

November 3, 2004

To the Honorable Mayor, Members of City Council, and Citizens of the City of Williamsburg:

The Comprehensive Annual Financial Report (CAFR) of the City of Williamsburg, Virginia for the fiscal year ended June 30, 2004, is submitted herewith in accordance with Section 15.2-2511 of the Code of Virginia. This report was prepared by the City's Department of Finance. This report is designed in a manner to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs are included.

This report meets all governmental accounting and financial reporting requirements of statements, interpretations and technical bulletins issued by the Governmental Accounting Standards Board (GASB). The GASB issues new financial reporting guidelines on a continual basis, covering a wide range of topics for financial statement presentation. This report complies with all recent releases of the GASB, and will continue to do so in order to comply with all applicable financial reporting requirements. This report is also being issued for the third time in full compliance with the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

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

## **The City**

The City of Williamsburg was established by the General Assembly of the Commonwealth of Virginia in 1699 and was incorporated by British Royal Charter in 1722. Today, it operates under the Council-Manager form of government substantially as established in the City Charter of 1932, and as an independent city under the Constitution and laws of the Commonwealth of Virginia. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and four other members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council members serve four-year staggered terms. The Mayor is chosen from among City Council members every two years.

Williamsburg encompasses some nine square miles located between the James and York Rivers on the Virginia Peninsula in Southeastern Virginia. Per the 2000 Census, Williamsburg has a population of 11,998.

The City is home to the College of William & Mary, established in 1693. The Colonial Williamsburg Foundation operates a living museum recreating the days when Williamsburg was the Capital of Colonial Virginia, 1699 to 1780.

The financial reporting entity includes all the funds and account groups of the City of Williamsburg. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As such, the City has no component units (legally separate entities for which the City as primary government is financially accountable).

The City provides the full range of municipal services contemplated by Charter on a continuing basis. These services include public safety, (police, fire and emergency medical services), public works, (street construction and maintenance, engineering, refuse collection), planning and zoning, building inspections, human services, library, parks and recreation, and general administrative services. In addition, the City water and sewer services are provided under an Enterprise Fund concept, with user charges set by City Council to ensure adequate coverage of operating and capital expenses.

The annual budget serves as the foundation for the City's financial planning and control. The budget process defines, communicates, and funds the City's programs and priorities. The completed budget is City Council's road map, and a primary management tool for the City Manager and Department Heads. The annual Budget Guide is a formal call for all departments of the City, and agencies associated with it, to prepare and submit an estimate of the resources required for the next fiscal year. It includes a set of procedures for building a comprehensive budget for the City Manager to submit to City Council in March of each year. It also serves as a mid-year review to identify adjustments necessary to the current year budget. City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public works), and department (e.g., streets). Department heads may make transfers of appropriations within a department, with the approval of the City Manager. Budget amendments requiring changes in total fund appropriations require special approval of City Council, and possibly a public hearing. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented in the fund financial statements section.

## **The Williamsburg Economy**

The economy of the City of Williamsburg is propelled by tourism and education.

Tourism – including major attractions and the hospitality industry – continues to provide the most significant source of tax base for the city government. In FY 2004, retail sales in the city totaled \$421 million, and the assessed value of taxable real property totaled \$1.117 billion. These totals compare with a resident population of 11,998. Within the city limits are 47 hotels/motels, 37 bed and breakfasts, and 86 restaurants.

The lynch pin of tourism is Colonial Williamsburg Foundation which operates the nation's most extensive living history museum. Encompassing 578 restored or reconstructed buildings and employing approximately 3,000, the Foundation interprets the 18<sup>th</sup> century history of America in Virginia's colonial capital. Other nearby attractions not located in the city include Jamestown (site of the first permanent English settlement in 1607), Yorktown (site of Washington's victory over Cornwallis in the Revolutionary War), and Busch Gardens and Water Country USA theme parks. These attractions draw a conservative estimate of 4 million ticketed visitors annually. Next to tourism, higher education drives the Williamsburg economy. The College of William and Mary, located within the city, is the nation's second oldest university. The College owns 18.3% of the land area of the city, enrolls 7,575 students, and employs 3,057 faculty and staff.

**Economic Development Activity** - City Council's goal of returning the City's 55-acre commercial site on Richmond Road and Ironbound Roads to the private sector for development of a regional shopping complex continues to move forward. The City contracted in August, 2004 for the \$10.9 Million sale of this property adjacent to the Richmond Road business corridor to Roseland Property Company, a New Jersey-based commercial developer, owner and manager of real estate. High Street Williamsburg is envisioned as a lifestyle retail center of 250,000 square feet, and 450 residential units. It is anticipated that this project should bring over \$2 Million per year in new revenues to the City when the phased development plan is completed. Groundbreaking is targeted for July, 2005. During Fiscal Years 2003 and 2004 City Council and the City Manager completed property and right-of-way acquisitions necessary to begin this development. This contract is further explained in the Notes to the Financial Statements as a subsequent event. The City is also actively involved with the Virginia Department of Transportation (VDOT) to accelerate the planned extension of Treyburn Drive, which supports the development of this property. In addition to High Street, Colonial Williamsburg Foundation intends to sell approximately 350 acres to Riverside Health System for a mixed-use development in the southeast quadrant of the City. This development will be the largest in the City's history.

During FY 2004 the City refinanced \$4.5 Million in a General Obligation 2-year, 1.65% note, which combined with the 15-year \$2.5 Million G.O. issue in FY 2002 provided funding for construction of the Prince George Parking Garage. The three-level, 362 vehicle capacity concrete structure is located adjacent to Prince George Street on land donated by the Colonial Williamsburg Foundation. The garage was dedicated and open for business in April, 2004. Included in this \$7.4 Million project was site work, property acquisition, parking controls, drainage, and streetscape work, including a redesign of bricked sidewalks along Prince George Street and Boundary Street. The structure provides much-needed parking in the historic area for shoppers and tourists alike. It is anticipated that revenues derived from this paid-parking facility will be sufficient to cover operating costs and a portion of the annual debt service for the 15-year bond. The \$4.5 Million 2-year note is due October, 2005, at which that time City Council can decide whether to pay the \$4.5 Million principal in full with the sale of existing City assets, or pursue alternative refinancing.

The City's Utility Fund purchased the 133-acre Royals property in January, 2001 at a cost of \$5.78 Million to provide additional environmental protection for the Waller Mill Reservoir Watershed, the City-owned raw water source located in adjacent York County. A five-year G.O. bond was issued for this purchase, with all principal being due in January, 2006. This property was purchased with the intent to resell a 50+ acre section along Mooretown Road for commercial development, using the proceeds to essentially pay down the majority of the bond principal by the due date. The property is currently listed with a marketing agent. Additionally, the City refinanced this debt instrument in October, 2002, reducing the interest rate from 4.22% to 2.54%, and saving in excess of \$260,000 over the remaining term in the process. During FY 2004 the Utility Fund also purchased two residential properties adjacent to the Waller Mill Reservoir, in keeping with City Council's policy of raw water source protection.

**Financial Strategy** - The City of Williamsburg takes pride in providing a high level of public services to its residents at a reasonable cost. The real estate tax rate of 54¢ per \$100 of assessed value has been in effect since FY 1991, and remains one of the lowest city tax rates in the Commonwealth of Virginia. The City relies heavily on room and meal taxes to provide the largest source of funding for its services. Room and Meal taxes accounted for 38% of the General Fund operating budget for FY 2004.

With a heavy reliance on tourism revenues comes the obvious concern over economic downturn, especially in the wake of September 11<sup>th</sup>, 2001, and the national and state economies in recent years. Looking at the numbers immediately after the attack on the World Trade Center, Williamsburg fared better than many tourist destinations. Room tax receipts during FY 2004 were \$3.99 Million-up slightly from FY 2003 totals. Meal tax receipts during the year were \$5.39 Million, up 2.85% from last year. Local sales and use taxes totaled \$4.21 Million for FY 2004, up 11.35% from last year. These increases are attributable to what appears to be a slight improvement in the general economy, but nonetheless, requires City staff to look at all budget-balancing options. A cigarette tax was implemented for Fiscal Year 2004, and produced \$305,729 in new revenue. We continue to strongly believe in the importance of tourism in Williamsburg. The City continues working to build the region's travel and tourism-based economy as its primary fiscal strategy. City Council realizes the importance of tourism and partners each year with the Colonial Williamsburg Foundation, the Williamsburg Area Chamber of Commerce, and the Williamsburg Area

Convention and Visitors Bureau, providing substantial funding for advertising. Contributions to these organizations during FY 2004 totaled \$2.1 Million. In addition, City Council approved in April, 2003 a supplemental contribution to the Colonial Williamsburg Foundation for additional tourism marketing of \$150,000 in FY 2004. City Council also approved, along with neighboring counties of James City and York, a new \$2 per night lodging tax effective July 1, 2004, and dedicated for tourism marketing of the Historic Triangle. A wireless communication tax was also introduced, and yielded approximately \$40,000 during FY 2004.

The City's real estate and personal property tax bases have experienced stable growth over the past 10 years. During FY 2004 the real estate tax base increased by 12.2%, largely attributable to a strong and desirable local housing market, low interest rates, and new construction in the City. We believe the City can sustain this growth, and along with the projects mentioned above, will continue to provide the type and quality of services our residents are accustomed to, and at relatively low tax rates.

City staff has formulated financing strategies over the past few years with the City's financial advisors, Davenport and Co., LLC., in order to stay on schedule with major projects. In April, 2004 City Council formally amended the City's financial policies, including maintaining a minimum of 35% of total General Fund operating revenues as its fund balance.

**Cash Management** - City Council adopted formal and strict guidelines governing investment policy and procedures in 1995. The investment policy was revised in December, 2003 to take advantage of opportunities in the marketplace to achieve more favorable yields without risking safety or liquidity. Cash temporarily idle during the year was invested by advisors Evergreen Investments, a subsidiary of Wachovia Bank, and the Local Government Investment Pool (LGIP) administered by the State Treasurer's office. The policy's objective, in order of priority is (1) Safety, (2) Liquidity, and (3) Return on Investment. Allowable investments and quality approved for use by the City are:

1. U.S. Treasury Bills, Notes, Bonds and other obligations of the U.S. Government
2. Fixed rate obligations of Agencies of the Federal Government
3. Obligations of states and local governments with AAA or equivalent bond ratings
4. Repurchase Agreements executed through Federal Reserve Member Banks or Primary Dealers in U.S. Government Securities, and meeting certain minimum collateralization guidelines
5. Certificates of deposit of national banks located within the Commonwealth
6. Various types of other notes (commercial paper, corporate notes and bonds, asset-backed securities, etc.) meeting certain minimum quality standards of investment rating companies

The average investment return on the longer-term portfolio was 2.34% for the year, while the LGIP, being that the dollar weighted average maturity of the portfolio may not exceed 90 days, averaged 1.08% for the year.

**Risk Management** - The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Virginia Municipal Liability Pool, administered by the Virginia Municipal Self Insurance Association and the Virginia Municipal League. This program provides self-insurance coverage for workers' compensation, general liability, automobile liability, property and fire protection, and public officials' liability and law enforcement liability (except for elected officials).

The City has a self-insurance plan for its employee health insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Details of the health insurance program are provided in the Notes to the Financial Statements.

The City initiated a retirees' health insurance supplement program effective January 1, 2002. Twenty-five retirees currently receive this supplement. Details of this new program are presented in the Notes to the Financial Statements.

The City currently reports all of its risk management activities in the General Fund and Utility Fund.

### **Independent Audit**

The State Code of the Commonwealth of Virginia requires an annual audit of the books of account, financial records, and transactions of the City. This requirement has been complied with and the unqualified opinion of Witt Mares Eggleston Smith, PLC., independent certified public accountants, has been included in this report.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Williamsburg, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. This was the 18<sup>th</sup> consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the past 11 years. In order to qualify for the Distinguished Budget Presentation Award, the City's Budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

### **Acknowledgements**

The preparation of this report has been accomplished with the efficient and dedicated services of the City Department of Finance. We would like to express our appreciation to all members of the departments who assisted and contributed in its preparation. In addition, the accounting firm of Witt Mares Eggleston Smith, PLC, is to be congratulated for their substantial contributions, by way of design, counsel, and interpretation of recent guidelines, especially with this third year implementation of the requirements of GASB Statement 34. We also wish to express thanks to the Mayor and members of City Council for their unfailing support in planning and conducting the financial operations of the City of Williamsburg in a responsible and progressive manner.

