NEW ISSUE
BOOK-ENTRY-ONLY

RATINGS: **Fitch: …………………….. AAA**
Moody's: ……………….... Aa2
Standard & Poor's: ..…... AAA
(See "RATINGS" herein)

In the opinion of Bond Counsel to the County, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2009 Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. See "TAX MATTERS" herein for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Series 2009 Bonds. In addition, in the opinion of Bond Counsel, under the existing laws of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

$70,360,000
COUNTY OF HENRICO, VIRGINIA, WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2009

Dated: Date of Issuance **Due: May 1, as shown on the inside cover**

The Series 2009 Bonds will be issued to refund on a current basis $71,965,000 principal amount of Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1999, of the County of Henrico, Virginia (the "County"). THE PRINCIPAL OF AND INTEREST ON THE SERIES 2009 BONDS WILL BE PAYABLE SOLELY FROM, AND SECURED EQUALLY AND RATABLY SOLELY BY A LIEN AND CHARGE ON, THE REVENUES DERIVED FROM THE OPERATION OF THE WATER AND SEWER SYSTEM OF THE COUNTY, SUBJECT, HOWEVER, TO THE PRIOR PAYMENT FROM SUCH REVENUES OF THE EXPENSES OF OPERATION AND MAINTENANCE OF THE WATER AND SEWER SYSTEM, AND ARE PAYABLE ON A PARITY WITH THE PAYMENT OF PRINCIPAL OF AND INTEREST ON CERTAIN OTHER BONDS AS DESCRIBED HEREIN. THE SERIES 2009 BONDS ARE NOT A DEBT OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON THE CREATION OF GENERAL OBLIGATION INDEBTEDNESS OF THE COUNTY, AND THE COUNTY SHALL NOT BE LIABLE FOR THE PAYMENT THEREOF OUT OF ANY FUNDS OF THE COUNTY EXCEPT THE REVENUES OF THE WATER AND SEWER SYSTEM OF THE COUNTY.

The Series 2009 Bonds will bear interest payable semiannually, on May 1 and November 1, commencing on May 1, 2009. The Series 2009 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be available to purchasers in the denomination of $5,000, or any integral multiple thereof under the book-entry only system maintained by DTC through brokers and dealers who are, or act through, DTC participants. PURCHASERS WILL NOT RECEIVE DELIVERY OF THE SERIES 2009 BONDS. FOR AS LONG AS ANY PURCHASER IS THE BENEFICIAL OWNER OF A SERIES 2009 BOND, SUCH PURCHASERS MUST MAINTAIN AN ACCOUNT WITH A BROKER OR DEALER WHO IS, OR ACTS THROUGH, A DTC PARTICIPANT TO RECEIVE PAYMENT OF PRINCIPAL OF AND INTEREST ON SUCH SERIES 2009 BOND. See the section "DESCRIPTION OF THE SERIES 2009 BONDS -Book-Entry Only System".

The Series 2009 Bonds are subject to redemption prior to maturity as provided herein.

The Series 2009 Bonds are offered for delivery when, as, and if issued, subject to the approval of their validity by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the County, as described herein, and to certain other conditions referred to herein. Certain legal matters will be passed upon for the County by Joseph P. Rapisarda, Jr., County Attorney, and for the Underwriters by Christian & Barton, L.L.P., Richmond, Virginia. It is expected that the Series 2009 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about March 4, 2009.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, together with attached appendices, to obtain information essential to the making of an informed investment decision.

MORGAN KEEGAN & COMPANY, INC. **DAVENPORT & COMPANY LLC**

Dated: February 19, 2009

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP Numbers**
2009	$ 315,000	3.00 %	0.55%	426170 HL3
2010	2,455,000	2.50	0.70	426170 HM1
2011	2,845,000	2.50	1.27	426170 HN9
2012	4,945,000	4.00	1.44	426170 HP4
2013	5,065,000	4.00	1.64	426170 HQ2
2014	4,275,000	2.25	1.93	426170 HR0
2015	2,685,000	5.00	2.11	426170 HS8
2016	2,820,000	2.50	2.26	426170 HT6
2017	2,890,000	2.75	2.47	426170 HU3
2018	2,965,000	5.00	2.70	426170 HV1
2019	3,115,000	5.00	2.95	426170 HW9
2020	3,275,000	5.00	3.18*	426170 HX7
2021	3,430,000	5.00	3.46*	426170 HY5
2022	3,600,000	5.00	3.64*	426170 HZ2
2023	3,780,000	5.00	3.82*	426170 JA5
2024	3,965,000	5.00	3.99*	426170 JB3
2025	4,165,000	5.00	4.10*	426170 JC1
2026	4,380,000	4.75	4.27*	426170 JD9
2027	4,585,000	4.75	4.38*	426170 JE7
2028	4,805,000	4.375	4.48	426170 JF4

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* Yield to par call on May 1, 2019.

** CUSIP numbers have been assigned by an organization not affiliated with the County and are included solely for the convenience of the holders of the Series 2009 Bonds. The County is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2009 Bonds or as indicated above.

THE COUNTY OF HENRICO, VIRGINIA

BOARD OF SUPERVISORS

DAVID A. KAECHELE, *Chairman*

PATRICIA S. O'BANNON, *Vice Chairman*

JAMES B. DONATI, JR.

RICHARD W. GLOVER

FRANK J. THORNTON

COUNTY OFFICIALS

VIRGIL R. HAZELETT, P.E. *County Manager*

LEON T. JOHNSON, *Deputy County Manager for Administration*

RANDALL R. SILBER, *Deputy County Manager for Community Development*

ROBERT K. PINKERTON, *Deputy County Manager for Community Operations*

GEORGE T. DRUMWRIGHT, JR., *Deputy County Manager for Community Services*

ANGELA N. HARPER, *Deputy County Manager for Special Services*

JOSEPH P. RAPISARDA, JR., *County Attorney*

JOHN A. VITHOULKAS, *Director of Finance*

BOND COUNSEL

Hawkins Delafield & Wood LLP
One Chase Manhattan Plaza, 42nd Floor
New York, New York 10005
(212) 820-9438

FINANCIAL ADVISOR

BB&T Capital Markets,
a division of Scott & Stringfellow, Inc.
909 East Main Street, 8th Floor
Richmond, Virginia 23219
(804) 649-3935

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IN CONNECTION WITH THE OFFERING OF THE SERIES 2009 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2009 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

No dealer, broker, salesman or other person has been authorized by the County to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement has been obtained from the County and other sources that are deemed reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. The information in this Official Statement speaks as of its date except where specifically noted otherwise and is subject to change without notice. The delivery of this Official Statement, any sale made under it or any filing or other use of it will not, under any circumstances, create any implication that there has been no change in the affairs of the County since the date of this Official Statement or imply that any information in this Official Statement is accurate or complete as of any later date. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2009 Bonds.

The Series 2009 Bonds will be exempt from registration under the Securities Act of 1933, as obligations of a political subdivision of the Commonwealth of Virginia. The Series 2009 Bonds also will be exempt from registration under the securities laws of the Commonwealth of Virginia.

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OFFICIAL STATEMENT

of

THE COUNTY OF HENRICO, VIRGINIA

relating to its

$70,360,000 Water and Sewer System Refunding Revenue Bonds, Series 2009

INTRODUCTION

The purpose of this Official Statement, including the cover page and attached appendices, is to set forth certain information in connection with the issuance by the County of Henrico, Virginia (the "County'), of its $70,360,000 principal amount of Water and Sewer System Refunding Revenue Bonds, Series 2009 (the "Series 2009 Bonds").

The Series 2009 Bonds will be issued and secured in accordance with the Public Finance Act of 1991, being Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended (the "Act"), and pursuant to the provisions of a resolution adopted by the Board of Supervisors (the "Board of Supervisors") on November 23, 1977, as amended and supplemented (the "Bond Resolution"), and a supplemental resolution adopted by the Board of Supervisors on January 27, 2009 (the "Supplemental Resolution", and together with the Bond Resolution, the "Resolutions").

The Series 2009 Bonds are being issued to refund on a current basis $71,965,000 principal amount of Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1999, of the County. The County has issued and there are presently outstanding $190,935,000 principal amount of Water and Sewer System Revenue Bonds and Water and Sewer System Refunding Revenue Bonds (the "Outstanding Parity Bonds"). The Series 2009 Bonds, the Outstanding Parity Bonds and any additional bonds that hereafter may be issued on a parity therewith pursuant to the Bond Resolution (the "Additional Bonds") are referred to herein as the "Bonds". Also outstanding is $26,310,000 (as of June 30, 2008) of the County's Water and Sewer System Revenue Note, Subordinate Series 1997 (the "Subordinate Note"), issued to the Virginia Resources Authority as security for its Variable Rate Demand/Fixed Rate Water and Sewer System Revenue Bonds, Series 1997 (Henrico County Project). See the sections "SECURITY FOR THE SERIES 2009 BONDS" and "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS".

ESTIMATED SOURCES AND USES OF FUNDS

The following table summarizes the anticipated application of the proceeds of the Series 2009 Bonds and other moneys to the purposes of issuance described above:

Sources:	
Principal Amount of Series 2009 Bonds	$70,360,000.00
Net Original Issue Premium	5,349,831.00
Total Sources	$75,709,831.00
Uses:	
Deposit to Refunding Trust Fund	$75,164,623.23
Underwriting Compensation[1]	319,339.95
Other Issuance Expenses	225,867.82
Total Uses	$75,709,831.00

[1] See the section "UNDERWRITING".

DESCRIPTION OF THE SERIES 2009 BONDS

General

The Series 2009 Bonds are dated as of their date of issuance, bear interest from their date payable on May 1 and November 1 in each year, commencing on May 1, 2009, at the rates and will mature on the dates and in the amounts set forth on the inside cover of this Official Statement

Book-Entry-Only System

The book-entry-only system of registration of the Series 2009 Bonds is more fully described in Appendix D to this Official Statement.

Redemption of the Series 2009 Bonds

The Series 2009 Bonds maturing on or before May 1, 2019 will not be subject to optional redemption before their respective maturity dates.

The Series 2009 Bonds maturing on or after May 1, 2020 may be redeemed prior to their respective maturity dates, on or after May 1, 2019 at the option of the County, as a whole or in part at any time at the price of par together with the interest accrued thereon to the date fixed for redemption.

Notice of any redemption specifying the designation, date and maturity of the Series 2009 Bonds to be redeemed and the date and place fixed for redemption shall be given by first class mail, postage prepaid, not less than 30 days prior to the redemption date, to the registered holder of the Series 2009 Bonds at such holder's address as shown on the books of registration kept by the registrar therefore; *provided, however,* that any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of such Series 2009 Bonds. If such notice is given and payment of the Series 2009 Bond is duly made or provided for, interest thereon shall cease from and after the date so specified for the redemption thereof. Notice of such redemption shall also state that if less than the entire principal amount of a Series 2009 Bond called for redemption is to be redeemed, such Series 2009 Bond must be surrendered in exchange for payment of the principal amount thereof to be redeemed and the issuance of a new Series 2009 Bond or Bonds equalling in principal amount that portion of the principal amount of the surrendered bond not to be redeemed. **During any period that a securities depository, including DTC, is the registered owner of the Series 2009 Bonds, the County will not be responsible for mailing notices of redemption to Beneficial Owners.** See "Appendix D - Description of The Depository Trust Company and the Book-Entry-Only System".

PLAN OF REFUNDING

The Series 2009 Bonds are being issued to refund the County's outstanding Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1999 Bonds dated February 1, 1999 (the "Refunded Bonds"), described in the table below:

REFUNDED BONDS

Date of Maturity (May 1)	Principal Amount	Interest Rate	Redemption Date	Redemption Price
2010	$ 4,345,000	4.20 %	May 1, 2009	102%
2011	4,450,000	5.25	May 1, 2009	102
2012	4,615,000	5.25	May 1, 2009	102
2013	4,780,000	5.25	May 1, 2009	102
2014	4,040,000	5.25	May 1, 2009	102
2017	8,060,000	4.625	May 1, 2009	102
2022	16,220,000	5.00	May 1, 2009	102
2028	25,455,000	5.00	May 1, 2009	102

Upon delivery of the Series 2009 Bonds, the County will enter into a refunding trust agreement (the "Refunding Trust Agreement"). The Refunding Trust Agreement creates an irrevocable escrow fund (the "Refunding Trust Fund"), which is to be held by U.S. Bank National Association, as the Refunding Trustee, and is to be applied to the payment of the principal and interest on the Refunded Bonds to their redemption date. The County will deposit proceeds of the Bonds in the Refunding Trust Fund which together with earnings thereon represents the total escrow defeasance requirements of the Refunded Bonds and which will be invested in securities which will be direct obligations of the United States (the "Securities"), maturing in amounts and bearing interest at rates sufficient (i) to pay the interest on the Refunded Bonds to their redemption date and (ii) to redeem the Refunded Bonds on such redemption date at their redemption price. The Refunded Bonds will be irrevocably designated for redemption, and provision has been made in the Refunding Trust Agreement for the giving of notice of such redemption. The Refunded Bonds may not be redeemed other than as described above. The Refunding Trust Fund, including the interest earnings on the Securities, is pledged solely for the benefit of the holders of the Refunded Bonds.

SECURITY FOR THE SERIES 2009 BONDS

The Series 2009 Bonds will be payable on a parity with the Outstanding Parity Bonds, Additional Bonds and interest on bond anticipation notes hereafter issued pursuant to the Resolutions. For a more complete discussion of the County's power to issue additional debt secured by the Revenues of the System, see the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Issuance of Additional Obligations". The Series 2009 Bonds are payable as to principal and interest from, and secured by a pledge of, income, revenues, fees and moneys derived by the County from the ownership, possession, operation, management or control of the System, including, but not limited to, charges for current services, fees charged for connection to the System and earnings of the investment of certain funds (the "Revenues"), subject to the prior payment from the Revenues of the expenses of operation and maintenance of the System. Additionally, the Subordinate Note is secured by a subordinate pledge of the Revenues of the System.

The Series 2009 Bonds are not a debt of the County within the meaning of any constitutional or statutory limitation on the creation of general obligation indebtedness of the County, nor do they impose any general liability upon the County. The full faith and credit of the County is not pledged to the payment of the Series 2009 Bonds, and the County shall not be liable for the payment thereof out of any funds of the County other than the Revenues pledged therefor, in the manner provided in the Bond Resolution.

Rate Covenant

The County covenants in the Resolutions to establish, maintain, revise and collect rates and charges with respect to the System in each year sufficient to provide Net Operating Revenues, as defined herein (the calculation of which excludes connection fees, income from investments and certain other nonrecurring revenues), equal to not less than 1.25 times the aggregate of the Debt Service Requirement during such year on all Bonds outstanding under the Bond Resolution and the interest during such year on outstanding bond anticipation notes, if any, payable on a parity with the Bonds. See the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Covenant as to Rates and Charges".

Reserve Account

The Series 2009 Bonds, together with the Outstanding Parity Bonds, Additional Bonds and interest on bond anticipation notes, will be additionally secured by a Reserve Account established and maintained by the County pursuant to the terms of the Resolutions. As described in the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Collection and Disposition of Revenues - *Reserve Account*", the Resolutions require the County to maintain on deposit in the Reserve Account an amount, or a surety bond, insurance policy or letter of credit, equal to the maximum annual Debt Service Requirement on the Series 2009 Bonds, Outstanding Parity Bonds and Additional Bonds, in order to provide a reserve for the payment of the principal of and interest and premium, if any, on the Series 2009 Bonds, Outstanding Parity Bonds and Additional Bonds and for the payment of interest on bond anticipation notes. There is currently no surety bond, insurance policy or letter of credit on deposit in the Revenue Account with respect to the Series 2009 Bonds or any Outstanding Parity Bonds.

Bondholders' Remedies in Event of Default

In case of an Event of Default under the Resolutions (see the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Events of Default, Bondholder Remedies"), the holders of not less than 25% in aggregate principal amount of the Series 2009 Bonds may proceed to protect and enforce their rights by declaring the entire unpaid principal of and interest on the Series 2009 Bonds due and payable or by instituting a mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolutions. The mandamus remedy, however, may be impracticable and difficult to enforce. Furthermore, the right to enforce payment of the Series 2009 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

THE COUNTY AND THE SYSTEM

The Series 2009 Bonds are secured by a pledge of the Revenues of the System. For additional information on the System, see Appendix A hereto. Audited financial statements of the System for fiscal year ended 2008 are attached hereto as Appendix B. For additional demographic and financial information on the County, see Appendix C hereto.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following statements are brief summaries of certain provisions of the Resolutions. Such statements do not purport to be complete, and reference is made to the Resolutions, copies of which are on file and available at the office of the Clerk of the Board of Supervisors.

Construction Fund

The proceeds of any Additional Bonds and Bond Anticipation Notes issued for the purpose of financing the acquiring, constructing, reconstructing, improving, extending or enlarging of the System are to be deposited into the Water and Sewer System Construction Fund (the "Construction Fund").

Moneys in the Construction Fund shall be used only in carrying out the acquiring, constructing, reconstructing, improving, extending or enlarging of the System and shall be so applied by the County, including the reimbursement of any advances made by the County from its General Fund or other available funds of the County for such purposes. If, after payment of all such costs, any moneys remain in the Construction Fund, the balance shall be applied to other improvements, extensions and enlargements of the System. All earnings derived from investments made from moneys in the Construction Fund shall be credited to that fund and shall be applied as are other moneys to the credit of such fund.

Collection and Disposition of Revenues

The Bonds, together with the interest thereon, shall be payable solely from the Revenues of the System, which are pledged to the payment of the principal of and interest on the Bonds and to the security thereof in accordance with the Bond Resolution. The County has covenanted that it will pay into the Water and Sewer Revenue Fund (the "Revenue Fund") all Revenues of the System and that all Revenues shall be trust funds in the hands of the County and shall be applied only as provided in the Bond Resolution.

The Revenues shall be applied and expended for the following purposes and in the following order of priority (except as otherwise permitted by the Bond Resolution and as provided for in the Supplemental Resolution) to the following accounts, heretofore created, in the Revenue Fund:

1. *Operation and Maintenance Account:* On the first business day of each month there shall be credited to the Operation and Maintenance Account in the Revenue Fund such moneys as are determined to be necessary to pay the expenses of operating and maintaining the System during such month. Such expenses of operation and maintenance shall include (a) salaries, wages, employee benefits, costs of materials and supplies, costs of water, costs of power, costs of routine repairs, renewals, replacements and alterations occurring in the usual course of business, costs of billings and collections, costs of insurance, costs of audits, taxes, if any, a properly allocable share of County administrative and overhead expenses, and any other costs with respect to any services, facilities or commodities which are required for operating and maintaining the System and (b) payments for water, water supply, water treatment and water transmission for water distributed by the System or for the transmission, treatment and disposal of sewage collected by the System (i) made to other governmental bodies or (ii) made for the use, services and facilities of or commodities supplied by plants and properties of the County which are acquired, constructed or operated as separate utility systems. The moneys credited to the Operation and Maintenance Account shall be applied to the payment of the expenses of operating and maintaining the System

2. *Interest Account, Principal Account and Sinking Fund Account:* For the purpose of providing for the payment of the interest on the Series 2009 Bonds, not later than May 1, 2009 and on or before each May 1 and November 1 thereafter, there shall be credited to the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on each May 1 and November 1 thereafter and prior to the next date upon which an installment of interest falls due on the Series 2009 Bonds, the aggregate of the amounts so credited to the Interest Account, would on such date be equal to the installment of interest then falling due on the Series 2009 Bonds. The County has provided or shall provide in the Supplemental Resolution authorizing the Bonds or Bond Anticipation Notes for such credits to be made in such amounts and at such times sufficient to pay when due each such installment of interest. The Supplemental Resolution providing for the Series 2009 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment

For the purpose of providing for the payment of the principal of the Series 2009 Bonds issued as Serial Bonds, not later than May 1, 2009 and on or before May 1 thereafter, so long as any Series 2009 Bonds issued as Serial Bonds are Outstanding, there shall be credited to the Principal Account an amount such that, if the same amount were so credited to the Principal Account on May 1 of each succeeding year thereafter and prior to the next date upon which an installment of principal falls due on the Series 2009 Bonds issued as Serial Bonds, the aggregate of the amounts so credited to the Principal Account, together with any other moneys theretofore credited to the Principal Account, would on such date be equal to the installment of principal of such Bonds then falling due. For the purpose of providing moneys to retire any Series 2009 Term Bonds, not later than May 1 in the year of the first redemption date of Series 2009 Term Bonds, and on and before May 1 in each year thereafter, so long as any Series 2009 Term Bonds are Outstanding, there shall be credited to the Sinking Fund Account for the purpose of retiring the Series 2009 Term Bonds an amount such that, if the same amount were so paid and credited to the Sinking Fund Account to provide for the retirement of the Series 2009 Term Bonds on May 1 of each year thereafter and prior to the next date upon which a Sinking Fund Account installment falls due, the aggregate of the amounts so credited to such account would on such date be sufficient to redeem the Series 2009 Term Bonds in the principal amount as provided herein. The County has provided or shall provide in the Supplemental Resolution authorizing the Bonds for such credits to be made in such amounts and at such times sufficient to pay when due each such installment of principal or sinking fund payment. The Supplemental Resolution providing for the Series 2009 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment.

With respect to the Bonds issued in term form, moneys shall be credited monthly to the Sinking Fund Account in such amounts and at such times sufficient to redeem such term Bonds in the principal amounts and at the times specified in the supplemental resolution authorizing such term Bonds. The moneys credited to the Sinking Fund Account to provide for the retirement of any Bonds issued in term form shall be applied by the County's Director of Finance, without further authorization or direction, to the redemption of such Bonds on each date on which a Sinking Fund Account installment for such Bonds is due, in the respective principal amounts required to be credited to such account on such dates, or, if so directed by the County, semiannually on both such due date and the day six months prior to such date (exclusive of the day which is six (6) months prior to the first of such due dates), in the respective principal amounts on credit to such account on such days so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited to such account on such Sinking Fund Account installment dates; *provided* that amounts to be applied on the stated maturity date of any such Bonds shall be applied to the payment on that date of such Bonds of that maturity without calling such Bonds for redemption on that date. The County's Director of Finance may apply the moneys credited to the Sinking Fund Account for the retirement of Bonds issued in term form to the purchase of such Bonds, in which event the principal amount of such Bonds required to be redeemed on the next respective ensuing Sinking Fund Account installment date shall be reduced by the principal amount of said Bonds so purchased. Any purchase of Bonds pursuant to the foregoing may be made with or without tenders of Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable redemption price of such Bonds, plus accrued interest. The Supplemental Resolution providing for the Series 2009 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment.

In the event of the issuance of Additional Bonds or Bond Anticipation Notes (as defined herein), the foregoing credits are required to be increased as may be necessary to provide for the payment of principal of and interest on such Additional Bonds and interest on such Bond Anticipation Notes.

The moneys credited to such accounts shall be transferred by the County's Director of Finance to the paying agents in such amounts and at such times as shall be necessary to pay the principal of and premium, if any, and interest on the Bonds and interest on the Bond Anticipation Notes as the same become due and payable.

3. *Reserve Account:* In order to provide a reserve for the payment of interest on the Bonds and Bond Anticipation Notes and the principal of and premium, if any, on the Bonds, there shall be maintained on

deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement (as defined in the Bond Resolution) for the Bonds. Subject to the provisions of the Bond Resolution with respect to the credits to the Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Revenue Fund for credit to the Reserve Account shall always be maintained at an amount at least equal to the maximum annual Debt Service Requirement for any year for all Bonds at the time outstanding and if at any time the moneys in the Revenue Fund credited to the Reserve Account are less than such amount, there shall be credited to this account from the first moneys available therefor in the Revenue Fund, after all credits referred to in paragraphs (1) and (2) above have been met, such amounts as shall be necessary until there is again on credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement. In the event of the issuance of Additional Bonds, unless upon the delivery of such Additional Bonds there shall already be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect after the issuance of such Additional Bonds, (1) there shall be paid into the Revenue Fund for credit to the Reserve Account such amount, if any, of the proceeds of the sale of such Additional Bonds as the County may determine, so that there shall then be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect immediately after the issuance of such Additional Bonds, or (2) if there shall not be paid into the Revenue Fund for credit to the Reserve Account proceeds of such Additional Bonds in an amount so there shall then be on credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect immediately after the issuance of such Additional Bonds, there shall be credited to the Reserve Account from time to time such amounts as the County may determine, of the moneys available therefor after all credits referred to in paragraphs (1) and (2) above have been met, so that no later than five years from the date of such Additional Bonds there shall be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect after the issuance of such Additional Bonds. The moneys in the Revenue Fund to the credit of the Reserve Account shall be applied solely for the purpose of paying the interest on Bonds and Bond Anticipation Notes and the principal of and premium, if any, on the Bonds when due, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient moneys in the Revenue Fund on credit to the Interest Account, Principal Account and Sinking Fund Account for such purposes.

