

CITY OF WILLIAMSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2005

Prepared by:
DEPARTMENT OF FINANCE

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October 28, 2005

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, 2005, 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 in full compliance for the fourth year 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 independent auditor's report.

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 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, parking garage), 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 2005, retail sales in the city totaled \$421 million, and the assessed value of taxable real property totaled \$1.2 billion. These totals compare with a resident population of 11,998. Within the city limits are 47 hotels/motels, 37 bed and breakfasts, and 85 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 18th 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 conservatively estimated 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 7,544 students, and employs 3,112 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 will be a lifestyle retail center of over 250,000 square feet, and over 500 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 December, 2005. The City and the Virginia Department of Transportation (VDOT) have broken ground on the extension of Treyburn Drive, which supports the development of this property. In addition to High Street, Colonial Williamsburg Foundation has sold approximately 350 acres to Riverside Health System for a mixed-use development in the southeast quadrant of the City, and the City Council has rezoned the property per the Comprehensive Plan. This development will be the largest in the City's history.

In April, 2005 the City issued a 15-year, \$8.5 Million G.O. bond, with an interest rate of 3.76%. The City's share of construction costs of the joint School system's Third High School will be paid with \$4 Million from this borrowing. The remaining \$4.5 Million was used to refinance last year's short-term note in the same amount, used to pay for a significant portion of construction costs of the City's Prince George Parking Garage. The paid-parking facility generated approximately \$148,000 during its first full year of activity during FY 2005, and will continue to assist with the debt service and operating expenses over the life of the loan and beyond.

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 pay down the majority of the bond principal by the due date. The property is currently under contract for sale in an amount sufficient to retire the debt. During FY 2005 the Utility Fund also purchased two additional 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 33% of the General Fund operating revenues for FY 2005.

With a heavy reliance on tourism revenues comes the obvious concern over economic downturn. Room tax receipts during FY 2005 were \$3.7 Million-down 7.5% from FY 2004 totals. Meal tax receipts during the year were \$5.37 Million, down slightly by .5% from last year. Competition of hotel and restaurant business in the Williamsburg is strong, with many new businesses opening outside the City during the past year. Local retail sales and use taxes totaled \$4.22 Million for FY 2005, up just slightly from last year. The City continues working to build the region's travel and tourism-based economy as its primary fiscal strategy. We continue to strongly believe in the importance of tourism in Williamsburg. 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 2005 totaled \$2.16 Million. 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. This new tax generated an additional \$1.58 Million in the City alone during FY 2005.

The City's real estate and personal property tax bases have experienced stable growth over the past 10 years. During FY 2005 the real estate tax base increased by 7.6%, 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 2.41% for the year, while the LGIP, being that the dollar weighted average maturity of the portfolio may not exceed 90 days, averaged 2.13% 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, 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, 2004. This was the 19th 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 12 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, 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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Williamsburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emmer

Executive Director

CITY OF WILLIAMSBURG, VIRGINIA

June 30, 2005

COUNCIL

Jeanne Zeidler	Mayor
Clyde A. Haulman	Vice Mayor
Mickey P. Chohany	Member
Paul Freiling	Member
Billy S. Scruggs	Member
Shelia Y. Crist	Clerk of Council

OFFICIALS

Jackson C. Tuttle, II	City Manager
Philip F. Serra, Jr.	Director of Finance
Judy Nightengale Fuqua	Commissioner of the Revenue
M. Ann Davis	Treasurer
Joseph F. Phillips	City Attorney
Michael McGinty	Commonwealth's Attorney
Robert Deeds	Sheriff
Betsy Woolridge	Clerk of the Circuit Court
Jodi M. Miller	Assistant City Manager
Daniel G. Clayton, III	Director of Public Works & Utilities
James M. Yost	Police Chief
Terrill K. Weiler	Fire Chief
R. Paul Hudson	Director of Recreation
Reed T. Nester	Director of Planning
Peter P. Walentisch	Director of Human Services

INDEPENDENT AUDITORS

Witt Mares, PLC

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council
City of Williamsburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Williamsburg, Virginia, as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Williamsburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Williamsburg, Virginia, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 28, 2005 on our consideration of the City of Williamsburg's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 16 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Williamsburg's financial statements. The schedule of funding progress and combining and individual fund statements and supporting schedules, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory and statistical sections of this report are presented for purposes of additional analysis and are not a required part of the City of Williamsburg's financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Newport News, Virginia
October 28, 2005

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, 2005. 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 fourth 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 assets of the City of Williamsburg exceeded its liabilities at June 30, 2005 by \$87.4 Million. Net assets invested in capital assets (net of depreciation and related debt) account for 59% of this amount, with a value of \$51.7 Million. The remaining net assets may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- Total General Fund (including 1% Sales Tax) revenues were \$33 Million for FY 2005, compared to \$31.4 Million last year. General property tax receipts were \$9.2 Million, up 4.2% from last year's \$8.8 Million. Other local taxes, consisting of room, meal, business licenses, and 1% state sales tax receipts, were up 10.5%, largely from increased sales taxes, recordation fees, and a new \$2 per night lodging tax effective July 1, 2004.
- Total General Fund (including capital) expenditures totaled \$31.5 Million for FY 2005, significantly lower than last year's \$37.3 Million which included a refinancing and subsequent principal payoff of a long-term bond. Looking at the operating side only, total expenditures were \$27.1 Million, about \$1.1 Million higher than last year. Operating revenues were \$28.6 Million, up \$1.6 Million from last year.
- In April, 2005 the City issued an \$8.5 Million bank-qualified bond, of which \$4.5 Million was used to permanently finance a short-term note in the same amount previously used for construction of the Prince George Parking Garage. The remaining \$4 Million was borrowed for the City's share of construction costs of the Third High School. The term of the borrowing is 15 years at a fixed interest rate of 3.76%.
- As of June 30, 2005, the City's governmental activities reported a combined ending fund balance of \$30.6 Million. This amount is available for spending at the government's discretion (*unreserved fund balance*). Of this total, \$3.7 Million is designated for subsequent years' capital expenditures, \$4.5 Million for refunding the short-term note used for construction of the parking garage, and \$4 Million for construction of the Third High School.
- Business-type activities (Utility Fund) reported net assets at June 30, 2005 of \$14.9 Million. Its net assets invested in capital assets (net of depreciation and related debt) account for 65.4% of this amount, with the remaining net assets of \$5.1 Million available without restriction. The Utility Fund reports combined cash and investments at year-end of \$4.9 Million, with total short-term liabilities of \$6.5 Million. Long-term debt obligations at June 30, 2005 were \$857,295.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial

statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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, 2005, 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, 2005.