Respectfully Submitted,

Jackson C. Tuttle  
City Manager

Philip F. Serra  
Director of Finance

The Management's Discussion and Analysis (MD&A) offers readers of the City's financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, and in the financial statements and notes to the financial statements (which immediately follow this discussion). This Comprehensive Annual Financial Report marks the third year the City has complied with the new financial reporting requirements of GASB Statement No. 34 (*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*). New sections include this Management's Discussion and Analysis, the Government-wide Statement of Net Assets, the Government-wide Statement of Activities, the concept of major fund reporting, and the reporting of infrastructure capital assets and long term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

## **FINANCIAL HIGHLIGHTS**

- The net assets of the City of Williamsburg exceeded its liabilities at June 30, 2004 by \$83.6 Million. Net assets invested in capital assets (net of depreciation and related debt) account for 68% of this amount, with a value of \$57 Million. The remaining net assets may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- On September 18, 2003 the City experienced heavy winds as Hurricane Isabel made landfall on the east coast of North Carolina. The storm was declared a National as well as State emergency, and required extensive removal of debris from City streets and properties. The cost of this storm to the City was \$1.33 Million, with \$1.26 Million eligible for FEMA reimbursement. After many months of working with Federal and State agencies, the City received \$1.25 Million in reimbursements.
- Total General Fund (including 1% Sales Tax) revenues were \$31.4 Million for FY 2004, compared to \$28.7 last year. General property tax receipts were \$8.8 Million, up 8% from last year's \$8.2 Million. Other local taxes, consisting of room, meal, business licenses, and 1% state sales tax receipts, were up 6.1%, largely from increased sales taxes, recordation fees, and a new cigarette tax.
- Total General Fund (including capital) expenditures totaled \$37.3 Million for FY 2004, 16% higher than last year. Looking at the operating side only, total expenditures were \$26 Million, about \$2.5 Million higher than last year. Operating revenues were \$27 Million, up \$2.4 Million from last year. These increases in operating revenues and expenditures include \$1.3 Million additional expenditures for City-wide cleanup of storm debris from Hurricane Isabel, along with related Federal and State disaster funding revenues of \$1.25 Million.
- Pursuing additional land for High Street, a major new mixed-use development on a 50 acre City-owned site under contract to Roseland Property Co., two land parcels were acquired in early FY 2004 for the project right-of-way access and road expansion. These additional parcels are included as part of the sales agreement with Roseland Property Co., and are included in the property's \$10.9 Million sales contract.
- In April, 2004 the Prince George Parking Garage was completed and open for business. This three-level, 361 space parking facility was completed at a cost of \$6.23 Million. In addition, major sidewalk and drainage improvements were well underway on Prince George and Boundary streets at the end of FY 2004.
- In October, 2003 the City refinanced a \$4.5 Million short-term note, originally borrowed in FY 2002 for construction of the Prince George Parking Garage. The extended 1.63% note for the same amount is due October, 2005.
- As of June 30, 2004, the City's governmental activities reported a combined ending fund balance of \$21 Million. This amount is available for spending at the government's discretion (*unreserved fund balance*). Of this total, \$5.1 Million is designated for subsequent years' capital expenditures.

- Business-type activities (Utility Fund) reported net assets at June 30, 2004 of \$14.5 Million. Its net assets invested in capital assets (net of depreciation and related debt) account for 60% of this amount, with the remaining net assets of \$5.8 Million available without restriction. The Utility Fund reports combined cash and investments at year-end of \$5.5 Million, with total short-term liabilities of \$.83 Million. Long-term debt obligations at June 30, 2004 were \$6.9 Million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Williamsburg's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements.

### Government-wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, judicial, public safety, public works, health and welfare, education, parks and recreation, cultural, community development, and debt service. The sole business-type activity of the City of Williamsburg is the water utility.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, this is just one indicator of financial health of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in June 30, 2004, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2004.

The City has no separately identified component units included in the government-wide financial statements.

### Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Williamsburg, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Williamsburg can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and

charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

*Governmental Funds.* The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund. (GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.) The governmental fund financial statements can be found immediately following the government-wide financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

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

The City maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. Personal services are budgeted by fulltime positions. Capital outlays are approved on an item-by-item basis or project basis. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget. Major fund budgetary variance statements are included with the basic financial statements. Nonmajor fund information follows the notes to the financial statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

*Proprietary Funds.* The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water utility operations.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. The proprietary fund financial statements provide information for the Water Utility Fund, which is considered to be the only major proprietary fund of the City. There are no reconciling differences from the Proprietary Fund Statement of Net Assets to the business-type activity column on the Government-Wide Statement of Net Assets.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Williamsburg has one type of fiduciary funds- Agency Funds (which are clearing accounts for assets held by the City in its role as custodian until the funds are allocated to the organizations or government agencies to which they belong). The Statement of Fiduciary Net Assets can be found following the proprietary fund financial statements.



**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS****Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets total \$83.6 Million at June 30, 2004. The following table reflects the condensed Government-Wide Statement of Net Assets:

**City of Williamsburg's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 23,131,579	\$ 24,859,334	\$ 6,327,548	\$ 5,649,335	\$ 29,459,127	\$ 30,508,669
Capital Assets	60,425,124	55,563,109	15,992,935	16,051,021	76,418,059	71,614,130
<b>Total Assets</b>	<b>\$ 83,556,703</b>	<b>\$ 80,422,443</b>	<b>\$ 22,320,483</b>	<b>\$ 21,700,356</b>	<b>\$ 105,877,186</b>	<b>\$ 102,122,799</b>
Long-term Liabilities	\$ 11,667,486	\$ 6,605,509	\$ 7,237,154	\$ 7,525,173	\$ 18,904,640	\$ 14,130,682
Other Liabilities	2,775,102	7,682,298	537,495	733,311	3,312,597	8,415,609
<b>Total Liabilities</b>	<b>14,442,588</b>	<b>14,287,807</b>	<b>7,774,649</b>	<b>8,258,484</b>	<b>22,217,237</b>	<b>22,546,291</b>
Net Assets:						
Invested in Capital Assets, net of related debt	48,294,124	43,829,109	8,755,781	8,525,848	57,049,905	52,354,957
Restricted	5,100,000	9,200,000	-	-	5,100,000	9,200,000
Unrestricted	15,719,991	13,105,527	5,790,053	4,916,024	21,510,044	18,021,551
<b>Total Net Assets</b>	<b>\$ 69,114,115</b>	<b>\$ 66,134,636</b>	<b>\$ 14,545,834</b>	<b>\$ 13,441,872</b>	<b>\$ 83,659,949</b>	<b>\$ 79,576,508</b>

The City of Williamsburg's total assets were over \$105 Million as of June 30, 2004. Of this amount, \$76.4 Million is accounted for by capital assets, which includes infrastructure. Historically, infrastructure (roads, bridges, right-of-ways, etc.) has not been included in capital asset reporting for governmental activities. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported. The City reports all of its infrastructure assets in compliance with GASB 34 requirements.

Additionally, the government must elect to either 1) depreciate these assets over their estimated useful life or 2) develop a system of asset management designed to maintain their condition perpetually and to report on their condition within the financial statements. The City has elected the first method and will use the depreciation method on infrastructure systems reporting.

Of the remaining City assets, approximately \$25.8 Million is accounted for in cash, cash equivalents, and pooled investments, \$2.4 Million in accounts and notes receivable, with the remainder spread among miscellaneous assets.

At June 30, 2004, the City had outstanding liabilities of \$22.2 Million, with slightly over \$19.3 Million in bonds and notes payable. Of the bonds and notes payable, \$1.2 Million was due within one year, with the remainder due at various dates before 2017. Refer to the notes to the financial statements for more information on the City's long term debt obligations.

Included in other liabilities in the table are \$1.1 Million in accounts payable, \$0.8 million in accrued liabilities, and \$88,867 in deposits payable to customers.

The largest portion of the City's net assets reflects its investment in capital, less any outstanding related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, investments in capital are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are designated for subsequent years' capital projects. In the current fiscal year, this represented \$5.1 Million or 7% of net assets. The remaining \$15.7 Million or 23% of net assets may be used to meet the City's ongoing obligations to its citizens and creditors for all activities.

At June 30, 2004, the City had positive balances in all categories of net assets, for the government as a whole, and for governmental activities. Business-type activities report positive balances in both capital and unrestricted assets; there were no restricted assets.

**Statement of Activities - Changes in Net Assets**

The following schedule compares the revenues and expenses for the current and previous fiscal year.

**City of Williamsburg's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Program Revenues:</b>						
Charges for services	\$ 1,967,253	\$ 1,733,222	\$ 4,890,679	\$ 4,721,388	\$ 6,857,932	\$ 6,454,610
Operating grants and contributions	4,808,926	3,307,596	-	-	4,808,926	3,307,596
Capital grants and contributions	102,924	102,974	-	-	102,924	102,974
<b>General Revenues:</b>						
Property taxes	8,828,608	8,175,276	-	-	8,828,608	8,175,276
Other local taxes	16,932,499	15,950,475	-	-	16,932,499	15,950,475
Other	124,652	510,063	52,200	70,407	176,852	580,470
<b>Total Revenues</b>	<u>32,764,862</u>	<u>29,779,606</u>	<u>4,942,879</u>	<u>4,791,795</u>	<u>37,707,741</u>	<u>34,571,401</u>
<b>Expenses:</b>						
General government	2,950,481	2,758,568	-	-	2,950,481	2,758,568
Judicial administration	293,222	273,154	-	-	293,222	273,154
Public safety	6,933,837	6,563,142	-	-	6,933,837	6,563,142
Public works	4,959,412	3,765,655	-	-	4,959,412	3,765,655
Health and welfare	1,991,478	1,809,216	-	-	1,991,478	1,809,216
Education	6,822,656	6,583,596	-	-	6,822,656	6,583,596
Parks, recreation, & cultural	2,094,830	2,071,236	-	-	2,094,830	2,071,236
Community Development	3,259,276	3,135,821	-	-	3,259,276	3,135,821
Nondepartmental	127,858	46,163	-	-	127,858	46,163
Interest expense	352,333	361,125	-	-	352,333	361,125
Water	-	-	3,838,917	4,098,596	3,838,917	4,098,596
<b>Total Expenses</b>	<u>29,785,383</u>	<u>27,367,676</u>	<u>3,838,917</u>	<u>4,098,596</u>	<u>33,624,300</u>	<u>31,466,272</u>
Excess of revenues over expenses	2,979,479	2,411,930	1,103,962	693,199	4,083,441	3,105,129
Transfers	-	-	-	-	-	-
Increase in net assets	2,979,479	2,411,930	1,103,962	693,199	4,083,441	3,105,129
Net assets - beginning	66,134,636	63,722,706	13,441,872	12,748,673	79,576,508	76,471,379
Net assets - ending	<u>\$69,114,115</u>	<u>\$66,134,636</u>	<u>\$14,545,834</u>	<u>\$13,441,872</u>	<u>\$83,659,949</u>	<u>\$79,576,508</u>

Total revenues for the City of Williamsburg were \$37.7 Million for the year ended June 30, 2004. Governmental activities provided nearly \$33 Million (87%), while \$4.9 Million of business-type activities revenue was provided by charges for services and interest income.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City of Williamsburg uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is a financial analysis of the City's governmental and proprietary funds.

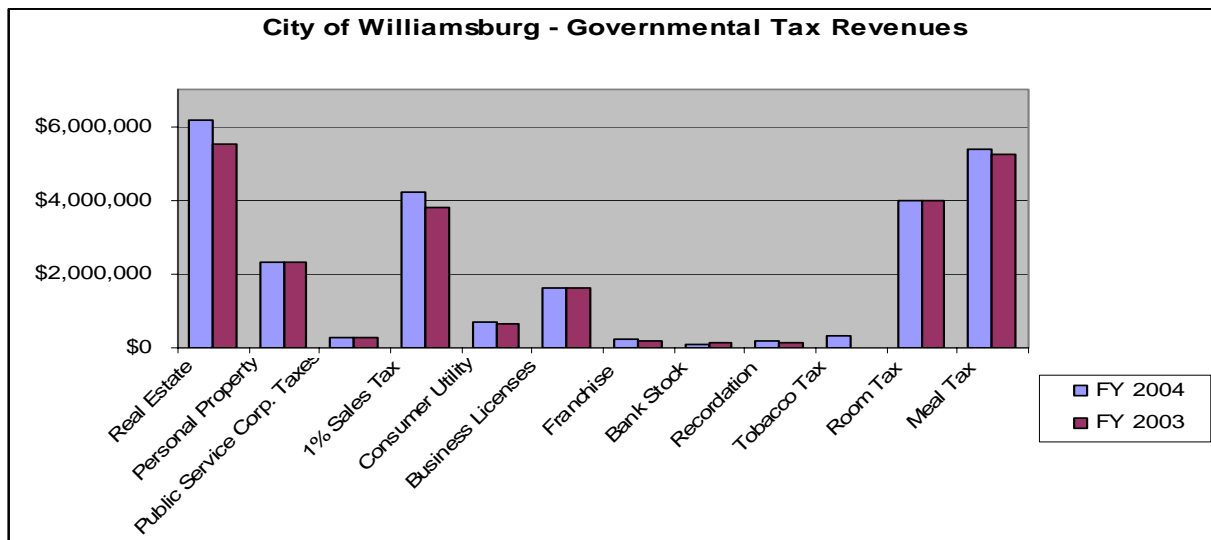
**Governmental Funds Revenue and Expense Analysis**

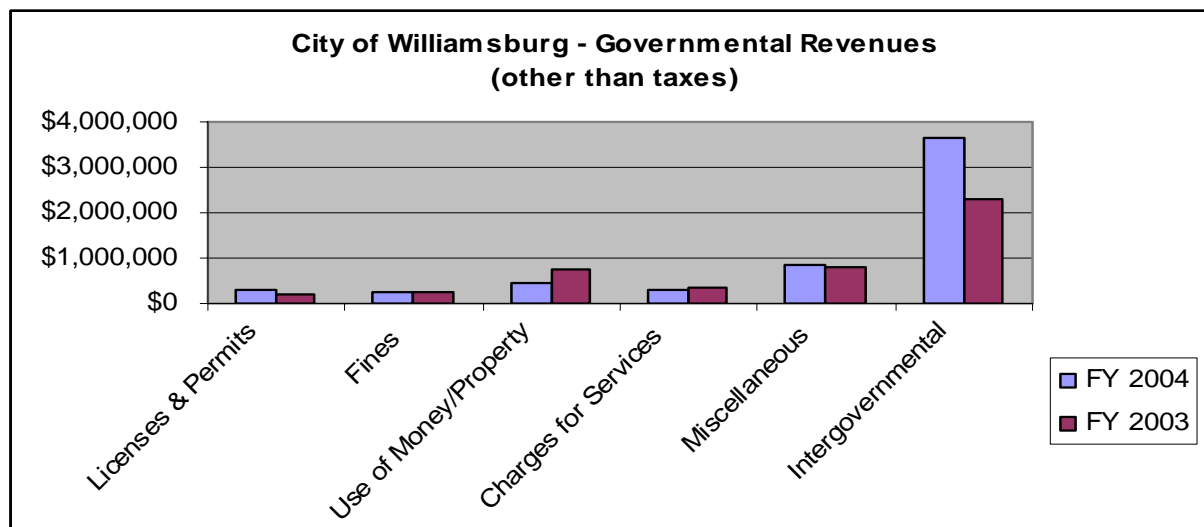
The general governmental functions are contained in the General Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. On June 30, 2004, unreserved, undesignated fund balance of the General Fund was \$15.7 Million, while total fund balance reached \$20.8 Million. Total assets in the General Fund amounted to \$22.8 Million, accounting for 99% of total governmental fund assets.