In lieu of the deposit of moneys into the Reserve Account, or in substitution therefor or any part thereof from time to time, the County may cause to be so credited a surety bond or an insurance policy, payable to the County for the benefit of the holders of the Bonds, or a letter of credit in an amount equal to the difference between the maximum Debt Service Requirement for such Bonds and the amounts then on deposit in the Reserve Account. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any interest payment due on which moneys will be required to be withdrawn from the Reserve Account, and applied to the payment of the principal or interest on any Bonds and such withdrawals cannot be made by amounts credited to the Reserve Account The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in the highest rating category by any of Fitch Investors Service, L.P., Standard & Poor's Corporation or Moody's Investors Service, Inc., or their successors, or any insurer who holds the highest policyholder rating accorded insurers by A.M. Best & Co. or any comparable service. If Fitch Investors Service, L.P., Moody's Investors Service or Standard & Poor's Corporation then rates the Bonds, the insurer shall be one whose municipal bond insurance policies are rated in the highest rating category by the respective rating agency rating the Bonds. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by Fitch Investors Service, L.P., Standard & Poor's Corporation or Moody's Investors Service, Inc., or their successors, and the letter of credit itself shall be rated in the highest category of either such rating agency; *provided* that if any of Fitch Investor's Service, L.P., Moody's Investors Service or Standard & Poor's Corporation then rates the Bonds the letter of credit issuer and the letter of credit itself shall both be rated in the aforementioned categories of the respective agency rating the Bonds. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this paragraph, the County shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit into the Revenue Fund for credit to the Reserve Account, funds in the amount of the disbursement trade under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the Reserve Account, equals the maximum Debt Service Requirement, such amounts to be provided from the first available moneys after payments to the Interest Account, Principal Account and Sinking Fund Account in the Revenue Fund. Any interest or fees shall be paid from available moneys after payment to the Interest Account, Principal Account and Sinking Fund Account in the Revenue Fund.

Any surety bond insurance policy or letter of credit must be unconditional and irrevocable. To the extent such surety bond, insurance policy or letter of credit expires prior to the final maturity of the Bonds, the County shall provide prior to termination of such bond policy or letter of credit a substitute surety bond, insurance policy or letter of credit complying with the provisions hereof or shall provide from Revenues, an amount such that there will be deposit on the Reserve Account, an amount equal to the maximum Debt Service Requirement.

If the issuer of a surety bond, insurance policy or letter of credit on deposit in the Reserve Account, shall cease to have a rating as described above, the County shall use reasonable efforts to replace such surety bond, insurance policy or letter of credit with one issued by an insurer having a rating so described, but shall not be obligated to pay, or commit to pay, increased fees, expenses or interest in connection with such replacement or to deposit Revenues in the Account, in lieu of replacing such surety bond, insurance policy or letter of credit with another.

4. *Accounts which may be created:* In the event any payments on hedge agreements, support agreements or other financial agreements, other than payments constituting principal of, premium, if any, and interest on, Bonds, shall be secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for the payment and security of the Bonds, a separate account shall be established in the Revenue Fund for the payment thereof and payments to such account shall be made from Revenues at the time and after Revenues are disbursed to the Interest, Principal and Sinking Fund Accounts in the Revenue Fund.

5. *Other purposes:* Money on deposit in the Revenue Fund not required to make the payments or credits referred to in paragraphs (1), (2), (3) and (4) above shall constitute surplus funds and may be used to make all renovations, replacements, renewals and repairs to the System as are necessary to maintain the System in good condition. Such moneys may, however, also be used for making up insufficiencies in any account in the Revenue Fund; for paying the costs of acquisition or construction of plants and properties to comprise part of the System; for paying the cost of reconstructions, improvements, enlargements or extensions to the System; for redeeming or purchasing Bonds; for accelerating the payments required to be made into the Reserve Account; for the making of advances, in anticipation of repayment from evidences of indebtedness or other moneys, for the purpose of acquiring and constructing plants and properties for the storage, supply and treatment of water or the treatment and disposal of sewage, including associated transmission facilities, which the County has elected to acquire, construct and operate as separate utility systems; for the carrying out of any other provisions of the Bond Resolution; for the payment of the principal of and premium, if any, and interest on Bond Anticipation Notes; for the payment of bonds, notes, certificates of indebtedness or other evidences of indebtedness secured by a lien on and pledge of the Revenues of the System junior to the payment and security of the Bonds; for the payment of taxes, assessments or other governmental charges; or for any other lawful purpose of the County with respect to the System.

Covenant as to Rates and Charges

The County covenants to establish, maintain, revise and collect rates and charges for the services, facilities and commodities sold, furnished or supplied through the facilities of the System sufficient to provide the following:

A. Revenues to pay all costs of and expenses in connection with the proper operation and maintenance of the System, to pay the principal of and premium, if any, and interest on the Bonds and interest on any Bond Anticipation Notes, to pay all costs and expenses in connection with all necessary repairs, replacements or renewals of the System and all taxes, assessments or other governmental charges lawfully imposed on the System or on the Revenues therefrom or payments in lieu thereof, to make all credits to the Interest Account, Principal Account, Sinking Fund Account and Reserve Account required by the Bond Resolution and to pay all other amounts which the County may now or hereafter become obligated to pay from the Revenues of the System; and

B. Net Operating Revenues (as defined below) in each year to be at least equal to 1.25 times the aggregate of (a) the Debt Service Requirement during such year on all Bonds at the time outstanding and (b) the interest during such year on all Bond Anticipation Notes at the time outstanding.

"Net Operating Revenues" as used in the Bond Resolution means the Revenues of the System after deduction of the ordinary expenses of operation and maintenance of the System, but excluding from Revenues in such calculation any income, revenues or moneys derived from (i) rates, charges, fees and rentals for the privilege of connecting to the System, (ii) earnings on investments and the proceeds of the sale of investments, (iii) the proceeds of the sale or other disposition of all or any part of the System and (iv) the proceeds of insurance and condemnation awards received with respect to the System.

Issuance of Additional Obligations

The County shall not issue any bonds, notes, certificates of indebtedness or other evidences of indebtedness having in any way a lien and charge on the Revenues prior to the lien and charge created by the Bond Resolution for the payment and security for the Bonds.

Additional Bonds. The County may issue Additional Bonds payable and secured equally and ratably with the Bonds then outstanding for any purpose connected with or pertaining to the System, now or hereafter authorized by law, upon compliance with the following conditions:

1. The County shall not be in default of any provision of the Bond Resolution;

2. There shall not be any deficiency in any of the accounts in the Revenue Fund, including the Interest Account, the Principal Account, the Sinking Fund Account or the Reserve Account in the Revenue Fund; and

3. One-half of the Net Operating Revenues during any 24 consecutive months (the "Base Period") out of the 30 months immediately preceding the issuance of the Additional Bonds, shall have been not less than 1.25 times the maximum Debt Service Requirement to accrue during any year on the Bonds then outstanding and such Additional Bonds.

If any changes have been made and are in effect at the time of the issuance of the Additional Bonds in the rates and charges for the services, facilities and commodities of the System (exclusive of changes in the rates and charges for the privilege of connecting to the System) which were not in effect during all or any part of the Base Period, the Net Operating Revenues for the Base Period shall be adjusted by the Consulting Engineer to reflect the results which would have occurred in the Net Operating Revenues if such changes in the rates and charges had been in effect during all the Base Period; *provided, however,* that (i) unless the changes in the rates and charges shall result in a decrease in Net Operating Revenues or (ii) unless the changes in the rates and charges shall have been in effect at least six (6) months prior to the issuance of the Additional Bonds, the adjustment in the Net Operating Revenues for any part of the Base Period in which the changes in the rates and charges were not in effect, shall reflect not in excess of seventy-five percent (75%) of the changes in the Operating Revenues resulting from the changes in the rates and charges.

In the event the expenses of operation and maintenance of the System during the Base Period include payments to the City of Richmond, Virginia, for the treatment and disposal of sewage of the County, the acquisition and construction of facilities for the treatment and disposal of which the Additional Bonds are being issued (or for which Bond Anticipation Notes to be paid from the Additional Bonds have been issued), then the Net Operating Revenues during the Base Period may be increased by an amount equal to forty percent (40%) of such payments.

Bond Anticipation Notes. The County may issue bonds, notes, certificates of indebtedness or other evidences of indebtedness payable as to interest ("Bond Anticipation Notes") on a parity with the principal of and interest on Bonds issued under the Bond Resolution, upon compliance with the Bond Resolution, including the following conditions:

1. The County shall not be in default of any provision of the Bond Resolution;

2. There shall not be any deficiency in any of the accounts in the Revenue Fund, including the Interest Account, the Principal Account, the Sinking Fund Account or the Reserve Account in the Revenue Fund; and

3. Unless the proposed Bond Anticipation Notes are being issued solely for the purpose of extending or renewing other Bond Anticipation Notes, one-half of the Net Operating Revenues (as defined hereinbefore) during any consecutive twenty-four (24) months (the "Base Period") out of the thirty (30) months immediately preceding the issuance of the Bond Anticipation Notes shall have been not less than one and one-quarter (1.25) times the maximum aggregate in any year of (a) the Debt Service Requirement on the Bonds then outstanding and (b) that amount which would be required to pay the principal of and interest (unless capitalized) on any Bond Anticipation Notes then outstanding (if any) and the proposed Bond Anticipation Notes, on the assumptions that (i) the principal of all the Bond Anticipation Notes matured annually over thirty (30) years from the date of the proposed Bond Anticipation Notes, commencing with the first anniversary of the date of the proposed Notes, (ii) all the Bond Anticipation Notes bore interest at the rate on the Bond Anticipation Notes to be issued, with such interest being payable annually on each anniversary of the date of the proposed Bond Anticipation Notes and (iii) the totals in each year of the principal of and interest payable on all the Bond Anticipation Notes and the Debt Service Requirement on the Bonds then outstanding shall be substantially equal.

Refunding Bonds. The County may issue Additional Bonds without compliance with any other conditions for the purpose of refunding at any time within one year prior to maturity thereof any of the Bonds for the payment of which the County does not have sufficient funds. Any Additional Bonds issued for such purpose shall mature, and any sinking fund credit therefor shall commence, in a year later than the last stated maturity of any Bond then outstanding which is not so refunded.

The County may also issue Additional Bonds without compliance with any other conditions for the purpose of refunding prior to maturity any of the Bonds; *provided* that the Debt Service Requirement on account of the Refunding Bonds and the Bonds which are not refunded shall not be greater in any year in which the Bonds not refunded are to be outstanding than the Debt Service Requirement in such year if the Bonds to be refunded were not so refunded.

Subordinate Indebtedness. The Bond Resolution provides that nothing therein shall prohibit the County from issuing other bonds, notes, certificates of indebtedness or other evidences of indebtedness having a lien on the Revenues which is junior and subordinate to the lien on such Revenues created by the Bond Resolution for the payment and security of the Bonds.

Separate Utility System Indebtedness. The Bond Resolution provides that nothing contained therein shall prohibit the County from issuing bonds to acquire or construct water or sewer facilities, which the County has elected to acquire, construct or operate as utility systems separate from the System, and which bonds are payable solely from the revenues or other income derived from the ownership or operation of such separate utility system; *provided, however,* that the Consulting Engineer shall certify that the acquisition or construction or operation of such separate utility system will not result in a reduction of the Revenues or Net Operating Revenues below the amounts covenanted by the County in the Bond Resolution to be produced.

Hedge Agreements, Support Agreements or Other Financial Agreements; Variable Rate Bonds. The Bond Resolution provides that nothing shall prohibit or prevent, or be deemed or construed to prohibit or prevent, (i) the County from entering into hedge agreements, support agreements or other financial agreements under which payments (including but not limited to, fees, charges, expenses but excluding any termination, indemnification or other payments intended to pay any person for loss of benefits under such agreement) are payable from Revenues and secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for payment and security of the Bonds; *provided* such payments shall meet the requirements of the Resolutions and (ii) the County from issuing variable rate bonds.

Annual Budget

Prior to the commencement of each fiscal year there shall be filed with the Clerk of the Board of Supervisors a proposed budget of contemplated expenditures and estimated revenues of the System during such ensuing fiscal year (the "Budget"). The Budget shall contain an itemized plan of all such expenditures and revenues and such other information as may be required by law. Not later than seven (7) days prior to the commencement of such fiscal year, the Board of Supervisors shall hold a public hearing on the Budget at which any Bondholder or his representative may appear and present objections to the Budget. Notice of such hearing together with a copy of the Budget shall be mailed, at least seven days prior to the hearing, to each Bondholder who has filed with the Board of Supervisors a written request therefor.

Investments of Moneys

Moneys in the Revenue Fund on credit to the Interest Account, the Principal Account and the Sinking Fund Account shall be invested in Investment Securities (as defined below) so as to mature in amounts and at times (as permitted by law) so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at maturity thereof or upon the redemption or the purchase thereof.

Moneys in the Revenue Fund on credit to the Reserve Account shall be invested in Investment Securities of the types described in items (i) through (iv) of the definition of Investment Securities below so as to mature or be subject to redemption within such period as permitted by law but not to exceed twelve (12) years from the date of investment, and in any event not later than the final maturity date of any Bonds then outstanding.

Income derived from investments made pursuant to the preceding two paragraphs shall be treated as Revenues of the System and used and applied as are all other Revenues but shall not be included in any calculation of Revenues for purposes of the rate covenant of the County. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Covenant as to Rates and Charges".

"Investment Securities" shall mean any of the following which are legal investments under the laws of the Commonwealth of Virginia: (i) direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, (ii) obligations of the Federal Land Banks, Federal Home Loan Banks, Federal National Mortgage Association, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, International Bank for Reconstruction and Development, Asian Development Bank and direct and general obligations of any agencies of the United States of America not included in the foregoing listing, (iii) direct and general full faith and credit obligations of the Commonwealth of Virginia, (iv) unlimited tax direct and general obligations of any political unit in the Commonwealth of Virginia, to the payment of which the full faith and credit of such political unit is pledged; *provided* that such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency, and (v) certificates of deposit secured as provided by law of national banking associations located in Virginia and banks and trust companies organized under Virginia law.

Reports and Audits

The County shall keep, separate from all other records and accounts, proper books and accounts showing correct and complete entries of all financial transactions pertaining to the System. The holders of any of the Bonds shall have the right to inspect such books, records and accounts and to inspect the System. Within 180 days following the close of each fiscal year the County shall cause an audit of such books and accounts of the System to be made by an independent firm of certified public accountants, showing the receipts and disbursements for and on account of the System. Each such audit shall include, *inter alia,* (i) a statement of revenues, expenses and retained earnings of the System for such fiscal year, including operating and maintenance expenses in reasonable detail and a statement of cash flow, and (ii) a balance sheet as of the end of such fiscal year, showing separately the cash and investments credited to the funds and accounts required by the Bond Resolution.

A copy of each such audit report shall be sent to the nationally recognized bond rating agencies, and to any Bondholder requesting in writing a copy thereof.

Insurance

The County shall carry insurance on the facilities comprising the System of the kinds which are usually carried upon similar water and sewer systems, including fire, extended coverage and general liability, and additional insurance as shall be determined by the County; *provided, however,* that the County may self-insure to the extent customary with utilities operating similar properties. The proceeds of any policies for general liability shall be paid into the Revenue Fund for credit to the Operation and Maintenance Account and be used in paying the claims on account of which they were received. All moneys received for other losses shall be paid into the Revenue Fund and used for making good the damage in respect to which they were paid; *provided, however,* that the County shall not be required to make good such damage, if in the judgment of the County, the property involved is no longer useful or profitable in the operation of the System or necessary to produce or maintain the Revenues thereof, or which is to be or has been replaced by other property so as not to impair the operation of the System

Additional Covenants of the County

The County (i) shall proceed with all reasonable dispatch with any acquisition, construction, reconstruction, improvement, extension or enlargement to be financed from the proceeds of any Additional Bonds or otherwise financed from the Revenues of the System, (ii) shall maintain all franchises, licenses and permits necessary to the operation of the System or as may be required by law, (iii) shall operate the System as a revenue-producing facility, (iv) shall maintain the System in good repair and working order, (v) shall retain management of, and control over, the System, including the rates, fees and charges and revenues thereof, (vi) shall fulfill all of its agreements, covenants and obligations contained in certain agreements between the County and the City of Richmond, Virginia, regarding wastewater facilities (see the section "THE SYSTEM - Agreements with the City of Richmond" in Appendix A), (vii) shall fulfill all of its agreements, covenants and obligations contained in the Unification Agreement (as defined in the section "THE SYSTEM - History and Development" in Appendix A), and shall not amend the same in any manner adverse to the interest of any Bondholder, (viii) shall not acquire and construct and operate plants and properties used for or pertaining to the storage, supply and treatment of water or the treatment and disposal of sewage, including associated transmission facilities, as separate utility systems, unless in the opinion of a consulting engineer such acquisition and construction and operation will not result in a reduction of the Revenues or Net Operating Revenues below the amounts covenanted in the Bond Resolution by the County to be produced, (ix) shall comply with the requirements of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1996, as amended, throughout the term of the Bonds, (x) shall not permit bonds to be issued by any sanitary district, if such bonds (a) shall be payable in any way from the Revenues prior to or on a parity with the payments to be made to the Operation and Maintenance Account, the Interest Account, the Principal Account, the Sinking Fund Account and the Reserve Account or (b) shall be secured by a lien on the Revenues equal or superior to the lien thereon of the Bonds, and (xi) shall not dispose of or encumber the System or property thereof or interest therein; *provided, however,* that nothing in the Bond Resolution shall prohibit the County from disposing of any property which in its judgment is no longer useful in the operation of the System, or necessary to produce the Revenues thereof, or which is to be replaced by other property so as not to impair the operations of the System Any moneys received from such disposition may be used to acquire or construct new properties to replace the properties disposed of or to acquire or construct new properties to constitute part of the System.

Events of Default, Bondholder Remedies

The Bond Resolution provides that each of the following shall constitute an Event of Default:

1. Failure to pay the principal of and premium, if any, on the Bonds when due;

2. Failure to pay interest on any Bond or Bond Anticipation Note or any sinking fund installment, when due;

3. Failure to perform any other covenant or agreement contained in the Bond Resolution, which failure shall have continued for sixty (60) days after notice thereof from the holders of not less than 20% of the outstanding Bonds; *provided, however*, that if any such failure shall be such that it cannot be cured or corrected within a 60-day period, it shall not constitute an Event of Default if curative or corrective action is instituted within said period and diligently pursued until the failure or performance is cured or corrected;

4. Except as permitted by the Bond Resolution, the sale or transfer of any properties constituting a part of the System, or the voluntary forfeiture of any of its licenses, franchises, permits, privileges, easements or rights of way necessary in the operation of the System;

5. The instituting of any proceeding with the consent of the County for the purpose of effecting a composition between the County and its creditors, the claim of such creditors being payable from the Revenues of the System or for the purpose of adjusting the claims of such creditors pursuant to any federal or State statute;

6. The entering of an order or decree appointing a receiver of the System or any of the properties thereof or interests therein;

7. The assumption of control by a court, under the provision of any applicable bankruptcy laws of the System or any of the properties thereof, and such control shall not be terminated within 90 days from the date of such assumption, or the approval by a court of a petition for the reorganization of the System or rearrangement of the obligations of the County under the Bond Resolution; or

8. If the County shall for any reason be rendered incapable of fulfilling its obligations under the Bond Resolution.

Upon the occurrence of an Event of Default, the holders of not less than 25% in principal amount of the Bonds then outstanding may declare the principal of all the outstanding Bonds, and all accrued and unpaid interest thereon, to be due and payable immediately. That provision is subject to the condition that, if at any time after such declaration and before any further action has been taken, all arrears of interest on the Bonds and Bond Anticipation Notes and principal of the Bonds shall be paid and all other Events of Default, if any, which shall have occurred shall have been remedied, then the holders of a majority in principal amount of the outstanding Bonds may waive such default and annul such declaration.

If an Event of Default shall have occurred and be continuing, the holders of not less than 25% in principal amount of the outstanding Bonds may call a meeting of the holders of Bonds for the purpose of electing a bondholders' committee (the "Bondholders' Committee"). At such meeting the holders of not less than a majority in principal amount of the outstanding Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the Bondholders present may, by a majority of the votes cast, elect one or more persons, who may or may not be Bondholders, to the Committee. The Bondholders' Committee is empowered to exercise, as trustee for the Bondholders, all the rights and powers conferred on any bondholder in the Bond Resolution.

Upon the occurrence of an Event of Default the holders of not less than 25% in principal amount of the Bonds then outstanding or any committee or trustee therefor shall be entitled to the appointment of a receiver by any court of competent jurisdiction. Any such receiver may be appointed upon the application to the Circuit Court of the Fourteenth Judicial Circuit of the Commonwealth of Virginia, or to any other court of competent jurisdiction in the Commonwealth of Virginia. Any receiver so appointed may enter and take possession of the System, operate, maintain and repair the same, impose and prescribe rates, rentals, fees or charges and receive and apply all Revenues thereafter arising therefrom and in the same manner as the County itself might do.

In case an Event of Default shall occur, subject to the provisions referred to in the three next preceding paragraphs, the holder of any outstanding Bond shall have the right, for the equal benefit of all holders of the Bonds, to protect the rights vested in such holders by the Bond Resolution by such appropriate judicial proceeding as such holder shall determine, either by suit in equity or by action at law.

Modification of Bond Resolution

The County may without consent of any Bondholder make any modification of or amendment to the Bond Resolution required to cure any ambiguity or error contained therein, make any amendments thereto to grant to the Bondholders additional rights, or make an amendment thereto for the purpose of providing for the issuance. of Additional Bonds or Bond Anticipation Notes.

The holders of two-thirds in principal amount of the outstanding Bonds shall have power to authorize any modifications proposed by the County of the Bond Resolution, provided that without the consent of the holder of each Bond affected thereby, no modification shall be made which will (a) extend the time of payment of the principal of or the interest on any Bond or reduce the principal amount thereof or the rate of interest thereon or the premium payable upon the redemption thereof, (b) give to any Bond any preference over any other Bond secured equally and ratably therewith, (c) create any pledge prior to or on a parity with the pledge afforded by the Bond Resolution, (d) deprive any Bondholder of the security afforded by the pledge of the Bond Resolution or (e) reduce the percentage in principal amount of the Bonds required to authorize any modification to the Bond Resolution.

If payment of debt service on a series of Additional Bonds is insured or otherwise credit enhanced, the issuer of the policy or credit enhancement may, at the option of the County, be considered as the Bondholder of such series for purposes of consenting to amendments.

Defeasance

The obligations of the County under the Bond Resolution and liens, pledges and covenants of the County therein provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder when such Bond shall have been purchased by the County and canceled or destroyed, or when principal of such Bond and redemption premium, if any, plus interest on such principal to the due date thereof, either (a) shall have been made or (b) shall have been provided for by irrevocably depositing with a paying agent for such Bond moneys sufficient to make such payment or direct and general obligations of, or obligations the principal of and interest on which are guaranteed by, the United

States of America maturing in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, as is more fully set forth in the Bond Resolution.

TAX MATTERS

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the County, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2009 Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel will rely on certain representations, certifications of fact and statements of reasonable expectations made by the County in connection with the Series 2009 Bonds, and Bond Counsel has assumed compliance by the County with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2009 Bonds from gross income under Section 103 of the Code.

Bond Counsel is also of the opinion that, under existing laws of the Commonwealth of Virginia, interest on the Series 2009 Bonds is not includable in computing the Virginia income tax.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2009 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2009 Bonds, or under state and local tax law.

The proposed form of opinion of Bond Counsel to the County is set forth as Appendix F to this Official Statement.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2009 Bonds in order that interest on the Series 2009 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2009 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2009 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, regardless of the date on which such noncompliance occurs or is discovered. The County has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2009 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters, with respect to the Series 2009 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2009 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2009 Bonds.

Prospective owners of the Series 2009 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Series 2009 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" (OID) is the excess of the sum of all amounts payable at the stated maturity of a Series 2009 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2009 Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity as underwriters, placement agents or wholesalers). In general, the issue price for each maturity of the Series 2009 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2009 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludible from gross income for federal income tax purposes to the same extent as other interest on the Series 2009 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2009 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2009 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2009 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2009 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2009 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2009 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2009 Bonds under federal or state law and could affect the market price or marketability of the Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Series 2009 Bonds, will not have an adverse effect on the tax exempt status, market price or marketability of the Series 2009 Bonds.

Prospective purchasers of the Series 2009 Bonds should consult their own tax advisors regarding the foregoing matters.

UNDERWRITING

Morgan Keegan & Company, Inc. and Davenport & Company LLC (collectively, the "Underwriters") have agreed to purchase the Series 2009 Bonds at an aggregate purchase price equal to the initial public offering prices of the Series 2009 Bonds, less an underwriting discount in the amount of $319,339.95, pursuant to the terms of a Purchase Contract (the "Purchase Contract") by and between the County and the Underwriters. The Purchase Contract provides that the obligation of the Underwriters is subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Series 2009 Bonds if any of the Series 2009 Bonds are purchased. The Bonds may be offered to certain dealers (including dealers depositing such Series 2009 Bonds into investment trusts, account or funds) and others at prices lower than the initial public offering prices. After the initial public offering the public offering prices of the Series 2009 Bonds may be changed from time to time by the Underwriters.

RATINGS

Fitch Ratings, One Street Plaza, New York, New York, Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York, and Standard & Poor's Corporation, 55 Water Street, New York, New York, have assigned ratings of "AAA", "Aa2" and "AAA", respectively, to the Series 2009 Bonds. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The County furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the County. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any such rating agencies if, in the judgment of such agency, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the County. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2009 Bonds.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

The County will furnish to the underwriters a certificate dated the date of delivery of the Series 2009 Bonds, signed by the County Manager and the County's Director of Finance, and stating that, both as of the date of this Official Statement and the date of delivery of the Series 2009 Bonds, the information of or pertaining to the County contained in this Official Statement does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make such statements, in the light of the circumstances under which they were made, not misleading and that no material adverse change has occurred in the financial condition of the County between the date of this Official Statement and the date of delivery other than as contemplated in this Official Statement. Such certificate will state, however, that the County Manager and the Director of Finance did not independently verify the information in this Official Statement indicated as having been obtained or derived from sources other than the County and its officers but that they have no reason to believe that such information is not accurate.