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 \$87.4 Million at June 30, 2005. The following table reflects the condensed Government-Wide Statement of Net Assets:

City of Williamsburg's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 33,227,027	\$ 23,131,579	\$ 5,603,118	\$ 6,327,548	\$ 38,830,145	\$ 29,459,127
Capital Assets	61,758,446	60,425,124	16,659,303	15,992,935	78,417,749	76,418,059
Total Assets	\$ 94,985,473	\$ 83,556,703	\$ 22,262,421	\$ 22,320,483	\$ 117,247,894	\$ 105,877,186
Long-term Liabilities	\$ 14,464,345	\$ 11,667,486	\$ 857,295	\$ 7,237,154	\$ 15,321,640	\$ 18,904,640
Other Liabilities	7,965,901	2,775,102	6,541,521	537,495	14,507,422	3,312,597
Total Liabilities	22,430,246	14,442,588	7,398,816	7,774,649	29,829,062	22,217,237
Net Assets:						
Invested in Capital Assets, net of related debt	41,977,081	48,294,124	9,720,452	8,755,781	51,697,533	57,049,905
Restricted	12,243,040	5,100,000	-	-	12,243,040	5,100,000
Unrestricted	18,335,106	15,719,991	5,143,153	5,790,053	23,478,259	21,510,044
Total Net Assets	\$ 72,555,227	\$ 69,114,115	\$ 14,863,605	\$ 14,545,834	\$ 87,418,832	\$ 83,659,949

The City of Williamsburg's total assets were over \$117 Million as of June 30, 2005. Of this amount, \$78.4 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 \$34.9 Million is accounted for in cash, cash equivalents, and pooled investments, \$1.9 Million in accounts and notes receivable, with the remainder spread among miscellaneous assets.

At June 30, 2005, the City had outstanding liabilities of \$29.8 Million, with \$26.7 Million in bonds and notes payable. Of the bonds and notes payable, \$11.9 Million was due within one year, with the remainder due at various dates until 2020. 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 \$1.4 Million in accounts payable, \$.9 million in accrued liabilities, and \$95,255 in deposits payable to customers.

The largest portion of the City's net assets reflects its investment in capital assets, 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 \$12.2 Million or 14% of net assets. The remaining \$18.4 Million or 21% of net assets may be used to meet the City's ongoing obligations to its citizens and creditors for all activities.

At June 30, 2005, 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	
	2005	2004	2005	2004	2005	2004
Program Revenues:						
Charges for services	\$ 2,198,148	\$ 1,967,253	\$ 4,195,671	\$ 4,890,679	\$ 6,393,819	\$ 6,857,932
Operating grants and contributions	3,718,194	4,808,926	-	-	3,718,194	4,808,926
Capital grants and contributions	102,922	102,924	-	-	102,922	102,924
General Revenues:						
Property taxes	9,203,301	8,828,608	-	-	9,203,301	8,828,608
Other local taxes	18,623,364	16,932,499	-	-	18,623,364	16,932,499
Other	465,369	124,651	105,671	52,200	571,040	176,851
Total Revenues	<u>34,311,298</u>	<u>32,764,861</u>	<u>4,301,342</u>	<u>4,942,879</u>	<u>38,612,640</u>	<u>37,707,740</u>
Expenses:						
General government	3,196,039	2,950,481	-	-	3,196,039	2,950,481
Judicial administration	308,361	293,222	-	-	308,361	293,222
Public safety	7,475,819	6,933,837	-	-	7,475,819	6,933,837
Public works	4,110,492	4,959,412	-	-	4,110,492	4,959,412
Health and welfare	2,065,153	1,991,478	-	-	2,065,153	1,991,478
Education	6,267,967	6,822,656	-	-	6,267,967	6,822,656
Parks, recreation, & cultural	2,179,626	2,094,830	-	-	2,179,626	2,094,830
Community Development	4,853,168	3,259,276	-	-	4,853,168	3,259,276
Nondepartmental	17,349	127,858	-	-	17,349	127,858
Interest expense	396,211	352,333	-	-	396,211	352,333
Water	-	-	3,983,571	3,838,917	3,983,571	3,838,917
Total Expenses	<u>30,870,185</u>	<u>29,785,383</u>	<u>3,983,571</u>	<u>3,838,917</u>	<u>34,853,756</u>	<u>33,624,300</u>
Excess of revenues over expenses	3,441,113	2,979,478	317,771	1,103,962	3,758,884	4,083,440
Transfers	-	-	-	-	-	-
Increase in net assets	3,441,113	2,979,478	317,771	1,103,962	3,758,884	4,083,440
Net assets - beginning	69,114,114	66,134,636	14,545,834	13,441,872	83,659,948	79,576,508
Net assets - ending	<u>\$72,555,227</u>	<u>\$69,114,114</u>	<u>\$14,863,605</u>	<u>\$14,545,834</u>	<u>\$87,418,832</u>	<u>\$83,659,948</u>

Total revenues for the City of Williamsburg were \$38.6 Million for the year ended June 30, 2005. Governmental activities provided \$34.3 Million (88.9%), while \$4.3 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

