586,159
2001	2,836,966	2,047,311	8,275,766	2,173,243	6,021,165	62,234,734	1,557,112	3,972,247	-	3,817,539	-	92,936,083
2002	2,555,376	2,013,484	8,616,617	2,011,761	6,242,202	60,583,769	1,457,012	2,674,671	-	3,313,623	-	89,468,515
2003	2,345,445	1,907,224	8,625,089	2,113,430	6,708,774	63,066,071	1,463,726	4,747,090	-	8,683,020	-	99,659,869
2004	2,585,657	1,983,940	9,731,901	3,181,529	6,951,063	62,750,519	1,528,821	4,211,590	-	2,483,037	-	95,408,057
2005	2,638,922	2,023,616	10,820,270	3,439,122	7,286,654	65,642,278	1,646,679	6,136,677	3,151	2,401,250	-	102,038,619
2006	2,759,517	2,299,953	11,551,916	3,038,015	7,036,536	70,526,351	1,652,420	3,082,520	214,601	2,374,446	-	104,536,275
2007	2,841,009	2,381,242	10,921,945	3,182,094	7,145,129	80,903,238	1,718,770	3,247,917	12,822	2,211,316	2,969,089	117,534,571

⁽¹⁾ Includes General and Special Revenue Funds of the Primary Government and Component Units - School Board and Social Services.

⁽²⁾ Payments from Henry County to the Component Units - School Board and Social Services are excluded from the respective function.

⁽³⁾ Capital projects included on schedule starting fiscal year 2007.

County of Henry, Virginia

Assessed Value of Taxable Property

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Homes</u>	<u>Machinery and Tools</u>	<u>Public Service</u>	<u>Total</u>
1998	\$ 1,689,787,351	\$ 275,198,982	\$ 36,941,716	\$ 382,368,031	\$ 104,141,130	\$ 2,488,437,210
1999	1,727,327,704	292,713,626	38,765,682	386,273,399	101,120,554	2,546,200,965
2000	1,754,560,400	327,873,177	39,429,214	320,554,185	101,785,074	2,544,202,050
2001	1,790,177,058	312,607,825	44,047,995	345,813,692	108,306,918	2,600,953,488
2002	2,123,944,478	333,275,933	39,771,839	362,469,906	123,767,281	2,983,229,437
2003	2,181,426,481	343,747,437	38,040,185	373,580,756	115,504,630	3,052,299,489
2004	2,202,989,259	337,420,821	36,322,407	331,930,756	117,441,586	3,026,104,829
2005	2,235,438,454	313,964,759	36,110,824	307,718,340	116,518,674	3,009,751,051
2006	2,425,535,000	329,734,102	35,541,852	315,503,025	128,647,847	3,234,961,826
2007	2,474,852,700	361,648,966	36,723,110	329,586,082	127,296,205	3,330,107,063

Property Tax Rates - Last Ten Fiscal Years

Tax Rates per Hundred Dollars of Assessed Valuation

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Homes</u>	<u>Equipment/Machinery and Tools</u>
1998	\$ 0.60	\$ 1.19	\$ 0.60	\$ 1.19
1999	0.60	1.19	0.60	1.19
2000	0.60	1.19	0.60	1.19
2001	0.60	1.19	0.60	1.19
2002	0.54	1.48	0.54	1.19
2003	0.54	1.48	0.54	1.19
2004	0.54	1.48	0.54	1.19
2005	0.54	1.48	0.54	1.19
2006	0.54	1.48	0.54	1.19
2007	0.54	1.48	0.54	1.19

County of Henry, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
1998	\$ 18,810,289	\$ 18,186,746	96.69%	\$ 532,783	\$ 18,719,529	99.52%	\$ 1,802,563	9.58%
1999	19,283,229	18,600,710	96.46%	443,867	19,044,577	98.76%	1,941,105	10.07%
2000	19,085,142	17,727,148	92.88%	287,239	18,014,387	94.39%	3,317,249	17.38%
2001	19,586,047	17,722,835	90.49%	966,939	18,689,774	95.42%	3,696,240	18.87%
2002	21,432,218	19,889,455	92.80%	1,237,833	21,127,288	98.58%	3,923,627	18.31%
2003	21,905,203	20,738,250	94.67%	1,145,252	21,883,502	99.90%	3,863,612	17.64%
2004	21,430,662	19,751,363	92.16%	892,537	20,643,900	96.33%	4,381,656	20.45%
2005	20,972,830	19,948,957	95.12%	824,849	20,773,806	99.05%	4,796,499	22.87%
2006	22,399,726	21,318,128	95.17%	1,237,452	22,555,580	100.70%	3,748,689	16.74%
2007	23,288,657	22,273,650	95.64%	904,648	23,178,298	99.53%	3,468,909	14.90%