**Revenues Classified by Source  
Governmental Funds**

Revenues by Source	June 30, 2004		June 30, 2003		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Property Taxes	\$8,869,569	27.15%	\$8,210,667	27.57%	\$658,902	8.02%
Other Local Taxes	16,754,774	51.28%	15,782,346	52.99%	972,428	6.16%
Licenses and permits	305,762	0.94%	212,618	0.71%	93,144	43.81%
Fines & Forfeitures	254,706	0.78%	273,584	0.92%	(18,878)	-6.90%
Use of Money and Property	440,882	1.35%	755,011	2.53%	(314,129)	-41.61%
Charges for Services	317,845	0.97%	345,348	1.16%	(27,503)	-7.96%
Miscellaneous	905,907	2.77%	803,284	2.70%	102,623	12.78%
Intergovernmental	4,820,935	14.76%	3,403,461	11.43%	1,417,474	41.65%
<b>Total Revenues</b>	<b>32,670,380</b>	<b>100.00%</b>	<b>29,786,319</b>	<b>100.00%</b>	<b>2,884,061</b>	<b>9.68%</b>





The following provides an explanation of revenues by source that changed significantly over the prior year.

- **General Property Taxes** –This consists of real and personal property tax receipts. Real property tax receipts were \$6,158,084, up 11% from last year. This is due to increased assessments city-wide, new construction, and increased collection efforts for delinquent real estate taxes during the year. The real estate tax rate has remained at 54¢/\$100 since 1991. Personal property tax receipts, including businesses, were \$2,334,499 – up 1.4% over from the prior year.
- **Other Local Taxes** - Up overall 6.1% from the previous year, local taxes include State sales taxes, consumer utility taxes, business and franchise licenses, bank stock and recordation taxes, room, and meal taxes.
  - State sales taxes were \$4,210,450, an increase of 11.4% from the previous year. This is due to increased local retail spending, and also the State's tax amnesty program in the Fall of 2003.
  - Consumer utility taxes were \$684,702, an increase of 2.8% over last year. This is due to a decrease in electric utility taxes, and inconsistent revenues from telecommunication companies this year. This state-wide problem will be addressed by the Virginia General Assembly as it contemplates its telecommunication tax restructuring project.
  - Room taxes were \$3,996,782, a .6% increase of \$21,888 from last year. This is attributable to a fairly steady rate of room night sales locally.
  - Meal taxes were \$5,393,776, up \$149,670, an increase of 2.9% from the previous year. This is a positive trend this year, considering last year this major revenue source was down 1.4% from the prior year.
- **Use of Money and Property** – Federal Reserve interest rate cuts over the last few years have impacted this year's investment earnings, especially since rates were at the lowest in history for the entire operating year. The City's short-term funds invested with the State's Local Gov't Investment Pool averaged 1.08%, while the City's fixed-income portfolio, managed by Evergreen Investments, averaged 2.34% for the year. General Fund interest earnings were \$154,762, down considerably from last year. As noted in the Letter of Transmittal, all investments continue to conform to the City's conservative investment policy, which was revised in December, 2003 to allow the Evergreen advisors more flexibility and earnings potential in the markets, while still achieving Investment Policy objectives. Revenues from the use of property were \$285,957, up 16.6% from last year. Additional rented spaces and amenities charges for properties adjacent to the City's parking deck, and increased revenues for various tenant contracts account for the overall increase.

- **Charges for Services** – This category consists largely of recreation programs, recreation facility rentals, and cemetery lots and fees. Overall this category decreased by 8% from last fiscal year, from \$345,348 in FY 2003 to \$317,845. This is largely due to cancellation of Fall softball last year due to Hurricane Isabel, and many cancelled classes for the same reason.
- **Miscellaneous** – This category consists of Utility Fund overhead charges, miscellaneous overtime payments for public safety services, and stormwater management credits. Overhead charges from the Utility Fund of \$585,484, up 8% over last year, made up the majority of this expenditure category. Total miscellaneous charges were \$831,468, up 6.3% from last year.
- **Intergovernmental** – largely consisting of State revenues, these revenues are up \$1,347,989 from FY 2003 levels.
  - Non-categorical aid is up \$9,789, or 2.4% from the preceding year. ABC profits were up 26%. Grantors taxes were up 26% largely from increased property transaction recording activity. Wine taxes, rolling stock, rental car taxes and 599 funds were down 2%.
  - Shared expenses for Commissioner of the Revenue, Treasurer, Medical Examiner, and Registrar/Electoral Board were down a total of \$1,155, or less than 1% from the level in the previous year, attributable to cuts in State aid.
  - State sales tax for education, a dedicated funding source based on school-aged population among Virginia localities, was up 15.9% to \$559,110 for FY 2004, which reflected a full year formula distribution based on the latest triennial school census. State highway maintenance payments were up 4.5% from the preceding year. These payments, based on road lane miles, increased by \$48,908 during the year. State Wireless funds of \$76,055 are also included in Categorical aid. Most notably the State's share of disaster relief funding for the Hurricane Isabel storm of September, 2003, is included in Other Categorical Aid in the amount of \$268,053. This represents approximately 21% of FEMA eligible expenditures for the disaster.
  - Revenue from the Federal Government included the \$984,625 received from the Federal Emergency Management Agency (FEMA) for reimbursement of eligible expenditures associated with Hurricane Isabel.

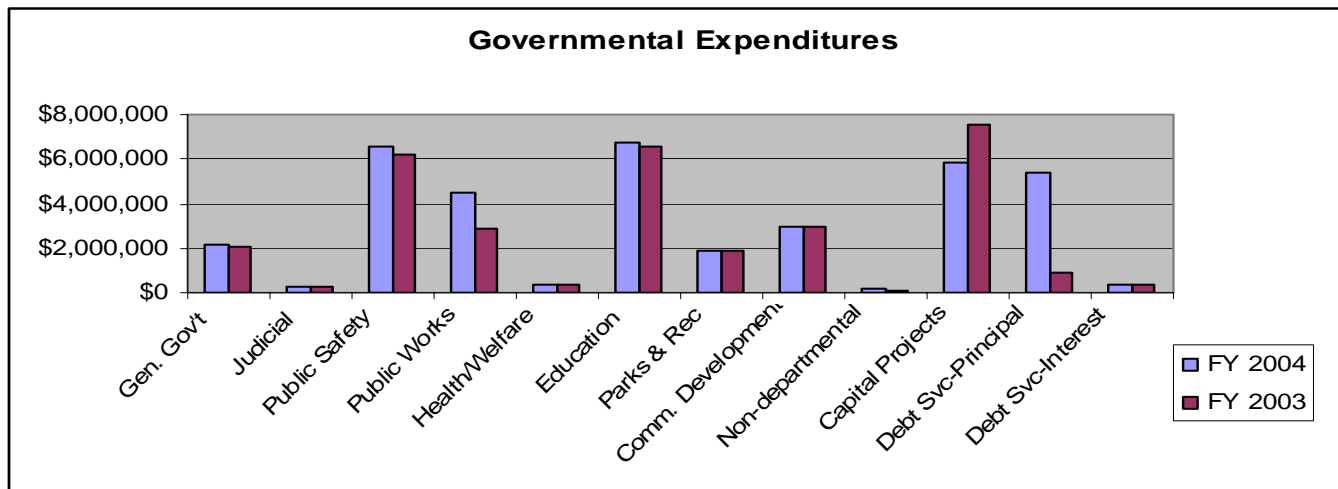
The revenue categories above do not include one-time only financing sources, such as bond proceeds and the sale of City-owned capital assets. During FY 2004 the City traded two properties along Richmond Road for the Carolynn Motor Court property in keeping with the planned development of the entrance to the High Street Williamsburg project. The exchange also included a payment to the City of \$200,000, which is classified as an Other Financing Source in the Schedule of Revenues, Expenditures, and Changes in Fund Balance section of this report. Also included in that section are bond proceeds of \$4.5 Million, which were used to refinance the short-term General Fund note in October 2003 with another 2-year, low-interest note for construction of the Prince George Parking Garage.

The net change in fund balance for the General Fund in FY 2004 was a decrease of \$1,473,679, largely due to continued and planned capital spending, including the construction in progress for the Prince George Streetscape project. The total Fund Balance for the General Fund at June 30, 2004 is \$20,886,657. Of this amount, \$5.1 Million is designated for subsequent years' capital expenditures.

The following table represents expenditures by function compared to prior year amounts.

**Expenditures By Function  
Governmental Funds**

Expenditures by Function	June 30, 2004		June 30, 2003		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Government	\$2,172,065	5.59%	\$2,040,718	6.10%	\$131,347	6.44%
Judicial Administration	293,222	0.75%	273,154	0.82%	20,068	7.35%
Public Safety	6,594,188	16.97%	6,216,677	18.58%	377,511	6.07%
Public Works	4,454,010	11.46%	2,853,272	8.53%	1,600,738	56.10%
Health and Welfare	1,985,415	5.11%	1,804,729	5.39%	180,686	10.01%
Education	6,734,071	17.33%	6,518,691	19.48%	215,380	3.30%
Parks, Recreation, and Cultural	1,921,200	4.94%	1,895,779	5.67%	25,421	1.34%
Community Development	2,989,506	7.69%	2,932,800	8.77%	56,706	1.93%
Nondepartmental	137,351	0.35%	68,644	0.21%	68,707	100.09%
Capital Projects	5,818,262	14.97%	7,582,378	22.66%	(1,764,116)	-23.27%
Principal Retirement	5,413,000	13.93%	908,000	2.71%	4,505,000	496.15%
Interest	352,333	0.91%	361,125	1.08%	(8,792)	-2.43%
<b>Total Expenditures</b>	<b>\$38,864,623</b>	<b>100.00%</b>	<b>\$33,455,967</b>	<b>100.00%</b>	<b>\$5,408,656</b>	<b>16.17%</b>



The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- **General Government Administration**
  - General and Financial Administration – Up \$123,890 or 7% from the previous year, largely due to increased costs for personnel and benefits for departments, and additional legal costs.
  - Board of Elections – The Electoral Board and Registrar experienced a slight decrease in spending of \$8,362, largely with added expenses of the Presidential Primary.
- **Judicial Administration** – The City funds judicial offices with James City County in the jointly owned Courthouse, according to a population-based formula each year. The City's share of expenditures totaled \$293,222 - 19.6% of total expenses, up 7% from the prior year. Additional costs continued to be offset by local fees imposed during FY 2004 through the courts.