CONTINUING DISCLOSURE

The County has undertaken in its Continuing Disclosure Certificate, the form of which is attached as Appendix E to this Official Statement, to comply with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), by providing certain annual financial information and operating data and event notices required by the Rule. Such information is to be filed with all nationally recognized municipal securities information repositories ("NRMSIRs") and with any Virginia qualifying state information depository that may be created. In the Continuing Disclosure Certificate, the County represents that, in the five previous years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

No state information depository ("SID") has been created for the Commonwealth. If, however, a SID is hereafter created for such state, the County is obligated to make filings and provide notices to the SID as required by the Rule. Investors and other interested parties may contact any NRMSIR for additional information concerning its services. The County makes no representations as to the scope of the services provided to the secondary market by any NRMSIR or as to the costs for the provision of such services by any NRMSIR.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and validity of the Series 2009 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the County, whose opinion with respect to the Series 2009 Bonds will be furnished at the expense of the County upon delivery of the Series 2009 Bonds. Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness, or fairness. Accordingly, Bond Counsel will express no opinion of any kind as to the Official Statement, and the opinions of Bond Counsel will be limited to matters relating to the authorization and validity of the Series 2009 Bonds and the exemption of interest on the Series 2009 Bonds under present federal and Virginia income tax laws.

The proposed form of opinion of Bond Counsel to the County is set forth as Appendix F to this Official Statement.

INDEPENDENT AUDITORS

The financial statements of the County of Henrico, Virginia, Water and Sewer Revenue Fund, as of and for the year ended June 30, 2008, included in this Official Statement as Appendix B have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein.

The auditors have not been requested to consent, nor have they rendered any consent, to the inclusion of the financial statements in this Official Statement, nor have the auditors been engaged to perform any procedures relating to this Official Statement or the issuance of the Series 2009 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc. will verify certain mathematical computations as to the sufficiency of the moneys and investments deposited under the Refunding Trust Agreement (i) to pay, when due, the interest on the Refunded Bonds from the date the Series 2009 Bonds are issued to the date fixed for the redemption of the Refunded Bonds and (ii) to pay the redemption prices of the Refunded Bonds on the date fixed for the redemption of the Refunded Bonds. See "PLAN OF REFUNDING" above.

FINANCIAL ADVISOR

BB&T Capital Markets, a division of Scott & Stringfellow, Inc., 909 East Main Street, Richmond, Virginia 23219, serves as financial advisor to the County on debt management and capital financing matters and has assisted the County in the issuance and sale of the Series 2009 Bonds.

LITIGATION

The County Attorney advises that there is no litigation pending or, to the best of his knowledge, threatened, in any way questioning or affecting the validity of the Series 2009 Bonds, or the power and authority of the County to fix and collect rates and charges for the services, facilities and commodities sold, furnished or supplied through the System or the power and authority of the County to pledge the Revenues therefrom to the payment of the principal of and interest on the Series 2009 Bonds.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2009 Bonds. All quotations from and summaries and explanations of laws contained in this Official Statement do not purport to be complete and reference is made to said laws for full and complete statements of their provisions. Any questions concerning the contents of this Official Statement should be directed to the following: John A. Vithoulkas, Director of Finance, (804) 501-5200; John J. Conrad, Senior Vice President, BB&T Capital Markets, A Division of Scott & Stringfellow, Inc., (804) 649-3935; or Donald G. Gurney, Hawkins Delafield & Wood LLP, (212) 820-9438.

The execution of this Official Statement and its delivery have been duly authorized by the Board of Supervisors. The County Manager and the Director of Finance of the County deemed the Preliminary Official Statement, dated February 12, 2009, final as of its date within the meaning of the Rule.

COUNTY OF HENRICO, VIRGINIA

/s/ VIRGIL R. HAZELETT, P.E.
County Manager

/s/ JOHN A. VITHOULKAS
Director of Finance

APPENDIX A

THE SYSTEM

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The County of Henrico, Virginia (the "County") is situated in central Virginia and surrounds the City of Richmond (the "City" or "Richmond") on the north side of the James River. Although much of the County's 244.06 square miles consists of highly developed urban and suburban areas, there is also a considerable amount of undeveloped agricultural and forest land. In Virginia, cities and counties are distinct units of government and do not overlap. Thus, the County is responsible for providing all local government services to its residents. The population of the County was 305,634 for 2008. For a more detailed description of the County, see Appendix C.

THE SYSTEM

History and Development

Prior to October 1968, water and sewer services in the more densely populated areas of the County were provided by sanitary districts. As the County developed and its population increased, the Board of Supervisors determined that water and sewer services could be provided more economically on a County-wide basis and that extension of and improvements to public water and sewer facilities needed to be made without regard to sanitary district boundaries. In October 1968, the County entered into an agreement with the sanitary districts in the County, which was supplemented in 1975 (together, the "Unification Agreement"), to provide a unified County-wide system. Under the Unification Agreement, the County consolidated the water and sewer facilities of the sanitary districts into a single County-wide system (the "System") and also consolidated the revenues derived from such water and sewer facilities.

Organization and Administration

The County Department of Public Utilities (the "Department") is responsible for the operation and maintenance of the System and for the construction of additions and improvements thereto. The Department is under the direction of Arthur D. Petrini, P.E., Director of Public Utilities, who reports through the Deputy County Manager for Community Operations to the County Manager. For resumes of key officials, see the section "COUNTY GOVERNMENT - Certain County Staff Members" in Appendix C. As of June 30, 2008, there were 320 positions in the Department for activities directly relating to providing water and sewer services. The County is prohibited by law from recognizing a labor union as a bargaining agent for any County employees, and is prohibited from collectively bargaining with any such union or its agents concerning any matter relating to those employees or their employment with the County.

In addition to providing water and sewer service within the County, the Department is responsible for County-operated refuse collection and disposal, the operation of one County-owned sanitary landfill and the administration of street lighting service provided to five sanitary districts. As of June 30, 2008, there were 75 positions in the Department for activities directly related to solid waste services. The Department accounts for the receipts and disbursements related to providing these other services separately from revenues and expenses of the System. Funds for these other services are segregated from funds of the System. A portion of the administrative costs of the Department which, as discussed below, are paid from the Water and Sewer System Revenue Fund is charged to funds established to account for these other services.

In providing water and sewer services in the County, the Department receives support from other County departments. The Department (and, therefore, the System) is charged by the County for the actual cost incurred by it, on a pro rata basis, for data processing services, accounting services, vehicle maintenance services, risk management, office space, and the use of certain County-owned vehicles. The County has chosen not to charge the Department a payment-in-lieu of taxes for real property assets of the Water and Sewer system.

The Department does not provide any free water or sewer service within the County and all customers, including the County government, are subject to the same schedule of rates and charges.

Properties and Services

The primary functions of the System are water supply, storage and distribution and wastewater collection, transmission, treatment and disposal. The System provides service to approximately 60% of the geographical area of the County.

The County provides water service to approximately 94,200 residential, commercial, and industrial customers. The County also has service agreements to supply limited amounts of water to Hanover County and Goochland County. Currently about 40 percent of the County's water supply is purchased from the City of Richmond. The remainder is supplied by the County's 55 MGD Water Treatment Plant which was completed in April, 2004.

The County provides wastewater service to approximately 91,000 residential, commercial, and industrial customers. The County also has service agreements to treat a limited quantity of wastewater from Hanover County, Goochland County, and the City of Richmond. The County operates a 75 MGD state of the art wastewater treatment facility. The upgrade and expansion of this facility from 45 MGD to 75 MGD was completed in August, 2005.

The County purchases about 40 percent of its current water requirements from the City of Richmond at 40 metering locations around the boundary with the City. The System's water facilities consist of approximately 1,493 miles of water distribution mains, 9 pump stations and storage facilities having a capacity of approximately 31 million gallons.

Wastewater is transmitted to the County Wastewater Treatment Facility where it is treated pursuant to a Virginia Pollutant Discharge Elimination System Permit. Limited volumes of wastewater from the County continue to be treated at Richmond's wastewater treatment facility, and limited volumes of wastewater from Richmond are treated at the County Wastewater Treatment Facility under a wastewater agreement that became effective November 1, 1989. Wastewater from Hanover County and Goochland County are treated at the County Wastewater Treatment Facility under agreements between the County and Hanover and Goochland Counties.

Operations and Maintenance Procedures

The County has implemented modern operation and maintenance procedures with respect to the System and has undertaken several studies and programs to upgrade System performance. Although the City tests the water it sells to the County, the County maintains its own laboratory to conduct daily tests of water quality. The County maintains ongoing educational programs to keep employees of the System aware of new developments in water and wastewater technology. In addition, all treatment plant operators are required to attend technical schools and to obtain proper certification.

Mechanical equipment is maintained in County-owned shops, and operating facilities are regularly inspected and maintained by System employees. The County is currently involved in a six-year automated meter reading (AMR) and meter replacement project which is described below. Employees of the System throughout the County are linked together by a County-owned radio communication system which is interlinked with the County police and fire departments. Maintenance of County sewer lines is enhanced by the use of trucks equipped with high velocity water jets and vans equipped with closed circuit television cameras which can be maneuvered through the sewer mains to inspect the sewer system. Operation of the water distribution and sewage collection and pumping systems is enhanced by use of a modern supervisory distribution control and data acquisition (SCADA) system.

Two major projects are underway that will increase the efficiency and effectiveness of the Public Utilities Department. The $17.3 million Automated Meter Reading (AMR) project will replace approximately 90,000 meters and enable meter reading via radio transmission to a van traveling along the County neighborhoods. This project will eliminate manual meter reading errors, reduce the number of estimated bills and enable the Department to serve additional customers without adding staff. This project is scheduled for completion in fiscal year 2013, with the majority of the large meters being replaced in fiscal year 2010. Also, the $2 million Customer Information System (CIS) will replace the current billing system with the Infinity billing system from Advanced Utility. This system will integrate with various other systems such as AMR, the County cashiering system, and ORACLE financials, and ultimately include interactive voice response for our customers to be able to get limited information on their account without speaking to a representative if they would like to use the service. This project is scheduled for completion in late Spring 2009.

Rates and Charges

The most recent rate increase, effective July 1, 2008, was approximately a 5% increase in water rates and approximately a 5% increase in sewer rates. The Board of Supervisors also increased connection fees by approximately 64% effective October 1, 2008 based on a cost of service study. However, in an emergency ordinance, approved November 25, 2008 and made permanent on January 13, 2009, the Board changed the effective date for the connection fee increases from October 1, 2008 to January 1, 2010 as a means to stimulate economic development. Therefore, refunds were issued for all connection fees collected between October 1, 2008 and November 25, 2008 that exceeded the connection fees in effect on September 30, 2008. The total for these refunds was $178,780.

Water and sewer rates are based on a forecast model compiled annually by the County. Estimates for fiscal year 2010 are being finalized as of the date of this Official Statement, but in the upcoming years revenue estimates are based on 7 - 8% rate increases and a 1.5% growth in the customer base. A schedule of rates, fees, and charges effective as of the date of this Official Statement is included in the following tables.

WATER AND SEWER RATES
(Effective July 1, 2008)

SINGLE-FAMILY RESIDENTIAL CUSTOMERS

Water and sewer customers are billed every two months and pay both a *service* charge and a *volume* charge for water and sewer services.

Bi-Monthly Service Charge	**Water**	**Sewer**
Service Charge for Residences (5/8” meter)	$ 9.80	$ 19.70
(If water is not metered there is a flat charge of $47.90 for sewer service)		

Volume Charge	**Water**	**Sewer**
The charge for each hundred cubic feet CCF[1] of water used	$ 2.25	$ 2.38
If 6 CCF or less	1.40	1.46

COMMERCIAL AND INDUSTRIAL CUSTOMERS

Bi-Monthly Service Charge	**Water**	**Sewer**
5/8” Meter	$ 9.80	$ 19.70
1” Meter	23.10	32.70
1½” Meter	42.50	47.90
2” Meter	65.30	69.10
3” Meter	107.70	116.90
4” Meter	173.00	184.90
6” Meter	341.40	368.20
8” or 10” Meter	654.40	630.30

Volume Charge Per CCF	**Water**	**Sewer**
First 10,000 CCF	$ 2.25	$ 2.38
Next 70,000 CCF	1.53	1.70
Over 80,000 CCF	1.10	1.53

(1) Hundred cubic feet. One hundred cubic feet is approximately 748 gallons.
(2) Industrial customers are subject to surcharges for discharge of strong wastes in addition to sewer service and volume charges listed above.

HENRICO COUNTY WATER AND SEWER CONNECTION FEES
(Effective October 1, 2007)

	Water		Sewer	
	Connection Fees	Local Facilities Fees(A)	Connection Fees	Local Facilities Fees(B)
Single Family Residential with existing well and/or septic system	$ 860+	$1,355	$1,720+	$2,025
Single Family Residential including semi-detached dwellings	$1,720+	$1,355	$3,465+	$2,025
Multi-Family Residential Apts., Townhouses, Condos, & Cluster Homes; Duplexes	$2,370 (per unit)	(A)	$5,225 (per unit)	(B)
Motel and Hotel	$ 815 (per room)	(A)	$1,720 (per room)	(B)
Hospital	$2,525 (per bed)	(A)	$6,935 (per bed)	(B)
Nursing Homes and Dormitories	$1,080 (per bed)	(A)	$2,645 (per bed)	(B)
Facilities providing permanent housing for elderly or handicapped persons and operated by charitable, non-stock, non-profit organizations which are exempted by § 501(c)(3) of the Internal Revenue Code	$615 (per unit)	(A)	$1,280 (per unit)	(B)
All other business, industrial & public buildings based on meter size as follows:				
5/8”	$ 1,720	(A)	$ 3,465	(B)
1”	6,155	(A)	13,515	(B)
1-1/2”	12,280	(A)	27,050	(B)
2”	24,375	(A)	53,650	(B)
3”	48,760	(A)	107,735	(B)
4”	84,945	(A)	187,980	(B)
6”	182,465	(A)	401,905	(B)
8”	456,165	(A)	1,004,380	(B)
10”	731,425	(A)	1,612,305	(B)

(A) Local facilities fee will be due where local facilities are available to connector’s property and the costs have not been previously assessed against the property. This fee is to be $1,355 for 5/8” meter, $1,560 for 1” meter, $2,440 for 1½” meter and $2,730 for 2” meter. The Director of Public Utilities will determine this fee for meter size in excess of 2”. Local facilities are those portions of the County’s water and sewer systems which are used to, respectively, deliver water to or collect wastewater from individual users in local areas, subdivisions and developments. Included are local water distribution mains and valves, local wastewater collection mains, water service lines, meter setters, meter boxes, wastewater lateral lines to the user’s premises and fire hydrants.

(B) Local facilities fee is $2,025 for sewer when applicable.

INSTALLATION CHARGES
(Effective October 1, 2007)

WATER INSTALLATION CHARGE TABLE
(Not including cost of meter)

METER SIZE	SERVICE SIZE	INSTALLATION CHARGE
5/8”	¾”	$1,355
5/8”	1”	1,355
5/8”	1-1/2”	1,485
1”	1”	1,355
1”	1-1/2”	1,560
1”	2”	1,700
1-112”	1-1/2”	2,440
1-1/2”	2”	2,730
2”	2”	2,730

SEWER INSTALLATION CHARGE TABLE

1) 4” or 6” sewer lateral installation charge = $2,025

2) COUNTY SEWER & WATER MAIN EXTENSION COSTS:

Sewer. $50 per foot for vacant lot or $25 per foot for existing single family residence, plus sewer installation charge for each connection, plus basic connection fee.

Water: $30 per foot for vacant lot or $15 per foot for existing single family residence, plus water installation charge for each connection, plus basic connection fee.

HENRICO COUNTY WATER AND SEWER CONNECTION FEES
(Effective January 1, 2010)

	Water		Sewer	
	Connection Fees	Local Facilities Fees(A)	Connection Fees	Local Facilities Fees(B)
Single Family Residential with existing well and/or septic system	$ 1,935+	$2,160	$2,365+	$3,190
Single Family Residential including semi-detached dwellings	$3,870+	$2,160	$4,730+	$3,190
Multi-Family Residential Apts., Townhouses, Condos, & Cluster Homes; Duplexes	$3,870 (per unit)	(A)	$4,730 (per unit)	(B)
Motel and Hotel	$2,315 (per room)	(A)	$2,835 (per room)	(B)
Hospital	$5,350 (per bed)	(A)	$6,540 (per bed)	(B)
Nursing Homes and Dormitories	$3,565 (per bed)	(A)	$4,360 (per bed)	(B)
Facilities providing permanent housing for elderly or handicapped persons and operated by charitable, non-stock, non-profit organizations which are exempted by § 501(c)(3) of the Internal Revenue Code	$1,375 (per unit)	(A)	$1,680 (per unit)	(B)
All other business, industrial & public buildings based on meter size as follows:				
5/8”	$ 3,870	(A)	$ 4,730	(B)
1”	13,850	(A)	18,460	(B)
1-1/2”	27,635	(A)	36,945	(B)
2”	54,855	(A)	73,275	(B)
3”	109,730	(A)	147,140	(B)
4”	191,165	(A)	256,740	(B)
6”	410,630	(A)	548,915	(B)
8”	1,026,580	(A)	1,371,760	(B)
10”	1,646,040	(A)	2,202,050	(B)

(A) Local facilities fee will be due where local facilities are available to connector’s property and the costs have not been previously assessed against the property. This fee is to be $2,160 for 5/8” meter, $2,640 for 1” meter, $4,190 for 1½” meter and $4,190 for 2” meter. The Director of Public Utilities will determine this fee for meter size in excess of 2”. Local facilities are those portions of the County’s water and sewer systems which are used to, respectively, deliver water to or collect wastewater from individual users in local areas, subdivisions and developments. Included are local water distribution mains and valves, local wastewater collection mains, water service lines, meter setters, meter boxes, wastewater lateral lines to the user’s premises and fire hydrants.

(B) Local facilities fee is $3,190 for sewer when applicable.

INSTALLATION CHARGES
(Effective January 1, 2010)

WATER INSTALLATION CHARGE TABLE
(Not including cost of meter)

METER SIZE	SERVICE SIZE	INSTALLATION CHARGE
5/8”	¾”	$2,160
5/8”	1”	2,160
5/8”	1-1/2”	2,640
1”	1”	2,290
1”	1-1/2”	2,640
1”	2”	2,640
1-112”	1-1/2”	4,190
1-1/2”	2”	4,190
2”	2”	4,190

SEWER INSTALLATION CHARGE TABLE

1) 4” or 6” sewer lateral installation charge = $3,190

2) COUNTY SEWER & WATER MAIN EXTENSION COSTS:

Sewer. $50 per foot for vacant lot or $25 per foot for existing single family residence, plus sewer installation charge for each connection, plus basic connection fee.

Water: $30 per foot for vacant lot or $15 per foot for existing single family residence, plus water installation charge for each connection, plus basic connection fee.

Billing and Collection Procedures

The County renders a monthly bill to certain industrial accounts for water and sewer services and to Hanover County and Goochland County for water and sewer service. All other customers of the System are billed once every two months. If an account remains unpaid 30 days after the billing date, a notice is mailed to the customer whose account is delinquent and a late payment fee is imposed on the account. Ten days thereafter, if the account still has not been paid, service may be discontinued by the County. The County is authorized to enforce the collection of delinquent accounts by judicial proceedings, if necessary. For the five fiscal years ended June 30, 2008, the Department estimates that collection of water and sewer service charges averaged 1% of total billings during such period.

Largest Accounts

The following table lists the 10 largest accounts of the System (excluding Hanover County and Goochland County, which purchase water and sewer service from the County on a wholesale basis, and excluding the County government) during the fiscal year ended June 30, 2008.

Customer	Fiscal Year 2008 Billings	% of Total System Operating Revenue(1)
Qimonda Richmond, LLC (2)	$4,436,948	5.2%
Forest City Development	522,554	0.6
Mid Atlantic Coca Cola	428,495	0.5
Parham Road Apartment Association	403,751	0.5
Capital Regional Airport Commission	329,360	0.4
Wyeth	329,176	0.4
Crofton Square Association	308,842	0.4
Henrico Doctor's Hospital	265,131	0.3
Essex Apartments Association	247,282	0.3
Colonial Court Apartments	234,804	0.3
Total	$7,506,343	8.9%

(1) System operating revenue does not include other revenue.

(2) Due to current economic difficulties being experienced in the semiconductor industry, the Department's FY 2010 revenue estimates do not assume any revenue from this customer. In early February 2009, Qimonda Richmond, LLC, announced that its facilities in the eastern part of the County would suspend operations in early April 2009. The FY 2009-2010 budget for the System does not anticipate any revenue from this taxpayer. See "Fiscal Year 2009" below.

Fiscal Year 2009

The County closely monitors the System's financial performance, with specific focus on operating revenues and expenditures. The current fiscal year's budget calls for operating revenues of approximately $99 million, operating expenses of approximately $53.8 million, and capital spending (including debt service) of approximately $68.1 million. See "WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN" below. As described above, the County has not budgeted revenues from Qimonda, the System's largest customer, due to uncertainties in the semi-conductor manufacturing industry. As of this date, the County is expecting that it will finish the 2009 fiscal year substantially as budgeted.

Agreements with the City of Richmond

As mentioned above, the County purchases some of the System's water requirements from the City of Richmond. Approximately 60 percent of the County's demand is met by the County's 55 MGD water treatment facility which opened in April 2004. In FY 2008 the County purchased 7,634,647 ccfs (one ccf is equal to 100 cubic feet or 748 gallons) from the City of Richmond and treated 12,798,150 ccfs at the County's plant. The City treats a limited quantity of wastewater originating from the System. Both water supply and wastewater treatment are provided by the City pursuant to agreements with the County described below.

Water Supply

On September 28, 1994 (effective as of September 29, 1994), the Board of Supervisors approved a water supply contract (the "Contract") under which the City supplies the County with treated water, which replaced a contract which was effective July 1, 1985, between the City and the County. The Contract provides that the City will supply the County with water from the City's distribution system at various points around the City, and that the County will distribute the water to the customers of its System. The Contract also provides that the County may resell the water to customers of the System located outside the County (*e.g.*, Hanover County and Goochland County). The Contract requires the County to purchase substantially all of its water requirements from the City until the Henrico water treatment plant opened, which occurred contractually on July 1, 2004. The Contract allowed the County to construct a water treatment facility to begin operation on or after January 1, 2003 to meet increased County demands. The County has exercised its option under the Contract requesting that, after January 1, 2007, the City provide the County up to 35 MGD of capacity. Pursuant to the Contract, the County must provide the City with an annual projection of its water requirements for the next 10 years and the City must advise the County within 90 days of any modifications or improvements to its water system necessary to supply the County's projected requirements. The County must concur in the making of any modifications or improvements if the costs of such modifications or improvements are to be borne by the County. The Contract provides that the County shall be responsible for providing water distribution facilities within the County and that the County will maintain water storage and pumping facilities adequate to provide service in the County under the Contract.

The volume of water supplied by the City to the County is measured by meters and the City renders a monthly bill to the County. Charges payable by the County are determined as set forth in the Contract, based on a mutually agreed upon cost of service study which is updated each year. The Contract is for a term until July 1, 2040 and, thereafter, until cancelled upon five years' notice by either party. See also the section "WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN".

Wastewater Treatment

Prior to July 1, 1976, wastewater originating in the County was treated by the City pursuant to an agreement dated July 1, 1968, between the County and the City. Such agreement was to have been effective for a term of 20 years.

Between 1976 and November 1989, the County undertook the development of the Wastewater Treatment Facility in the County which opened in November 1989. Since then, the County and the City have operated under the terms of an agreement effective November 1, 1989. This agreement provides for the City to treat limited flows from the County and for the County to treat limited flows from the City. See also the subsection above "Properties and Services".

System Statistics

	Fiscal Years Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Water:					
Number of Customers	86,352	88,212	90,015	91,482	94,186
Miles of Water Mains	1,370.04	1,403.45	1,431.19	1,462.52	1,492.48
Hydrants in Service	10,115	10,412	10,709	11,054	11,442
Average daily flow (mgd)(1)	28.8	29.4	34.8	34.6	36.5
Wastewater:					
Number of Customers	84,845	86,624	88,391	89,790	90,936
Miles of Sewer Mains	1,324.39	1,345.06	1,364.19	1,390.58	1,414.29
Average daily flow (mgd)(1)	27.3	28.0	28.7	29.6	30.6

(1) (mgd) million gallons/day. Average daily flow is based on metered consumption as billed. Wastewater flow is based on metered water consumption and calculated as provided by the County ordinance for billing. Calculation of residential sewer billing is based on a fixed charge, plus a volume charge. Additional allowance is made for increased consumption of water in the summer, which is not related to sewer service.

SUMMARY OF REVENUES AND EXPENSES OF THE SYSTEM

The following schedule sets forth the revenues and expenses (excluding depreciation and interest expenses) of the System for the five fiscal years ended June 30, 2008. The financial data for the fiscal years ended June 30, 2004 through June 30, 2008 have been derived from the audited financial statements of the System. The financial data set forth below should be read in conjunction with the financial statements for the fiscal years ended June 30, 2008 and notes thereto and the report on the 2008 financial statements of independent auditors, which are included as Appendix B.