County of Henry, Virginia

Ratio of Net General Obligation Bonded Debt
to Assessed Taxable Value and Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u> ⁽¹⁾	<u>Assessed Value</u> ⁽²⁾	<u>Net Bonded Debt</u> ⁽³⁾	<u>Ratio on Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1998	56,942	\$ 2,488,437,210	\$ 26,858,414	1.08%	\$ 472
1999	56,942	2,546,200,965	25,369,297	1.00%	446
2000	56,942	2,544,202,050	23,713,325	0.93%	416
2001	56,942	2,600,953,488	22,055,748	0.85%	387
2002	56,942	2,983,229,437	20,391,482	0.68%	358
2003	57,930	3,052,299,489	19,235,439	0.63%	332
2004	57,930	3,026,104,829	17,592,080	0.58%	304
2005	57,930	3,009,751,051	15,935,821	0.53%	275
2006	57,930	3,234,961,826	16,598,967	0.51%	287
2007	57,930	3,330,107,063	21,122,673	0.63%	365

⁽¹⁾ Weldon Cooper Center, University of Virginia, Latest Census Records.

⁽²⁾ From Table 3.

⁽³⁾ Includes all long term general obligation bonded debt, bond anticipation notes, and Literary Fund Loans. Excludes revenue bonds, capital leases, and compensated absences.

County of Henry, Virginia

Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Governmental Expenditures⁽¹⁾

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u> ⁽²⁾	<u>Ratio of Debt Service to General Government Expenditures</u>
1998	\$ 1,106,709	\$ 1,191,009	\$ 2,297,718	\$ 76,751,519	2.99%
1999	1,524,447	1,120,520	2,644,967	83,078,487	3.18%
2000	1,655,972	1,003,072	2,659,044	94,586,159	2.81%
2001	1,657,577	932,047	2,589,624	92,936,083	2.79%
2002	1,664,266	859,842	2,524,108	89,468,515	2.82%
2003	7,280,058	1,402,962	8,683,020	99,659,869	8.71%
2004	1,732,070	750,967	2,483,037	95,408,057	2.60%
2005	1,750,890	650,360	2,401,250	102,038,619	2.35%
2006	1,777,286	597,160	2,374,446	104,536,275	2.27%
2007	1,486,022	725,294	2,211,316	117,534,571	1.88%

⁽¹⁾ Excludes debt service payments on notes payable.

⁽²⁾ Beginning in 2006, the amounts paid to component unit - school board are no longer shown as transfers.

COMPLIANCE SECTION





**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**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Henry, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the County of Henry, Virginia's basic financial statements and have issued our report thereon dated February 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Henry, Virginia's internal control over financial reporting as a basis for designing our auditing procedures 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 of Henry, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Henry, Virginia's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County of Henry, Virginia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County of Henry, Virginia's financial statements that is more than inconsequential will not be prevented or detected by the County of Henry, Virginia's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County of Henry, Virginia's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the audit committee, Board of Supervisors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 8, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the County of Henry, Virginia with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County of Henry, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Henry, Virginia's management. Our responsibility is to express an opinion on the County of Henry, Virginia's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, OMB Circular A-133, and specifications 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 of Henry, Virginia'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. Our audit does not provide a legal determination on the County of Henry, Virginia's compliance with those requirements.

In our opinion, the County of Henry, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the County of Henry, Virginia, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Henry, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of Henry, Virginia's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the entity, Board of Supervisors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Credle, Jones & Alga, P.C.

Credle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 8, 2008



REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS, CONTRACTS, AND GRANTS

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

We have audited the basic financial statements of the County of Henry, Virginia, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 8, 2008.

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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the County of Henry, Virginia, is the responsibility of the County of Henry, Virginia's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the County of Henry, Virginia's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Tax
- Personal Property Tax Relief Act

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Economic Development Opportunity Fund

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the County of Henry, Virginia had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Board of Supervisors, County of Henry, Virginia's management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Credle, Jones & Alga, P.C.

