

Caroline County, Virginia

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July 17, 2009

To the Honorable Members of the Board of Supervisors
and the Citizens of Caroline County, Virginia

The Comprehensive Annual Financial Report of the County of Caroline, Virginia as of and for the fiscal year ended June 30, 2008 is herewith submitted. Section 15.2-2511 of the Code of Virginia essentially requires that all localities produce an independently audited financial report and this Comprehensive Annual Financial Report is provided to meet that requirement. It has been prepared by the County Department of Finance to conform with standards of financial reporting promulgated by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Commonwealth of Virginia Auditor of Public Accounts.

Responsibility for the completeness and reliability of all of the information presented in this report rests with Caroline County management. In order to take meaningful responsibility, County management must have reasonable assurance that the underlying financial information on which the report is based is also accurate and reliable. To that end, County management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

It would be irresponsible for any financial statement user to rely on management's representations in the financial statements without some objective review and confirmation. To provide that objective confirmation, Caroline County's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to

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provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2008 are fairly presented in conformity with the GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Caroline County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available at the back of this Comprehensive Annual Financial Report.

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

Profile of the Government

Caroline County was formed in 1728 by action of the Virginia House of Burgesses and is currently one of 95 counties in the Commonwealth of Virginia. Policy-making and legislative authority are vested in a five member Board of Supervisors which is elected by District. The Board of Supervisors is responsible, among other things, for providing overall policy direction for the County government, passing ordinances, adopting the budget, appointing committees, and hiring both a County Administrator and County Attorney. The County Administrator is responsible for carrying out the policies and ordinances of the governing Board, for overseeing the day-to-day operations of the government, and for appointing heads of the various departments. Other officials who play a major role in the County government's operation or in providing services are separately elected. These officials are: Clerk of the Circuit Court - court clerk and custodian of legal records; Commissioner of the Revenue - the tax assessment officer of the County; Commonwealth's Attorney - criminal prosecution attorney for the County; Sheriff - chief law enforcement officer; Treasurer - recipient and custodian of County funds.

This Comprehensive Annual Financial Report includes all funds and activities of Caroline County. The County is the primary provider of all local government services within its boundaries and provides a full range of those services. This includes law

enforcement, fire protection and emergency medical response; the construction and maintenance of public buildings and other infrastructure; solid waste collection and disposal; recreation; community and economic development.

Public education in the County is provided by the Caroline County School Board. The Caroline County Public Schools is a separate legal entity from the County and the School Board is separately elected. The School Board has no independent revenue raising authority, however, and must depend on the County for the local contribution required by the Virginia Constitution for the support of the public schools. As a result of this financial dependency, the funds and activities of the Caroline County School Board have been included in this financial report in order to provide a comprehensive view of the County's financial status and activities. Information on the School Board has been presented in discrete columns in the financial statements to emphasize its separate legal identity.

Local Economy

Caroline County is located in east central Virginia and encompasses approximately 549 square miles with an estimated July 1, 2008 population of 27,838. The County seat, the Town of Bowling Green, is located approximately 35 miles north of the State capitol of Richmond and approximately 20 miles south of the City of Fredericksburg.

Historically, Caroline County has remained relatively insulated from the dramatic growth seen in the nearby northern Virginia area and remained primarily rural and residential. Its economy has been agriculturally based with a handful of small to medium size industrial businesses and limited commercial development focused along major highway corridors. Fort A. P. Hill, a 77,000 acre undeveloped military training installation, entirely within the County's borders, also dominated the landscape. The County's population density of 49 persons per square mile compared to densities of well over 200 per mile in counties just to the north and south and the Virginia average of 179 confirm this perspective.

More recently, however, its location along Interstate 95, the primary north-south transportation artery on the east coast, and increasing congestion in neighboring counties have brought extensive development interest to the County. Three new mixed use development projects have been approved that will add almost 10,000 new homes to the County over the next 25 years along with a variety of commercial, recreational and other uses. Those projects were well underway with many new houses completed or under construction when the housing market dropped. Even with the continued growth in government and the military in the Washington DC metropolitan area that Caroline County is on the edge of has affected the county negatively, but not as badly in this economic downturn as other areas of the country. Nonetheless, it is likely to be another 2 years before the County sees a return of the 2% – 3% annual population growth it was experiencing in recent years.