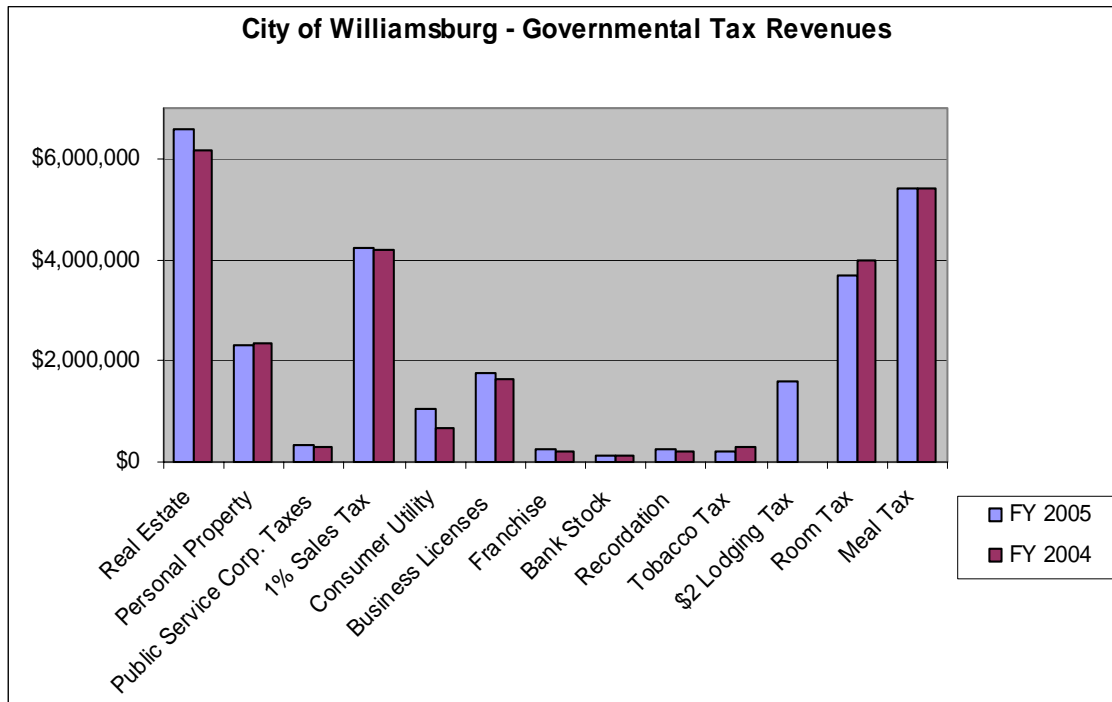
The general governmental functions are contained in the General Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable

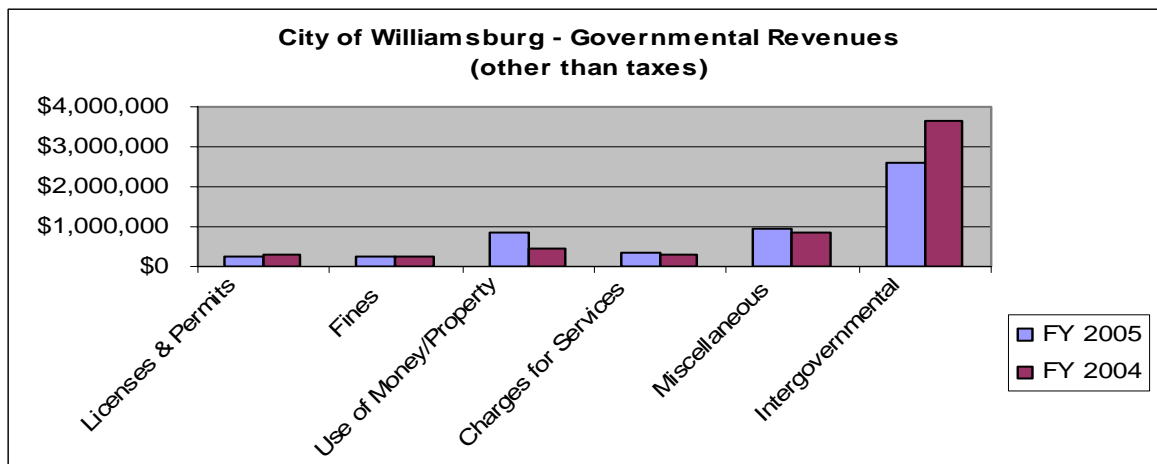
resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. On June 30, 2005, unreserved, undesignated fund balance of the General Fund was \$18.4 Million, while total fund balance reached \$30.6 Million. Total assets in the General Fund amounted to \$33 Million, accounting for 99% of total governmental fund assets.

**Revenues Classified by Source
Governmental Funds**

Revenues by Source	June 30, 2005		June 30, 2004		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Property Taxes	\$9,241,737	26.94%	\$8,869,569	27.15%	\$372,168	4.20%
Other Local Taxes	18,506,678	53.94%	16,754,774	51.28%	1,751,904	10.46%
Licenses and permits	256,662	0.75%	305,762	0.94%	(49,100)	-16.06%
Fines & Forfeitures	234,157	0.68%	254,706	0.78%	(20,549)	-8.07%
Use of Money and Property	843,561	2.46%	440,882	1.35%	402,679	91.33%
Charges for Services	365,026	1.06%	317,845	0.97%	47,181	14.84%
Miscellaneous	997,939	2.91%	905,907	2.77%	92,032	10.16%
Intergovernmental	3,864,318	11.26%	4,820,935	14.76%	(956,617)	-19.84%
Total Revenues	34,310,078	100.00%	32,670,380	100.00%	1,639,698	5.02%