Credle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 8, 2008

County of Henry, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
Primary Government			
U. S. Department of Transportation			
Pass-Through Payments			
<i>Department of Motor Vehicles</i>			
Ground Transportation Safety	20.607	154	\$ <u>17,799</u>
Subtotal - U. S. Department of Transportation			17,799
U. S. Department of Justice			
Pass-Through Payments			
<i>State Board of Elections</i>			
Electoral Services	16.104	132	10,816
<i>Department of Criminal Justice Services</i>			
Victim witness	16.575	140	85,544
Drug control and system improvement grant	16.579	140	<u>39,079</u>
Subtotal - U. S. Department of Justice			135,439
U. S. Department of Housing and Urban Development			
Pass-Through Payments			
<i>Department of Housing and Community Development</i>			
Community Development Block Grant - States Program	14.228	165	<u>335,605</u>
Subtotal - U. S. Department of Housing and Community Development			335,605
U. S. Department of Homeland Security			
Pass-Through Payments			
<i>Department of Emergency Services</i>			
State Homeland Security Grant Program	97.004	127	63,349
LEMP/LCAR grant	97.042	127	<u>24,874</u>
Subtotal - U. S. Department of Homeland Security			<u>88,223</u>
Total - Primary Government			577,066

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
Henry-Martinsville Social Services			
U. S. Department of Agriculture			
Pass-Through Payments			
<i>Department of Social Services</i>			
Food Stamp Cluster			
Administration for Food Stamp Program	10.561	765	\$ 988,311
Total Food Stamp Cluster			<u>988,311</u>
Subtotal - U. S. Department of Agriculture			988,311
U. S. Department of Health and Human Services			
Pass-Through Payments			
<i>Department of the Aging</i>			
Temporary assistance for needy families	93.558	765	291,095
Low Income Energy Assistance Grant	93.568	765	57,312
Payments to states for child care assistance	93.575	765	246,616
Family preservation and support	93.556	765	31,729
Refugee and entrant assistance	93.566	765	36,161
Child care and development fund	93.596	765	196,626
ILP education and training vouchers	93.599	765	798
Adoption incentive payments	93.603	765	636
Foster care - Title IV-E	93.658	765	1,279,378
Adoption assistance	93.659	765	82,280
Independent living	93.674	765	1,682
Social services block grant	93.667	765	59,158
Statewide fraud program	93.000	765	<u>20,177</u>
Subtotal - U. S. Department of Health and Human Services			<u>2,303,648</u>
Total - Henry-Martinsville Social Services			3,291,959
School Board			
U. S. Department of Agriculture			
Pass-Through Payments			
<i>Department of Education</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	197	582,510
National School Lunch Program	10.555	197	1,388,562
Food distribution - donated commodities	10.555	197	<u>223,783</u>
Subtotal - U. S. Department of Agriculture			2,194,855
U. S. Department of Education			
Pass-Through Payments			
<i>Department of Education</i>			
Special Education Cluster			
IDEA 611 Flow-Through	84.027	197	2,200,227
SPED Assistive Technology	84.027	197	18,125
Local Capacity Building	84.027	197	4,883
Preschool Handicapped Allocations	84.173	197	<u>110,463</u>
Total Special Education Cluster			2,333,698

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
Adult education - state administered basic grant program	84.002	197	59,137
Title I grants to local education agencies	84.010	197	2,180,844
Title V, Part A Innovative Programs	84.298	197	30,007
Vocational education (Carl Perkins)	84.048	197	182,977
Safe and drug-free schools - state grants	84.186	197	28,792
AP Grant - Test Fee Program	84.330	197	1,352
English language acquisition grants	84.365	197	37,257
Title II, Part A	84.367	197	409,256
Reading First Program	84.357	197	219,813
Emergency Impact Aid	84.938	197	<u>9,653</u>
Subtotal - U. S. Department of Education			<u>3,159,088</u>
Total - School Board			<u>7,687,641</u>
Grand Totals			<u>\$ 11,556,666</u>

Notes to Schedule of Expenditures of Federal Awards

1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the County and is presented on GAAP. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Benefit payments are paid directly to recipients and are not included in the County's basic financial statements. However, due to the County's involvement in determining eligibility, they are considered federal awards to the County and are included on this schedule.

2. *Commodities – Food Distribution*

Nonmonetary assistance in the form of food distribution amounting to \$223,783 for the schools is reported in the schedule as being received and disbursed.

County of Henry, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

1. Summary of Audit Results

- (a) The auditor's report expresses an **unqualified opinion** on the financial statements of the County of Henry, Virginia.
- (b) **No significant deficiencies** relating to the audit of the financial statements are reported in the 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*.
- (c) **No instances of noncompliance** material to the financial statements of the County of Henry, Virginia were disclosed during the audit.
- (d) **No significant deficiencies** relating to the audit of the major federal award programs are reported in the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
- (e) The auditor's report on compliance for the major federal award programs for the County of Henry, Virginia expresses an **unqualified opinion** on all major federal programs.
- (f) There were **no audit findings** relative to the major federal award programs for the County of Henry, Virginia to be reported in this schedule.
- (g) The programs tested as major programs included:
 - 1. **CFDA #10.561, Administration for Food Stamp Program**
 - 2. **CFDA #14.228, Community Development Block Grant**
 - 3. **CFDA #93.658, Foster Care Title IV-E**
 - 4. **CFDA #'s 10.553 and 10.555, Child Nutrition Cluster**
 - 5. **CFDA #'s 84.027 and 84.173, Special Education Cluster**
 - 6. **CFDA #84.010, Title I**
 - 7. **CFDA #84.367, Title II, Part A**
- (h) The **threshold** for distinguishing Types A and B programs was **\$300,000**.
- (i) The County of Henry, Virginia **was not** determined to be a **low-risk auditee**.