	Fiscal Year Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Operating Revenues:					
Water System	$30,914,044	$32,284,332	$38,531,281	$39,931,003	$41,510,963
Sewer System	35,204,568	36,654,354	40,673,880	40,912,796	43,237,251
Other	1,450,616	1,500,248	1,544,585	573,976	755,834
Total Operating Revenue	$67,569,228	$70,438,934	$80,749,746	$81,417,775	$85,504,048
Operating Expenses					
Water System					
Sources of Supply	$11,621,089	$ 9,898,877	$8,117,248	$6,173,566	$ 8,841,277
Pumping and Treatment	3,687,245	5,338,784	6,840,260	6,858,505	7,995,013
Transmission and Distribution	3,015,796	3,461,252	4,077,672	3,748,523	4,363,096
Customer Billing and Services	866,069	931,755	966,376	1,010,517	1,071,969
General and Administrative	6,325,987	6,902,677	6,622,285	6,209,511	4,659,295
Total Water System	$25,516,186	$26,533,345	$26,623,841	$24,000,622	$26,930,650
Sewer System					
Treatment and Disposal	$ 6,174,923	$ 5,502,797	6,106,027	$ 7,300,810	$ 7,911,991
Collection	2,324,887	2,789,032	2,596,128	2,975,875	3,306,775
Pumping	3,507,582	3,566,924	3,486,109	5,170,582	7,936,001
Customer Billing and Services	850,955	914,983	949,046	991,828	1,034,980
General and Administrative	6,556,371	7,004,721	7,228,197	6,984,288	4,936,918
Total Sewer System	$19,414,718	$19,778,457	$20,365,507	$23,423,383	$25,126,665
Total Operating Expenses	$44,930,904	$46,311,802	$46,989,348	$47,424,005	$52,057,315
Net Operating Revenues	$22,638,324	$24,127,132	$33,760,398	$33,993,770	$33,446,733
Non-Operating Income					
Investment Income	$ 691,699	$ 787,816	$ 691,699	$ 5,811,620	$ 4,788,297
Connection Fees [1]	12,637,681	11,299,505	12,637,681	10,980,755	11,767,586
Miscellaneous	1,118,882	206,812	174,173	-744,786	-382,354
Total Other Income	$14,448,262	$12,294,133	$13,503,553	$16,047,589	$16,173,529
Total Amounts Available for Debt Service	$37,086,586	$36,421,265	$47,263,951	$50,041,359	$49,620,262

[1] Connection Fees are not included as "Net Operating Revenues" for the purposes of calculating debt service coverage. Payments in lieu of taxes (prior to FY 2008 when they were eliminated) are subtracted from expenses and bond payments made from the general fund are added for purposes of calculating debt service coverage. See the section "HISTORICAL DEBT SERVICE COVERAGE".

HISTORICAL DEBT SERVICE COVERAGE

As shown on the System's financial statements, the System's net operating revenues were 1.98 times the System's annual debt service requirement for the fiscal year ended June 30, 2008. See Note 3 in the financial statement attached in Appendix B. There can be no assurances that the System will maintain similar debt service coverage ratios in the future.

ANNUAL DEBT SERVICE REQUIREMENTS[1]

The following table sets forth for each fiscal year ending June 30 the approximate amounts payable from the revenues of the System as principal of and interest on (a) its Outstanding Parity Bonds and (b) its Subordinate Note.

Fiscal Year Ending June 30	Debt Service on Outstanding Parity Bonds			Debt Service on Subordinate Note[3]			Series 2009 Refunding Bonds			Total Debt Service
	Principal	Interest	Total[2]	Principal	Interest	Total	Principal	Interest	Total	
2009	$ 7,610,000	$ 6,299,603	$ 13,909,603	$ 755,000	$1,649,203	$ 2,404,203	$ 315,000	$ 470,815	$ 785,815	$ 17,099,621
2010	3,390,000	4,193,556	7,583,556	795,000	1,604,059	2,399,059	2,455,000	2,964,119	5,419,119	15,401,734
2011	3,415,000	4,046,006	7,461,006	840,000	1,556,440	2,396,440	2,845,000	2,902,744	5,747,744	15,605,190
2012	3,455,000	3,897,531	7,352,531	885,000	1,506,199	2,391,199	4,945,000	2,831,619	7,776,619	17,520,349
2013	3,500,000	3,742,056	7,242,056	935,000	1,453,192	2,388,192	5,065,000	2,633,819	7,698,819	17,329,067
2014	2,365,000	3,583,019	5,948,019	985,000	1,397,272	2,382,272	4,275,000	2,431,219	6,706,219	15,036,510
2015	1,820,000	3,464,769	5,284,769	1,040,000	1,338,294	2,378,294	2,685,000	2,335,031	5,020,031	12,683,094
2016	1,915,000	3,373,769	5,288,769	1,100,000	1,275,966	2,375,966	2,820,000	2,200,781	5,020,781	12,685,516
2017	2,010,000	3,278,019	5,288,019	1,160,000	1,210,144	2,370,144	2,890,000	2,130,281	5,020,281	12,678,444
2018	2,110,000	3,177,519	5,287,519	1,220,000	1,140,826	2,360,826	2,965,000	2,050,806	5,015,806	12,664,151
2019	2,205,000	3,082,569	5,287,569	1,290,000	1,067,723	2,357,723	3,115,000	1,902,556	5,017,556	12,662,848
2020	2,315,000	2,972,319	5,287,319	1,360,000	990,541	2,350,541	3,275,000	1,746,806	5,021,806	12,659,666
2021	2,420,000	2,865,250	5,285,250	1,435,000	909,137	2,344,137	3,430,000	1,583,056	5,013,056	12,642,443
2022	2,545,000	2,744,250	5,289,250	1,515,000	823,218	2,338,218	3,600,000	1,411,556	5,011,556	12,639,024
2023	2,670,000	2,617,000	5,287,000	1,595,000	732,639	2,327,639	3,780,000	1,231,556	5,011,556	12,626,195
2024	2,805,000	2,483,500	5,288,500	1,685,000	637,109	2,322,109	3,965,000	1,042,556	5,007,556	12,618,165
2025	2,945,000	2,343,250	5,288,250	1,775,000	536,337	2,311,337	4,165,000	844,306	5,009,306	12,608,893
2026	3,090,000	2,196,000	5,286,000	1,875,000	430,031	2,305,031	4,380,000	636,056	5,016,056	12,607,087
2027	3,245,000	2,041,500	5,286,500	1,980,000	317,754	2,297,754	4,585,000	428,006	5,013,006	12,597,260
2028	3,410,000	1,879,250	5,289,250	2,085,000	199,361	2,284,361	4,805,000	210,219	5,015,219	12,588,830
2029	3,580,000	1,708,750	5,288,750	-	-	-	-	-	-	5,288,750
2030	3,760,000	1,529,750	5,289,750	-	-	-	-	-	-	5,289,750
2031	3,945,000	1,341,750	5,286,750	-	-	-	-	-	-	5,286,750
2032	4,145,000	1,144,500	5,289,500	-	-	-	-	-	-	5,289,500
2033	4,350,000	937,250	5,287,250	-	-	-	-	-	-	5,287,250
2034	4,565,000	719,750	5,284,750	-	-	-	-	-	-	5,284,750
2035	4,795,000	491,500	5,286,500	-	-	-	-	-	-	5,286,500
2036	5,035,000	251,750	5,286,750	-	-	-	-	-	-	5,286,750
Totals	**$93,415,000**	**$72,405,734**	**$165,820,734**	**$26,310,000**	**$20,775,445**	**$47,085,445**	**$70,360,000**	**$33,987,909**	**$104,347,909**	**$317,254,088**

(1) Totals may not add due to rounding.
(2) 2006 Water and Sewer Revenue and Refunding Revenue Bonds, 2002 Water and Sewer Refunding Revenue Bonds and 1994 Water and Sewer Refunding Revenue Bonds (not including the Refunded Bonds).
(3) 1997 Virginia Resources Authority Bonds.

In 1997, the Virginia Resources Authority (VRA) issued $34,380,000 in Variable Rate Demand/Fixed Rate Water and Sewer Revenue Bonds, Series 1997. VRA used a portion of the bond proceeds to purchase the County of Henrico, $32,000,000 Water and Sewer System Revenue Notes, Subordinate Series 1997. The interest on this note is variable, the initial rate was 3.55% and the maximum rate is 12%. An assumed interest rate of 5.825% (which includes the Liquidity Facility Fee and Remarketing Fee) is used for future interest as actual rates are recalculated weekly. SunTrust Bank is currently the liquidity facility provider.

WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN

The Board of Supervisors annually adopts a Five Year Capital Improvement Plan for the System (the "CIP"), approving the first year of the CIP for implementation and the remaining four years for planning purposes. The projects set forth in the CIP provide for extensions of service by the System and improvements to the System to upgrade existing service. The 2009-2010 through 2013-2014 CIP anticipates the following expenditures, as described in the following subsections:

Fiscal Year Ending June 30	Projected CIP Amount
2010	$33,802,600
2011	39,660,343
2012	88,159,592
2013	69,378,454
2014	171,978,361
Total	$402,979,350

The County expects that net revenues and debt proceeds will fund the CIP, with "pay as you go" funding accounting for approximately 50% and with debt accounting for approximately 50%. It should be noted that many of the projects and improvements in the CIP are in the planning stages, with cost estimates that are preliminary and contracts that have not been awarded. Hence, the overall timing and sizing of the CIP is subject to change, especially as to the Cobbs Creek Reservoir project referenced below.

Sewer System

In January 1977, the County completed a comprehensive study of the County's wastewater treatment system (the "Wastewater Treatment Study") to evaluate existing facilities and to provide a specific plan of development for wastewater transportation and treatment needs for the County. The study explored various alternatives and recommended that the County design and build a regional wastewater transport and treatment system. In response to that study, the County constructed the County Wastewater Treatment Facility which was placed in service in November 1989. As County wastewater collection and pumping systems were connected to the County Wastewater Treatment Facility, wet-weather flows increased significantly due to infiltration and inflow ("I&I"). The increased I&I resulted in the County entering into a consent agreement in June 1993 with the State Water Control Board that requires the County to take certain actions to identify and mitigate I&I. To meet its obligations under the consent agreement, the Board of Supervisors awarded a contract in February 1994 to M.A. Mortenson Company for expansion of the County Wastewater Treatment Facility from 30 mgd to 45 mgd and to construct nutrient removal facilities to meet new permit limits for phosphorus and ammonia nitrogen. In addition, a contract was awarded for replacement and expansion of effluent filters. The filter replacement and expansion was substantially completed August 19, 1996 and the expansion and nutrient removal project was substantially completed March 14, 1997.

The Water and Wastewater Facilities Plans completed in July 1997 by Montgomery Watson recommended expansion of the Wastewater Treatment Facility (now the Water Reclamation Facility) to 75 MGD. On January 28, 1998, the Board of Supervisors authorized a contract with Hazen & Sawyer to design improvements and expansion of the Water Reclamation Facility to 75 MGD. The project was designed and constructed in six phases. The expansion to 75 MGD was complete in August 2005 at a cost of approximately $101,000,000. As part of the expansion project the Water Reclamation Facility will meet the current nutrient requirements of the Chesapeake Bay Act. The current major facility construction project which began in fiscal year 2007 and should be completed in fiscal year 2011 for $20 million will allow the facility to meet the future requirements of the Chesapeake Bay Act.

The County entered into a second consent order in January 2003 with the State Water Control Board that required the County to submit certain manuals and reports relating to the operation of the wastewater collection and treatment systems as well as setting a completion schedule for 30 Infiltration and Inflow removal projects. All manuals and reports have been submitted and all projects are on schedule.

In March 2005, the consent order was amended to set the completion of the Water Reclamation Facility expansion to 75 MGD on or by August 15, 2005 and to set a schedule for the completion of the Fourmile Creek Trunk Sewer Rehabilitation Project. The Project schedule has been set from April 1, 2007 to August 1, 2015 and remains on schedule**.**

Water System

The County's decision to build the Water Treatment Facility began in August 1987, when a comprehensive study of the County's water system (the "Comprehensive Water Study") was completed by Wiley & Wilson, consulting engineers for the County. The Comprehensive Water Study evaluated existing facilities for water supply, storage and distribution, including an updating of a model for use in evaluating the County's existing facilities and projecting the need for future improvements.

The Comprehensive Water Study recommended that the County construct a water treatment facility to meet the long-term needs of the County. In 1988, the Board of Supervisors approved inclusion of the Water Treatment Facility in the CIP and in June 1988, the County submitted an application for the required permits from the U.S. Army Corps of Engineers (the "Corps of Engineers") and State Water Control Board to construct a water supply intake structure and to withdraw water from the James River for treatment at the Water Treatment Facility. The Board of Supervisors approved a contract with Camp, Dresser & McKee, consulting engineers, to perform studies and design the Water Treatment Facility and to conduct an Instream Flow, Incremental Methodology Study of the James River as part of the Corps of Engineers' permit review process. That study was completed in September 1991 and an environmental report was completed in January 1994. The Corps of Engineers prepared an environmental impact statement and issued the required permit for the water supply intake structure in the James River on October 18, 1996.

The Water Treatment Facility was completed in April 2004. The total cost of the plant and all related infrastructure was $185,000,000. Annual operating and maintenance costs are budgeted at approximately $7,600,000 for fiscal year 2009. Since the plant startup, the facility has met all State and Federal requirements.

The next expansion of the Water Treatment Facility to 80 MGD is planned for fiscal years 2010-2012 at a cost of approximately $10,000,000.

The budget for 2011 through 2014 includes $168,006,000 for the Cobbs Creek Reservoir to be located in Cumberland County, Virginia. This project is included in the capital budget for planning purposes only. The County is currently working with Cumberland County and Powhatan County, Virginia, on a Memorandum of Understanding (MOU) for the Cobbs Creek Reservoir project, in which the County, Cumberland County and Powhatan County would be participants. As of the date of this Official Statement, no assurance can be given that this project will proceed and whether the planned expenditures will become a reality.

County of Henrico, Virginia Water and Sewer Revenue Fund

(An Enterprise Fund of the County of Henrico, Virginia)

Financial Statements as of and for the Year Ended June 30, 2008, with Independent Auditors' Report Thereon

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COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

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

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Water and Sewer Revenue Fund (the Fund) of the County of Henrico, Virginia as of June 30, 2008, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion 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. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the County of Henrico, Virginia, as of June 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Revenue Fund of the County of Henrico, Virginia as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management's Discussion and Analysis on pages 2 through 7 and the schedule of funding progress on page 20 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

November 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the County of Henrico's (the "County") Water and Sewer Revenue Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Fund's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2008

The Water and Sewer Revenue Fund's Statement of Revenues, Expenses and Changes in Fund Net Assets reported net income of $37.6 million in Fiscal Year 2008 (FY 2008) compared to net income of $34.3 million in Fiscal Year 2007 (FY 2007).

The Fund's total net capital assets were $1,000.1 million at June 30, 2008, compared to $966.3 million at June 30, 2007. The Fund's net assets were $952.1 million as of June 30, 2008, up from $914.5 million at June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of three statements and the notes to the financial statements: (1) balance sheet; (2) statement of revenues, expenses and changes in fund net assets; and (3) statement of cash flows.

The balance sheet presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. The Fund's net assets are one way to measure the Fund's financial health, or financial position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. Nonfinancial factors also need to be considered when evaluating the Fund's financial condition, such as the condition of the Fund's infrastructure, potential for growth of the customer base, and the stability of the local economy.

The statement of revenues, expenses and changes in fund net assets presents information on revenues, expenses, and how the Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Fund's current-year operations on its financial position.

The statement of cash flows summarizes all of the Fund's cash flows into three categories: cash flows from operating activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows, along with the related notes and information in the other financial statements, can be useful in assessing the following:

- The Fund's ability to generate future cash flows,
- The Fund's ability to pay its debt as it matures,
- Reasons for the difference between the Fund's operating cash flows and operating income, and
- The effect on the Fund's financial position from cash and noncash transactions from investing, capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE WATER AND SEWER FUND

The following table reflects the condensed balance sheets for the Fund as of June 30, 2008 and 2007 (in millions):

	2008	2007	$ Change	% Change
Current assets	$132.4	$139.8	($7.4)	(5.3%)
Restricted assets	35.4	35.2	0.2	0.6%
Capital assets	1,000.1	966.3	33.8	3.5%
Other assets	7.8	6.5	1.3	20.0%
Total assets	$1,175.7	$1,147.8	$27.9	2.4%
Current liabilities	$20.6	$23.0	($2.4)	(10.4%)
Deferred revenues	17.9	16.8	1.1	6.5%
Long-term liabilities	185.1	193.5	(8.4)	(4.3%)
Total liabilities	223.6	233.3	(9.7)	(4.2%)
Fund net assets:				
Invested capital assets—net of related debt	861.8	827.0	34.8	4.2%
Restricted	15.7	15.9	(0.2)	(1.3%)
Unrestricted	74.6	71.6	3.0	4.2%
Total net assets	952.1	914.5	37.6	4.1%
Total liabilities and net assets	$1,175.7	$1,147.8	$27.9	2.4%

The Fund's total net assets increased to $952.1 million from $914.5 million as a result of net income of $37.6 million comprised mainly of: $7.8 million from operations, $11.8 million from connection fees, $19.5 million from donated infrastructure assets, $4.8 million from investment income, and $1.2 million debt service contribution, partially offset by $7.1 million of interest expense and $0.4 million of other expense.

The following table shows the revenues and expenses of the Fund's activities for the years ended June 30, 2008 and 2007 (in millions).

	2008	2007	$ Change	% Change
Revenues:				
Operating revenues:				
Water system	$41.5	$39.9	$1.6	4.0%
Sewer system	43.2	40.9	2.3	5.6%
Other	0.8	0.6	0.2	33.3%
Nonoperating income:				
Connection fees	11.8	11.0	0.8	7.3%
Donated assets	19.5	16.9	2.6	15.4%
Debt service contributions	1.2	1.3	(0.1)	(7.7%)
Investment income	4.8	5.8	(1.0)	(17.2%)
Total revenues	122.8	116.4	6.4	5.5%
Expenses:				
Water system operating expenses	27.0	24.0	3.0	12.5%
Sewer system operating expenses	25.1	23.4	1.7	7.3%
Depreciation expense	25.6	25.9	(0.3)	(1.2%)
Interest expense, net of capitalized interest	7.1	8.1	(1.0)	(12.3%)
Other	0.4	0.7	(0.3)	42.9%
Total expenses	85.2	82.1	3.1	3.8%
Change in net assets	37.6	34.3	3.3	9.3%
Net assets at July 1	914.5	880.2		
Net assets at June 30	$952.1	$914.5		

REVENUES

For FY 2008, operating revenues from the sale of water and sewer services totaled $85.5 million. This is an increase in water and sewer operating revenues of $4.1 million, or 5%, from FY 2007. This increase in water and sewer sales is a direct result of growth and a 3% rate increase. Also, the spring and summer of FY 2008 was drier than normal, resulting in additional water production and sales above the normal levels.

FY 2008 non-operating income was $37.3 million, an increase of $2.3 million, or 7% from FY 2007. This increase is mainly due to a $0.8 million increase in connection fees and a $2.6 million increase in donated infrastructure assets due to changes in the type and timing of development projects in the County. This increase is partially offset by a $1.0 million decrease in investment income due to a reduction in the income earned on unexpended bond proceeds, since a portion of the proceeds have been spent on capital projects during FY 2008.

EXPENSES

For FY 2008, expenses totaled $85.2 million, a $3.1 million, or 4%, increase from the prior year. The majority of this increase is due to an increase in chemical costs for the odor and corrosion control program and sewage sent to the City of Richmond (the City) to control the odors in the portion of the County bordering Goochland County. Also, the water from the City continues to increase in cost based on peaks and the City not having someone to purchase their excess capacity. The decrease in interest expense is due to the lower interest rate on the variable rate bonds.

BUDGETARY ANALYSIS OF THE WATER AND SEWER REVENUE FUND

For FY 2008, the Fund reflects a total fund net asset balance of $952.1 million. Included in the fund net asset balance of $952.1 million are $37.6 million of revenues in excess of expenses. The primary reason for the Fund's increase in fund net asset balance mirrors those highlighted in the financial analysis:

Water and Sewer Revenue Fund Budget

(in Millions)

	Original*	Revised	Actual
Revenues:			
Water system operating revenues	$36.7	$36.7	$41.5
Sewer system operating revenues	41.4	41.4	43.2
Other operating revenues	0.5	0.5	0.8
Nonoperating income	15.5	15.5	36.9
Total revenues	94.1	94.1	122.4
Expenses:			
Operating expenses	50.5	53.0	52.1
Depreciation	—	—	25.6
Interest expense, net of capitalized interest	18.4	18.5	7.1
Total expenses	68.9	71.5	84.8
Change in net assets	$25.2	$22.6	$37.6

* Donated assets are not budgeted in revenues; however, they are included in actual revenues. The entire debt service payment including principal is budgeted in expenses; however, only interest expense less capitalized interest costs were included in the actual expenses. Also, the Fund does not budget for depreciation but it is included in the actual expenses.

WATER AND SEWER REVENUE FUND BUDGETARY HIGHLIGHTS

Revenue and other income exceeded expenditures by $37.6 million for FY 2008. Actual Fund revenues exceeded original budgeted revenues by $28.3 million during FY 2008. This increase is attributable in part to development, resulting in $19.5 million in donated assets. The Fund does not budget for donated assets as they are noncash transactions. Actual operating revenues were more than the original budget by $6.9 million, which was due to 3% actual growth, which was higher than the 1.5% budgeted. Some of the water revenue growth is attributed to the purchase of the Aqua and GW private water systems, which included approximately 1,500 customers. Also, it was drier than normal in the spring and summer of FY 2008. Therefore, revenues were higher due to increased irrigation usage by our customers. Actual FY 2008 operating expenses were $1.6 million more than the original FY 2008 budget. This is due to the fact that expenses for the odor and corrosion control program and sewage sent to the City through Goochland were higher than expected. This increase is due to increases in the cost of chemicals and electricity and higher flows than expected from Henrico to these facilities. These costs were $2.7 million over budgeted expenses. Finally, salaries, plus overtime, were approximately $280,000 less than budget due to vacancies. Interest was approximately $800,000 less than budgeted due to the lower interest rate on the variable rate bonds.

During FY 2008, the County's Board of Supervisors amended the budget twice. These budget amendments were to reestablish available funds carried forward from the prior year and to appropriate the connection fee revenue for Aqua and GW customers and the cost of purchasing the systems.

CAPITAL ASSETS

At the end of FY 2008, the Fund had net capital assets totaling $1,000.1 million, which represents a net increase of $33.8 million or 3% over the FY 2007 balance. The majority of this increase is due to capital spending on construction projects, some of which were completed during the year while others are still in construction in progress. The FY 2008 net additions to capital assets, including capitalized interest costs, totaled $33.8 million and included improvements to pump stations, construction of mains and basins, and water and sewer rehabilitation. The Fund recognized $19.6 million in donated infrastructure from developers who donated their water and sewer assets to the utility after completion of their construction projects. The $25.0 million increase in accumulated depreciation is a result of depreciation expense offset by retirements. For more detailed information on the Fund's capital assets, see Note 2 to the financial statements.

The following table shows a summary of the total changes in total capital assets during FY 2008 (in millions):

	June 30, 2007	Change	June 30, 2008
Nondepreciable assets:			
Land	$16.7	—	$16.7
Construction in progress	48.5	15.6	64.1
Depreciable capital assets:			
Building	310.1	7.9	318.0
Infrastructure	782.0	33.0	815.0
Equipment	106.1	2.3	108.4
Improvements other than buildings	1.4	—	1.4
Accumulated depreciation	(298.5)	(25.0)	(323.5)
Total capital assets	$966.3	$33.8	$1,000.1

LONG-TERM DEBT AND RESTRICTION ON RESOURCES

At the end of FY 2008, the Fund had total revenue bonds payable outstanding of $191.7 million.

The Fund's revenue is pledged as collateral for components of its long-term debt, including the 2006 Revenue and Refunding Issue, the 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, and the 1997 Revenue Issue, (collectively, the "Bonds").

The covenants of the Bonds require that in each year the net operating revenues of the Fund be at least equal to 1.25 times the debt service requirement for the year. In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidence of indebtedness having in any way a lien and charge on the revenues of the water and sewer system prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

Also, the interest due on the Bonds as of July 1, 2008 has been accrued as of June 30, 2008, as required by the related covenants. Cash has been restricted for these accruals. In addition, net assets have been restricted, and equity in County cash and cash equivalents has been restricted in an amount equal to the maximum annual debt service requirements for the Bonds. See Note 3 to the financial statements for more information concerning the Fund's long-term debt.

ECONOMIC FACTORS

In the last five years, the Fund has added approximately 9,600 water and 7,900 sewer customers with the total water and sewer customers being just under 94,200 and 91,000, respectively, as of June 2008. Most of this gain is attributable to residential customers. Growth in customers continues to be strong, approximately 2%-3% annually, which is a result of the continued residential and commercial growth and development in the County that is further reflected in the increases in connection fee revenue and donated assets. During 2008, we added approximately 1,500 water customers when we purchased two private water systems in the County.

OTHER INFORMATION

Certain cash balances of the Fund are pooled and invested with other County funds. The Fund's equity in County cash and cash equivalents is invested in accordance with the County's Investment Guidelines, which were created by the County's Director of Finance to ensure the effective management of the day-to-day investment activity of the County. The objective of these guidelines is to obtain the highest possible yield on available financial resources, within the constraints imposed by safety objectives, cash flow considerations and the laws of the Commonwealth of Virginia that restrict the placement of public funds.