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 \$6,526,520, up 5.8% from last year. This is due to increased assessments city-wide, new construction, and continuous 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 \$2,315,754 – down slightly by .7% from the prior year, mostly due to a national trend of lower used-car valuations last year.
- **Other Local Taxes** - Up overall 10% largely from the new \$2 per night lodging tax, local taxes also include State sales taxes, consumer utility taxes, business and franchise licenses, bank stock and recordation taxes, room, and meal taxes.
 - State sales taxes were \$4,219,603, up just slightly from the previous year. This is due to retail sales tax activity fairly level city-wide with last year.
 - Consumer utility taxes were \$1,062,031, an increase of 55.1% over last year. This increase is due largely to a significant collection of delinquent prior-year telecommunication taxes being paid this year. Telecommunication taxes collected and remitted to Virginia localities is an on-going problem in the industry, and will hopefully be resolved by the Virginia General Assembly with its telecommunication tax restructuring project in 2006.
 - Room taxes were \$3,695,937, a 7.5% decrease of \$300,845 from last year. This is attributable obviously to lower room night stays in the City, and additional industry competition in the surrounding counties.
 - \$2 per night lodging taxes generated \$1,582,047, which was collected and remitted monthly to the Williamsburg Area Destination Marketing Committee for tourism marketing of the Historic Triangle.
 - Meal taxes were \$5,367,745, down \$26,031, a decrease of .5% from the previous year. Competition from restaurants in surrounding counties is having an impact on this revenue source for the City.
 - Tobacco taxes were \$209,340, down 31%, and due to the timing of replenishment of retailer vendor stamps on cigarette inventory.
- **Use of Money and Property** – Interest rates climbed steadily during FY 2005, as the Federal Reserve increased the Fed Funds rate nine times from 1.25% in June 2004 to 3.25% at June 30, 2005. The City's short-term funds invested with the State's Local Gov't Investment Pool averaged 2.13%, while the City's fixed-income portfolio averaged 2.41% for the year, and continues to be managed by Evergreen Investments. General Fund interest earnings were \$464,761, up considerably from last year. As noted in the Letter of Transmittal, all investments continue to conform to the City's conservative investment policy, revised most recently 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 \$378,192, up 32.3% from last year. This large increase is due to collecting parking garage revenues of \$146,993 for a full 12 month period. Additional rented spaces and amenities charges for properties adjacent to the City's parking deck, and collections for various tenant contracts account for remainder of this revenue.

- **Charges for Services** – This category consists largely of recreation programs, recreation facility rentals, and cemetery lots and fees. Overall this category increased by 14.8% from last fiscal year, from \$317,845 in FY 2004 to \$365,026 this year. The majority of the increase is from parks and recreation program fees. This increase in recreation programs is due to more programs being offered this year compared to those affected or cancelled because of Hurricane Isabel last fiscal year.
- **Miscellaneous** – This category consists of Utility Fund overhead charges, miscellaneous overtime payments for public safety services, and stormwater management credits. Revenues in this category were \$956,588 in FY 2005, up 15% over last year. Included this year is a \$25,000 reimbursement from James City County as its contribution for the joint Waller Mill Dog Park, which opened in June 2005.
- **Intergovernmental** – largely consisting of State revenues, these revenues totaled \$2,603,923 during FY 2005.
 - Non-categorical aid was up \$6,728, or 1.6% from last year. ABC profits, wine taxes, and grantor's taxes were down a total of \$27,196 from FY 2004 levels. 599 law enforcement funds were \$340,364, up 11.9% over last year.
 - Shared expenses for Commissioner of the Revenue, Treasurer, Medical Examiner, and Registrar/Electoral Board were up a total of \$10,074, 8% from the level in the previous year, attributable to additional State aid for constitutional officers. Also, full funding was received this year for the Registrar's and Electoral Board members salaries, compared to 88% last year.
 - State sales tax for education, a dedicated funding source based on school-aged population among Virginia localities, was up 17.6% to \$657,483 for FY 2005, which included a partial-year increase in sales tax dedicated for education recently approved by the General Assembly.
 - State highway maintenance payments were up 3.3% from the preceding year. These payments, based on road lane miles, increased by \$37,706 during the year.
 - Revenue from the Federal Government during FY 2005 included \$36,087 from the Federal Emergency Management Agency (FEMA) for reimbursement of remaining eligible expenditures associated with Hurricane Isabel's destruction in September, 2003.

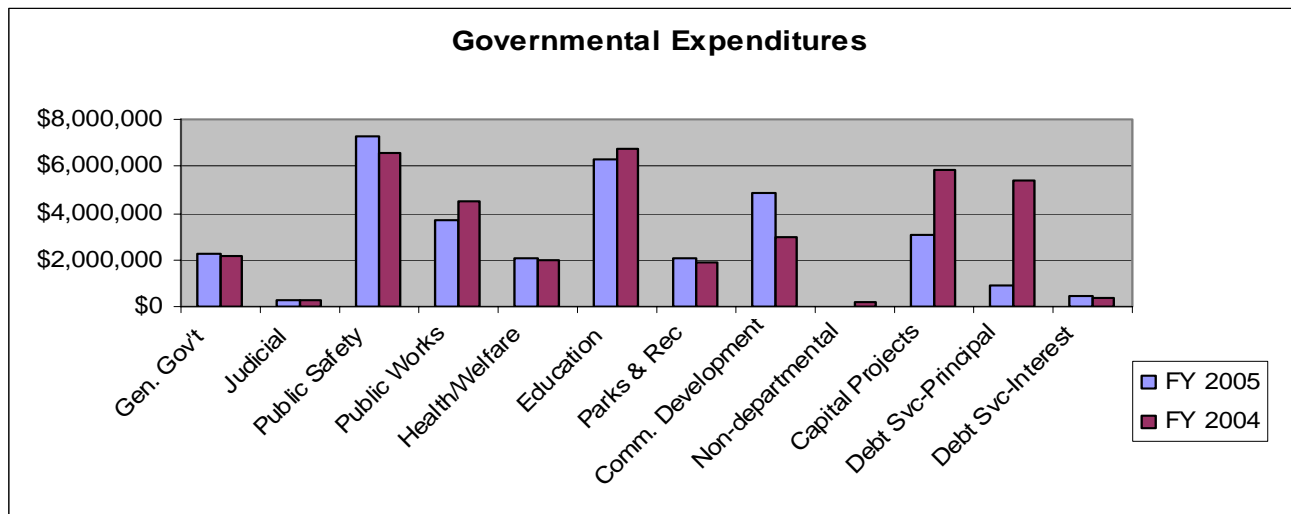
The revenue categories above do not include one-time only financing sources, such as bond proceeds and the sale of City-owned capital assets. Also included in that section are bond proceeds of \$8.5 Million, of which \$4 Million is for the City's share of construction costs of the new Third High School, and \$4.5 Million is for refinancing of a short-term note originally issued in FY 2004 for construction of the Prince George Parking Garage.

The net change in fund balance for the General Fund in FY 2005 was an increase of \$9,730,026, of which \$8.5 Million was borrowed for the projects described above. Of the total, \$3.7 Million is designated for subsequent years' capital expenditures, and \$4.5 Million is designated to pay off the short term note on the parking garage, which was paid in July 2005. An additional \$4 Million is designated for construction of the Third High School.