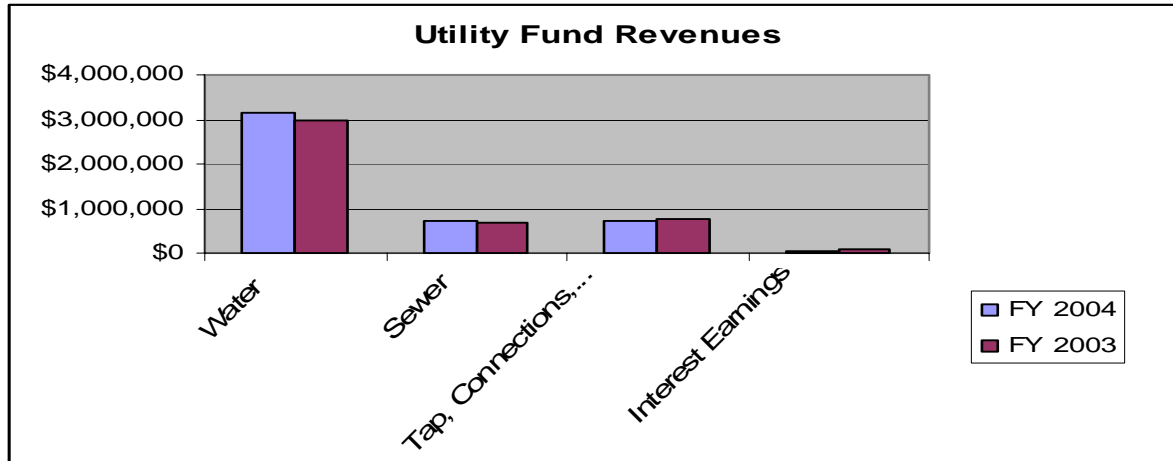
- **Public Safety** – This category is made up of several departments:
  - Law Enforcement & Traffic Control – Expenditures for the Police Department were \$2,557,046, up 5.6% from FY 2003. Health care costs were up 7%, fuel for patrol cars was up 36%, and service contracts were up 46%. The department experienced salary and associated pension savings from vacant positions again during the year. There were also savings in radio and professional health service costs.
  - E-911 – This program is responsible for City-wide E-911 dispatch operations at the Police Department. This operation experienced an 8.5% increase to \$477,172 over the preceding year, largely from salary and benefit increases.
  - Prince George Parking Garage – Opened in April, 2004, expenditures thru June, 2004 were \$38,067. These costs are for salaries and benefits, armored transport, electricity, and supplies.
  - Fire and Rescue Services - Total expenditures were up \$119,027, or 5.4% the prior year. Salaries were up 5.8%, largely due to market adjustments for public safety personnel, and offset any savings during the year caused by vacant positions, training costs were up 54%, and discretionary leave was up 9%. The department experienced additional costs during the year for communications equipment, as well as equipment for EMS and special programs.
  - Correction and Detention –
    - The City incurred expenditures for the Virginia Peninsula Regional Jail, which also serves James City County, Poquoson, and York County, totaling \$677,222 during the year ended June 30, 2004, up 2.7% from the previous year. Jail population for City crimes was 23,993 and 22,637 days incarceration during the years ended June 30, 2003 and 2004, respectively, a decrease of 5.7%. The Jail Authority Board addressed an operating deficit of approximately \$275,000 during FY 2004, billing member localities a proportionate share commensurate to the percentage of local jail days used by each jurisdiction. The City's share of this deficit was \$45,650.
    - Juvenile detention costs during the year were \$110,071, down 20% from last year, due to a reduced daily population. Total days for juvenile incarceration in FY 2004 were 887, while 1,199 days were experienced in the previous year – a decrease of 26%. Like the Va Peninsula Regional Jail, juvenile incarceration is based on crimes, and very difficult to predict and budget for each year.
    - Inspection costs were \$324,988 during the year, up \$50,326, or 18% over the prior year. This is largely attributable to increased staffing costs to accommodate an increase in building activity in the City, and additional inspection programs.
- **Public Works** – Various activities make up this category:
  - Engineering – Expenditures during the year ending were \$189,979, up 2% due to increased personnel costs.
  - Streets – Overall costs were up \$1,353,851, up 32% from last year, due to the delay of the Richmond Road paving project last fiscal year. That project was completed in September, 2003, and is included in the FY 2004 expenditures.
  - Refuse Collection – Expenditures for the year were \$519,360, up 9% over last year. FY 2004 was the last year of a contract with Waste Management, and has since been awarded to BFI with a substantial increase in collection costs.
  - Maintenance-Buildings, grounds, and landscaping, were \$2,390,820, up considerably from last fiscal year. Included in Landscaping expenditures are approximately \$1,250,000 of Hurricane Isabel related costs that were reimbursed from Federal and State agencies. Taking that into consideration, Landscaping expenditures were actually down 2% for FY 2004.
- **Health & Welfare** – Local health department costs were \$201,010, up 2.5% over last year. Contributions to the Colonial Services Board were up \$7,729, 4.3% higher than last year.

- **Education** – Current year education costs were \$6,734,071, up 3.3% from last year. The City's share of the joint Williamsburg-James City County Public School system for the year ended June 30, 2004 was 11.35%. FY 2004 was the second year of a new five-year agreement, with operating funding based on the City's share of student population times a factor. The factor for FY 2004 was 1.33. Also under the revised agreement beginning with FY 2003, the City pays the same proportion of approved capital projects. There were no budgeted expenditures for school capital projects for FY 2004.
- **Parks, Recreation and Cultural** –
  - Recreation costs were \$1,169,003, up 2.8% over last year. Normal increases in salaries and benefits were partially offset by reduced costs during the year for professional services associated with cancelled classes or programs as a result of Hurricane Isabel.
  - By contract the City's share of the Williamsburg Regional Library for the year ended June 30, 2004 was \$738,273, up 3.4% from last year, due to increases in operating costs. The City's share for FY 2004 was 16.87% according to the agreement with James City County, which is based on circulation each year.
- **Community Development**
  - Planning – Total expenditures were \$354,539 for FY 2004, up less than 1% over last year. Salaries and benefit costs were 4.9% higher, while there were savings in professional services during the year.
  - Community Development – This consists of contributions to outside human service type, and community and economic development agencies. Contributions were up 2.4% for the year. In addition, a special appropriation of \$150,000 was provided to the Colonial Williamsburg Foundation in FY 2004 for advertising from the Capital Projects (Sales Tax) fund. Arts Commission funding was \$124,942, down 2.8% from last year.
- **Capital Projects** – Capital projects vary each year depending on the 5-year program. For the year ended June 30, 2004 the City projects totaled \$5,818,262, including the payment to the Colonial Williamsburg Foundation noted above. Major projects included completion of the Prince George Parking Garage, Prince George and Boundary streetscapes, vehicle replacements, property purchases, Library HVAC, and the Quarterpath Gym roof.
- **Principal and Interest payments** – Total principal payments were \$5,413,000, which included the 2-year refinancing of the \$4.5 Million short-term note for the Parking Garage. Interest costs of \$352,333 were paid during the year. Details of long term debt obligations are included in the notes to the financial statements.
- **Budget Variances** – Included in the Final Budget column of the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - are carryover funds for Capital Projects. Since all planned projects rarely are completed by fiscal year end, this carryover is required in order to complete planned and previously approved projects. The excess of General Fund revenues over expenditures at June 30, 2004 is \$7.5 Million, of which management has designated \$5.1 Million of ending fund balance for subsequent years' capital expenditures.

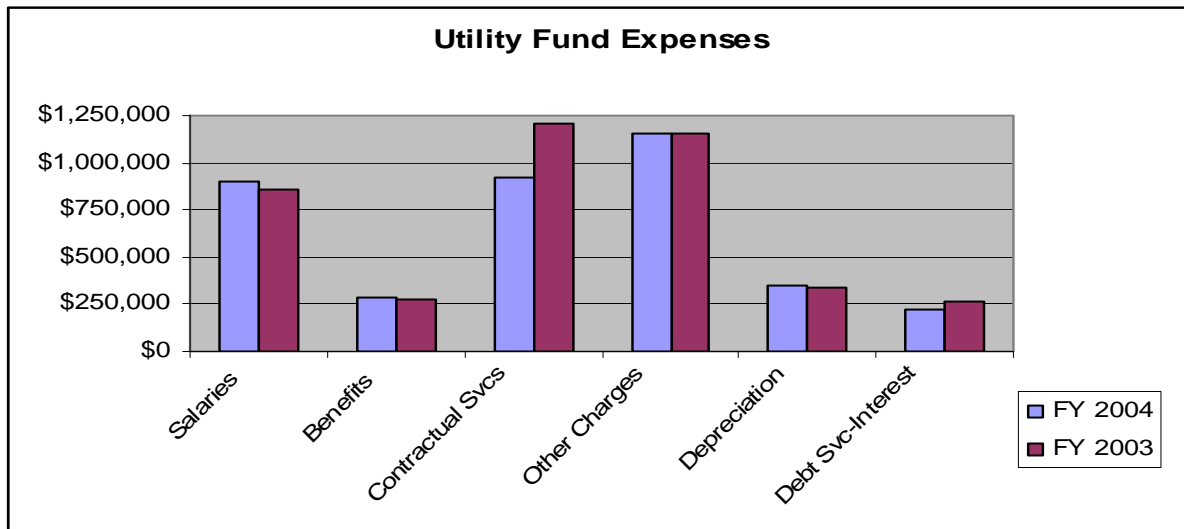
### Enterprise Funds Revenue/Expense Analysis

The business-type activity (water and sewer services of the Utility Fund) revenues for the year were \$4.9 Million, up 3.6% from last year. Water rates increased 2% in July 2003 from \$2.50 to \$2.55 per 1,000 gallons. Metered water revenues were up \$153,203 (5.1%), and sewer revenues, which are passed on to Hampton Roads Sanitation District, were up about 5% from last year. Tap, connection, and availability fees increased less than 1% during FY 2004. The City contracts with three cell-phone providers using water tanks as a base for telecommunications equipment, and received \$84,000 this fiscal year. Interest earnings for the year ended June 30, 2004 were \$52,200, down 26% from last year, due to the decline in earnings rates. The City has contracted with a local real estate firm to market a 50+ acre portion of land purchased in 2001, with proceeds intended to be applied toward Utility Fund debt service.





Utility Fund expenses totaled \$3.6 Million for the year, compared to \$3.8 Million last year. Salaries and wages were up 5.6%, benefits were down 4%, and the fund did not buy any additional water from the City of Newport News this year, as it did at the beginning of FY 2003 during drought conditions.



**ORIGINAL AND FINAL AMENDED BUDGETS**

There were no budget amendments made during FY 2004. Minor revisions within funds were made throughout FY 2004, and approved by the City Manager as necessary.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City of Williamsburg's total investment in capital assets, including construction in progress, for its governmental and business type activities as of June 30, 2004, amounts to \$76.4 Million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, and construction in progress on the Prince George Streetscape project. Major capital assets of the Utility Fund consist of all assets used to provide water and sewer services to City residents, including the major investment of the Waller Mill Reservoir and all properties adjacent to this watershed.

Major capital project fund activities during the current fiscal year included the following:

**Governmental Funds:**

- Construction of the Prince George Parking Garage was completed and the facility was opened for business in April, 2004. Total project cost was approximately \$6.23 Million.
- Two Richmond Road properties were acquired during FY 2004 at a cost of \$675,385 plus a 5-year note in the amount of \$1.3 Million for one of the properties.
- Right of way property was acquired for the Treyburn Drive extension project for \$600,000.
- Vehicles and equipment were added to the fleet during the year at a cost of \$220,067. This included vehicles for police, building inspections, social services, and a new street sweeper.
- Construction of the Prince George Streetscape project was in progress at the end of FY 2004.

**Utility Fund:**

- A replacement sewer cleaner was purchased at a cost of \$129,669.
- Two properties were acquired for watershed protection adjacent to the Waller Mill Reservoir at a cost of \$39,750.

**Long-Term Debt**

At June 30, 2004, the City of Williamsburg had total bonded debt outstanding of \$19.3 Million. Governmental activities had bonds and notes payable of \$12.1 Million, while business-type activities had \$7.2 Million in bonds payable. The full faith and credit of the government back these instruments.

The City's total bonded debt had a net increase of \$98,981 during FY 2004. The City refinanced the General Fund's 2002 short-term borrowing of \$4.5 Million in October, 2003 to take advantage of reduced interest rates. The City's remaining capacity for debt at June 30, 2004 was approximately \$92 million. The City of Williamsburg has not been rated by a major rating service such as Moody's Investor's Service, or Standard & Poor's. All borrowings have been Bank-Qualified (under \$10 Million) private placements with regional banking institutions and private individuals. As in the past, based on recommendation of the City's financial advisors, Davenport and Company, the City of Williamsburg will consider all aspects of private vs. public borrowing in its borrowing analysis.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Williamsburg's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Williamsburg, 401 Lafayette St., Williamsburg, VA 23185

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**

	Primary Government		Total
	Governmental Activities	Business-type Activity	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 828,546	\$ 346,795	\$ 1,175,341
Investments	19,286,673	5,164,745	24,451,418
Receivables (net of allowances for uncollectibles):			
Taxes	1,175,982	-	1,175,982
Accounts	359,179	88,067	447,246
Unbilled	-	709,234	709,234
Deferred charges	-	17,972	17,972
Accrued interest	90,683	-	90,683
Notes receivable	110,000	-	110,000
Internal balances	(735)	735	-
Due from other governmental units	1,281,251	-	1,281,251
Capital assets (net of accumulated depreciation)	43,839,753	7,371,345	51,211,098
Capital assets (not being depreciated)	16,585,371	8,621,590	25,206,961
<b>Total Assets</b>	<b>\$ 83,556,703</b>	<b>\$ 22,320,483</b>	<b>\$ 105,877,186</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 847,865	\$ 303,971	\$ 1,151,836
Accrued payroll	54,426	6,112	60,538
Accrued vacation pay	533,189	79,188	612,377
Accrued interest payable	69,348	73,112	142,460
Deposits payable	53,755	35,112	88,867
Deferred revenue	275,141	40,000	315,141
Lease payable	23,378	-	23,378
Bonds and note payable			
Due within one year	918,000	298,303	1,216,303
Due in more than one year	11,213,000	6,938,851	18,151,851
Self insurance reserve	454,486	-	454,486
<b>Total Liabilities</b>	<b>14,442,588</b>	<b>7,774,649</b>	<b>22,217,237</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	48,294,124	8,755,781	57,049,905
Unrestricted	20,819,991	5,790,053	26,610,044
<b>Total Net Assets</b>	<b>69,114,115</b>	<b>14,545,834</b>	<b>83,659,949</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 83,556,703</b>	<b>\$ 22,320,483</b>	<b>\$ 105,877,186</b>

The notes to the financial statements are in integral part of this statement.