At June 30, 2008, the County's investment and cash equivalent portfolio, which includes the Fund's equity in cash and cash equivalents of $107.7 million, contained obligations of the United States and agencies thereof. In view of the recent volatility in the market place since June 30, 2008, the County made a move to quality in the portfolio in the form of U.S. Treasury Notes and money market funds with U.S. Treasury securities as the underlying collateral for the funds. As a result, a significant adverse decline in the market value of the County's investments and cash equivalents is not a concern. The only foreseeable consequence from this strategy is the fact that the move to quality may reduce yield and impact investment earnings available for operations in fiscal year 2009.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenues it collects. Questions concerning this report or requests for additional financial information should be directed to the Director of Public Utilities, P.O. Box 27032, Richmond, VA 23273-7032.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

BALANCE SHEET
AS OF JUNE 30, 2008

ASSETS

CURRENT ASSETS:	
Equity in County cash and cash equivalents	$ 107,686,434
Accounts and notes receivable:	
Water and sewer	16,975,712
Due from other County funds	6,092,026
Other	950,866
Less allowance for doubtful accounts and notes	(283,900)
Net accounts and notes receivable	23,734,704
Inventory—materials and supplies	954,908
Prepaids	20,000
Total current assets	132,396,046
RESTRICTED ASSETS:	
Equity in County cash and cash equivalents restricted for:	
Maximum annual debt service	15,698,591
Long-Term Debt Principal—current portion	7,610,000
Long-Term Debt Interest	758,585
Cash held by custodian	10,108,477
Cash held by trustee	1,273,750
Total restricted assets	35,449,403
CAPITAL ASSETS (See Note 2):	
Depreciable capital assets:	
Buildings	318,029,558
Improvements other than buildings	1,426,652
Infrastructure	814,999,456
Equipment	108,408,812
Less accumulated depreciation	(323,489,813)
Net depreciable capital assets	919,374,665
Construction in progress	64,075,099
Land	16,643,887
Total capital assets	1,000,093,651
OTHER ASSETS:	
Capacity rights, net	5,387,888
Miscellaneous – other assets	2,401,459
Total other assets, net	7,789,347
TOTAL ASSETS	$ 1,175,728,447

(Continued)

LIABILITIES AND FUND NET ASSETS	
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS:	
Accounts payable and accrued liabilities	$ 9,021,930
Deposits payable	635,542
Arbitrage liability	823,300
Accrued compensated absences—current portion	1,029,761
Total current liabilities payable from current assets	11,510,533
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Long-term debt—current portion	8,365,000
Accrued interest payable	758,585
Capital lease obligation – current portion	4,989
Total current liabilities payable from restricted assets	9,128,574
DEFERRED REVENUE	17,889,891
OTHER LONG-TERM LIABILITIES:	
Pension liability—noncurrent portion	231,543
Capital lease obligation – noncurrent portion	2,729
Total other long-term liabilities	234,272
LONG-TERM DEBT —NONCURRENT PORTION	183,325,000
Plus unamortized bond premium, net	1,538,758
Net long-term debt	184,863,758
Total liabilities	223,627,028
FUND NET ASSETS:	
Invested in capital assets—net of related debt	861,827,306
Restricted	15,698,591
Unrestricted	74,575,522
Total net assets	952,101,419
TOTAL LIABILITIES AND NET ASSETS	$ 1,175,728,447

See accompanying notes to the financial statements.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

OPERATING REVENUES:	
Water system	$ 41,510,963
Sewer system	43,237,251
Other	755,834
Total operating revenues	85,504,048
OPERATING EXPENSES:	
Water system:	
Source of supply	8,841,277
Pumping and treatment	7,995,013
Transmission and distribution	4,363,096
Customer billings and services	1,071,969
General and administrative	4,659,295
Total water system operating expenses	26,930,650
Sewer system:	
Treatment and disposal	7,911,991
Collection	3,306,775
Pumping	7,936,001
Customer billings and services	1,034,980
General and administrative	4,936,918
Total sewer system operating expenses	25,126,665
Operating income before depreciation expense	33,446,733
Depreciation expense	25,609,484
OPERATING INCOME	7,837,249
NONOPERATING INCOME/(EXPENSE):	
Connection fees	11,767,586
Donated assets	19,568,892
Debt service contributions	1,187,427
Investment income	4,788,297
Other expense	(382,354)
Total nonoperating income, net	36,929,848
INCOME BEFORE INTEREST EXPENSE	44,767,097
INTEREST EXPENSE—NET OF CAPITALIZED INTEREST	7,124,768
CHANGE IN NET ASSETS	37,642,329
NET ASSETS—JULY 1, 2007	914,459,090
NET ASSETS—JUNE 30, 2008	$ 952,101,419

See accompanying notes to the financial statements.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

OPERATING ACTIVITIES:	
Receipts from customers	$ 90,235,806
Payments to suppliers	(35,837,619)
Payments to employees	(18,645,485)
Net cash provided by operating activities	35,752,702
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest payments	(9,333,074)
Principal payments	(8,205,000)
Debt service payments by County General Fund	1,187,427
Contractors—connection fees	13,787,131
Purchase of capital assets	(38,017,733)
Proceeds from sale of capital assets	23,310
Principal payments on capital lease obligation	(4,726)
Purchase of other assets	(1,649,335)
Grant funds	261,765
Net cash used in capital and related financing activities	(41,950,235)
INVESTING ACTIVITIES—Investment income received	4,796,098
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,401,435)
TOTAL CASH AND CASH EQUIVALENTS—Beginning of year	144,537,272
TOTAL CASH AND CASH EQUIVALENTS—End of year	$ 143,135,837

(Continued)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

RECONCILIATION TO CASH AND CASH EQUIVALENTS ON THE BALANCE SHEET:		
Equity in County cash and cash equivalents	$	107,686,434
Total restricted cash and cash equivalents		35,449,403
Total equity in County cash and cash equivalents	$	143,135,837
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income		7,837,249
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		25,609,484
Decrease in accounts and notes receivable		5,668,329
Increase in inventory		(60,208)
Decrease in accounts payable and accrued liabilities		(2,388,331)
Decrease in deposits payable		(71,200)
Increase in accrued compensated absences		139,800
Decrease in deferred revenues		(982,421)
Net cash provided by operating activities	$	35,752,702

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES:

The Water and Sewer Revenue Fund received donated assets in the form of water and sewer infrastructure provided by developers of new subdivisions throughout the County. The value of these capital assets and others received for the year ended June 30, 2008 was $19,568,892. The amount of interest costs capitalized for the year ended June 30, 2008 was $2,127,939.

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Structure and Purpose—The Water and Sewer Revenue Fund (the "Fund") of the County of Henrico, Virginia (the "County") is accounted for as an enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Fund is that the cost of providing services will be financed or recovered through charges to users of such services. The accrual basis of accounting is used for the enterprise fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The purpose of this fund is to account for the construction, operations, and maintenance of the County-owned water and wastewater utility.

Capital Assets and Depreciation—Capital assets are recorded at cost or estimated historical cost, net of accumulated depreciation. Cost of capital assets at the creation of the Fund was determined by an appraisal firm based on original documents when, such documents were available, and an appraised value adjusted for price levels at the date of purchase of the particular asset involved, when original documents were not available. Capital asset additions since that date have been recorded at cost. Capital asset additions received through gifts or contributions are recorded at their estimated fair value at date of receipt. When capital assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts and any gains or losses are reflected in the statement of revenues, expenses and changes in fund net assets. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets (ranging from 4 to 65 years). The Fund's capitalization threshold is $2,500 for land and equipment and $25,000 for buildings, improvements, and infrastructure.

Inventory—Materials and Supplies—Materials and supplies inventory consists mainly of supplies held for consumption, which are costed by methods that approximate average cost.

Equity in Cash and Cash Equivalents—Certain cash balances of the Fund are pooled and invested with other County funds. Substantially all cash and cash equivalents represent investments in securities guaranteed by a United States government agency, bankers' acceptances, certificates of deposit, commercial paper, and repurchase agreements, which have maturities of 90 days or less, which in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* are stated at amortized cost, which approximates market. Disclosures in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* and GASB Statement No. 40, *Deposit and Investment Risk Disclosurse – an amendment of GASB Statement No. 14,* are included in the Comprehensive Annual Financial Report for the County.

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* a statement of cash flows has been presented for the Fund. For purposes of this statement, restricted cash, which meets the definition of cash and cash equivalents as noted above, has been included.

Equity in cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have original maturities of 90 days or less.

Other Assets – During FY 2006, the Fund purchased capacity in the Goochland Force Main and Pump Station. The carrying amount as of June 30, 2008 was $5,836,660, less $448,772 of accumulated amortization. The underlying assets are owned by the County of Goochland and the Fund has purchased the rights to a certain capacity based on an agreement dated June 11, 2002 that is in effect until June 30, 2032.

Interest—In accordance with Financial Accounting Standards Board ("FASB") Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* the cost of properties for the Fund includes net interest costs on funds borrowed to finance the acquisition or construction of major facilities. These costs are capitalized during the period of construction only. The Fund incurred interest expense of $9,252,707 in 2008, of which $2,127,939 was capitalized.

Unamortized Bond Discounts/Issuance Costs—Bond discounts and certain issuance costs, presented as Other Assets in the accompanying Balance Sheet, are deferred and amortized as a component of interest expense using the interest method over the terms of the related issues.

Accrued Compensated Absences—Annual leave is granted to all permanent County employees. County employees can earn annual leave at the rate of 4 hours for every 80 standard hours worked up to a maximum of 7 hours for every 80 standard hours after 20 years of service. While there is no requirement that annual leave be taken, the maximum permissible accumulation is 364 hours for County employees. Accumulated annual leave vests, and the County is obligated to make payment even if the employee terminates. The liability for unused and unpaid annual leave attributable to the Fund is charged to expense and the corresponding liability established in the Fund.

County employees can earn sick leave at the rate of 4 hours for every 80 standard hours worked. Sick leave is nonvesting, with the exception of employees retiring from County service. Retiring employees are vested at a rate of $2.50 for every hour of sick leave earned with a maximum payment of $5,000. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the liability has been estimated using the termination payment method.

Deferred Revenue—This balance represents advance payments from current customers for future capacity to be used of the water reclamation facility and the water treatment plant.

Connection Fees—All new customers connecting to the Fund's water and wastewater system are required by code to pay connection fees and local facilities fees before being connected to the system. These fees cover the cost of water and wastewater facilities to serve new customers, as well as future repairs and maintenance on these facilities. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these fees are recorded as non-operating income.

GASB Statement No. 20 Election—GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* requires proprietary activities to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

Inspection and Engineering Costs—Certain inspection and engineering costs related to private development have been capitalized by the Fund in order to account for these costs in the same manner as the private development assets contributed to the County. The costs are capitalized based on an hourly rate for time spent by County employees on these projects. For the year ended June 30, 2008, the amount capitalized approximated $1,846,000.

Revenues—The Fund's operating revenues include charges for water and sewer services. All revenues not meeting this definition are reported as nonoperating income.

Expenses—The Fund's operating expenses include all expenses for providing water and sewer services to its customers. Examples of nonoperating expenses are depreciation, amortization, interest and any losses on the sale of capital assets.

Estimates – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008 follows:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Non-Depreciable Capital Assets:				
Land	$ 16,643,887	—	—	16,643,887
Construction in progress	48,531,674	42,978,198	(27,434,773)	64,075,099
Depreciable Capital Assets:				
Buildings	310,052,072	7,977,486	—	318,029,558
Equipment	106,102,849	2,407,002	(101,039)	108,408,812
Improvements other than buildings	1,426,652	—	—	1,426,652
Infrastructure	782,040,105	33,786,650	(827,299)	814,999,456
Total Capital Assets	1,264,797,239	87,149,336	(28,363,111)	1,323,583,464
Accumulated Depreciation	(298,466,975)	(25,609,484)	586,646	(323,489,813)
Total–Net of Accumulated Depreciation	$ 966,330,264	61,539,852	(27,776,465)	1,000,093,651

3. LONG-TERM DEBT

A summary of changes in long-term debt for fiscal 2008 and the individual components of long-term debt at June 30, 2008, follows:

	Balance June 30, 2007	Issuances	Payments	Balance June 30, 2008
1997 Revenue Issue, $32,000,000, Variable Rate	$ 27,025,000	—	(715,000)	26,310,000
1999 Revenue Issue, Refunding and New Money $101,000,000, 3.1% to 5.25%	80,365,000	—	(4,155,000)	76,210,000
2002 Refunding Issue, $17,345,000, 3.0% to 4.625%	8,180,000	—	(1,495,000)	6,685,000
2006 Revenue Issue Refunding and New Money $86,265,000, 4.25% to 5.00%	84,325,000	—	(1,840,000)	82,485,000
Total bonds	199,895,000	—	(8,205,000)	191,690,000
Premium on debt issued	1,576,701	110,663	(148,606)	1,538,758
Current portion of long-term debt payable from restricted assets	(8,205,000)			(8,365,000)
Total liabilities and net assets	$ 193,266,701			184,863,758

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Balance Due Within One Year
Other liabilities:					
Accrued compensated absences	$ 889,961	1,057,517	(917,717)	1,029,761	1,029,761
Pension liability	231,711	—	(168)	231,543	—
Capital lease obligation	12,444	—	(4,726)	7,718	4,989

On July 6, 2006, the County sold Revenue Bonds Series 2006A $81,470,000 of new money Bonds and Series 2006B $4,795,000 of refunding Bonds. Series 2006B refunded the County's then outstanding Series 1994 Bonds. The proceeds of the Bonds were used to finance capital additions and extensions to the Water and Sewer System. The Bonds mature on May 1st in each of the years 2007 through 2036. The Fund reduced its aggregate debt service payments by approximately $400,000 over the next 7.5 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $341,000.

The Fund issued debt to refund existing issues and for construction of capital assets. The 2002 bonds were refunding issues. The 1997 and 1999 Revenue Issues were for the construction of a new water treatment plant, including the raw water pump station and intake and transmission mains leading from the plant to the distribution system. The funds were also used to fund the project to expand the capacity of the water reclamation facility and to construct the facilities to provide water and wastewater service to an industrial development site in the eastern part of the County.

Defeased Debt—In prior years, the County defeased certain Water and Sewer Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2008, $32,990,000 of Water and Sewer System Revenue and Refunding Bonds, which were considered defeased in prior years, remained outstanding.

Variable Rate Debt—The variable rate on the 1997 Bonds shall be determined by the Remarketing Agent. The Variable Rate will be equal to the minimum rate that, in the judgment of the Remarketing Agent, taking into account prevailing market conditions, would enable the Remarketing Agent to sell all of the 1997 Bonds on the Adjustment Date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. The Variable Rate shall be determined by the Remarketing Agent in its sole discretion based on prevailing market conditions and may, but need not, be established by reference to one or more recognized financial indices. As of June 30, 2008, the rate in effect on these Bonds was 1.53%.

Debt Service and Covenants—The Fund's revenue is pledged as collateral for the 2006 Revenue and Refunding Issue, 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, and the 1997 Revenue Issue, (collectively, the "Bonds").

The General Fund of the County has assumed responsibility of certain project costs and is obligated to pay debt service in the amount of $23,101,314 or 72.19% of the $32 million revenue bond issue. The General Fund transferred $1,187,427 to the Fund during the fiscal year ended June 30, 2008, to cover its portion of the debt service requirements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these transfers were recorded as other non-operating income by the Fund and as an expenditure in the County's General Fund.

The covenants of the Bonds require that in each year the net operating revenues of the Fund, as defined by the covenants, which in the opinion of Bond Counsel do not include depreciation expense or payments in lieu of taxes as an expense, be at least equal to 1.25 times the debt service requirements for the year (principal and interest on the Bonds and interest on any outstanding Bond Anticipation Notes). In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidences of indebtedness having in any way a lien and charge on the revenues of the Water and Sewer System prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

The Fund may issue additional bonds payable which may be collateralized equally with the outstanding Bonds for any purpose connected with or pertaining to the Fund, upon compliance with the following conditions, among others:

- One-half of the net operating revenues of the Fund, as defined during any 24 consecutive months out of the 30 months immediately preceding the issuance of the additional bonds, shall have been not less than 1.25 times the maximum annual debt service requirement on all bonds then outstanding and the proposed additional bonds; and

- The net operating revenues of the Fund, as defined during the first full fiscal year following the date upon which the project or undertaking for which the proposed additional bonds are being issued is anticipated to be completed, shall be estimated by a nationally recognized consulting engineer to be not less than 1.25 times the maximum annual debt service requirement on account of all bonds then outstanding and the proposed additional bonds.

Net operating revenues were 1.98 times the annual debt service requirement for the year ended June 30, 2008.

Also, the interest due on the Bonds as of July 1, 2008 has been accrued as of June 30, 2008, as required by the related covenants. Cash has been restricted for this accrual. In addition, net assets have been restricted, and equity in cash and cash equivalents has been restricted, in an amount equal to the maximum annual debt service requirements for the Bonds.

Arbitrage—The 1999 Revenue Issue is subject to a possible rebate under the federal arbitrage rebate regulations. The bond proceeds were on deposit with the Virginia State Non-Arbitrage Program and an annual estimate of the arbitrage liability is performed at the end of each fiscal year. The estimate of the arbitrage liability owed by the Fund as of June 30, 2008 was $823,300.

Principal and interest payments on the Bonds for the five fiscal years subsequent to June 30, 2008, and thereafter are as follows:

Years	Principal	Interest
2009	$ 8,365,000	9,737,794
2010	8,530,000	9,375,593
2011	8,705,000	8,997,934
2012	8,955,000	8,565,393
2013	9,215,000	8,114,823
2014-2018	30,760,000	35,000,101
2019-2023	36,375,000	26,868,896
2024-2028	46,610,000	16,428,091
2029-2033	19,780,000	6,662,000
2034-2036	14,395,000	1,463,000
	$ 191,690,000	131,213,625

4. NONMONETARY CONTRIBUTIONS

Nonmonetary contributions consist of contributions from developers for water and sewer infrastructure constructed by the developer and donated to the County. The value is calculated based on an average cost per foot of pipe donated. The County Inspector determines the footage of pipe. Cost of pipe is determined as the cost that the County would incur if the County had constructed the asset. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the value of these capital assets is included in nonoperating income.

5. DEFINED BENEFIT PENSION PLAN—AGENT MULTIPLE-EMPLOYER

Plan Description—The Fund contributes to an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System ("VRS" or "System"). All full-time, salaried permanent employees must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five 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% 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 five 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/Publications/2007annurept.pdf or obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy—Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute five percent of their annual salary to the VRS. The employer may assume this five 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 2008 was 12.21 percent of annual covered payroll.

Annual Pension Cost—For the fiscal year ended June 30, 2008, the Fund's annual pension cost of $1,634,033 was less than the required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.73% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Fund's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years or less. The Net Pension Obligation (NPO) at June 30, 2008 is calculated as follows:

Annual Required Contribution (ARC)	$	1,634,033
Interest on NPO		17,378
Adjustment to the ARC		(17,546)
Annual Pension Cost		1,633,865
Contributions made		(1,634,033)
Decrease in NPO		(168)
NPO—Beginning of year		231,711
NPO—End of year.	$	231,543

TREND INFORMATION FOR THE FUND

Fiscal Year Ending		Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	$	1,004,288	99.97%	231,878
June 30, 2007		1,162,662	100.01%	231,711
June 30, 2008		1,633,865	100.01%	231,543

SCHEDULE OF FUNDING PROGRESS FOR THE FUND (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio Funded Obligation	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2005	$ 34,969,891	44,374,726	9,404,835	78.81%	10,949,391	85.89%
June 30, 2006	35,217,952	43,066,003	7,848,051	81.78%	10,880,380	72.13%
June 30, 2007	44,589,439	52,559,671	7,970,232	84.84%	12,691,267	62.80%

6. OTHER POSTEMPLOYMENT BENEFITS

Fund retirees are included in the County of Henrico's other postemployment benefits (OPEB) plan which provides retiree health benefits. The County participates in and was a founding member of the Pooled OPEB Trust Fund established by the Virginia Municipal League in 2008.

Expenses associated with retirees' health benefits are funded annually on a cash basis. Current Henrico County retirees who qualify for health benefits receive an implicit rate subsidy by participating in the active employee health care risk pool. The County of Henrico also offers a health care credit based upon years of service.

Eligibility for health care benefits is based on the retiree being immediately eligible to receive a Virginia Retirement System (VRS) monthly retirement payment. Under age 65, the retiree and their dependents can remain in the County of Henrico health and dental plans and pay the full active premium. Over age 65, a retiree and his or her dependents move to a Medicare carve out plan. Certain classes of employees, such as teachers and public safety, are eligible for a health care credit paid through VRS.

Retirees who are not eligible for the VRS Health Care Credit may qualify for the County of Henrico supplement. Retirees must have a minimum of 20 full years of VRS service, 10 years of which must be with the County. The supplement will be paid only to eligible retirees who choose to remain in the County of Henrico group plan. This supplement is $3 per month for each full year of service.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*, an actuarial evaluation was prepared calculating the County of Henrico postemployment health care cost as of July 1, 2007. The actuarial evaluation estimated an $82.87 million Unfunded Actuarial Accrued Liability (UAAL) and an $8.92 million Annual Required Contribution (ARC) for the County of Henrico. This calculation was based on a discount rate of 7.0 percent and a 30-year amortization of the unfunded actuarial liability. The ARC was fully funded by the County of Henrico and consists of $6.4 million contributed to a OPEB pooled trust fund and a "pay-as-you-go" amount of $2.52 million expended in the County's self-insured health care plan during fiscal year 2008. An actuarial update performed as of June 30, 2008 reflects that the "Employer Contribution as a Percent of OPEB Cost" was 133.3%. The County has budgeted an additional $6.7 million contribution to the OPEB Pooled Trust Fund for fiscal year 2009.

7. RELATED-PARTY TRANSACTIONS

The County furnishes the Fund with data processing services, accounting services, vehicle maintenance services, risk management, office space, and the use of certain County-owned vehicles by the Fund. For these services, the County charged the Fund approximately $4,622,000 in fiscal 2008.

The Fund received $1,872,600 in fiscal 2008 from the County for water and sewer services provided at established billing rates.

The Fund loaned the County $9,618,989 to be repaid over a 30-year term with interest equal to the average rate paid on the Bonds to mature on June 30, 2027. The County will pay 1/30 of the loan principal annually with interest applied to the remaining principal balance. At June 30, 2008, the principal balance was $6,092,026. The County recognized the principal and interest payments as expenditures, and the Fund recognized the principal and interest received as a reduction to notes receivable and interest income, respectively.

8. COMMITMENTS

At June 30, 2008, the Fund had contractual commitments for the construction of the Wastewater Treatment Plant and Water Plant Projects approximating $20,102,000 and $430,000, respectively.

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APPENDIX C

THE COUNTY

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The County of Henrico, Virginia (the "County") is situated in central Virginia and surrounds the City of Richmond (the "City" or "Richmond") on the north side of the James River. Although much of the County's 244.06 square miles consists of highly developed urban and suburban areas, there is also a considerable amount of undeveloped agricultural and forest land. In Virginia, cities and counties are distinct units of government and do not overlap. Thus, the County is responsible for providing all local government services to its residents. The population of the County was 305,634 for 2008 and is expected to continue to grow in the foreseeable future.

COUNTY GOVERNMENT

Form of Government

The County is governed by a five-member Board of Supervisors which establishes policies for the administration of the County. Each member of the Board of Supervisors is elected by the voters of the magisterial district in which such member resides. The Chairman of the Board of Supervisors is elected annually by the members. Members of the Board of Supervisors serve four-year terms.

The County elected in 1934 to organize under the County Manager Form of Government (as defined under Virginia law). Under this form of government, the Board of Supervisors appoints a County Manager to serve as the chief executive officer of the County. The County Manager serves at the pleasure of the Board of Supervisors, implements its policies, appoints department heads and directs business and administrative procedures. Also under the County Manager Form of Government, a County Code and modern zoning ordinances are administered and enforced.

Elected Officials

David A. Kaechele, Chairman, was elected from the Three Chopt Magisterial District in November of 1979 and was re-elected in 1983, 1987, 1991, 1995, 1999, 2003 and 2007. Mr. Kaechele is a graduate of Michigan State University and was a Senior Development Engineer at Reynolds Metals Company prior to his retirement in April 1993.

Patricia S. O'Bannon, Vice Chairman, was elected from the Tuckahoe Magisterial District in 1995 and re-elected in 1999, 2003 and 2007. Ms. O'Bannon is a graduate of Virginia Commonwealth University in Richmond. She was formerly an English teacher in the Henrico County school system and an editor of a local newspaper.

James B. Donati, Jr., was elected from the Varina Magisterial District in November of 1991 and re-elected in 1995, 1999, 2003 and 2007. Mr. Donati received his education from Virginia Commonwealth University and is the owner of a landscape contracting business.

Richard W. Glover was elected from the Brookland Magisterial District in November of 1987 and was re-elected in 1991, 1995, 1999, 2003 and 2007. Mr. Glover received his education from Virginia Commonwealth University and J. Sargent Reynolds Community College, and is a retired marketing consultant.

Frank J. Thornton was elected to the Board of Supervisors in 1995 and re-elected in 1999, 2003 and 2007 to represent the Fairfield Magisterial District. Mr. Thornton is a graduate of Virginia Union University in Richmond and The American University, Washington, D.C. He is employed as a professor of French at Virginia Union University.

Certain County Staff Members

Virgil R. Hazelett, P.E., was appointed County Manager on January 14, 1992. He previously served the County as Deputy County Manager for Administration/Chief of Staff, Deputy County Manager for Community Development, County Engineer/Director of Public Works, Deputy Director of Public Works and Traffic Engineer. Prior to coming to the County in 1972, he received a Bachelor's degree in Civil Engineering from West Virginia Institute of Technology and a Master's degree in Civil Engineering from West Virginia University, and held engineering positions in High Point, North Carolina, and West Virginia.

Leon T. Johnson was appointed Deputy County Manager for Administration in 1995. Prior to his appointment he was employed by the City of Suffolk, Virginia, where he served as Director of Finance and Assistant City Manager. Mr. Johnson's educational achievements include a Bachelor's degree in Business Administration and a Master's degree in Public Administration, both from Old Dominion University in Norfolk, Virginia. He is currently completing his Doctor of Philosophy (Ph.D.) in Public Policy and Administration from Virginia Commonwealth University.