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

**Expenditures By Function
Governmental Funds**

Expenditures by Function	June 30, 2005		June 30, 2004		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Government	\$2,290,766	6.91%	\$2,172,065	5.59%	\$118,701	5.46%
Judicial Administration	308,361	0.93%	293,222	0.75%	15,139	5.16%
Public Safety	7,306,601	22.04%	6,594,188	16.97%	712,413	10.80%
Public Works	3,628,476	10.94%	4,454,010	11.46%	(825,534)	-18.53%
Health and Welfare	2,055,514	6.20%	1,985,415	5.11%	70,099	3.53%
Education	6,267,967	18.90%	6,734,071	17.33%	(466,104)	-6.92%
Parks, Recreation, and Cultural	2,025,720	6.11%	1,921,200	4.94%	104,520	5.44%
Community Development	4,852,663	14.64%	2,989,506	7.69%	1,863,157	62.32%
Nondepartmental	33,349	0.10%	137,351	0.35%	(104,002)	-75.72%
Capital Projects	3,030,777	9.14%	5,818,262	14.97%	(2,787,485)	-47.91%
Principal Retirement	918,000	2.77%	5,413,000	13.93%	(4,495,000)	-83.04%
Interest	437,444	1.32%	352,333	0.91%	85,111	24.16%
Total Expenditures	\$33,155,638	100.00%	\$38,864,623	100.00%	(\$5,708,985)	-14.69%



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 \$110,743 or 5.9% 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 \$8,553, largely with reduced personnel expenses in FY 2005.
- **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 \$308,361 - 19.6% of total expenses, up 5% from the prior year. Additional costs continued to be offset by local fees imposed during FY 2005 through the courts.

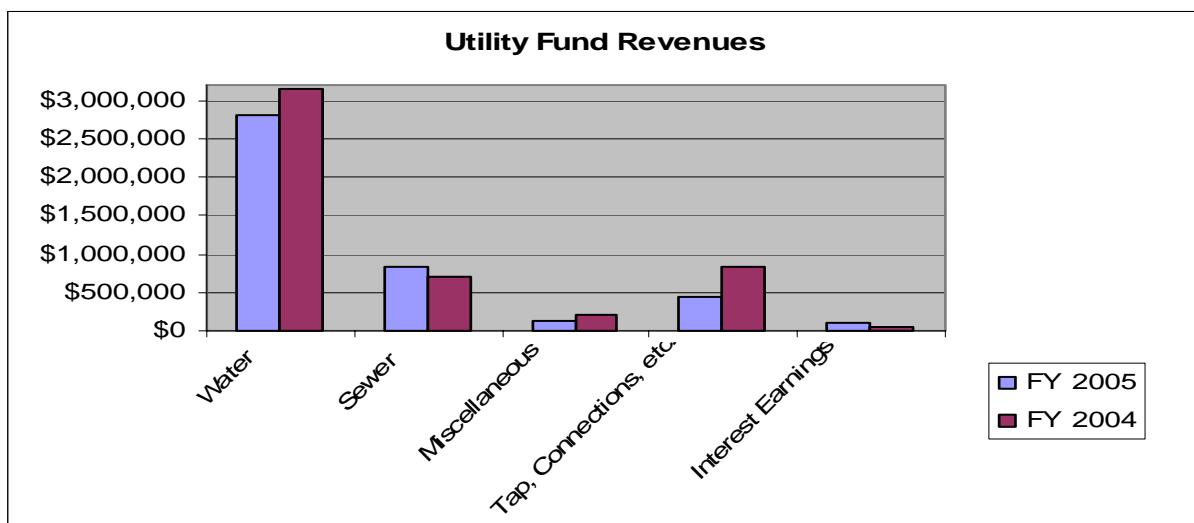
- **Public Safety** – This category is made up of several departments:
 - Law Enforcement & Traffic Control – Expenditures for the Police Department were \$2,897,137, up 13.3% from last year. Included in law enforcement expenditures this year was \$132,114 in Homeland Security grant funding, and used for radios. Retirement plan costs were up 46.8%, health care was up 12.3%, fuel for patrol cars was up 3.8%, and service contracts were up 13.7%. 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 a 5.3% increase to \$502,267 over the preceding year, largely from increased retirement cost, and higher E-911 phone charges this year.
 - Prince George Parking Garage – Opened in April, 2004, expenditures for a full 12 months in FY 2005 were \$100,450. These costs are for salaries and benefits, armored transport, insurance, electricity, and supplies.
 - Fire and Rescue Services - Total expenditures were up \$196,740, or 8.4% the prior year. Full-time salaries were up slightly by only 1.5%, largely due to retirements of a few senior firefighters during the year. Retirement costs were up 48.1% over last year. Fuel costs were up 51.9%.
 - Correction and Detention –
 - The City incurred expenditures for the Virginia Peninsula Regional Jail, which also serves James City County, Poquoson, and York County, totaling \$755,827 during the year ended June 30, 2005, up 11.6% from last year. Jail population for City crimes was 22,637 and 24,259 days incarceration during the years ended June 30, 2004 and 2005, respectively, an increase of 7.2%. The Jail Authority Board addressed an operating deficit during the year of approximately \$150,000, 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 \$26,601 and is included above.
 - Juvenile detention costs during the year were \$74,561, down 32.3% from last year, due to a reduced daily population. Total days for juvenile incarceration in FY 2005 were 533, while 887 days were experienced in the previous year – a decrease of 40%. 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 \$373,616 during the year, up \$48,628, or 15% over the prior year. This is largely attributable to increased personnel and overall operating costs necessary to accommodate the increased building activity in the City.
- **Public Works** – Various activities make up this category:
 - Engineering – Expenditures during the year were \$206,501, up 8.7% due to increased salaries, retirement, and public official liability insurance.
 - Streets – Overall costs were up \$1,470,911, up 8.6% from last year. Increases in retirement, traffic control equipment maintenance, fuel, and other operating costs account for the major differences this year.
 - Refuse Collection – Expenditures for the year were \$745,407, up 43.5% over last year. FY 2005 was the first year of a new contract with BFI and is substantially higher than the prior contract.
 - Maintenance-Buildings, grounds, and landscaping costs were \$1,205,657, and were considerably lower than last year's costs which included \$1.25 Million in Hurricane Isabel related costs which were reimbursed from Federal and State agencies. Repair and maintenance costs for the Municipal Complex were down approximately 6% from last year. Information resources expenditures were up 20.8%, and included copier leases, improvements to the local-area network infrastructure and equipment, and the PC replacement plan. Landscaping costs were down 70.9%, since last year's operations included significant expenditures related to damage caused by Hurricane Isabel.