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activity	
<b>PRIMARY GOVERNMENT:</b>							
General government administration	\$ 2,950,481	\$ 1,027,386	\$ 125,657	\$ -	\$ (1,797,438)	\$ -	\$ (1,797,438)
Judicial administration	293,222	-	-	-	(293,222)	-	(293,222)
Public safety	6,933,837	559,545	409,070	-	(5,965,222)	-	(5,965,222)
Public works	4,959,412	50,199	2,479,022	-	(2,430,191)	-	(2,430,191)
Health and welfare	1,991,478	-	1,166,892	-	(824,586)	-	(824,586)
Education	6,822,656	-	559,110	102,924	(6,160,622)	-	(6,160,622)
Parks, recreation and cultural	2,094,830	270,705	69,175	-	(1,754,950)	-	(1,754,950)
Community development	3,259,276	59,418	-	-	(3,199,858)	-	(3,199,858)
Nondepartmental	127,858	-	-	-	(127,858)	-	(127,858)
Interest expense	352,333	-	-	-	(352,333)	-	(352,333)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>29,785,383</b>	<b>1,967,253</b>	<b>4,808,926</b>	<b>102,924</b>	<b>(22,906,280)</b>	<b>-</b>	<b>(22,906,280)</b>
<b>BUSINESS-TYPE ACTIVITY</b>							
Water and sewer services	3,838,917	4,890,679	-	-	-	1,051,762	1,051,762
<b>TOTAL BUSINESS-TYPE ACTIVITY</b>	<b>3,838,917</b>	<b>4,890,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,051,762</b>	<b>1,051,762</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 33,624,300</b>	<b>\$ 6,857,932</b>	<b>\$ 4,808,926</b>	<b>\$ 102,924</b>	<b>(22,906,280)</b>	<b>1,051,762</b>	<b>(21,854,518)</b>
General Revenues:							
Real estate taxes					6,497,722	-	6,497,722
Personal property taxes					1,076,523	-	1,076,523
Sales taxes					4,210,450	-	4,210,450
Business property taxes					1,254,363	-	1,254,363
Consumers' utility taxes					684,702	-	684,702
Business license taxes					1,639,065	-	1,639,065
Franchise taxes					225,716	-	225,716
Bank stock taxes					112,958	-	112,958
Recordation of wills taxes					196,203	-	196,203
Tobacco taxes					305,729	-	305,729
Hotel and room taxes					3,996,782	-	3,996,782
Meals taxes					5,420,516	-	5,420,516
Other local taxes					110,107	-	110,107
Investment earnings					154,923	52,200	207,123
Total general revenues					25,885,759	52,200	25,937,959
Change in net assets					2,979,479	1,103,962	4,083,441
<b>NET ASSETS</b>							
Beginning					66,134,636	13,441,872	79,576,508
Ending					\$ 69,114,115	\$ 14,545,834	\$ 83,659,949

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

**CITY OF WILLIAMSBURG, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004**

<b>ASSETS</b>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 638,044	\$ 190,502	\$ 828,546
Investments	19,286,673	-	19,286,673
Receivables (net of allowances for uncollectibles):			
Taxes	1,175,982	-	1,175,982
Accounts	359,179	-	359,179
Accrued interest	90,683	-	90,683
Notes receivable	110,000	-	110,000
Due from other funds	5,233	-	5,233
Due from other governmental units	1,188,025	93,226	1,281,251
<b>Total Assets</b>	<u><u>\$ 22,853,819</u></u>	<u><u>\$ 283,728</u></u>	<u><u>\$ 23,137,547</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 847,865	\$ -	\$ 847,865
Accrued payroll	54,426	-	54,426
Accrued vacation pay	324,526	23,453	347,979
Accrued interest payable	69,348	-	69,348
Refundable deposits	53,755	-	53,755
Due to other funds	-	5,968	5,968
Deferred revenue	162,756	112,385	275,141
Self insurance liability	454,486	-	454,486
<b>Total Liabilities</b>	<u>1,967,162</u>	<u>141,806</u>	<u>\$ 2,108,968</u>
<b>FUND BALANCES</b>			
Fund balances:			
Unreserved, reported in:			
General fund	15,786,657	-	15,786,657
Special revenue fund	-	101,205	101,205
Designated for:			
General fund - subsequent years' capital expenditures	5,100,000	-	5,100,000
Special revenue fund - summer youth program	-	40,717	40,717
<b>Total Fund Balances</b>	<u>20,886,657</u>	<u>141,922</u>	<u>21,028,579</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 22,853,819</u></u>	<u><u>\$ 283,728</u></u>	<u><u>\$ 23,137,547</u></u>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**June 30, 2004**

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<b>Total Governmental Fund Balances</b>	\$ 21,028,579
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activity are not financial resources and, therefore, not reported in the fund.	60,425,124
Bonds payable and capital leases are not due and payable in the current period and are not reported in the funds.	(12,154,378)
Vacation pay, not due and payable in the current period, is not reported in the fund.	<u>(185,210)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 69,114,115</u></u>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
General property taxes	\$ 8,869,569	\$ -	\$ 8,869,569
Other local taxes	16,754,774	-	16,754,774
Permits, privilege fees and regulatory licenses	305,762	-	305,762
Fines and forfeitures	254,706	-	254,706
Revenue from use of money and property	440,719	163	440,882
Charges for services	317,845	-	317,845
Miscellaneous	831,468	74,439	905,907
Intergovernmental	3,654,043	1,166,892	4,820,935
<b>Total Revenues</b>	<b>31,428,886</b>	<b>1,241,494</b>	<b>32,670,380</b>
<b>EXPENDITURES</b>			
Current:			
General government administration	2,172,065	-	2,172,065
Judicial administration	293,222	-	293,222
Public safety	6,589,386	4,802	6,594,188
Public works	4,454,010	-	4,454,010
Health and welfare	400,239	1,585,176	1,985,415
Education	6,734,071	-	6,734,071
Parks, recreation and cultural	1,921,200	-	1,921,200
Community development	2,989,506	-	2,989,506
Nondepartmental	137,351	-	137,351
Capital projects	5,818,262	-	5,818,262
Debt service			
Principal	5,413,000	-	5,413,000
Interest	352,333	-	352,333
<b>Total Expenditures</b>	<b>37,274,645</b>	<b>1,589,978</b>	<b>38,864,623</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>(5,845,759)</b>	<b>(348,484)</b>	<b>(6,194,243)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	200,000	-	200,000
Bond proceeds	4,500,000	-	4,500,000
Transfer in	32,080	360,000	392,080
Transfer out	(360,000)	(32,080)	(392,080)
<b>Total Other Financing Sources</b>	<b>4,372,080</b>	<b>327,920</b>	<b>4,700,000</b>
<b>Net change in fund balances</b>	<b>(1,473,679)</b>	<b>(20,564)</b>	<b>(1,494,243)</b>
<b>FUND BALANCES</b>			
Beginning	22,360,336	162,486	22,522,822
Ending	<u>\$ 20,886,657</u>	<u>\$ 141,922</u>	<u>\$ 21,028,579</u>

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

**CITY OF WILLIAMSBURG, VIRGINIA  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004**

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Amounts reported for governmental activities in the statement of activities are different because:

<b>Net change in fund balances -- total governmental funds</b>	\$ (1,494,243)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,062,015
The net effect of capital asset sales is to decrease net assets.	(200,000)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(380,242)
The long-term portion of vacation pay does not require the use of current financial resources and, therefore, is not reported in expenditures in the governmental fund.	<u>(8,051)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ 2,979,479</u></u>

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



**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Favorable (Unfavorable)
<b>REVENUES</b>			
General property taxes	\$ 8,415,000	\$ 8,869,569	\$ 454,569
Other local taxes	16,581,100	16,754,774	173,674
Permits, privilege fees and regulatory licenses	182,855	305,762	122,907
Fines and forfeitures	256,000	254,706	(1,294)
Revenue from use of money and property	861,360	440,719	(420,641)
Charge for services	349,166	317,845	(31,321)
Miscellaneous	728,629	831,468	102,839
Intergovernmental	2,222,994	3,654,043	1,431,049
<b>Total Revenues</b>	<b>29,597,104</b>	<b>31,428,886</b>	<b>1,831,782</b>
<b>EXPENDITURES</b>			
Current:			
General government administration	2,169,488	2,172,065	(2,577)
Judicial administration	325,000	293,222	31,778
Public safety	6,982,162	6,589,386	392,776
Public works	3,337,454	4,454,010	(1,116,556)
Health and welfare	403,527	400,239	3,288
Education	6,734,457	6,734,071	386
Parks, recreation and cultural	1,980,985	1,921,200	59,785
Community development	3,043,302	2,989,506	53,796
Nondepartmental	150,000	137,351	12,649
Capital projects	11,877,431	5,818,262	6,059,169
Debt service			
Principal	5,413,000	5,413,000	-
Interest	525,008	352,333	172,675
<b>Total Expenditures</b>	<b>42,941,814</b>	<b>37,274,645</b>	<b>5,667,169</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>(13,344,710)</b>	<b>(5,845,759)</b>	<b>7,498,951</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital asset	-	200,000	200,000
Bond Proceeds	4,500,000	4,500,000	-
Transfer in	-	32,080	32,080
Transfer out	(496,133)	(360,000)	136,133
<b>Total Other Financing Sources</b>	<b>4,003,867</b>	<b>4,372,080</b>	<b>368,213</b>
<b>Net change in fund balance</b>	<b>(9,340,843)</b>	<b>(1,473,679)</b>	<b>7,867,164</b>
<b>FUND BALANCE</b>			
Beginning	660,019	22,360,336	21,700,317
Ending	<b>\$ (8,680,824)</b>	<b>\$ 20,886,657</b>	<b>\$ 29,567,481</b>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**June 30, 2004**

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 346,795
Investments	5,164,745
Receivables (net of allowance for uncollectibles)	
Accounts	88,067
Unbilled	709,234
Due to other funds	735
Deferred charges	17,972

**Total current assets** 6,327,548

**Noncurrent Assets**

Capital assets (net of accumulated depreciation)	7,371,345
Capital assets (not being depreciated)	<u>8,621,590</u>

**Total Assets** \$ 22,320,483

**LIABILITIES**

**Current Liabilities**

Accounts payable	\$ 303,971
Accrued payroll	6,112
Accrued vacation pay	79,188
Accrued interest payable	73,112
Deposits payable	35,112
Deferred revenue	40,000
General obligation bonds - current	298,303

**Total current liabilities** 835,798

**Noncurrent Liabilities**

General obligation bonds payable	<u>6,938,851</u>
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**Total Liabilities** 7,774,649

**NET ASSETS**

Investment in capital assets, net of related debt	8,755,781
Unrestricted	<u>5,790,053</u>

**Total Net Assets** 14,545,834

**Total Liabilities and Net Assets** \$ 22,320,483

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGE IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**Year Ended June 30, 2004**

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<b>OPERATING REVENUES</b>	
Water and sewer services	\$ 3,857,335
Miscellaneous	206,264
Tap, connection and availability fees	<u>827,080</u>
<b>Total Operating Revenues</b>	<u>4,890,679</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	903,684
Fringe benefits	284,253
Contractual services	923,838
Other charges	1,153,852
Depreciation and amortization	<u>350,309</u>
<b>Total Operating Expenses</b>	<u>3,615,936</u>
<b>Operating Income</b>	<u>1,274,743</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Interest earned	52,200
Interest expense	<u>(222,981)</u>
<b>Total Nonoperating Expense</b>	<u>(170,781)</u>
<b>Net income</b>	1,103,962
<b>NET ASSETS</b>	
Beginning	<u>13,441,872</u>
Ending	<u><u>\$ 14,545,834</u></u>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**Year Ended June 30, 2004**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 3,773,215
Miscellaneous receipts	206,264
Tap, connection and availability fees	828,491
Payments to suppliers	(2,340,626)
Payments to employees	<u>(1,176,058)</u>
<b>Net cash provided by operating activities</b>	<u>1,291,286</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Deferred grant revenue for capital expenditures	40,000
Principal payments on general obligation bonds	(288,019)
Purchase of fixed assets	(281,890)
Interest paid on general obligation bonds	<u>(222,981)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(752,890)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	52,200
Net investment purchases	<u>(332,200)</u>
<b>Net cash used in investing activities</b>	<u>(280,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	258,396
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<u>88,399</u>
End of year	<u><u>\$ 346,795</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 1,274,743
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	350,309
Changes in operating assets and liabilities:	
Receivables	(84,120)
Accounts payable	(246,871)
Due to other funds	(13,830)
Accrued payroll	4,158
Accrued vacation pay	7,722
Accrued interest payable	(2,236)
Customer deposits	<u>1,411</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 1,291,286</u></u>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2004**

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**ASSETS**

Cash and cash equivalents	\$ 171,783
Investments	7,042
Accounts receivable	<u>10,059</u>
<b>Total Assets</b>	<b><u><u>\$ 188,884</u></u></b>

**LIABILITIES**

Accounts payable	\$ 9,926
Due to agency	<u>178,958</u>
<b>Total Liabilities</b>	<b><u><u>\$ 188,884</u></u></b>