Randall R. Silber, a Henrico County employee since 1985, was appointed Deputy County Manager for Community Development effective January 5, 2008. Prior to his appointment, he worked as a County Planner and Principal Planner before being named Assistant Director of Planning in 1996. He served as the Planning Director since 2004. Mr. Silber holds a bachelor's degree from the University of Maryland and a master's degree from the University of Northern Colorado.

Robert K. Pinkerton was appointed Deputy County Manager for Community Operations in December 1994. He previously served Henrico County in the Department of Public Works where he was Director from 1990 until his appointment as Deputy County Manager in 1994. Prior to his work in Henrico County, Mr. Pinkerton worked as an engineer in the City of Richmond, Department of Public Works. Mr. Pinkerton received a Bachelor's degree in Civil Engineering from the Virginia Military Institute and a Masters of Business Administration from Virginia Commonwealth University.

George T. Drumwright, Jr., was appointed Deputy County Manager for Community Services in 1995. He previously has served the County as the Deputy County Manager for Administration, as the Deputy County Manager for Human Services, and as an Administrative Assistant to the County Manager for Human Resources. Prior to coming to the County in 1977, Mr. Drumwright worked as an Administrative Analyst to the City Manager in the City of Norfolk. Mr. Drumwright holds a Bachelor's degree in Business Administration from Old Dominion University and a Master's degree in Public Administration from The American University.

Angela N. Harper, AICP, was appointed Deputy County Manager for Special Services in September 1997. She began her career with Henrico County in 1971 in the Planning Office and was the Director from 1990 until her promotion. Ms. Harper holds a Bachelor of Arts degree in political science from Memphis State University and Masters of Planning and Urban Design from the University of Virginia. She is the past president of the Virginia Chapter of the American Planning association and a past at-large member of the national board of the American Planning Association. On January 5, 1999, she received the Local Official of the Year Award for Region A from the National Association of Home Builders.

Joseph P. Rapisarda, Jr., Esquire, County Attorney, was appointed in 1982. He served as an Assistant County Attorney for Henrico County for five years before being appointed County Attorney. Prior to his service with Henrico County, he served for two years as an associate attorney with May, Miller & Parsons. He is a graduate of the University of Virginia Law School. Mr. Rapisarda is a current member and past president of the Local Government Attorneys of Virginia and the Henrico County Bar Association. He is also a Fellow of the Virginia Law Foundation and a former member of the Professionalism Faculty of the Virginia State Bar.

John A. Vithoulkas was appointed Director of Finance on January 5, 2008. He has served the County as the Director of the Office of Management and Budget and as the Acting Director of Finance. Prior to joining the County in 1997, Mr. Vithoulkas served Chesterfield County, Virginia, as the Lead Analyst in the Department of Budget and Management. Mr. Vithoulkas holds a Bachelor's degree from Virginia Commonwealth University and a Masters of Public Administration from the University of North Carolina at Charlotte. He has served as a Government Finance Officers Association (GFOA) Distinguished Budget Reviewer since 1993.

CERTAIN FINANCIAL PROCEDURES

Annual Financial Statements. The County's general purpose financial statements have been audited and reported on by independent certified public accountants for over 28 fiscal years. The financial statement of Henrico County, Virginia Water and Sewer Revenue Fund, as of and for the year ended June 30, 2008, included in this Official Statement as Appendix B, has been audited by independent auditors, as stated in their report appearing herein. The County has been awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for its annual financial statements each year since the fiscal year ended June 30, 1981. The Certificate of Achievement is awarded annually for excellence, clarity and comprehensiveness in financial reporting.

The County's comprehensive annual financial reports are available for inspection at the office of the Director of Finance, County of Henrico, Parham and Hungary Spring Roads, Post Office Box 90775, Henrico, Virginia 23273-0775, and are also available at http://www.co.henrico.va.us/finance/cafrdone.pdf, for the fiscal years ended June 30, 2007 and June 30, 2008.

Description of Funds. The accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund balance, revenues and expenditures. The following is a description of the funds included in the financial records of the County.

General Fund. The General Fund accounts for all revenues and expenditures of the County, which are not accounted for in the other funds. Revenues are primarily derived from general property taxes, local sales taxes, license and permit fees and revenues received from the Commonwealth. A significant part of the General Fund's revenues is used to maintain and operate the general government, which is accounted for in the General Fund, or is transferred to other funds principally to fund debt service requirements and capital projects. Expenditures include, among other things, those for general government, education, public safety, highways and streets, welfare, culture and recreation.

Special Revenue Funds. Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds account for the resources obtained and used relating to State and Federal Grants, Mental Health and Mental Retardation programs, the Utility Department's Solid Waste and Street Lighting operations and School Cafeterias.

Enterprise Funds. Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent of the County is that the cost of providing services to the general public be financed or recovered through charges to users of such services. These Funds account for the operation, maintenance and construction of the County-owned water and sewer system (considered a single segment for financial reporting purposes) and the operation of a County-owned golf course.

Debt Service Fund. This fund accounts for the accumulation of financial resources for the payment of interest and principal on all long-term debt other than that accounted for in Enterprise Funds. Debt Service Fund resources are derived from transfers from the General Fund and Special Revenue Funds.

Internal Service Fund. An Internal Service Fund accounts for the financing of goods or services provided by one department to other departments of the government on a cost-reimbursement basis. The Internal Service Fund accounts for the County's Central Automotive Maintenance operations, Technology Replacement Fund operations, and self-funded health insurance fund. Resources for these funds come from interdepartmental charges.

Agency Funds. Agency Funds account for fiduciary funds administered by the County, are custodial in nature, and do not involve measurement of results of operations.

Capital Projects Fund. The Capital Projects Fund accounts for all capital projects other than those accounted for within Enterprise Funds.

Budgetary Procedure

Virginia law requires the County to maintain a balanced budget in each fiscal year. The County lacks legal authority to borrow in anticipation of future years' revenues, except by the issuance of bonds or bond anticipation notes.

Prior to the beginning of each fiscal year the Board of Supervisors adopts a fiscal plan consisting of contemplated expenditures and estimated revenues for such fiscal year. On the basis of the approved fiscal plan, the Board of Supervisors appropriates funds for expenditures and establishes tax rates sufficient to produce the revenues contemplated in the fiscal plan.

The annual budgeting process for a fiscal year begins early in the second quarter of the previous fiscal year with the issuance by the County Manager to all department heads and other key officials of the pertinent guidelines to be observed. Each department or division head will submit all desired personnel change requests and detailed budget requests.

The County Manager and his staff hold hearings with the various departments and after review submit a proposed fiscal plan to the Board of Supervisors. The Board of Supervisors also holds hearings with the departments and, after revisions, authorizes a final budget for publication and public hearing. After the public hearing, further changes may be made before final adoption, which generally occurs in the month of April preceding the start of the fiscal year on July 1.

Appropriations are then made on an annual basis to the various departments, offices and agencies based on annual requests reviewed by the Department of Finance for conformity with the approved annual plan.

SELECTED FINANCIAL INFORMATION

General Fund Revenues and Disbursements. The General Fund is maintained by the County to account for revenue derived from County-wide *ad valorem* taxes, other local taxes, licenses, fees, permits, certain revenue from Federal and State governments and interest earned on invested cash balances in the General Fund. General Fund disbursements include the costs of general County government, School

Operations and transfers to the Debt Service and Capital Projects Funds to pay debt service on the County's general obligation bonds and for certain capital improvement projects.

The following is a discussion of the General Fund revenue structure and major classifications of General Fund disbursements. Following this discussion is a five year summary of General Government revenues, expenditures and fund balances and a summary of the fiscal plan for fiscal year 2009. Please refer to the County's audited General Purpose Financial Statements for a detailed review of General Fund revenues and expenditures for the fiscal year ended June 30, 2008. The County's audited financial statements are available at http://www.co.henrico.va.us/finance/cafrdone.pdf, for the fiscal years ended June 30, 2007 and June 30, 2008.

Revenues

Property Taxes. An annual *ad valorem* tax is levied by the County on the assessed value of real and tangible personal property located within the County as of January 1. The ratio of the assessed value of property to its appraised value is 100% in the case of real property and varies for the several classes of personal property but generally is 100%. Both real and personal property taxes are collected on June 5 and December 5. There is no limit at the present time on the property tax rates which may be established by the County. In the fiscal year ended June 30, 2008, property taxes (including penalties for late payment of prior years' taxes) represented approximately 41.2% of total General Fund and School Operating receipts. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in April and are payable in two installments on June 5th and December 5th. The County bills and collects its own property taxes. Property taxes levied are recorded as receivables, net of allowance for estimated uncollectible accounts, to the extent that they are currently due.

In April 1998, the Virginia General Assembly passed the Personal Property Tax Relief Act of 1998. The Act provides for the Commonwealth to reimburse a portion of the tangible Personal Property Tax levied on personal use cars, motorcycles and trucks. Initially, the reimbursement was 12.5% of the tax on the first $20,000 of the value of the qualifying vehicle in tax year 1998. The reimbursement rate was 27.5% for tax year 1999 and increased to 47.5% for tax year 2000 and 70% for tax years 2001 through 2005. Beginning in 2006, the reimbursement rate was capped at $950 million statewide, to be distributed to localities on a prorated basis (based on assessment totals). The reimbursement rate therefore, is determined by the State based on each locality's share of the $950 million allocated by the Commonwealth for personal property tax relief on qualifying vehicles. For tax year 2008, the State reimbursement receivable is reflected as a due from other governments. Revenue for the State reimbursement is recorded as non-categorical aid from the State. Localities will continue to assess and administer the Personal Property Tax program.

Other Local Taxes. The County levies various other local taxes including a 1% sales tax (collected by the State and remitted to the County), various business, professional and occupational license taxes, property transfer recordation taxes, motor vehicle and other vehicle taxes. These receipts represented approximately 13.7% of total General Fund and School Operating receipts in the fiscal year ended June 30, 2008.

Revenues from the Commonwealth of Virginia. The County is reimbursed by the Commonwealth of Virginia for a portion of shared expenses including certain expenditures for social services, the Sheriff's office, courts, the office of the Commonwealth Attorney and the Clerk of the Circuit Court. The County also receives a significant amount of State aid in support of public school operations. Revenue from the Commonwealth of Virginia represented approximately 40.4% of total General Fund and School Operating receipts in the fiscal year ended June 30, 2008.

Other Revenue. Other sources of revenue including charges for services, recovered costs, permits, privilege fees, regulatory licenses, fines and forfeitures and revenues from the use of money and property accounted for approximately 4.7% of total General Fund Revenue for the fiscal year ended June 30, 2008.

Disbursements

Costs of Education. The County pays from the General Fund the costs of operating the public school system. Federal government and Commonwealth of Virginia funds are credited to the Schools' revenue accounts and used exclusively to finance Schools' operating expenditures. No debt service on School general obligation bonds is paid from funds from the federal government or the Commonwealth of Virginia. This classification represented approximately 51.7% of the total General Fund and School Operating disbursements for the fiscal year ended June 30, 2008.

Costs of General County Government. The County pays from the General Fund the costs of general County government. These costs include expenditures for public safety (police, fire, etc.), courts, administration and support, social services, libraries, health, recreation, community development and street and highway maintenance. This classification represented approximately 44.3% of total General Fund and School Operating disbursements in the fiscal year ended June 30, 2008. Included in the costs of general County government are the transfers to debt service and capital project funds discussed below.

Transfer to Debt Service Funds. The County transfers from the General Fund to the Debt Service Fund an amount sufficient to pay principal and interest on County general obligation bonds. Transfers to the Debt Service Fund represented approximately 6.8% of total General Fund and School Operating disbursements in the fiscal year ended June 30, 2008.

Transfer to Capital Projects Funds. The County transfers from the General Fund to the Capital Projects Fund moneys to pay the cost of certain capital improvements. The General Fund transfer to the Capital Projects Fund represented approximately 4.8% of total General Fund disbursements in the fiscal year ended June 30, 2008.

Summary of General Fund Revenues, Expenditures and Fund Balances

The financial data shown in the following table represents a summary, for each of the five fiscal years ended June 30, 2008, of the County's General and School Operating Fund revenues, expenditures and fund balances. This summary has been derived from the audited financial statements of the County for the five fiscal years noted below and should be read in connection with those financial statements and notes thereto.

	Fiscal Year Ended June 30				
	2004	**2005**	**2006**	**2007**	**2008**
Revenues:					
General Property Taxes	$ 259,060,763	$ 284,217,911	$ 313,844632	$ 342,936,509	$ 368,043,749
Other Local Taxes	114,076,223	118,319,653	125,617,029	125,926,766	122,795,902
Permits, Privilege Fees & Regulatory Licenses	4,062,684	4,780,738	4,695,699	4,969,852	4,325,129
Fines & Forfeitures	1,817,655	2,150,209	2,444587	2,639,646	2,403,679
Revenues from Use of Money & Property	2,005,269	6,400,350	9,207,632	16,792,176	20,690,210
Charges for Services	10,511,252	10,467,199	10,474829	7,581,696	3,620,160
Miscellaneous	9,026,499	5,642,594	3,592,904	5,223,516	5,833,158
Recovered Costs	4,259,700	5,309,597	5,545,140	5,368,467	5,410,026
Intergovernmental	253,272,524	277,274,096	298,771,962	337,555,646	360,715,320
Total Revenues	$ 658,092,569	$ 714,562,347	$ 774,194414	$ 848,994,274	$ 893,837,333
Expenditures:					
General Govt. Admin.	$ 51,831,427	$ 56,183,872	$ 59,955,298	$ 61,180,647	$ 65,172,004
Judicial Admin.	5,203,956	5,752,492	6,087,437	6,742,617	7,423,785
Public Safety	114,341,728	120,126,158	135,132,897	145,197,144	155,156,994
Public Works	44,314,789	33,239,392	32,934722	34,663,842	36,916,303
Health & Social Services	18,883,464	20,231,080	21,625,209	22,320,464	23,392,438
Education	287,423,146	315,453,330	346,348,185	365,597,451	396,452,750
Parks, Recreation & Cultural	21,349,331	23,224,989	24,638,107	27,208,578	30,370,534
Community Development	15,984,169	17,154,317	18,833,325	20,769,114	21,635,686
Miscellaneous	8,752,110	9,387,359	1,710,424	13,507,132	20,091,978
Debt Service Principal Retirement	7,046,617	4,945,441	8,188,768	8,818,669	9,611,381
Debt Service Interest	952,458	680,809	332,659	177,582	675,134
Total Expenditures	$ 576,083,195	$ 608,379,239	$ 655,789,031	$ 706,183,240	$ 766,898,987
Excess of Revenue over Expenditures	$ 82,009,374	$ 104,183,108	$ 118,405,383	$ 142,811,034	$ 126,938,346
Other Financing Sources (Uses):					
Issuance of Cap. Lease Obligation	$ -	$ 1,564,860	$ 18,432,287	$ 12,692,300	$ 12,541,835
Operating Transfers In					
To Debt Service Fund	(36,812,650)	(37,212,785)	(38,695,291)	(48,057,065)	(51,944,013)
To Capital Project Fund	(20,541,959)	(35,958,434)	(45,780,865)	(80,885,680)	(36,908,153)
To Other Funds	(10,935,378)	(13,729,571)	(14,799,312)	(18,186,427)	(18,373,628)
Total Other Financing Sources (Uses)	$ (68,289,987)	$ (85,335,930)	$ (80,843,181)	$ (134,436,872)	$ (94,683,959)
Excess (deficiency) Revenue & **Other**					
Sources Over Expend. & **Other Uses**	$ 13,719,387	$ 20,847,178	$ 37,562,202	$ 8,374,162	$ 32,254,387
Fund Balance, July 1	126,950,411	140,669,798	161,514,976	199,079,178	207,453,340
Fund Balance, June 30	$ **140,669,798**	$ **161,516,976**	$ **199,079,178**	$ **207,453,340**	$ **239,707,727**
			Analysis of Fund Balance		
Fund Balances:					
Reserved & Designated	$ 36,717,796	$ 53,131,994	$ 85,441,913	$ 84,029,351	$ 106,862,268
Undesignated	103,952,002	108,384,982	113,637,265	123,423,989	132,844,459
TOTAL	$ **140,669,798**	$ **161,516,976**	$ **199,079,178**	$ **207,453,340**	$ **239,707,727**

Fiscal 2008 results reflect reclassification of $12 million that was previously recorded as local tax revenue to intergovernmental (State HB 568).

Summary of Annual Fiscal Plan for the Fiscal Year Ending June 30, 2009

The County's Fiscal Plan for the fiscal year ending June 30, 2009 was developed in an uncertain economic environment whose severity and duration is unknown. Current economic conditions for the nation and the Commonwealth of Virginia are difficult, at best. Henrico County is faring through economic difficulties by continuing to utilize very conservative revenue projections, continuing to build on a history of limiting incremental expenditure growth, and implementing across the board cost savings measures.

Because of shortfalls in the Commonwealth of Virginia's revenue collections in FY2007-08, and continued shortfalls anticipated in FY2008-09, the County was advised that it must reduce State Aid distributions by $1.5 million in the FY2008-09 Annual Fiscal Plan, which it has done. As expected, the State's budget shortfall has continued to worsen, and as of this writing, it is projecting a shortfall in excess of $3.0 billion in its 2008-2010 biennial budget. Further reductions in State aid to localities are not anticipated in FY2008-09, but will result in additional funding reductions to the County in FY2009-10. Because of its history of forecasting revenues conservatively, coupled with a number of expenditure reductions due to realized efficiencies, the County has prepared itself to absorb additional State funding reductions in FY2009-10.

Local revenue estimates in the FY2008-09 Annual Fiscal Plan were prepared with extreme caution. This was particularly the case for the County's elastic revenues such as local sales tax, business and professional license tax, business personal property tax, as well as fees received from new building permits. Real property tax revenue estimates reflect an increase of 6.0 percent over the FY2007-08 Annual Fiscal Plan, although the FY2008-09 estimate represents less than a one percent increase over FY2007-08 actual receipts, reflecting the County's continuing conservative methodology.

On the expenditure side, the County has taken a number of steps to minimize expenses and increase efficiencies in the current fiscal year and in the future. In FY2008-09, the County's General Fund did not deviate from the long-term financial plan that has been in place since FY2001-02, which requires that continuing operational expenditures are met within a 5.0 percent maximum threshold. The only exceptions to this include new operating expenses arising from new facilities that are funded through a sinking fund mechanism. The overall increase in the General Fund budget for FY2008-09 reflects an increase of 6.7 percent.

It should also be noted that the County has implemented a number of cost saving initiatives in FY2008-09 to maximize expenditure savings. In October 2008, the County Manager implemented a modified hiring freeze, with only positions considered essential to County operations are to be filled. In addition, the County initiated a number of energy conservation measures in FY2008-09 that will provide immediate and future cost savings to the County. In an attempt to increase fuel efficiency for the County's vehicle fleet, when a vehicle is due for replacement, most eight-cylinder vehicles are being downsized to six-cylinder vehicles, and most six-cylinder vehicles are being downsized to four-cylinder vehicles. The County is also seeking reliable sources of biodiesel for the County's school buses, which consume the majority of diesel fuel of County vehicles. Another new thought process regarding the reduction of energy use in County facilities is the utilization of Leadership in Energy and Environment (LEED) certification in many of the County's new facilities. While it may cost more in the present to build LEED certified buildings, the return on investment is expected to be very quick for these facilities. County facilities that are planned to be LEED certified include a new high school, middle school, recreation center, and three libraries.

The County has been preparing for such a downturn in the economy for a number of years by limiting the growth in each annual budget for both General Government and Education consistently over time. That approach on the expenditure side of the budget may be juxtaposed against the reality that Henrico County has and will continue to utilize a very conservative methodology when projecting revenues.

Because of the current economic environment, revenues and expenditures are being monitored extremely closely. Due to revenues being forecasted conservatively, Henrico County will exceed revenue estimates in FY2008-09. On the expenditure side, the County will have significant savings due to the above mentioned cost savings initiatives. As such, the County will meet its financial guideline of maintaining a level of undesignated fund balance at 18.0 percent of General Fund expenditures in FY2008-09.

As set forth in the Annual Fiscal Plan, General Fund revenues, expenditures and transfers are summarized below for the fiscal year ending June 30, 2009:

Revenues and Transfers		**Expenditures**	
General property taxes	$ 400,371,400	General government administration	$ 48,198,466
Other local taxes	109,930,600	Financial administration	12,746,694
Revenue from use of money and property	8,533,200	Public safety	155,057,267
Intergovernmental revenue	334,786,873	Public works	35,919,540
Permits, fees & licenses	3,905,600	Health and welfare	20,365,471
Fines and forfeitures	2,622,900	Education	421,296,863
Charges for services	3,171,300	Parks, recreation and cultural	32,871,941
Miscellaneous	6,681,900	Judicial administration	8,206,133
Transfers to other funds	(104,358,316)	Community development	19,767,580
		Miscellaneous	11,215,502
Total Projected Revenues and Transfers	**$ 765,645,457**	**Total Budgeted Expenditures**	**$ 765,645,457**

Population

The County's population has increased rapidly since 1980, as shown in the following table:

Calendar Year	Population	Calendar Year	Population
1980	179,562	1999	259,179
1990	221,287	2000	267,031
1991	223,729	2001	271,447
1992	226,684	2002	274,847
1993	230,729	2003	281,069
1994	235,229	2004	288,735
1995	239,683	2005	293,382
1996	243,273	2006	299,443
1997	247,832	2007	302,518
1998	254,194	2008	305,634

Source: Population estimates provided by Henrico County Department of Planning. 2008 projected using 1.03% growth rate.

Taxable Retail Sales Data

The following table presents the calendar year taxable retail sales, fiscal year sales tax revenue and taxable retail sales per capita. As in many other metro areas in the Mid-Atlantic region, the County's taxable retail sales per capita have steadily increased since 1998. Economic activity in the County has matched the population growth noted above. The following table also reflects the increasing income levels of its residents and the County's increasing importance as a regional commercial and retail center.

Calendar Year	Population[1]	Calendar Year Taxable Retail Sales (000) [2]	Fiscal Year Local Sales Tax Revenue (000)	Taxable Retail Sales Per Capita
1998	254,194	$3,571,221	$36,956	$14,049
1999	259,179	3,829,852	39,519	14,777
2000	267,031	4,054,871	43,602	15,185
2001	271,447	3,902,580	45,086	14,377
2002	274,847	4,080,038	43,992	14,845
2003	281,069	4,195,664	47,096	14,928
2004	288,735	4,619,827	49,258	16,000
2005	293,382	4,444,650[3]	52,850	15,150
2006	299,443	4,695,500[3]	56,145	15,681
2007	302,518	5,074,052	57,794	16,773

Sources:[1] Population estimates provided by Henrico County Department of Planning.
[2] Commonwealth of Virginia, Department of Taxation. Data excludes automobile and prescription drug sales.
[3] Estimate from Department of Finance due to computer error at State Department of Taxation.

Construction Activity

The County has experienced steady construction activity in both the residential and commercial development areas. Selected data are presented below to show construction activity in the County for the past decade.

Building Permits and Value

Fiscal Year	Total Dwelling Units [1] No.	Total Dwelling Units [1] Value	Total Permits Issued [2] No.	Total Permits Issued [2] Value
1998	1,815	$174,510,589	19,590	$577,495,134
1999	2,083	209,258,966	20,336	529,785,425
2000	1,683	172,007,574	18,758	609,571,108
2001	1,641	175,048,202	18,880	672,373,503
2002	1,672	182,444,684	16,409	473,056,295
2003	2,024	245,754,322	18,485	674,204,598
2004	1,890	257,518,182	20,535	561,332,629
2005	1,986	302,172,160	21,917	670,363,278
2006	1,733	302,181,248	20,907	711,987,201
2007	1,338	258,791,133	18,506	741,847,309
2008	1,122	226,276,115	18,218	913,437,876

Source: Henrico County Department of Building Construction and Inspections.
[1] Dwelling Unit is defined as a single-family residence.
[2] Includes all residential and commercial construction.

Building Construction Permit Values
By Classification
Fiscal Years Ended June 30
(000's omitted)

	2004	2005	2006	2007	2008
Single Family	$257,518	$302,188	$302,181	$258,791	$226,276
Multi-Family	12,465	16,164	11,238	35,625	44,769
Industrial	0	180	0	6,185	0
Office	9,832	20,440	36,913	23,801	51,438
Institutional	5,545	3,231	18,149	0	15,011
Commercial & Etc.	275,973	194,682	173,963	198,570	343,535
Total	$561,333	$536,885	$542,881	$522,972	$681,029

Source: Henrico County Department of Building Construction and Inspections.

Housing

The data in the table below present the characteristics of residential housing in the County. As of December 31, 2007, single family housing units represented approximately 66% of all residential housing. The percentage of housing stock consisting of multifamily units has remained fairly constant throughout the period at 34%.

	2003		2004		2005		2006		2007	
	Units	% of Housing	Units	% of Housing	Units	% of Housing	Units	% of Housing	Units	% of Housing
Single Family	77,855	65%	79,753	66%	81,235	66%	82,577	66%	83,443	66%
Multifamily, Condominiums, Apartments & Town Houses	41,252	35%	41,752	34%	42,222	34%	43,395	34%	43,603	34%
Total	119,107	100%	121,505	100%	123,457	100%	125,972	100%	127,046	100%

Source: Henrico County Department of Planning.