- **Health & Welfare** – Local health department costs were \$212,655, up 5.8% over last year. Contributions to the Colonial Services Board were \$194,935, up 4.6% from last year.
- **Education** – Current year education costs were \$6,267,967, down 6.9% from last year. The City's share of the joint Williamsburg-James City County Public School system for the year ended June 30, 2005 was 10%. FY 2005 was the third 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 2005 was 1.28. Also under the revised agreement beginning with FY 2003, the City pays the same proportion of approved capital projects. The City's share of budgeted capital costs for schools during FY 2005 were \$472,230, of which \$100,652 was spent during the year, and included in capital projects below.
- **Parks, Recreation and Cultural** –
 - Recreation costs were \$1,254,125, up 7.3% over last year. Increases in salaries, retirement, and hospitalization costs occurred this year. Professional services costs for programs were significantly lower this year, compared to last year which cancelled classes and programs as a result of Hurricane Isabel.
 - The City's share of the Williamsburg Regional Library for the year ended June 30, 2005 was \$770,892, up 4.4% from last year, due to normal increases in operating costs. The contract percentage for FY 2005 was 16.84% according to the agreement with James City County, which is based on branch circulation each year.
- **Community Development**
 - Planning – Total expenditures were \$383,882 for FY 2005, up 8.3% over last year. Salaries and other personnel costs were 7.7% higher, and \$11,963 was spent on the comprehensive plan during the year.
 - Community Development – This consists of contributions to outside human service type, and community and economic development agencies. Total contributions were \$4,340,380 during FY 2005. Included in this category is the new \$2 per night lodging tax, and receipts of \$1,576,743 were submitted to the Williamsburg Area Destination Marketing Committee monthly for tourism promotion of the Historic Triangle. Arts Commission funding was \$128,401, up 2.8% from last year.
- **Capital Projects** – Capital project spending varies each year depending on the 5-year program. City projects totaled \$3,030,777 for FY 2005. Major projects included construction costs for Richmond Road and Treyburn Drive, Jamestown/Rt. 199 intersection improvements, guardrail replacement along Henry Street, underground wiring on Monticello Avenue, the Waller Mill Dog Park, Williamsburg Library entrance project, completion of the Prince George Streetscape project, and various school improvements. More information is provided under the Capital Asset section below.
- **Principal and Interest payments** – Total principal payments during FY 2005 were \$918,000. Interest payments totaled \$437,444, and included partial-year payment of interest on the \$8.5 Million bond which was issued in April, 2005. 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, 2005 is \$9.7 Million, including the proceeds of the \$8.5 Million bond issued in April, 2005.
- **Fund Balance** – The fund balance of the General Fund, which includes the City's general capital improvements is \$30.6 Million at June 30, 2005. Of this balance, \$3.7 Million is designated for subsequent years' capital expenditures, \$4.5 Million for the refunding of the 2004 short-term note

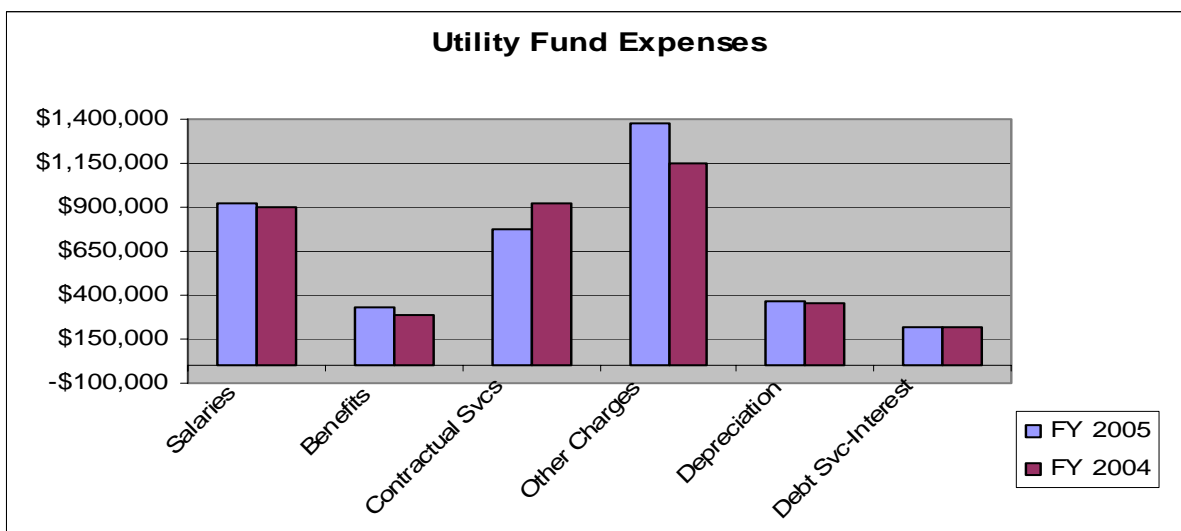
to finance construction of the Prince George Parking Garage, and \$4 Million for construction of the Third High School.

Enterprise Funds Revenue/Expense Analysis

The business-type activity (water and sewer services of the Utility Fund) revenues for the year were \$4.2 Million, down 14.2% from last year. Water rates increased 2% in July 2004 from \$2.55 to \$2.60 per 1,000 gallons. Water and sewer revenues were down \$210,385, or 5.5% for the year, due to water consumption being down citywide from last year. Tap, connection, and availability fees are unpredictable and dependent on development activity, and were down 48.9% from FY 2004 levels. The City contracts with three cell-phone providers using water tanks as a base for telecommunications equipment, and received \$86,400 this year. Interest earnings for the year ended June 30, 2005 were \$105,671, up 102% from last year, due to the recent increases in short-term earnings rates. The City 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. A contract for this sale was approved by City Council on September 8, 2005, and is included in the notes to the financial statements as a subsequent event.