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

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Williamsburg Regional Library</b>				
Assets:				
Cash and cash equivalents	\$ 17,440	\$ 5,619,178	\$ 5,600,412	\$ 36,206
Liabilities:				
Due to agency	\$ 17,440	\$ 5,619,178	\$ 5,600,412	\$ 36,206
<b>Williamsburg Tricentennial Fund</b>				
Assets:				
Investments	\$ 5,384	\$ 58	\$ -	\$ 5,442
Liabilities:				
Due to agency	\$ 5,384	\$ 58	\$ -	\$ 5,442
<b>Colonial CASA Fund</b>				
Assets:				
Cash and cash equivalents	\$ 32,037	\$ 151,384	\$ 149,916	\$ 33,505
Investments	1,600	-	-	1,600
Accounts receivable	3,350	6,709	-	10,059
Total assets	<u>\$ 36,987</u>	<u>\$ 158,093</u>	<u>\$ 149,916</u>	<u>\$ 45,164</u>
Liabilities:				
Accounts payable	\$ 1,921	\$ 7,605	\$ -	\$ 9,526
Due to agency	35,066	150,488	149,916	35,638
Total liabilities	<u>\$ 36,987</u>	<u>\$ 158,093</u>	<u>\$ 149,916</u>	<u>\$ 45,164</u>
<b>Industrial Development Authority</b>				
Assets:				
Cash and cash equivalents	\$ 77,319	\$ 5,400	\$ 3,752	\$ 78,967
Liabilities:				
Accounts payable	\$ -	\$ 510	\$ -	\$ 510
Due to agency	77,319	4,890	3,752	78,457
Total liabilities	<u>\$ 77,319</u>	<u>\$ 5,400</u>	<u>\$ 3,752</u>	<u>\$ 78,967</u>
<b>Farmers' Market</b>				
Assets:				
Cash and cash equivalents	\$ 10,458	\$ 47,944	\$ 35,297	\$ 23,105
Liabilities:				
Accounts payable	\$ 798	\$ -	\$ 398	\$ 400
Due to agency	9,660	47,944	34,899	22,705
Total liabilities	<u>\$ 10,458</u>	<u>\$ 47,944</u>	<u>\$ 35,297</u>	<u>\$ 23,105</u>
<b>Williamsburg Redevelopment and Housing Authority</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 92,397	\$ 92,397	\$ -
Liabilities:				
Due to agency	\$ -	\$ 92,397	\$ 92,397	\$ -
<b>Total - All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 137,254	\$ 5,916,303	\$ 5,881,774	\$ 171,783
Investments	6,984	58	-	7,042
Accounts receivable	3,350	6,709	-	10,059
Total assets	<u>\$ 147,588</u>	<u>\$ 5,923,070</u>	<u>\$ 5,881,774</u>	<u>\$ 188,884</u>
Liabilities:				
Accounts payable	\$ 2,719	\$ 100,002	\$ 92,795	\$ 9,926
Due to agency	144,869	5,823,068	5,788,979	178,958
Total liabilities	<u>\$ 147,588</u>	<u>\$ 5,923,070</u>	<u>\$ 5,881,774</u>	<u>\$ 188,884</u>

**CITY OF WILLIAMSBURG, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE**  
**IN FUND NET ASSETS - BUDGET AND ACTUAL**  
**PROPRIETARY FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Water and sewer services	\$ 3,505,000	\$ 3,857,335	\$ 352,335
Miscellaneous	24,000	206,264	182,264
Tap, connection and availability fees	411,000	827,080	416,080
<b>Total Operating Revenues</b>	<u>3,940,000</u>	<u>4,890,679</u>	<u>950,679</u>
<b>OPERATING EXPENSES</b>			
Personal services	910,182	903,684	6,498
Fringe benefits	293,837	284,253	9,584
Contractual services	1,220,000	923,838	296,162
Other charges	2,725,917	1,153,852	1,572,065
Depreciation and amortization	330,000	350,309	(20,309)
<b>Total Operating Expenses</b>	<u>5,479,936</u>	<u>3,615,936</u>	<u>1,864,000</u>
<b>Operating Income (Loss)</b>	<u>(1,539,936)</u>	<u>1,274,743</u>	<u>2,814,679</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned	80,000	52,200	(27,800)
Interest expense	(222,600)	(222,981)	(381)
<b>Total Nonoperating Expense</b>	<u>(142,600)</u>	<u>(170,781)</u>	<u>(28,181)</u>
<b>Change in net assets</b>	(1,682,536)	1,103,962	2,786,498
<b>NET ASSETS</b>			
Beginning	11,041,165	13,441,872	2,400,707
Transfer	1,395,536	-	(1,395,536)
Ending	<u>\$ 10,754,165</u>	<u>\$ 14,545,834</u>	<u>\$ 3,791,669</u>

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b>Revenue from Local Sources</b>			
<b>General Property Taxes</b>			
Real property taxes	\$ 5,830,000	\$ 6,158,084	\$ 328,084
Real and personal public service corporation property taxes	281,900	287,017	5,117
Personal property taxes	992,000	1,076,523	84,523
Mobile home taxes	3,100	3,613	513
Business property taxes	1,249,000	1,254,363	5,363
Penalties	35,000	71,508	36,508
Interest	24,000	18,461	(5,539)
<b>Total General Property Taxes</b>	<b>8,415,000</b>	<b>8,869,569</b>	<b>454,569</b>
<b>Other Local Taxes</b>			
Local sales and use taxes	4,000,000	4,210,450	210,450
Consumers' utility taxes	628,100	684,702	56,602
Business license taxes	1,622,000	1,628,458	6,458
Franchise license taxes	169,000	225,716	56,716
Bank stock taxes	155,000	112,958	(42,042)
Taxes on recordation and wills	120,000	196,203	76,203
Tobacco taxes	212,000	305,729	93,729
Hotel and motel room taxes	4,300,000	3,996,782	(303,218)
Restaurant food taxes	5,375,000	5,393,776	18,776
<b>Total Other Local Taxes</b>	<b>16,581,100</b>	<b>16,754,774</b>	<b>173,674</b>
<b>Permits, Privilege Fees and Regulatory Licenses</b>			
Animal licenses	500	940	440
Permits and other licenses	182,355	304,822	122,467
<b>Total Permits, Privilege Fees and Regulatory Licenses</b>	<b>182,855</b>	<b>305,762</b>	<b>122,907</b>
<b>Fines and Forfeitures</b>	<b>256,000</b>	<b>254,706</b>	<b>(1,294)</b>
<b>Revenue from Use of Money and Property</b>			
Revenue from use of money	500,000	154,762	(345,238)
Revenue from use of property	361,360	285,957	(75,403)
<b>Total Revenue from Use of Money and Property</b>	<b>861,360</b>	<b>440,719</b>	<b>(420,641)</b>

(Continued)



**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue from Local Sources (Concluded)</b>			
<b>Charges for Services</b>			
Sheriff's fees	\$ 1,366	\$ 1,366	\$ -
Commonwealth Attorney's fees	500	414	(86)
Parks and recreation	301,500	270,705	(30,795)
Planning and community ( development	45,800	45,360	(440)
<b>Total Charges for Services</b>	<u>349,166</u>	<u>317,845</u>	<u>(31,321)</u>
<b>Miscellaneous revenue</b>	<u>728,629</u>	<u>831,468</u>	<u>102,839</u>
<b>Total Revenue from Local Sources</b>	<u>27,374,110</u>	<u>27,774,843</u>	<u>400,733</u>
<b>Revenue from the Commonwealth</b>			
<b>Noncategorical Aid</b>			
ABC profits	7,034	18,297	11,263
Wine taxes	7,373	11,342	3,969
Rolling stock taxes	5,100	6,773	1,673
Rental car taxes	7,500	8,138	638
Grantor's tax	71,066	61,944	(9,122)
DJCP grants for law enforcement	304,126	304,172	46
<b>Total Noncategorical Aid</b>	<u>402,199</u>	<u>410,666</u>	<u>8,467</u>
<b>Categorical Aid</b>			
<b>Shared expenses</b>			
Commissioner of the Revenue	63,200	69,689	6,489
Treasurer	18,300	18,983	683
Medical Examiner	120	270	150
Registrar/Electoral Board	37,300	36,985	(315)
<b>Total Shared Expenses</b>	<u>118,920</u>	<u>125,927</u>	<u>7,007</u>
<b>Education</b>			
State sales tax	<u>529,000</u>	<u>559,110</u>	<u>30,110</u>

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue from the Commonwealth (Concluded)</b>			
<b>Other Categorical Aid</b>			
Arts Commission	\$ 68,425	\$ 69,175	\$ 750
Street and highway maintenance	1,082,950	1,131,859	48,909
Emergency services	5,500	6,176	676
Fire program fund	16,000	17,902	1,902
Wireless Board fund	-	76,055	76,055
Litter prevention & recycling	-	4,495	4,495
Disaster relief funds	-	168,608	168,608
<b>Total Other Categorical Aid</b>	<u>1,172,875</u>	<u>1,474,270</u>	<u>301,395</u>
<b>Total Categorical Aid</b>	<u>1,820,795</u>	<u>2,159,307</u>	<u>338,512</u>
<b>Total Revenue from the     Commonwealth</b>	<u>2,222,994</u>	<u>2,569,973</u>	<u>346,979</u>
<b>Revenue from the Federal Government</b>			
Disaster relief funds	-	1,084,070	1,084,070
<b>Total Intergovernmental Revenue</b>	<u>2,222,994</u>	<u>3,654,043</u>	<u>1,431,049</u>
<b>Total Revenues</b>	<u>29,597,104</u>	<u>31,428,886</u>	<u>1,831,782</u>
<b>EXPENDITURES</b>			
<b>General Government Administration</b>			
Legislative			
City Council	132,373	127,247	5,126
Clerk of Court	83,519	73,144	10,375
Total Legislative	<u>215,892</u>	<u>200,391</u>	<u>15,501</u>
General and Financial Administration			
City Manager	387,153	385,632	1,521
City Attorney	125,200	204,013	(78,813)
Commissioner of Revenue	163,423	158,706	4,717
Assessor	141,327	127,346	13,981
Treasurer	46,556	43,036	3,520
Finance	778,108	747,270	30,838
City Shop	194,903	194,798	105
<b>Total General and Financial Administration         Administration</b>	<u>1,836,670</u>	<u>1,860,801</u>	<u>(24,131)</u>

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>General Government Administration (Concluded)</b>			
Board of Elections			
Electoral board and officials	\$ 23,670	\$ 18,890	\$ 4,780
Registrar	93,256	91,983	1,273
Total Board of Elections	116,926	110,873	6,053
<b>Total General Government Administration</b>	<b>2,169,488</b>	<b>2,172,065</b>	<b>(2,577)</b>
<b>Judicial Administration</b>			
Courts			
Courthouse	325,000	293,222	31,778
<b>Total Judicial Administration</b>	<b>325,000</b>	<b>293,222</b>	<b>31,778</b>
<b>Public Safety</b>			
Law Enforcement and Traffic Control	2,665,750	2,557,046	108,704
E-911	484,675	477,172	7,503
Prince George Parking Garage	113,000	38,067	74,933
Fire and Rescue Services	2,414,065	2,335,061	79,004
Correction and Detention			
Regional jail	766,014	677,222	88,792
Juvenile detention commission	115,542	110,071	5,471
Group home commission	49,046	49,046	-
Total Correction and Detention	930,602	836,339	94,263
Inspections	344,445	324,988	19,457

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Public Safety (Concluded)</b>			
Other Protection			
Animal Control	\$ 24,000	\$ 15,138	\$ 8,862
Medical Examiner	350	350	-
Emergency management	5,275	5,225	50
Total Other Protection	<u>29,625</u>	<u>20,713</u>	<u>8,912</u>
<b>Total Public Safety</b>	<u>6,982,162</u>	<u>6,589,386</u>	<u>392,776</u>
<b>Public Works</b>			
Maintenance of Highways, Streets, Bridges and Sidewalks			
General engineering	200,118	189,979	10,139
Highways, streets, bridges and sidewalks	1,416,674	1,353,851	62,823
Total Maintenance of Highways, Streets, Bridges and Sidewalks	<u>1,616,792</u>	<u>1,543,830</u>	<u>72,962</u>
Sanitation and Waste Removal			
Refuse collection	519,400	519,360	40
Total Sanitation and Waste Removal	<u>519,400</u>	<u>519,360</u>	<u>40</u>
Maintenance of General Buildings and Grounds			
Municipal complex - new	476,014	453,973	22,041
Rental properties	10,700	8,423	2,277
Information resources	247,712	237,123	10,589
Landscaping	466,836	1,691,301	(1,224,465)
Total Maintenance of General Buildings and Grounds	<u>1,201,262</u>	<u>2,390,820</u>	<u>(1,189,558)</u>
<b>Total Public Works</b>	<u>3,337,454</u>	<u>4,454,010</u>	<u>(1,116,556)</u>
<b>Health and Welfare</b>			
Health			
Local health department	201,010	201,010	-
Mosquito control	9,550	9,496	54
Total Health	<u>210,560</u>	<u>210,506</u>	<u>54</u>