2. Findings Relating to the Financial Statements Reported in Accordance With *Government Auditing Standards*:

None.

3. Findings and Questioned Costs Relating to Federal Awards:

None.

County of Henry, Virginia

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2007

FINANCIAL STATEMENT AUDIT

FINDINGS

NO. 06-1 – Segregation of Duties (Material Weakness)

Condition

A fundamental concept of internal controls is the segregation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. At the Component Unit – School Board, the signed accounts payable checks are returned to the individual responsible for their preparation.

Recommendation

The Component Unit – School Board should modify their current procedures and have someone other than the individual that generates the check mail them once they are generated.

Current Status

There are multiple levels of review prior to generating checks and after generating checks, Management does not believe there are undetectable risks from current method employed.

NO. 06-2 – Ownership of Financial Reporting (Material Weakness)

Condition

With the implementation of GASB Statement 34 several years ago, governments are required to present their financial statements on the full-accrual basis of accounting, in addition to the method which was previously used. Management was unable to provide support for material balances in the accrual numbers during the current audit. Upon further audit analysis, certain of these amounts were determined to be materially misstated.

Recommendation

Management must realize that the complete basic financial statements, which include accrual numbers are their responsibility. They should develop procedures to ensure all significant accrual balances are correct and have documentation available to support the balances, and take responsibility for the balances.

Current Status

Documentation was provided for accruals during this year's audit.

NO. 06-3 – Capital Asset Records (Material Weakness)

Condition

We detected a material understatement of Component Unit – School Board capital assets, indicating controls over reconciliation of the detail records to the general ledger are not adequate. We also noted smaller differences when reviewing the detail capital asset records for the County and Component Unit – Henry-Martinsville Social Services.

Recommendation

Procedures should be implemented to account for all capital assets and reconcile those capital asset detail records to the general ledger.

Current Status

New system initiated at end of fiscal year 2006 to reduce such differences.

NO. 06-4 – Unrecorded Landfill Liability (Material Weakness)

Condition

The County significantly understated their landfill liability as a result of inadequate review of the information provided by other County departments and the external engineers.

Recommendation

The County should implement steps to ensure a proper review of the information provided by other County departments for proper recording and disclosure in the financial statements.

Current Status

Calculation and review of the landfill liability is currently being performed at the proper levels of management.

MAJOR FEDERAL AWARD PROGRAMS AUDIT

NO. 06-5 – Child Nutrition Cluster – CFDA 10.553 and 10.555

Condition

We noted one child out of thirty receiving free benefits under the program that should have been receiving reduced benefits.

Recommendation

Procedures should be implemented to ensure that a more accurate review of eligibility determination.

Current Status

More thorough review and processing of eligibility determination is currently being performed.

COMMONWEALTH OF VIRGINIA

NO. 06-6 – Commonwealth of Virginia: CSA Reimbursement Requests

Condition

We noted during testing that the January 2006 reimbursement request was not filed timely as it was submitted in May 2006.

Recommendation

Procedures should be implemented to ensure timely filing of all reimbursement requests.

Current Status

Reimbursement requests are currently being filed timely.

NO. 06-07 – Commonwealth of Virginia: Public Procurement Act

Condition

We noted a contract entered into during the year by the Component Unit – School Board which did not include the nondiscrimination clause.

Recommendation

Procedures should be implemented to ensure that all contracts contain the proper nondiscrimination clause and are appropriately advertised.

Current Status

The appropriate nondiscrimination clause has been added to the appropriate documents.

NO. 06-8 – Commonwealth of Virginia – Landfill Financial Assurance

Condition

The County currently has no mechanisms in place to demonstrate financial assurance to meet the costs of post-closure care and corrective action on the County's landfill. As a result of receiving a disclaimer of opinion on the financial statements per Code Section 9VAC20-70-21, the County is not eligible to assure its obligations under the local government financial test as was previously used.

Recommendation

Steps should be taken by management to ensure mechanisms are in place to demonstrate financial assurance for the landfill.

Current Status

Management believes mechanisms are in place to demonstrate financial assurance for the landfill. Management will work with the State to resolve any issues the State brings to Management's attention.