Utility Fund expenses totaled \$3.8 Million for the year, compared to \$3.6 Million last year. Salaries and wages were up 2.5%, and fringe benefits were up 18.7%, largely from additional retirement costs during FY 2005. Other operating costs were up 3.3%.



ORIGINAL AND FINAL AMENDED BUDGETS

A budget amendment was approved by City Council on October 14, 2004 to fund additional garbage collection costs for a new contract. Contingency funds were used, along with revisions to department budgets to fund the new contract for FY 2005.

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, 2005, amounts to \$78.4 Million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and recreation and park facilities. 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 Streetscape project was completed in FY 2005. The total project cost was approximately \$880,000.
- Purchase of a \$650,000, 2-acre parcel adjacent to the City-owned property under contract for the High Street Williamsburg project.
- Continued right of way acquisition and engineering costs associated with Stage 2 of the Treyburn Drive extension project was completed at a cost of approximately \$670,000.
- Vehicles and equipment were added to the fleet during the year at a cost of \$174,748. This included vehicles for police, fire, public works, and administration.
- Underground wiring on Monticello Avenue was well under way during FY 2005, with project costs of approximately \$533,000.
- Intersection improvements to Jamestown Road/Rt. 199 were completed during the year, with the City paying a portion of the VDOT project in the amount of \$65,633.
- Guardrails along North Henry Street were completed at a cost of \$50,863.
- The Waller Mill Dog Park, a regional effort between the City and James City County, was completed at a total cost of \$47,058, of which \$25,000 was reimbursed by the County.
- Fence replacement at Kiwanis Park was completed at a cost of \$30,000.

Utility Fund:

- Sludge removal of the lagoons located at the Waller Mill water treatment plant was contracted during the year at a cost of \$129,900.
- Pump station #4 was renovated at a cost of approximately \$390,000.
- In September 2004 the City purchased a 30 acre parcel of watershed property for continued protection of Waller Mill Reservoir for a purchase price of \$360,000. In May 2005 the City purchased another 7.3 acre site for the same purpose at the price of \$96,000, bringing the total watershed area owned by the City to 2,717 acres.

Long-Term Debt

At June 30, 2005, the City of Williamsburg had total bonded debt outstanding of \$26.6 Million. Governmental activities had bonds and notes payable of \$19.7 Million, while business-type activities had \$6.9 Million in bonds payable. The full faith and credit of the government back these instruments.

The City's total bonded debt increased \$7,283,697 during FY 2005. The City refinanced the General Fund's 2004 short-term borrowing of \$4.5 Million, and also borrowed \$4 Million to fund construction of the Third High School in April, 2005 to take advantage of reduced interest rates. The City's remaining capacity for debt at June 30, 2005 was approximately \$93 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.

Additional information on the City of Williamsburg's long-term debt can be found in note 9 on pages 39-41 of this report.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

JUNE 30, 2005

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activity	
ASSETS			
Cash and cash equivalents	\$ 505,120	\$ 34,899	\$ 540,019
Investments	29,461,697	4,905,416	34,367,113
Receivables (net of allowances for uncollectibles):			
Taxes	1,164,329	-	1,164,329
Accounts	380,169	43,597	423,766
Unbilled	-	632,593	632,593
Prepaid expenses	25	-	25
Deferred charges	40,889	17,972	58,861
Accrued interest	74,810	-	74,810
Notes receivable	260,000	-	260,000
Internal balances	31,359	(31,359)	-
Due from other governmental units	1,308,629	-	1,308,629
Capital assets (net of accumulated depreciation)	43,507,311	7,585,586	51,092,897
Capital assets (not being depreciated)	18,251,135	9,073,717	27,324,852
Total Assets	\$ 94,985,473	\$ 22,262,421	\$ 117,247,894
LIABILITIES			
Accounts payable	\$ 1,101,299	\$ 252,188	\$ 1,353,487
Accrued payroll	80,770	8,678	89,448
Accrued vacation pay	568,960	89,762	658,722
Accrued interest payable	126,329	73,150	199,479
Deposits payable	59,068	36,187	95,255
Unearned revenue	135,739	-	135,739
Self insurance reserve	576,716	-	576,716
Lease payable			
Due within one year	21,556	-	21,556
Due in more than one year	46,809	-	46,809
Bonds and note payable			
Due within one year	5,872,180	6,081,556	11,953,736
Due in more than one year	13,840,820	857,295	14,698,115
Total Liabilities	22,430,246	7,398,816	29,829,062
NET ASSETS			
Invested in capital assets, net of related debt	41,977,081	9,720,452	51,697,533
Unrestricted	30,578,146	5,143,153	35,721,299
Total Net Assets	72,555,227	14,863,605	87,418,832
Total Liabilities and Net Assets	\$ 94,985,473	\$ 22,262,421	\$ 117,247,894

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

FUND FINANCIAL STATEMENTS

JUNE 30, 2005

**CITY OF WILLIAMSBURG, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005**

ASSETS	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 311,226	\$ 193,894	\$ 505,120
Investments	29,461,697	-	29,461,697
Receivables (net of allowances for uncollectibles):			
Taxes	1,290,844	-	1,290,844
Accounts	380,194	-	380,194
Accrued interest	74,810	-	74,810
Notes receivable	260,000	-	260,000
Due from other funds	45,642	-	45,642
Due from other governmental units	<u>1,219,096</u>	<u>89,533</u>	<u>1,308,629</u>
Total Assets	<u>\$ 33,043,509</u>	<u>\$ 283,427</u>	<u>\$ 33,326,936</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,099,117	\$ 2,182	\$ 1,101,299
Accrued payroll	80,770	-	80,770
Accrued vacation pay	338,990	19,305	358,295
Accrued interest payable	126,329	-	126,329
Refundable deposits	59,068	-	59,068
Due to other funds	-	14,283	14,283
Deferred revenue	145,836	116,418	262,254
Self insurance liability	<u>576,716</u>	<u>-</u>	<u>576,716</u>
Total Liabilities	<u>2,426,826</u>	<u>152,188</u>	<u>2,579,014</u>
FUND BALANCES			
Fund balances:			
Unreserved, reported in:			
General fund	18,373,643	-	18,373,643
Special revenue fund	-	91,187	91,187
Designated for:			
General fund - subsequent years' :			
Capital expenditures	3,743,040	-	3,743,040
Bond maturity	4,500,000	-	4,500,000
School construction	4,000,000	-	4,000,000
Special revenue fund - summer youth program	<u>-</u>	<u>40,052</u>	<u>40,052</u>
Total Fund Balances	<u>30,616,683</u>	<u>131,239</u>	<u>30,747,922</u>
Total Liabilities and Fund Balances	<u>\$ 33,043,509</u>	<u>\$ 283,427</u>	<u>\$ 33,326,936</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, 2005