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Health and Welfare (Concluded)</b>			
Mental Health and Mental Retardation			
Colonial Services Board	\$ 186,321	\$ 186,321	\$ -
Social Services			
Public Assistance	3,146	574	2,572
Transportation	3,500	2,838	662
Total Social Services	6,646	3,412	3,234
<b>Total Health and Welfare</b>	<b>403,527</b>	<b>400,239</b>	<b>3,288</b>
<b>Education</b>			
Administration of schools	7,643	7,257	386
Contributions to local school district	6,726,814	6,726,814	-
<b>Total Education</b>	<b>6,734,457</b>	<b>6,734,071</b>	<b>386</b>
<b>Parks, Recreation and Cultural</b>			
Parks and Recreation			
Administration	397,062	396,972	90
Parks supervision	170,518	158,663	11,855
Playgrounds	609,270	569,627	39,643
Cemeteries	45,862	43,741	2,121
Total Parks and Recreation	1,222,712	1,169,003	53,709
Regional Library	758,273	752,197	6,076
<b>Total Parks, Recreation and Cultural</b>	<b>1,980,985</b>	<b>1,921,200</b>	<b>59,785</b>
<b>Community Development</b>			
Planning and Community Development			
Planning	407,267	354,539	52,728
Community development	2,510,985	2,510,025	960
Total Planning and Community Development	2,918,252	2,864,564	53,688
Arts Commission	125,050	124,942	108
<b>Total Community Development</b>	<b>3,043,302</b>	<b>2,989,506</b>	<b>53,796</b>

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONCLUDED)**  
**GENERAL FUND**  
**Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Nondepartmental</b>	\$ 150,000	\$ 137,351	\$ 12,649
<b>Capital Projects</b>	11,877,431	5,818,262	6,059,169
<b>Debt Service</b>			
Principal	5,413,000	5,413,000	-
Interest	525,008	352,333	172,675
<b>Total Debt Service</b>	5,938,008	5,765,333	172,675
<b>Total Expenditures</b>	42,941,814	37,274,645	5,667,169
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(13,344,710)	(5,845,759)	7,498,951
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of land	-	200,000	200,000
Bond proceeds	4,500,000	4,500,000	-
Transfer in	-	32,080	32,080
Transfer out	(496,133)	(360,000)	136,133
<b>Total Other Financing Sources</b>	4,003,867	4,372,080	368,213
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(9,340,843)	(1,473,679)	7,867,164
<b>FUND BALANCE</b>			
Beginning	660,019	22,360,336	21,700,317
Ending	\$ (8,680,824)	\$ 20,886,657	\$ 29,567,481

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The City of Williamsburg, Virginia (the "City") was established by the General Assembly of the Commonwealth of Virginia in 1699 and was incorporated by British Royal Charter in 1722. The City is a municipal corporation governed by an elected mayor and four-member council. The accompanying financial statements present the government and the entities for which the government is considered to be financially accountable.

Not included in the City's financial statements are certain entities created as separate governments under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by City Council. Specific information on the nature of the individual agencies and a description of their financial transactions affecting the City are provided in the following paragraphs:

1. Williamsburg Redevelopment and Housing Authority

The Authority is a public corporation that administers urban development projects and operates all public housing in the City. City Council selects the members of the Authority's board; however, the board designates its own management and has the responsibility for budget adoption and revision. The Authority's operating and capital expenditures, including debt service, are financed principally with federal funds and rentals. Separate financial statements are prepared and are available, which reflect the details of its operations.

2. City of Williamsburg – James City County Joint Public Schools

Under the terms of an agreement dated January 14, 1954, and subsequently revised, between the governing bodies and the school boards of the City of Williamsburg, Virginia and James City County, effective July 1, 1955, the two localities consolidated the operations of their schools. By agreement, last amended by resolution on October 12, 2001, defining the City and County share of the local contribution, the City's share of operational costs will be equivalent to the percentage of City students each year beginning July 1, 2002, times an add-on factor that varies by year as follows:

<u>Year</u>	<u>Factor</u>
FY 2004	1.33
FY 2005	1.28
FY 2006	1.23
FY 2007	1.18

The percentages used, considering the appropriate funding formula for fiscal years 2004 and 2003 are 11.35% and 11.63%, respectively. Separate financial statements are prepared and are available, which reflect the details of its operations.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Summary financial information on the school operations as of June 30, 2004, is as follows:

Total assets	\$ <u>10,548,356</u>
Liabilities	\$ 7,499,360
Fund equity and other credits	<u>3,048,996</u>
Total liabilities, fund equity and other credits	\$ <u>10,548,356</u>
Revenues and other financing sources	\$ 77,497,451
Expenditures	<u>77,442,690</u>
Surplus of revenues and other financing sources over expenditures	54,761
Fund balance, beginning	<u>2,994,235</u>
Fund balance, ending	\$ <u>3,048,996</u>

General long-term debt of the joint school operations consists of liabilities for early retirement, compensated absences and obligations under capital leases. Each participating government is responsible for its own debt related to school properties.

**3. Williamsburg Regional Library**

The Library is a joint operation of the City of Williamsburg and James City County, under the latest contract dated January 14, 1999. It also receives funding from the State of Virginia, the federal government, York County, and private sources. Also, the Library's board is split between City and County appointees. The Library's management is also independent from City and County control. During the current fiscal year, the City contributed \$738,273 to the Library's operating budget, or 13.3% of its net appropriated support. Separate financial statements are prepared and are available, which reflect the details of its operations.

**4. Other Agencies**

Certain agencies and commissions service both the City of Williamsburg and surrounding localities. Board membership is allocated among the localities and their governing bodies make appointments. These agencies include: Hampton Roads Planning District Commission (HRPDC), Peninsula Alliance for Economic Development (PAED), Colonial Services Board, Virginia Peninsula Regional Jail, Group Home Commission, Middle Peninsula Juvenile Detention Commission, Peninsula Agency on Aging, Community Action Agency, Crossroads, Hampton Roads Partnership, Virginia Peninsula Public Service Authority, and the Williamsburg Area Arts Commission.

**B. Government-wide and fund financial statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

(Continued)



**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**C. Measurement focus, basis of accounting, and financial statement preparation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Fiduciary fund financial statements are also reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and expenditures are measured in a manner similar to the governmental funds.

Property taxes, room and meals taxes, sales and use taxes, other local taxes, shared expenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports only one major Governmental Fund - the General Fund. The General Fund is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports only one major Proprietary Fund - the Utility Fund. The Utility Fund accounts for the operations for sewer and water services for the City.

The fiduciary funds include: the Williamsburg Regional Library, the Williamsburg Tricentennial Fund, Colonial CASA Fund, Industrial Development Authority, Farmers' Market and the Williamsburg Redevelopment and Housing Authority.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The City implemented the financial reporting requirements of GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* for fiscal year ended June 30, 2002.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for utility funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. Assets, liabilities and net assets or equity**

**1. Deposits and investments**

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

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of states and local governments, obligations of international development banks, "prime quality" commercial paper and certain corporate notes, repurchase agreements, certificates of deposit in U.S. banks, State Treasurer's Local Government Investment Pool (LGIP), and the State non-arbitrage program (SNAP).

Investments for the City are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**2. Receivables and payables**

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. Receivables and payables (Concluded)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to \$281,520 at June 30, 2004.

Property taxes are based upon the rate levied by City Council multiplied by the taxable assessed value. The City Assessor, based on the fair market value on July 1 of the current fiscal year, determines assessed value of real estate annually. The Commissioner of Revenue with the use of National Automobile Dealers Association appraisal guides determines personal property values. Real estate taxes, levied July 1 (lien date), are billed semi-annually and are due December 1 and June 1 of each fiscal year. Personal property taxes, levied January 1, are billed annually and are due December 1. Tax rates for bills due December 1, 2003 and June 1, 2004, were \$0.54 per \$100 assessed value of real estate and \$3.50 per \$100 appraisal value for personal property. A 10% penalty or \$10, whichever is greater, is imposed on all delinquent taxes collected after the due dates. Interest is also imposed after the due dates at the rate of 10% annually.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings	40 years
Improvements other than buildings	20 years
Infrastructure	
Roads	30 years
Bridges and culverts	50 years
Water/sewer system	40 years
Equipment	3 - 10 years

4. Compensated Absences

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The estimated current portion of the liability for vested vacation benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. All vacation pay, current and long-term, is accrued when incurred in the government-wide and proprietary fund financial statements.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

5. Unbilled Revenue

The City records property taxes not collected within 45 days after year-end as deferred revenue. In addition, the City records the amount of accrued but unbilled revenue for the Utility Fund by prorating actual subsequent billings.

6. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period incurred. The face amount of the debt issued is reported as an other financing source.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent amounts appropriated by City Council for the succeeding fiscal year.

8. Pension Plan

The City's policy is to fund pension costs which consist of normal costs actuarially determined using entry age, normal cost calculations, and amortization of past service costs over forty years.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Concluded)**

The details of this \$5,062,015 difference is as follows:

Capital outlay	\$ 6,953,143
Depreciation expense	<u>1,891,128</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental Funds</i>	<u>\$ 5,062,015</u>

Another element of that reconciliation states “the effect of various miscellaneous transactions involving capital assets (sales) is to decrease net assets.” The details of this \$200,000 are as follows:

In the statement of activities, only the *gain* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

Net adjustment to decrease <i>net changes in fund balances – total Governmental funds</i> to arrive at <i>changes in net assets of governmental Funds</i>	<u>\$ 200,000</u>
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Another element of that reconciliation states “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The difference is as follows:

The principal repayments on general obligation bonds represent the net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 380,242</u>
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Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$8,051 difference is as follows:

Compensated absences represent the <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental funds</i> .	<u>\$ 8,051</u>
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**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgets and Budgetary Accounting**

Formal budgetary integration is employed as a management control device during the year for the General Fund and Utility Fund. Annual operating budgets are adopted by ordinances and resolutions passed by the City Council for those funds. Special revenue funds do not have an annual operating budget adopted by City Council except for operating transfers to the Virginia Public Assistance Fund. Those operating transfers augment the state approved budget for the Virginia Public Assistance Fund. Budgets are prepared on the same basis of accounting used for financial reporting purposes. The City does not integrate the use of encumbrance accounting in any of its funds. The original budgets and revisions, if any, are authorized at the department level by City Council.

The City Manager has the authority to transfer amounts within the departments, so long as the total appropriation for a department is not adjusted. Budget amounts reflected in the financial statements are as originally adopted. All appropriations, which are non-capital in nature, lapse at year-end to the extent that they have not been fully expended.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)**

**B. Excess of Expenditures Over Budget**

As per NCGAI 6, paragraph 4, the following are being disclosed:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Overexpended Amount</u>
City Attorney	\$ 125,200	\$ 204,013	\$ 78,813
Landscaping	466,836	1,691,301	1,224,465

The overexpended amount in landscaping is the result of damage incurred from a hurricane. The City received Federal and State reimbursement of \$1,252,678 for those expenses, as well as other expenses incurred.

**4. DEPOSITS AND INVESTMENTS**

**A. Deposits**

At year-end, the City's carrying amount of deposits with banks and savings institutions was \$1,347,124 and the bank balance was \$766,391. Of the bank balance, all was covered by federal depository insurance or collateralized in accordance with Virginia Security for Public Deposits Act.

Under the Act, all such deposits of the City are considered to be insured. Also, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the bank balance, none was uninsured and uncollateralized in banks or savings and loans not qualifying under the Act at June 30, 2004.

**B. Investments**

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of states and local governments, obligations of international development banks, "prime quality" commercial paper and certain corporate notes, repurchase agreements, certificates of deposit in U. S. banks, State Treasurer's Local Government Investment Pool (LGIP), and the State non-arbitrage program (SNAP).

Investments for the City are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

The City's investments are categorized into these three categories of credit risk. Category 1 includes investments that are insured or registered, or for securities held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or safekeeping agent, but not in the City's name.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**4. CASH AND INVESTMENTS** (Concluded)

At year-end, the City's cash and investment balances were as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
U.S. Government				
Securities	\$ 4,457,025	\$ -	\$ -	\$ 4,457,025
Corporate Bonds	4,696,929	-	-	4,696,929
Repurchase agreement	2,955,005	-	-	2,955,005
	\$ 12,108,959	\$ -	\$ -	12,108,959
 <u>Uncategorized Investments</u>				
Local Government Investment Pool				12,184,036
State non-arbitrage program				165,465
Total Investments				12,349,501
Total cash and cash equivalents				1,347,124
Total cash and deposits				\$ 25,805,584
 Reconciliation of deposits and investment to statement of net assets				
Cash and cash equivalents - Governmental activities				\$ 828,546
Cash and cash equivalents - Business-type activity				346,795
Cash and cash equivalents - Fiduciary funds				171,783
Investments - Governmental activities				19,286,673
Investments - Business-type activity				5,164,745
Investments - Fiduciary fund				7,042
Total				\$ 25,805,584

**5. NOTE RECEIVABLE**

The City has a non-interest bearing \$110,000 note receivable due from the Williamsburg Redevelopment and Housing Authority secured by a deed of trust. The note is due on the earlier of the sale of the secured land or March 2005.

**CITY OF WILLIAMSBURG, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

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**6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

<u>Receivables and Payables:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental	\$ 735	\$ -
Proprietary	-	735
	<u>\$ 735</u>	<u>\$ 735</u>

Transfers:

<u>Fund</u>	<u>Transfers In (Out)</u>	
	<u>General</u>	<u>Nonmajor Governmental</u>
General	\$ (360,000)	\$ 32,080
Special Revenue	32,080	(360,000)
Total Transfers	<u>\$ (327,920)</u>	<u>\$ (327,920)</u>

The transfer from the General Fund of \$360,000 to the Virginia Public Assistance Fund was to subsidize the services provided. The transfer of \$32,080 from the Nonmajor Governmental Fund (the Law Enforcement Block Grant Fund) to the General Fund resulted from the transfer of equipment.