Commerce, Industry and Employment

The County's economy and its tax base have grown steadily throughout the 1980's and 1990's. The County's Planning Department has estimated that the County's population in 2008 is approximately 19% higher than it was ten years ago. Retail sales rose over $1.50 billion or 42.1% between 1998 and 2007, according to the Virginia Department of Taxation. During the period from 1990 through the fourth quarter of 2007, total non-agricultural employment in the County increased from 221,287 to 302,518, an increase of 36.7%. Many major industries have located in the County during the last decade, including some that expanded or relocated from another part of the metropolitan area. All growth, whether new, relocated or expanded, contributed to the increased employment and tax base in the County.

The result of this growth has been an increase in Henrico's capacity to raise revenue and provide services. Between fiscal years 1998 and 2008, the County's total General Property tax revenues increased by over $170 million or 86.2%. During the same period, the Personal Property Tax rate remained constant at $3.50 per $100 assessed value and the real estate tax rate was reduced from $.98 per $100 assessed value to $.87 per $100 assessed value. Moderate commercial and residential growth is expected to continue in the foreseeable future, albeit at a more measured pace.

Employment

The following tables illustrate the level of employment, its diversity, and the income of County residents. Employment in the County is dominated by the non-manufacturing sector and consists primarily of wholesale, retail, and government employment. Financial and medical services also provide a significant employment base for County residents. On average, the County is responsible for one-third of the metropolitan area's non-manufacturing employment and one-fourth of the manufacturing employment.

Area Total Employment by Place of Residence

Date		Henrico County(1)	Unemployment	Chesterfield County	Unemployment	City of Richmond	Unemployment	Hanover County	Unemployment	Goochland County	Unemployment
November	2008	156,970	4.3%	161,613	4.3%	92,162	7.0%	54,040	4.1%	10,687	3.9%
October	2008	158,066	3.9	162,742	3.9	92,805	6.3	54,418	3.6	10,762	3.5
September	2008	157,945	4.0	162,617	3.9	92,734	6.5	54,376	3.5	10,754	3.4
August	2008	159,116	4.3	163,823	4.4	93,422	7.1	54,779	4.1	10,834	3.6
July	2008	161,461	4.1	166,237	4.3	94,798	6.5	55,587	4.0	10,993	3.6
June	2008	160,459	3.9	165,205	3.9	94,210	6.2	55,242	3.6	10,925	3.5
May	2008	160,007	3.5	164,740	3.5	93,945	5.7	55,086	3.2	10,894	3.3
April	2008	159,760	3.0	164,485	3.0	93,800	4.9	55,001	2.8	10,877	2.9
March	2008	159,096	3.5	163,802	3.4	93,410	5.6	54,772	3.2	10,832	3.3
February	2008	157,600	3.3	162,261	3.4	92,532	5.4	54,257	3.0	10,730	3.3
January	2008	157,744	3.4	162,410	3.3	92,616	5.2	54,307	3.2	10,740	3.3
December	2007	157,836	3.0	162,505	2.8	92,670	4.7	54,339	2.6	10,746	3.1
November	2007	158,406	2.8	163,091	2.7	93,005	4.4	54,535	2.5	10,785	2.7
October	2007	158,243	2.8	162,924	2.6	92,909	4.3	54,479	2.5	10,774	2.5
September	2007	158,013	2.8	162,687	2.6	92,774	4.6	54,400	2.4	10,758	2.4
August	2007	158,744	2.9	163,440	2.7	93,204	4.8	54,651	2.6	10,808	2.6
July	2007	160,260	2.8	165,001	2.7	94,094	4.6	55,173	2.6	10,911	2.3
June	2007	159,175	2.8	163,884	2.7	93,457	4.5	54,800	2.7	10,838	2.5
May	2007	158,215	2.5	162,894	2.4	92,893	3.9	54,469	2.2	10,772	2.0
April	2007	157,683	2.5	162,347	2.4	92,581	3.8	54,286	2.1	10,736	2.0
March	2007	157,968	2.6	162,640	2.4	92,748	4.1	54,384	2.2	10,755	2.2
February	2007	157,398	2.8	162,054	2.5	92,413	4.4	54,188	2.3	10,717	2.2
January	2007	156,601	2.9	161,233	2.7	91,945	4.6	53,913	2.5	10,662	2.4
December	2006	157,034	2.6	161,679	2.4	92,199	4.2	54,063	2.2	10,692	2.0
November	2006	157,328	2.7	161,982	2.6	92,372	4.4	54,164	2.4	10,712	2.1
October	2006	157,872	2.5	162,542	2.5	92,691	4.3	54,351	2.3	10,749	2.3
September	2006	155,579	2.9	160,181	2.8	91,345	4.7	53,562	2.6	10,593	2.4
August	2006	156,912	3.0	161,553	3.0	92,127	4.8	54,020	2.8	10,683	2.5
July	2006	158,181	3.0	162,860	2.9	92,873	4.7	54,457	2.8	10,770	2.5

Source: Virginia Employment Commission.
(1) Data based on Population surveys. Data represents Henrico County residents that are employed.

Employment by Industry Type

	Calendar Year 2005 [2][3]			Calendar Year 2006 [2][3]			Calendar Year 2007 [2][3]		
	Richmond MSA[1]	Henrico	Henrico % of Richmond MSA	Richmond MSA	Henrico	Henrico % of Richmond MSA	Richmond MSA	Henrico	Henrico % of Richmond MSA
Natural Resources & Mining	1,988	106	5.3%	1,983	110	5.5%	1,957	59	3.0%
Construction	43,765	10,209	23.3	46,591	10,114	21.7	44,419	9,605	21.6
Manufacturing	45,671	10,149	22.2	43,176	9,899	22.9	41,949	9,849	23.5
Trade, Trans. & Utility	112,488	33,939	30.2	119,827	36,735	30.7	116,015	36,729	31.7
Information	12,769	4,875	38.2	12,495	4,550	36.4	10,994	4,441	40.4
Financial Activities	46,118	22,798	49.4	46,350	22,739	49.1	43,736	21,006	48.0
Professional & Bus. Services	89,434	33,724	37.7	83,068	36,015	43.4	95,638	38,832	40.6
Education & Health Services	120,406	31,105	25.8	127,758	32,413	25.4	125,758	36,523	29.0
Leisure & Hospitality	47,614	14,321	30.1	52,558	15,647	29.8	50,854	15,458	30.4
Other Services	19,943	5,001	25.1	20,160	5,247	26.0	20,665	5,566	26.9
Public Administration	38,463	3,951	10.3	38,974	3,945	10.1	58,596	3,700	6.3
Unclassified	12	-		20	-		7	18	
Total	**578,671**	**170,178**	**29.4%**	**604,733**	**177,986**	**29.4%**	**610,588**	**181,786**	**29.8%**

Source: Virginia Employment Commission.

(1) Richmond MSA defined as: Amelia County, Caroline County, Charles City County, Chesterfield County, Cumberland County, Dinwiddie County, Goochland County, Hanover County, Henrico County, King and Queen County, King William County, Louisa County, New Kent County, Powhatan County, Prince George County, Sussex County, City of Colonial Heights, City of Hopewell, City of Petersburg and City of Richmond.

(2) Calendar Year 2005 represents 1st Quarter average, Calendar Years 2006 and 2007 data is for the 4th Quarter.

(3) Data represents total employment in each locality. Includes residents of other localities that work in each respective locality.

Median Household Income

	Calendar Year 2001	Calendar Year 2002	Calendar Year 2003	Calendar Year 2004	Calendar Year 2005
Henrico County	$49,767	$50,731	$51,201	$53,009	$55,284
Chesterfield County	61,023	61,689	61,907	63,931	66,625
Commonwealth of Virginia	50,241	49,631	54,783	51,141	51,914
United States	42,228	42,409	43,318	44,334	46,326

Source: Virginia Employment Commission/U.S. Census Bureau.

Numerous business types are located within the County and offer employment in such diversified areas as wholesale distribution, contract construction, research and technical manufacturing, marketing and banking. The following table presents data regarding some of the principal employers in the County.

	2008			2007		
Employer[1]	Employees	Rank	Percent of Total Employment	Employees	Rank	Percent of Total Employment
Henrico County School Board	5,000-9,999	1	3.9%	5,000-9,999	1	4.0%
County of Henrico	1,000-4,999	2	2.5%	1,000-4,999	3	2.5%
Capital One Bank	1,000-4,999	3	1.9%	1,000-4,999	2	1.9%
Bon Secours Richmond Health System [2]	1,000-4,999	4	1.9%	1,000-4,999	4	2.5%
Anthem (Blue Cross & Blue Shield)	1,000-4,999	5	1.9%	1,000-4,999	5	1.9%
Circuit City Stores, Inc.	1,000-4,999	6	1.9%	1,000-4,999	6	1.9%
Qimonda AG (Infineon Technologies) [4]	1,000-4,999	7	1.9%	1,000-4,999	12	1.9%
Bank of America	1,000-4,999	8	1.9%	1,000-4,999	7	1.9%
Henrico Doctors' Hospital (HCA)	1,000-4,999	9	1.9%	1,000-4,999	8	1.9%
Ukrops	1,000-4,999	10	1.9%	1,000-4,999	9	1.9%
GNA Corporation	1,000-4,999	11	1.9%	500-999	14	0.5%
Admiral Security Services	1,000-4,999	12	1.9%	1,000-4,999	11	1.9%
Wachovia Bank(First Union Bank)	1,000-4,999	13	1.9%	1,000-4,999	10	1.9%
Walmart	1,000-4,999	14	1.9%	1,000-4,999	13	1.9%
Target Corp	500-999	15	0.5%			
Delta Air Lines Global Se Inc.	500-999	16	0.5%	500-999	15	0.5%
Virginia Department of Social Services	500-999	17	0.5%			
Dominion Resources	500-999	18	0.5%			
Kroger	500-999	19	0.5%			
Verizon Virginia, Inc.	500-999	20	0.5%	500-999	16	0.5%
First Clearing LLC	500-999	21	0.5%			
Markel Service, Inc.	500-999	22	0.5%			
Suntrust Bank	500-999	23	0.5%	500-999	19	0.5%
Mead Westvaco	500-999	24	0.5%			
Wyeth Ayerst Pharmaceutical	500-999	25	0.5%			
Totals			34.7%			30.0%
Total County Employment [3]	160,459			159,175		

Source: Virginia Employment Commission.

(1) Data for each year is from quarterly census of employment and wages (QCEW) for previous year 4th quarter.

(2) Non-Resident Employer of Henrico County Citizens.

(3) Total County Employment is non-seasonally adjusted as of June.

(4) In early February 2009, Qimonda announced that its facility in the eastern part of the County would suspend operations in early April 2009.

Economic Development

Excellence in customer service, prudent financial management and sustainable economic development has enabled Henrico County to become a community of choice. The County's residents live and work in a low-tax, high-quality community with a solid local economy and one of the premier public school systems in the nation. This environment is fostered by the Board of Supervisors, who have over time, consistently demanded innovation, effective planning and financial prudence when allocating public resources while consistently reducing tax rates.

Henrico County was named the number three U.S. metro center for business by Dow Jones MarketWatch in October, 2007. One of the contributing factors of this ranking was the County's concentration of major corporations, including six Fortune 1000 companies (Altria, The Brinks Company, Circuit City Stores, Genworth Financial, Land America Financial Group and Markel Corporation) as well as a number of other major headquarters (Alfa Laval, Anthem, Hamilton Beach-Proctor Silex and Southern States). Additionally, over fifty international companies based in twelve nations maintain offices in Henrico County and many others are heavily invested here and in the surrounding Richmond Metropolitan Area.

In the current economy, several businesses in the area have had to reexamine their current business practices and staffing needs. Three high-profile examples include LandAmerica Financial Group, Circuit City Stores, and Qimonda North America. In November, LandAmerica Financial filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code and agreed to sell its major subsidiaries. In January 2009, Circuit City Stores was forced to liquidate its assets and the company will terminate operations, which will result in the loss of over 1,500 jobs locally. Qimonda Richmond, LLC announced in October 2008 that it was shutting down its 200mm wafer fabrication operation and, as a result, is reducing its workforce at the eastern Henrico facility by approximately 1,200 workers. In January 2009, Qimonda's parent company, Qimonda AG, filed for insolvency protection. In early February 2009, Qimonda announced that its facility in the eastern part of the County would suspend operations in early April 2009. It should also be noted that, in January 2009, Genworth Financial terminated 1,000 jobs nationally, with 400 of those jobs in Henrico County, due to the recessionary economic environment. In all, the Metropolitan Richmond Area (as defined in footnote (1) to the table "Employment by Industry Type" above) has lost over 9,880 jobs from January 1, 2008 through February 5, 2009.

Real estate in the County has been impacted by the market slump that has impacted the nation, though not nearly to the extent seen nationally, or even in the Commonwealth of Virginia. Of its more than 104,000 residential parcels, the County had 462 residential foreclosures in 2008, approximately 0.4 percent. In the month of December 2008, the County's foreclosure rate was 1 out of 649 parcels, which compares with 1 out of 446 in Virginia and 1 out of 416 in the United States in the same period (*Source: RealtyTrac.com*). It should also be noted that the Metropolitan Richmond Area ranked 73rd out of the top 100 metropolitan areas in the country in 2008. It is anticipated that the overall real estate tax base in the County will remain relatively flat from January 2008 to January 2009. This is due in large part to new commercial construction in the area in 2008, which will be discussed in greater detail below.

Retail sales are quite strong in Henrico County as it ranks second behind only Fairfax County statewide. Henrico has been able to establish itself as a destination for shoppers starting with Regency Square Shopping Center, which was built in the 1970s, and more recently with Short Pump Town Center. Securing the future as a shopper's destination, the Shops at White Oak Village in Eastern Henrico opened in October, 2008 and West Broad Village in the western part of the County (at this writing) is 50 percent completed. The Shops at White Oak represents the first major shopping center in the East End of the County, and includes over 900,000 square feet of retail space on 136 acres.

West Broad Village is one of the prime examples of how new development is still in the works in Henrico County. This mixed-use development, when completed, will include 526,000 square feet of retail, 688,000 square feet of commercial property, and 884 residential units which include single-family homes, townhomes, and apartments. The total real estate assessment is estimated at $500 million when completed. Alongside West Broad Village is Short Pump Station, which recently opened. Short Pump Station provided an additional 86,700 square feet of retail space and an additional estimated $18 million of real estate assessment.

In addition to West Broad Village and Short Pump Station, several other developments are either currently underway or set to begin in the next couple years. These include Reynolds Crossing, Rocketts Landing, Staples Mill Centre, the Town of Tree Hill, and Wilton on the James. All of these include substantial new or redeveloped retail and commercial space and, in the case of the Town of Tree Hill and Wilton on the James developments, substantial residential space in mixed-use environments.

The presence of these companies and retail outlets would not be possible without the favorable business environment that Henrico County has cultivated over the years. Since 1978, the Board of Supervisors has systematically decreased the Real Estate Tax rate six times. In addition to these decreases, Henrico has consistently been recognized by the *13 City/County Comparisons* (compiled by the City of Chesapeake) as the lowest taxing large locality in Virginia. This low tax burden combined with a record of conservative fiscal management and high-caliber services creates an enticing environment for businesses that are looking for new locations or to expand their current operations.

TAX BASE DATA

The following data are presented to illustrate characteristics of the assessed value of real and personal property, which are major sources of County-derived revenue. Of Henrico's $34.7 billion in taxable real estate, nearly 31% is classified as commercial.

Assessed Value of All Taxable Property
Last Ten Calendar Years

			Assessed Value Public Service Corp.[1]		
Calendar Year	**Assessed Value Real Estate**	**Personal Property**	**Real Estate**	**Personal Property**	**Total Assessed Value**
1999	$14,271,377,200	$2,609,580,250	$735,466,744	$4,713,473	$17,621,137,667
2000	15,276,400,550	2,749,570,928	782,847,363	5,229,877	18,814,048,718
2001	16,857,471,650	2,853,452,157	827,287,178	5,820,189	20,544,031,174
2002	18,339,624,550	2,859,762,405	851,848,275	4,521,265	22,055,756,495
2003	19,801,485,950	2,790,989,192	869,735,658	6,961,396	23,469,172,196
2004	22,303,454,800	2,792,061,898	889,990,680	7,090,354	25,992,597,732
2005	25,334,755,800	3,030,117,354	797,889,897	5,487,090	29,168,250,141
2006	29,281,500,300	3,721,479,562	801,743,073	3,788,794	33,808,511,729
2007	32,787,682,100	3,807,727,203	850,902,357	3,418,990	37,449,730,650
2008	34,740,075,000	4,022,203,876	851,141,635	3,803,163	39,617,223,674

Source: Henrico County Department of Finance.

[1] *Source:* State Corporation Commission.

Property Tax Rates

Property tax rates are established each year by the Board of Supervisors during the annual budget process. Property tax rates for the past ten calendar years are as set forth in the table below:

Tax Rates
(Per $100 of Assessed Value)

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Aircraft
1999	$0.94	$3.50	$1.00	$1.60
2000	0.94	3.50	1.00	1.60
2001	0.94	3.50	1.00	1.60
2002	0.94	3.50	1.00	1.60
2003	0.94	3.50	1.00	1.60
2004	0.94	3.50	1.00	1.60
2005	0.92	3.50	1.00	1.60
2006	0.90	3.50	1.00	1.60
2007	0.87	3.50	1.00	1.60
2008	0.87	3.50	1.00	1.60

Source: Director of Finance, Henrico County.

Property Tax Levies And Collections
Last Ten Fiscal Years

Fiscal Year	Current[1] Levy	Current Taxes Collected	Percent of Levy	Current Year Collection of Prior Year Taxes	Total Taxes Collected	Collections as Percent of Current Levy	Outstanding[2] & Delinquent Taxes	Delinquent Taxes as Percent of Current Levy
1999	$220,182,735	$208,625,574	94.8%	$4,331,072	$212,956,646	96.7%	$17,456,967	7.9%
2000	236,817,128	223,791,021	94.5	2,368,741	226,159,762	95.5	15,904,301	6.7
2001	250,133,476	240,101,152	96.0	1,765,024	241,866,176	96.7	19,879,337	8.0
2002	260,396,014	258,347,048	99.2	1,491,398	259,838,446	99.8	16,826,456	6.5
2003	273,732,728	272,012,365	99.4	2,041,874	274,054,239	100.1	17,632,788	6.4
2004	296,552,199	291,656,599	98.4	1,246,013	292,902,612	98.8	17,244,904	5.8
2005[3]	318,422,848	316,046,683	99.3	1,253,773	317,300,456	99.6	19,774,591	6.2
2006	332,812,356	335,366,613	100.8	1,865,024	337,231,637	101.3	15,563,275	4.7
2007	346,079,992	341,061,107	98.5	2,132,861	343,193,968	99.2	14,947,729	4.3
2008	369,929,993	364,474,006	98.5	3,822,660	368,296,666	99.6	16,349,654	4.4

Source: Henrico County Department of Finance.

(1) Updated to include State Corporation Commission (Public Service Corporation) Levies.

(2) For FY2008:
- $7,053,869 or 1.9% Delinquent (Taxes Due in CY2007 and prior)
- $9,295,785 or 2.5% Outstanding (First Half Taxes Due as of June 5th CY2008)

(3) Beginning with 2005, the Current Levy column excludes the Short Pump Town Center special assessment.

Vehicle and Business License Receipts

Fiscal Year	Vehicle Receipts	Business Receipts	Fiscal Year	Vehicle Receipts	Business Receipts
1999	$5,008,137	$21,054,310	2004	$5,637,493	$24,042,472
2000	5,103,630	22,253,067	2005	5,974,167	25,510,344
2001	5,292,185	23,092,646	2006	5,872,248	28,628,015
2002	5,226,643	22,315,226	2007	6,155,519	31,173,501
2003	5,434,279	23,013,363	2008	6,234,901	30,847,775

Source: Henrico County Department of Finance CAFR Exhibit #11.

Principal Taxpayers
As of June 30, 2008

The following data show the assessed value of the real and personal property of the 10 largest holders of real property and personal property in the County:

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation[1]
Qimonda Richmond, LLC[2]	Industrial	$1,047,731,100	2.6%
Virginia Power Company	Utility	406,132,277	1.0
Highwood Realty, L.P.	Office & Warehouse	312,632,000	0.8
Short Pump Town Center, LLC	Regional Mall	264,891,500	0.7
General Service Corp. (VAC LP)	Apartments	259,730,300	0.6
Liberty Property, LP	Office & Warehouse	250,474,300	0.6
The Wilton Company	Offices, Retail, Warehouse	248,818,900	0.6
Gumenick Properties	Apartments	248,005,400	0.6
Verizon	Utility	224,987,757	0.6
United Dominion Realty Trust	Apartments	203,645,600	0.5
	Total	$3,467,049,134	8.8%

Source: Henrico County Unaudited General Purpose Financial Statements for the fiscal year ended June 30, 2008.
(1) Total Real Estate and Personal Property Assessed Valuation for calendar year 2008 was $ 39,617,223,674.
(2) In early February 2009, Qimonda announced that its facility in the eastern part of the County would suspend operations in early April 2009.

The assessed value of real and personal property of these large entities in the County represents 8.8% of the total assessed value of all real property and personal property of $ 39,617,223,674. This total also includes Public Service Corporation properties assessed by the State Corporation Commission.

DEBT ADMINISTRATION

Issuance and Authorization of Bonded Indebtedness

Pursuant to the Constitution of Virginia and the Public Finance Act of 1991, Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended, a county in Virginia is authorized to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds the governing body of a county is required to levy, if necessary, an *ad valorem* tax on all property in the county subject to local taxation. Although the issuance of general obligation bonds by Virginia counties is not subject to any limitation on amount, counties are prohibited from issuing general obligation bonds unless the issuance of such bonds has been approved by public referendum, or unless such issuance is for refunding bonds or is through the Virginia Public School Authority, the Literary Fund, or other state agency prescribed by law. Payment of general government and school bonded indebtedness is provided for in the Debt Service Fund of the County.

Revenue bonds of a county are payable from revenues of the undertaking and do not require a referendum thereon. Payment of water and sewer utility revenue bonds is provided for in the County's Water and Sewer Revenue Fund.

Payment of lease revenue bonds is subject to the annual appropriation of the Board of Supervisors of the County.

As of June 30, 2008, the County's outstanding bonded indebtedness was as follows:

General Obligation Bonds	$ 348,445,000
Water and Sewer Revenue Bonds	191,690,000
Lease Revenue Bonds*	43,310,000
Literary Fund Obligations	89,427
Subtotal	583,534,427
Less: Water and Sewer Revenue Bonds	(191,690,000)
Total Net Debt	$ 391,844,427

*See "Bond Amortization Requirements – Total General Lease Obligations" herein.

Bond Amortization Requirements

Principal and interest payments on the outstanding general obligation bonded indebtedness of the County as of June 30, 2008 are presented in the following table:

TOTAL GENERAL OBLIGATION BONDS AND SCHOOL BONDS

Fiscal Year Ending June 30	**Principal**	**Interest**	**Total**
2009	$ 27,630,000	$ 15,503,522	$ 43,133,522
2010	25,700,000	14,221,725	39,921,725
2011	25,605,000	13,075,953	38,680,953
2012	22,355,000	11,905,219	34,260,219
2013	22,330,000	10,850,144	33,180,144
2014	22,305,000	9,813,091	32,118,091
2015	20,695,000	8,840,426	29,535,426
2016	20,695,000	7,883,391	28,578,391
2017	20,685,000	6,903,716	27,588,716
2018	19,160,000	5,945,943	25,105,943
2019	19,160,000	5,054,707	24,214,707
2020	19,160,000	4,179,009	23,339,009
2021	17,375,000	3,344,716	20,719,716
2022	14,760,000	2,578,520	17,338,520
2023	13,430,000	1,928,444	15,358,444
2024	10,920,000	1,340,813	12,260,813
2025	10,920,000	869,975	11,789,975
2026	8,975,000	450,194	9,425,194
2027	5,090,000	161,600	5,251,600
2028	1,495,000	29,900	1,524,900
Total	**$ 348,445,000**	**$ 124,881,008**	**$ 473,326,008**

Source: Henrico County Department of Finance.
Note: Totals may not add due to rounding.

Principal and interest payments on outstanding Economic Development Authority leases of the County as of June 30, 2008 are presented in the following table:

TOTAL GENERAL LEASE OBLIGATIONS

Fiscal Year Ending June 30	Principal	Interest	Total
2009	$ 2,565,000	$ 2,354,540	$ 4,919,540
2010	2,710,000	2,217,398	4,927,398
2011	2,860,000	2,075,545	4,935,545
2012	3,015,000	1,928,382	4,943,382
2013	3,170,000	1,769,973	4,939,973
2014	3,350,000	1,600,608	4,950,608
2015	3,540,000	1,418,508	4,958,508
2016	3,735,000	1,223,023	4,958,023
2017	3,960,000	1,009,656	4,969,656
2018	3,185,000	777,603	3,962,603
2019	2,560,000	586,550	3,146,550
2020	2,720,000	424,850	3,144,850
2021	2,885,000	258,606	3,143,606
2022	3,055,000	87,831	3,142,831
Total	**$ 43,310,000**	**$ 17,733,073**	**$ 61,043,073**

Source: Henrico County Department of Finance.
Note: Totals may not add due to rounding.

Debt Ratios

The following data are presented to show trends in the relationship of the net long-term indebtedness of the County to the estimated market value of taxable property in the County, its estimated population and the trend of debt service requirements as a percentage of General Fund and School Operating disbursements. In addition to General Obligation bonds, net long-term indebtedness includes General Lease Obligations and certain Literary Fund loans as of the fiscal year ended June 30, 2008, bringing the total to $392,400,319.