The growth in population is expected to bring with it an expansion in retail and other non-residential development. This expansion, which had begun to occur with

announcements of the past several years have been put on hold during this economic downturn. The decision by the State Fair of Virginia to relocate the State Fair to Caroline in 2009 has further raised the County's profile.

With this activity, the County is looking forward to and preparing itself for dramatic changes over the next several years, once the economic downturn is over. Significant increases in demand on the County's services and infrastructure are expected. Thorough planning and a disciplined commitment to implementing those plans will be vital as the County addresses those pressures over the next several years. Maintaining a solid financial foundation will be an important part of that process.

Major Projects/Initiatives

Lewis & Clark Elementary School. Construction started during Fiscal Year 2006-07 and at year end was approximately 95% complete on a new \$22 million, 900 student elementary school to replace aging facilities and meet the needs of system growth on the western side of the County.

Visitors Center. Construction was 90% complete on a \$2.1 million, 7,000 square foot County Visitors Center funded with Federal highway grant funds and development proffers. The Center will provide a focus for the County's tourism promotion efforts as the State Fair of Virginia and other visitor attractions locate in the County in the next few years.

New County Administration Offices. The County purchased the old Union Bankshares Corporate Office building during the year with renovations to begin in the next fiscal year. This \$4,000,000 project will bring the functions of County Administration, Commissioner of Revenue, Treasurer and Voter Registrar under one roof to provide centralized services to the County's citizens.

Other Information

The following is provided to supplement the information provided in the financial statements and to assist those with an interest in the financial affairs of the County to assess its condition.

Risk Management. An active risk management program is essential for the County to protect itself from the many risks of loss it faces in providing services to the public. Risks of property damage, general and auto liability, and workers injury compensation are covered through premium contributions to an insurance pool operated by the Virginia Association of Counties (VACORP). The County works extensively with representatives of VACORP to identify loss trends and take corrective action to reduce claims. The County maintains a safety committee and emphasizes safety in its staff training programs. The County has also strengthened its emergency response planning to protect County resources and the public in the event of natural or man-made disasters.

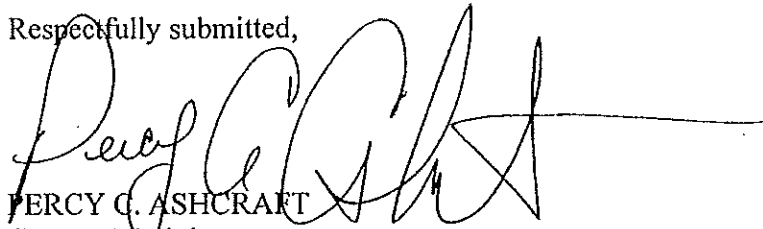
Pension and Other Employment Benefits. Pension benefits for County employees are provided through participation in the Virginia Retirement System (VRS), a State-wide

defined benefit pension system for government employees. Bi-annually, VRS actuaries prepare contribution calculations for each local government participating in the system. The County fully funds its required contributions and also pays the required employee contributions as part of its compensation program.

The County provides and makes contributions toward a group health insurance plan for its employees. Premium rates are negotiated annually with third party insurance providers and County contribution policies are set based on comparison with neighboring localities. Retired employees are given the option of continuing their coverage under the County's group plan following termination, but the County makes no contribution toward their premiums.

In closing, I would like to thank the many members of the County staff who assisted in the preparation of this report. I would also like to thank the staff of Robinson, Farmer, Cox Associates who provided so much advice and support in the presentation of this report in compliance with the latest accounting guidance. Finally and most particularly, I would like to thank the Board of Supervisors for their interest in and commitment to keeping the County on a solid financial foundation.

Respectfully submitted,



PERCY C. ASHCRAFT
County Administrator

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