**7. DUE FROM OTHER GOVERNMENTAL UNITS**

Amounts due from other governmental units at June 30, 2004, are as follows:

Commonwealth of Virginia		
Street and highway maintenance		\$ 282,965
Local sales tax		752,373
State sales tax		101,346
Rolling stock tax		6,773
Shared expenses		20,453
Other local taxes		12,379
Social services		<u>93,226</u>
		1,269,515
James City County		
Shared expenses		<u>11,736</u>
Total		<u>\$ 1,281,251</u>



**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**8. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004, was as follows:

**Governmental activities:**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 14,184,612	\$ 4,649,084	\$ 2,248,325	\$ 16,585,371
Construction in progress	<u>3,125,665</u>	<u>617,035</u>	<u>3,125,665</u>	<u>617,035</u>
Total capital assets not being depreciated	<u>17,310,277</u>	<u>5,266,119</u>	<u>5,373,990</u>	<u>17,202,406</u>
Capital assets being depreciated:				
Buildings	22,185,425	6,408,177	-	28,593,602
Improvements other than buildings	7,481,983	38,271	-	7,520,254
Infrastructure	36,321,848	-	-	36,321,848
Equipment	<u>5,098,155</u>	<u>482,557</u>	<u>127,467</u>	<u>5,453,245</u>
Total capital assets being depreciated	<u>71,087,411</u>	<u>6,929,005</u>	<u>127,467</u>	<u>77,888,949</u>
Less accumulated depreciation for:				
Buildings	6,635,834	604,566	-	7,240,400
Improvements other than buildings	2,244,224	367,709	-	2,611,933
Infrastructure	20,570,345	433,347	-	21,003,692
Equipment	<u>3,384,176</u>	<u>534,187</u>	<u>59,477</u>	<u>3,858,886</u>
Total accumulated depreciation	<u>32,834,579</u>	<u>1,891,129</u>	<u>59,477</u>	<u>34,666,231</u>
Total capital assets being depreciated, net	<u>38,252,832</u>	<u>5,037,876</u>	<u>67,990</u>	<u>43,222,718</u>
Government activities capital assets, net	<u>\$ 55,563,109</u>	<u>\$ 10,303,995</u>	<u>\$ 5,441,980</u>	<u>\$ 60,425,124</u>

**Business-type activity:**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 7,914,779	\$ 41,145	\$ -	\$ 7,955,924
Construction in Process	-	11,866	-	11,866
Open easement	<u>653,800</u>	<u>-</u>	<u>-</u>	<u>653,800</u>
Total capital assets not being depreciated	<u>8,570,391</u>	<u>53,011</u>	<u>-</u>	<u>8,621,590</u>
Capital assets being depreciated:				
Buildings	9,502,970	12,500	-	9,515,470
Improvements other than buildings	5,864,791	39,491	-	5,904,282
Equipment	<u>594,661</u>	<u>176,889</u>	<u>-</u>	<u>771,550</u>
Total capital assets being depreciated	<u>15,962,422</u>	<u>228,880</u>	<u>-</u>	<u>16,191,302</u>

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**8. CAPITAL ASSETS (Concluded)**

	Balance <u>July 1, 2003</u>	Additions	Deletions	Balance <u>June 30, 2004</u>
Less accumulated depreciation for:				
Buildings	\$ 4,486,008	\$ 191,173	\$ -	\$ 4,677,181
Improvements other than buildings	3,566,728	89,568	-	3,656,297
Equipment	<u>427,245</u>	<u>59,234</u>	-	<u>486,479</u>
Total accumulated depreciation	<u>8,479,981</u>	<u>339,975</u>	-	<u>8,819,957</u>
 Total capital assets being depreciated, net	 <u>7,482,441</u>	 <u>(111,095)</u>	 -	 <u>7,371,345</u>
Business-type activity capital assets, net	<u>\$ 16,051,021</u>	<u>\$ (58,084)</u>	<u>\$ -</u>	<u>\$ 15,992,935</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 783,558
Judicial administration	279,615
Public safety	80,763
Health and welfare	6,063
Highways and streets, including depreciation of general infrastructure assets	555,937
Parks and recreation	180,140
Community development	<u>5,053</u>
 Total depreciation expense – governmental activities	 <u>\$ 1,891,129</u>
 Business-type activities:	
Water and sewer	<u>\$ 339,975</u>

**9. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT OBLIGATIONS**

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued was \$25,410,754. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

General obligation bonds currently outstanding are as follows:

**Governmental activities**

The City authorized and issued a general obligation bond on November 1, 1996, for the purpose of a land purchase. This bond is payable in principal installments of \$388,000 plus interest at the rate of 4% per annum, payments due each June 30, beginning June 30, 1997, and ending June 30, 2006. \$ 776,000

The City authorized and issued a \$4,500,000 note payable for the purpose of re-financing a note for the construction of a parking garage. Interest at 1.63% is payable in semi-annual installments until the bond matures on October 1, 2005. 4,500,000

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**9. GENERAL OBLIGATION AND OTHER LONG TERM DEBT OBLIGATIONS (Continued)**

**Governmental activities** (Concluded)

The City authorized and issued a \$2,500,000 general obligation bond for the purpose of financing the construction of a parking garage. The bond bears interest at 4.55%. Interest is payable semi-annually and principal is to be repaid in annual installments and matures January 15, 2017. \$ 2,255,000

The City authorized and issued a \$4,000,000 general obligation bond for the purpose of financing several public improvement projects payable in principal installments of \$66,666 plus interest at a variable rate equal to the London Interbank Offered Rate (LIBOR) minus 1.40%. Payments are due the first day of each March, June, September, and December through June 2012. 2,200,000

The City authorized and issued a \$2,000,000 general obligation bond in August 1997 for capital improvements. The bond is payable in quarterly principal installments of \$133,333 plus interest at a fixed rate of 4.94%. Payments are due the first day of each March, June, September, and December. Payments began December 1997 and end September 2012. 1,100,000

The City signed a \$1,300,000 note for a parcel of land with improvements with interest only payments at a rate of 4.62% due monthly. The note matures on January 1, 2008. 1,300,000

Total governmental activities \$ 12,131,000

**Business-type activity**

General obligation bond for the purpose of re-financing another general obligation bond that was used for the acquisition of real estate for watershed protection in the Waller Mill Reservoir Watershed and to pay costs associated with the issuance of the bond. Principal is due January 2006. Interest is payable semi-annually at a fixed rate of 2.54%. \$ 5,837,754

The City authorized and issued a \$2,000,000 general obligation bond in August 1997 for the purpose of improvements to the City's water filtration plant. The bond is payable in quarterly principal installments of \$133,333 plus interest at a fixed rate of 4.94%. Payments are due the first day of each March, June, September, and December. Payments began December 1997 and end September 2012. 1,100,000

The City purchased an open space conservation easement and a right of first refusal to purchase the property. The consideration is in the form of the City's nonnegotiable, unsecured, tax-exempt, general obligation bonds, payable in the principal amount of \$653,800, bearing interest at an annual rate of 4.00% with principal and interest paid monthly until August 2006. 299,399

Total business type activity \$ 7,237,154

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**9. GENERAL OBLIGATION AND OTHER LONG TERM DEBT OBLIGATIONS (Concluded)**

**Changes in long-term liabilities**

Annual debt service requirements to maturity for general obligation bonds and note payable are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activity</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 918,000	\$ 408,836	\$ 298,303	\$ 213,059
2006	5,423,000	320,489	6,081,557	200,229
2007	545,000	256,365	157,295	39,356
2008	1,850,000	201,843	133,333	32,645
2009	555,000	146,875	133,333	25,880
2010 - 2014	2,350,000	374,783	433,333	38,006
2015 - 2019	490,000	59,606	-	-
	<u>\$ 12,131,000</u>	<u>\$ 1,768,797</u>	<u>\$ 7,237,154</u>	<u>\$ 549,175</u>

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2003</u>	<u>Additions</u>	<u>June 30, 2004</u>
Governmental activities:			
General obligation bonds	\$ 11,744,000	\$ 4,500,000	\$ 10,831,000
Note payable	-	1,300,000	1,300,000
Compensated absences			
Due within one year	327,447	20,532	347,979
Due after one year	177,159	8,051	185,210
Lease payable	-	26,000	23,378
Governmental activities long-term obligations	<u>\$ 12,248,606</u>	<u>\$ 5,854,583</u>	<u>\$ 12,687,567</u>
Business-type activity:			
General obligation bonds	\$ 7,525,173	\$ -	\$ 7,237,154
Compensated absences	71,466	7,722	79,188
Business-type activity long-term obligations	<u>\$ 7,596,639</u>	<u>\$ 7,722</u>	<u>\$ 7,316,342</u>

**10. SURETY BONDS OF PRINCIPAL OFFICIALS**

As of June 30, 2004, the City maintains surety bonds in the following amounts:

<u>Fidelity and Deposit Company of Maryland</u>	
Philip F. Serra, Director of Finance	\$ 500,000
Judy Nightingale Fuqua, Commissioner of the Revenue	550,000
Betsy Woolridge, Clerk of Circuit Court	103,000
Robert Deeds, Sheriff	30,000
Employees of Constitutional officers – blanket bond	1,000,000
Police Department – blanket bond	100,000
All City of Williamsburg employees except Constitutional Officers and their subordinates and the Police Department	100,000

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**11. DEFINED BENEFIT PENSION PLAN**

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) 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 an annual cost-of-living (COLA) adjustment beginning in their second year of retirement. The COLA is limited to 5% per year. AFS is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The City has assumed this 5% member contribution. In addition, the City 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 City's contribution rate for the fiscal years ended June 30, 2004 was 10% of annual covered payroll.

C. Annual Pension Cost

For the fiscal year ended June 30, 2004, the City's annual pension cost of \$725,515 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Three-Year Trend Information for the City of Williamsburg, Virginia

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 854,662	100%	\$ -
June 30, 2003	696,032	100%	-
June 30, 2004	725,515	100%	-

**CITY OF WILLIAMSBURG, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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**12. OTHER POSTEMPLOYMENT BENEFITS**

The City provides assistance to certain retirees, who participate in outside non-employer qualified health insurance plans, in the form of a supplemental payment for the cost of health insurance coverage. The payments are made to retirees who participated in the City's health insurance plan for at least ten consecutive years and who had either a minimum of 15 years of service or are disabled. The monthly amount of the supplemental payment is equal to \$3 for each year of service and cannot exceed \$90 per month. The supplement stops upon the death of the retiree or upon termination of the outside health insurance coverage.

The retiree health insurance supplement program was adopted by City Council effective as of January 1, 2002. As of June 30, 2004, there were 23 retirees receiving supplemental payments. The City finances the program on a pay-as-you-go basis. Total payments during the year were \$18,360.

**13. LITIGATION**

The City, after reviewing with counsel all actions and proceedings against it, considers that aggregate liability or loss, if any, resulting there from will not be material.

**14. CONTINGENT LIABILITIES**

Federal programs in which the City participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of Circular A-133, federal programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures in the opinion of management, any future disallowances of current grant expenditures would be immaterial.

**15. RISK MANAGEMENT**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The City pays annual premiums to the pool for its property, theft, auto liability, and general liability coverage. Settled claims for the City resulting from these risks have not exceeded insurance coverage for each of the past three years. There was no reduction in insurance coverage during fiscal year 2004.

The City is also a participating member in the Virginia Municipal Group Self Insurance Association. This non-profit entity provides workers' compensation coverage in compliance with the Virginia Workers' Compensation code. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

(Continued)

**CITY OF WILLIAMSBURG, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

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**15. RISK MANAGEMENT (Concluded)**

In addition, the City provides various surety bond coverage as required under regulations and at industry recommended levels.

The City has chosen to retain the risk associated with the employee's health insurance plan. Risk is retained at 100% up to an individual stop loss of \$60,000 for individual claims paid during the contract year. Premiums are paid for all eligible full time employees to a claims administrator who processes all claims. Any excess above the amount of the incurred but not reported (IBNR) claims at the end of the year are returned to the City. As of June 30, 2004, this balance is \$451,794. The annual liability for claims costs, including IBNR claims, is estimated during the annual renewal process each contract year (July 1 through June 30). The estimated claims cost is based on the prior year's experience as well as industry trends.

Changes in balances of health insurance claims liabilities during the past three years are as follows:

	<u>Beginning Balance</u>	<u>Employer/ Employee Payments</u>	<u>Claims and Other Charges</u>	<u>Ending Balance</u>
2002	\$289,983	\$738,923	\$740,191	\$288,715
2003	\$288,715	\$874,785	\$888,991	\$274,509
2004	\$274,509	\$923,723	\$743,746	\$454,486

**16. SUBSEQUENT EVENTS**

On August 12, 2004, the Williamsburg City Council approved an action to transfer the original sales agreement for the 53+ acres of City-owned property to be developed as High Street Williamsburg from Creston Corporation to Roseland Property Company. This sale provides for a purchase price of \$10.9 million, and includes the major property portion of the original Creston Corporation agreement, and three additional properties since acquired by the City to develop and construct a mixed use lifestyle center in four phases.