Net Long-Term Indebtedness Per Capita

Fiscal Year Ending June 30	Net Long-Term Indebtedness	Estimated Population[1]	Indebtedness Per Capita
1999	$275,145,750	259,179	$1,061.61
2000	246,705,297	267,031	923.88
2001	266,836,991	271,447	983.02
2002	272,737,939	274,847	992.33
2003	300,311,090	281,069	1,068.46
2004	316,343,709	288,735	1,095.62
2005	293,563,168	293,382	1,000.62
2006	371,646,511	299,443	1,241.13
2007	390,206,592	302,518	1,289.86
2008	392,400,319	305,634	1,283.89

Source: Henrico County Department of Finance.
(1) All years from Henrico County Department of Planning.

Trend of Net Long-Term Indebtedness as a Percentage of Assessed Value of Taxable Property

Fiscal Year Ending June 30	Net Long-Term Indebtedness	Assessed Value	Percentage
1999	$275,145,750	$17,621,137,667	1.56%
2000	246,705,297	18,814,048,718	1.31
2001	266,836,991	20,544,031,174	1.30
2002	272,737,939	22,055,756,495	1.24
2003	300,311,090	23,469,172,196	1.28
2004	316,343,709	25,992,597,732	1.22
2005	293,563,168	29,168,250,141	1.01
2006	375,714,096	33,808,511,729	1.11
2007	390,206,592	37,449,730,650	1.04
2008	392,400,319	39,617,223,674	0.99

Source: Henrico County Department of Finance.

Trend of Debt Service Requirements on General Obligation Bonds as a Percentage of General Disbursements

Fiscal Year Ending June 30	Debt Service Requirements(1)	Disbursements(2)	Percentage
1999	$32,678,696	$498,059,838	6.56%
2000	30,963,749	542,227,420	5.71
2001	31,754,565	584,838,845	5.43
2002	33,833,406	625,648,555	5.41
2003	37,132,336	648,669,165	5.72
2004	37,893,071	698,135,652	5.43
2005	37,212,785	742,635,904	5.01
2006	42,230,291	798,083,024	5.29
2007	48,038,472	858,946,018	5.59
2008	51,678,822	927,989,584	5.57

Source: Henrico County Department of Finance.
(1) Includes interest and other debt service costs.
2) Includes General, Special Revenue and Debt Service Funds.

Lease Commitments and Contractual Obligations

The County is obligated to make payments under various capital and operating leases for computer hardware, automotive vehicles, equipment, and the leasing of an office building. In accordance with legal requirements, all lease obligations are contingent upon the Board of Supervisors appropriating funds for each year's payments. Future minimum lease payments under these capital and operating leases for fiscal years ending June 30 (unaudited) are as follows:

Fiscal Year	Amount
2009	$16,586,935
2010	12,178,916
2011	8,227,740
Thereafter	47,859,661
Total minimum lease payments	$84,853,252
Less amount representing interest	$19,254,075
Present value of all future minimum lease payments	$65,599,177

The amounts shown above include lease payments due from the County with respect to the financing of regional jail facilities through the Economic Development Authority of Henrico County, Virginia. See "Bond Amortization Requirements – Total General Lease Obligations" herein.

Contingent Liabilities

Richmond Metropolitan Authority ("RMA") Baseball Stadium Facility. In connection with the RMA'’s responsibility for maintaining and operating the Richmond metropolitan area's baseball stadium facility, the County Board of Supervisors entered into a non-binding moral obligation under which funding would be requested for the County's share (one-third) of any annual net operating losses and any deficit in debt service on the $3,810,000 RMA Revenue Bonds. The RMA Revenue Bonds were issued under the terms of a bond resolution dated August 28, 1984. In September, 1994, the Authority issued $2,750,000 in revenue bonds in order to satisfy outstanding obligations on the 1984 bonds. The revenue bonds were paid in full as of June 30, 2005.

Environmental Risk. The County is the owner of closed landfills, underground storage tanks, sewage lagoons and other potential sources of toxic substances. Ownership of these properties exposes the County to risk of third party pollution liability. At this time no claim exists nor is there knowledge of any condition which impairs a third party’s property or person.

Joint Ventures

Capital Region Airport Commission. The Capital Region Airport Commission (the “Commission”) was created in 1975 pursuant to Virginia statute. On January 1, 1976, the County and the City of Richmond entered into an intergovernmental joint venture for the operation of the Richmond International Airport (“Airport”) by the Commission. As part of the venture, the City of Richmond conveyed the Airport property to the Commission, and the Commission in turn agreed to reimbursement of the outstanding debt of the City relating to the property. The County also made a contribution to the Commission, for a 40 percent interest in the venture. The Counties of Chesterfield and Hanover became Commission participants in fiscal year 1984 and fiscal year 1986, respectively.

The Commission is comprised of a fourteen-member board of directors, with four members each being appointed by the governing bodies of the City of Richmond, the County of Henrico and the County of Chesterfield and two members being appointed by the County of Hanover governing body. The Commission generates its revenues from service charges to users of the Airport facilities to recover the costs of maintaining, repairing and operating the Airport. Virginia statute requires that the Commission annually submit a budget showing estimated revenues and expenditures to the governing bodies of the City of Richmond and the three counties for their approval. After approval of the proposed budget by the governing bodies, if the Commission’s budget contains estimated expenditures which exceed estimated revenues, then the governing bodies are required to fund the deficit in proportion to their financial interests in the Commission. If, however, actual revenues are less than estimated revenues (resulting in a deficit), the City of Richmond and the three counties may, at their discretion, appropriate funds necessary to fund the deficit. The County has agreed to fund its portion of the deficit, if any.

The percentage shares of the jurisdictions involved include the following:

City of Richmond	29.27%
County of Henrico	31.44
County of Chesterfield	30.17
County of Hanover	9.12
	100.00%

This financial interest is determined by applying the percentage of the total approximate population of each jurisdiction to the combined total population of all jurisdictions. The above percentages are based on the final 1990 census figures provided by the Richmond Regional Planning District Commission.

During fiscal year 2008, the Commission's budget was not formally approved by the County; the Commission did not receive any significant subsidies from the County; and the County did not receive any funds from the Commission for repayment of its contribution.

Complete financial statements for the Capital Region Airport Commission can be obtained from its administrative office at South Airport Drive, Henrico, Virginia 23231.

Greater Richmond Convention Center Authority. The Greater Richmond Convention Center Authority (the "Convention Authority"), a political subdivision of the Commonwealth of Virginia, was created on January 9, 1998, pursuant to the Public Recreational Facilities Authorities Act, Chapter 56 of Title 15.2, Code of Virginia (1950). The political subdivisions participating in the incorporation of the Convention Authority are the City of Richmond and the Counties of Henrico, Chesterfield and Hanover. The Convention Authority is governed by a five-member board comprised of the chief administrative officer of each of the four incorporating local governments and the President/CEO of the Retail Merchants Association of Greater Richmond.

The Convention Authority was created to acquire, finance, expand, renovate, construct, lease, operate and maintain the facility and grounds of a visitors and convention center or centers including the facility and grounds currently known as the Richmond Centre. The primary purpose of the Convention Authority is to issue revenue bonds to finance the expansion of the Richmond Centre facility and to construct access, streetscape, or other on-site/off-site improvements. Once the expansion is complete, the Convention Authority will have responsibility for the operation and maintenance of the convention center.

The Convention Authority has issued $158,415,000 in Hotel Tax Revenue Bonds, which are secured by an 8 percent transient occupancy tax imposed and collected by the localities. The County recorded an expenditure of $10,572,695 for transient occupancy tax to the Convention Authority during the year ended June 30, 2008.

Complete financial statements for the Convention Authority can be obtained from Chesterfield County, Accounting Department, Post Office Box 40, Chesterfield, Virginia 23832.

Employee Retirement and Pension Plans

All full-time salaried permanent employees of Henrico County are automatically enrolled in the Virginia Retirement System ("VRS"), except law enforcement officers, who are enrolled in the Law Enforcement Officers Retirement System, which is also administered by VRS. Retirement, group insurance coverage, disability and death benefits are provided under these plans. Professional instructional personnel in the Henrico County School System are also automatically enrolled in the VRS, but in accordance with Chapter 1, Title 51.1 of the Code of Virginia (1950), the employer contribution costs are partially borne by the Commonwealth of Virginia.

Other Post Employment Benefits

Expenses associated with retirees' health benefits are funded annually on a cash basis. Current Henrico County retirees who qualify for health benefits receive an implicit subsidy by participating in the active employee health care risk pool; as well, the County offers a health care credit based upon years of service.

Eligibility for health care benefits is based on the retiree being immediately eligible to receive a Virginia Retirement System (VRS) monthly retirement payment. Under age 65, the retiree and their dependents can remain in the County's health and dental plans and pay the full active premium. Over age 65, a retiree and his or her dependents move to a Medicare carve out plan. Certain classes of employee, such as teachers and public safety, are eligible for a health care credit paid through VRS.

Retirees who are not eligible for the VRS Health Care Credit may qualify for the County supplement. Retirees must have a minimum of 20 full years of VRS service, 10 years of which must be with the County. The supplement will be paid only to eligible retirees who choose to remain in the County's group plan. This supplement is $3 per month for each full year of service.

In preparation for the GASB 45 Accounting and Financial Reporting for OPEB, an actuarial evaluation was prepared calculating the County's post retirement medical cost as of July 1, 2007. That evaluation estimated the Unfunded Actuarial Accrued Liability for both County and Schools combined to be $82.87 million and the Annual Required Contribution (ARC) to be $8.92 million. This scenario is based on a discount rate of 7.0 percent and a 30-year amortization of the unfunded actuarial liability. The County fully funded the resulting $6.4 million Net OPEB Obligation during FY2007-08 and during the current fiscal year budgeted an additional $6.7 million. An actuarial update for June 30, 2008 reflects that the "Employer Contribution as a Percent of OPEB Cost" stood at 133.3%. It should be noted that during FY2007-08 Henrico County became a founding member of the OPEB Trust Fund established by the Virginia Municipal League. In the FY2008-09 budget, the County fully funded its net OPEB obligation.

Capital Improvement Program

The Capital Improvement Program (the "CIP") represents those infrastructure improvements needed over the next five years by the County and provides for the orderly and systematic financing and acquisition of public improvements. In evaluating each of the proposed projects, the CIP process takes into account such factors as population growth, density, economic development concerns, the County's fiscal ability, and the desired service levels.

The amount appropriated for capital projects each year is based on the CIP in effect at the time of the development of the budget. Recommendations in subsequent CIP's may result in revisions to the amounts appropriated for specific projects.

The approved Capital Budget for fiscal year 2009 is $193,121,816. Shown on the following two pages is a summary of the approved CIP for fiscal year 2009 and proposed expenditures for the five-year plan in addition to a summary of projected funding sources:

Capital Improvement Program Summary
Fiscal Year 2008-09 through Fiscal Year 2012-13

Expenditure Summary

By Department:	Approved FY 2008-09	Requested FY 2008-09	Requested FY 2009-10	Requested FY 2010-11	Requested FY 2011-12	Requested FY 2012-13	Total Requested
Fund 21 - Capital Projects Fund							
Education	$ 70,179,036	$ 109,177,386	$ 72,038,354	$ 113,965,220	$ 98,168,788	$ 163,485,316	$ 556,835,064
Finance	5,718,686	0	0	0	0	0	0
Fire	6,524,131	8,335,375	10,280,595	2,492,271	14,740,215	7,959,527	43,807,983
General Services	2,649,641	21,415,293	55,826,452	55,794,592	53,287,112	115,235,167	301,558,616
Information Technology	650,000	650,000	650,000	650,000	650,000	0	2,600,000
Juvenile Detention Home	1,242,439	1,242,439	0	0	0	0	1,242,439
Police	250,000	1,363,950	0	0	0	0	1,363,950
Public Library	0	492,043	10,950,926	6,000,000	33,081,505	13,663,515	64,187,989
Public Utilities – Landfill	150,000	150,000	3,450,000	0	0	0	3,600,000
Public Works – Drainage	0	225,000	11,262,894	9,717,124	14,604,667	12,990,223	48,799,908
Public Works – GIS	175,000	300,000	300,000	300,000	300,000	300,000	1,500,000
Public Works – Roadway	26,254,780	26,254,780	10,777,392	4,966,008	5,995,000	4,073,800	52,066,980
Recreation	12,246,000	25,226,042	76,227,341	47,484,658	29,659,571	48,958,096	227,555,708
Sheriff	1,862,103	2,314,830	40,109,436	0	0	0	42,424,266
Total Fund 21:	**$ 127,901,816**	**$ 197,147,138**	**$ 291,873,390**	**$ 241,369,873**	**$ 250,486,858**	**$ 366,665,644**	**$ 1,347,542,903**
Fund 51 - Enterprise Fund - Public Utilities							
Public Utilities – Sewer	$ 28,724,000	$ 28,724,000	$ 22,134,000	$ 42,156,000	$ 46,064,000	$ 51,745,000	$ 190,823,000
Public Utilities – Water	36,496,000	36,496,000	10,753,000	12,829,000	39,520,000	29,914,000	129,512,000
Total Fund 51:	**$ 65,220,000**	**$ 65,220,000**	**$ 32,887,000**	**$ 54,985,000**	**$ 85,584,000**	**$ 81,659,000**	**$ 320,335,000**
Fund 52 - Enterprise Fund - Belmont Golf Course							
Recreation	$ 0	$ 0	$ 832,081	$ 3,775,024	$ 1,147,037	$ 488,078	$ 6,242,220
Total Fund 52:	**$ 0**	**$ 0**	**$ 832,081**	**$ 3,775,024**	**$ 1,147,037**	**$ 488,078**	**$ 6,242,220**
Grand Total:	**$ 193,121,816**	**$ 262,367,138**	**$ 325,592,471**	**$ 300,129,897**	**$ 337,217,895**	**$ 448,812,722**	**$ 1,674,120,123**

Capital Improvement Program Summary
Fiscal Year 2008-09 through Fiscal Year 2012-13

Revenue Summary

By Revenue Source	Approved FY 2008-09	Requested FY 2008-09	Requested FY 2009-10	Requested FY 2010-11	Requested FY 2011-12	Requested FY 2012-13	Total Requested
Fund 21 - Capital Projects Fund							
E-911 Wireless Funds	$ 250,000	$ 440,420	$ 0	$ 0	$ 0	$ 0	$ 440,420
Gas Tax	3,404,780	3,404,780	3,927,392	4,116,008	5,145,000	3,223,800	19,816,980
General Fund	20,000,000	88,956,365	202,307,644	195,876,535	204,400,024	362,591,844	1,054,132,412
General Fund – Public Works	850,000	850,000	850,000	850,000	850,000	850,000	4,250,000
G.O. Bonds – Education – 2005	61,150,000	63,148,350	63,156,903	23,431,208	0	0	149,736,461
G.O. Bonds - Gen Gov't - 2005	34,700,000	32,800,000	11,800,000	10,350,000	35,700,000	0	90,650,000
Landfill Revenue	150,000	150,000	3,450,000	0	0	0	3,600,000
Lottery/State Construction	6,529,036	6,529,036	6,381,451	6,746,122	4,391,834	0	24,048,443
Special Revenue Fund Balance	868,000	868,187	0	0	0	0	868,187
Total Fund 21:	**$ 127,901,816**	**$ 197,147,138**	**$ 291,873,390**	**$ 241,369,873**	**$ 250,486,858**	**$ 366,665,644**	**$ 1,347,542,903**
Fund 51 – Enterprise Fund – Public Utilities							
Enterprise Funds	$ 65,220,000	$ 65,220,000	$ 11,387,000	$ 25,485,000	$ 85,584,000	$ 45,177,000	$ 232,853,000
Revenue Bonds	0	0	21,500,000	29,500,000	0	36,482,000	87,482,000
Total Fund 51:	**$ 65,220,000**	**$ 65,220,000**	**$ 32,887,000**	**$ 54,985,000**	**$ 85,584,000**	**$ 81,659,000**	**$ 320,335,000**
Fund 52 – Enterprise Fund – Belmont Golf Course							
Enterprise Funds	$ 0	$ 0	$ 832,081	$ 3,775,024	$ 1,147,037	$ 488,078	$ 6,242,220
Total Fund 52:	**$ 0**	**$ 0**	**$ 832,081**	**$ 3,775,024**	**$ 1,147,037**	**$ 488,078**	**$ 6,242,220**
Grand Total:	**$ 193,121,816**	**$ 262,367,138**	**$ 325,592,471**	**$ 300,129,897**	**$ 337,217,895**	**$ 448,812,722**	**$ 1,674,120,123**

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DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2009 Bonds, payments of principal and interest on the Series 2009 Bonds to The Depository Trust Company ("DTC"), New York, New York, its nominee, Participants, defined herein, or Beneficial Owners, defined herein, confirmation and transfer of beneficial ownership interests in the Series 2009 Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners, is based solely on information furnished by DTC.

DTC will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be issued as fully registered Series 2009 Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2009 Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2009 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and payment of redemption proceeds of, the Series 2009 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Registrar and Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments and payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Issuer or the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2009 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2009 Bond certificates will be printed and delivered to DTC.

The information in this Appendix D concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

APPENDIX E

PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate"), dated March 4, 2009, is executed and delivered in connection with the issuance of $70,360,000 principal amount of Water and Sewer System Refunding Revenue Bonds, Series 2009, dated March 4, 2009 (the "Bonds"), of the County of Henrico County, Virginia (the "County") and pursuant to a resolution duly adopted by the Board of Supervisors of the County on January 27, 2009 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the County agrees as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the County for each fiscal year as set forth in Appendix A to the Official Statement in the sections "THE SYSTEM - Rates and Charges," "THE SYSTEM - Largest Customers," "THE SYSTEM - System Statistics," "SUMMARY OF REVENUES AND EXPENSES OF THE SYSTEM," "HISTORICAL DEBT SERVICE COVERAGE," "ANNUAL DEBT SERVICE REQUIREMENTS," and "WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN" and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the County, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however,* that, pursuant to Section 4.2(a) hereof, the County may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles, or other description thereof.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board or any successor to the duties and responsibilities of each of them.

(5) "Material Event" means any of the following events with respect to the Bonds, whether relating to the County or otherwise, if material:

(i) principal and interest payment delinquencies;
(ii) non-payment related defaults;
(iii) unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) unscheduled draws on credit enhancements reflecting financial difficulties;
(v) substitution of credit or liquidity providers, or their failure to perform;
(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
(vii) modifications to rights of Bondholders;
(viii) Bond calls (other than scheduled mandatory sinking fund redemptions);
(ix) defeasances;
(x) release, substitution, or sale of property securing repayment of the Bonds; and
(xi) rating changes.

(6) "Material Event Notice" means notice of a Material Event.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg Municipal Repository, DPC Data Inc., Interactive Data Pricing and Reference Data Inc. and Standard and Poor's Securities Evaluations, Inc. Filing information relating to each such NRMSIR is set forth in Exhibit A hereto.

(9) "Official Statement" means the "final official statement" as defined in paragraph (f)(3) of the Rule.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(13) "State" means the Commonwealth of Virginia.

(14) "Unaudited Financial Statements" means the same as Audited Financial Statements, except the same shall not have been audited.

(15) "Underwriter" means Morgan Keegan & Company, Inc. and Davenport & Company LLC.

ARTICLE II

THE UNDERTAKING

SECTION 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

SECTION 2.2. Annual Financial Information. (a) The County shall provide Annual Financial Information for the County with respect to each fiscal year of the County, commencing with fiscal year beginning July 1, 2008, by no later than six months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The County shall provide, in a timely manner, notice of any failure of the County to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR and (ii) the SID.

SECTION 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the County shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

SECTION 2.4. Notices of Material Events. (a) If a Material Event occurs, the County shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID.

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the County, including the Bonds, such Material Event Notice need only include the CUSIP number of the County.

SECTION 2.5. Additional Disclosure Obligations. The County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the County, and that under some circumstances, compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the County under such laws.

SECTION 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Certificate. If the County chooses to do so, the County shall have no obligation under this Certificate to update such additional information or include it in any future Annual Financial Information or Material Event Notice.

SECTION 2.7. No Previous Non-Compliance. The County represents that, in the previous five years, it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III

OPERATING RULES

SECTION 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the County provides Annual Financial Information by specific reference to documents (i) either

(1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC or (ii) if such document is an Official Statement, available from the MSRB.

SECTION 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 3.3. CUSIP Numbers in Material Event Notices. Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the County including the Bonds, such Material Event Notice need only include the CUSIP number of the County.

SECTION 3.4. Filing with Certain Dissemination Agents or Conduits. The County may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

SECTION 3.5. Transmission of Information and Notices. Unless otherwise required by law and, in the County's sole determination, subject to technical and economic feasibility, the County shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the County's information and notices.

SECTION 3.6. Fiscal Year. (a) The County's current fiscal year is July 1 to June 30, and the County shall promptly notify each NRMSIR and the SID of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE IV

EFFECTIVE DATE, TERMINATION, AMENDMENT AND ENFORCEMENT

SECTION 4.1. Effective Date, Termination.

(a) This Certificate shall be effective upon the issuance of the Bonds.

(b) The County's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Certificate or any provision hereof, shall be null and void in the event that the County (i) delivers to the County an opinion of Counsel, addressed to the County, to the effect that those portions of the Rule which require this Certificate, or any such provision, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to each NRMSIR and the SID.

SECTION 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the Director of Finance, without the consent of the holders of the Bonds if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby, (ii) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (iii) the County shall have received an opinion of Counsel addressed to the County, to the same effect as set forth in clause (ii) above and further to the effect that the amendment does not materially impair the interests of the holders of the Bonds and (iv) the County delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) This Certificate may be amended, by written certificate of the Director of Finance, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate, (ii) the County shall have received an opinion of Counsel to the effect that performance by the County under this Certificate as so amended will not result in a violation of the Rule and (iii) the County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) In addition to subsections (a) and (b) above, this Certificate may be amended, by written certificate of the Director of Finance, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) the County shall have received an opinion of Counsel, addressed to the County, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of the Staff of the SEC and (ii) the County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(d) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the County in preparing its financial statements, Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Certificate shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section 4.3.

(b) The obligations of the County to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The Bondholders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the County's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section 4.3, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the County to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, without regard to its conflict of law rules, and any suits and actions arising out of this Certificate shall be instituted and tried only in the Circuit Court of the County of Henrico, Virginia; *provided, however*, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

COUNTY OF HENRICO, VIRGINIA

By: ______________________________
Director of Finance

EXHIBIT A
to Continuing Disclosure Agreement

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontracts.html
E-mail address: munis@bloomberg.com

Interactive Data Pricing and Reference Data Inc.
Attention: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Telephone: (212) 771-6999; (800) 689-8466
Facsimile: (212) 771-7390
http://www.ftid.com
E-mail address: nrmsir@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
http://www.dpcdata.com
E-mail address: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
http://www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-mail address: nrmsir_repository@sandp.com

An updated list of NRMSIRs may be found at the Securities and Exchange Commission website (www.sec.gov)

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

Board of Supervisors
of the County of Henrico
Henrico, Virginia

Dear Members of the Board of Supervisors:

COUNTY OF HENRICO, VIRGINIA,
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS,
SERIES 2009, $70,360,000

At your request we have examined into the validity of $70,360,000 principal amount of Water and Sewer System Refunding Revenue Bonds, Series 2009 (the "Bonds"), of the County of Henrico, Virginia (the "County"). The Bonds are dated the date of their issuance, are issuable in fully registered form in the denomination of $5,000 each or any integral multiple thereof, and are numbered from No. R-1 upwards in order of issuance. The Bonds mature on May 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable on May 1, 2009 and semiannually on each May 1 and November 1 thereafter at the interest rate per annum stated opposite such year, to wit:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2009	$ 315,000	3.00 %	2019	$3,115,000	5.00%
2010	2,455,000	2.50	2020	3,275,000	5.00
2011	2,845,000	2.50	2021	3,430,000	5.00
2012	4,945,000	4.00	2022	3,600,000	5.00
2013	5,065,000	4.00	2023	3,780,000	5.00
2014	4,275,000	2.25	2024	3,965,000	5.00
2015	2,685,000	5.00	2025	4,165,000	5.00
2016	2,820,000	2.50	2026	4,380,000	4.75
2017	2,890,000	2.75	2027	4,585,000	4.75
2018	2,965,000	5.00	2028	4,805,000	4.375

The Bonds maturing on and after May 1, 2020 are subject to redemption prior to their stated maturities at the option of the County on or after May 1, 2019 upon the terms and conditions and at the prices set forth therein.

The Bonds recite that they are issued by the County under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), a resolution duly adopted by the Board of Supervisors of the County on November 23, 1977 and a resolution supplemental thereto duly adopted by such Board on January 27, 2009 (collectively, the "Resolution"), for the purpose of refunding in advance of their stated maturities bonds heretofore issued by the County to finance the costs of acquisition, construction, reconstruction, improvement, extension and enlargement of the unified water supply and sanitary sewerage system in the County.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) certified copies of the proceedings of the Board of Supervisors of the County authorizing the issuance, sale and delivery of the Bonds, (iii) such other papers, instruments, documents and proceedings as we have deemed necessary or advisable and (iv) a specimen Bond of such issue.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and constitute valid and legally binding special obligations of the County payable solely from and secured equally and ratably solely by a lien and charge on the revenues derived from the operation of the water and sewer system of the County on a parity with bonds heretofore issued on a parity with the Bonds, and any bonds, and interest on bond anticipation notes, which hereafter may be issued under the Resolution on a parity with the Bonds, subject, however, to the prior payment from such revenues of the expenses of operation and maintenance of the water and sewer system, all as set forth and provided in the Resolution.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions and assuming continuing compliance by the County with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the County in connection with the Bonds, and we have assumed compliance by the County with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

It is also our opinion that under existing law of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update our opinion after the issue date of the Bonds to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds

Very truly yours,