Total Governmental Fund Balances	\$ 30,747,922
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	61,758,446
Bonds payable and capital leases are not due and payable in the current period and are not reported in the funds	(19,781,365)
Amortizable bond fees are not reported as deferred charges in the fund	40,889
Vacation pay, not due and payable in the current period, is not reported in the fund.	<u>(210,665)</u>
Net assets of governmental activities	<u>\$ 72,555,227</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, 2005

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	\$ 9,241,737	\$ -	\$ 9,241,737
Other local taxes	18,506,678	-	18,506,678
Permits, privilege fees and regulatory licenses	256,662	-	256,662
Fines and forfeitures	234,157	-	234,157
Revenue from use of money and property	842,953	608	843,561
Charges for services	365,026	-	365,026
Miscellaneous	956,588	41,351	997,939
Intergovernmental	<u>2,603,923</u>	<u>1,260,395</u>	<u>3,864,318</u>
Total Revenues	<u>33,007,724</u>	<u>1,302,354</u>	<u>34,310,078</u>
EXPENDITURES			
Current:			
General government administration	2,290,766	-	2,290,766
Judicial administration	308,361	-	308,361
Public safety	7,306,601	-	7,306,601
Public works	3,628,476	-	3,628,476
Health and welfare	418,312	1,637,202	2,055,514
Education	6,267,967	-	6,267,967
Parks, recreation and cultural	2,025,720	-	2,025,720
Community development	4,852,663	-	4,852,663
Nondepartmental	33,349	-	33,349
Capital projects	3,030,777	-	3,030,777
Debt service			
Principal	918,000	-	918,000
Interest	<u>437,444</u>	<u>-</u>	<u>437,444</u>
Total Expenditures	<u>31,518,436</u>	<u>1,637,202</u>	<u>33,155,638</u>
Deficiency of Revenues Over Expenditures	<u>1,489,288</u>	<u>(334,848)</u>	<u>1,154,440</u>
OTHER FINANCING SOURCES (USES)			
Disposal of capital assets	12,975	-	12,975
Bond proceeds	8,500,000	-	8,500,000
Capital leases	51,928	-	51,928
Transfer in	160,835	485,000	645,835
Transfer out	<u>(485,000)</u>	<u>(160,835)</u>	<u>(645,835)</u>
Total Other Financing Sources	<u>8,240,738</u>	<u>324,165</u>	<u>8,564,903</u>
Net change in fund balances	9,730,026	(10,683)	9,719,343
FUND BALANCES			
Beginning	<u>20,886,657</u>	<u>141,922</u>	<u>21,028,579</u>
Ending	<u>\$ 30,616,683</u>	<u>\$ 131,239</u>	<u>\$ 30,747,922</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, 2005

Net change in fund balances -- total governmental funds	\$	9,719,343
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		1,345,077
<p>The net effect of capital asset sales and insurance recoveries is to decrease net assets.</p>		(11,755)
<p>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.</p>		(7,541,111)
<p>The issuance of capital leases provides current financial resources to governmental funds, while the repayment of the principal of capital leases consumes the current financial resources of governmental funds.</p>		(44,987)
<p>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.</p>		(25,454)
Change in net assets of governmental activities	\$	<u>3,441,113</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
General property taxes	\$ 8,859,929	\$ 8,859,929	\$ 9,241,737	\$ 381,808
Other local taxes	18,314,000	18,314,000	18,506,678	192,678
Permits, privilege fees and regulatory licenses	207,150	207,150	256,662	49,512
Fines and forfeitures	256,050	256,050	234,157	(21,893)
Revenue from use of money and property	741,560	741,560	842,953	101,393
Charge for services	355,166	355,166	365,026	9,860
Miscellaneous	734,418	734,418	956,588	222,170
Intergovernmental	2,341,931	2,341,931	2,603,923	261,992
Total Revenues	<u>31,810,204</u>	<u>31,810,204</u>	<u>33,007,724</u>	<u>1,197,520</u>
EXPENDITURES				
Current:				
General government administration	2,252,812	2,248,817	2,290,766	(41,949)
Judicial administration	310,000	310,000	308,361	1,639
Public safety	7,377,669	7,308,199	7,306,601	1,598
Public works	3,480,028	3,666,028	3,628,476	37,552
Health and welfare	422,186	422,186	418,312	3,874
Education	6,640,137	6,640,137	6,267,967	372,170
Parks, recreation and cultural	2,079,728	2,079,728	2,025,720	54,008
Community development	4,948,971	4,991,011	4,852,663	138,348
Nondepartmental	100,000	16,000	33,349	(17,349)
Capital projects	4,738,600	7,383,144	3,030,777	4,352,367
Debt service				
Principal	918,000	918,000	918,000	-
Interest	407,330	407,330	437,444	(30,114)
Total Expenditures	<u>33,675,461</u>	<u>36,390,580</u>	<u>31,518,436</u>	<u>4,872,144</u>
Deficiency of Revenues Over Expenditures	<u>(1,865,257)</u>	<u>(4,580,376)</u>	<u>1,489,288</u>	<u>6,069,664</u>
OTHER FINANCING SOURCES (USES)				
Disposal of capital assets	8,000	8,000	12,975	4,975
Bond proceeds	-	-	8,500,000	8,500,000
Capital leases	-	-	51,928	51,928
Transfer in	-	-	160,835	160,835
Transfer out	-	-	(485,000)	(485,000)
Total Other Financing Sources	<u>8,000</u>	<u>8,000</u>	<u>8,240,738</u>	<u>8,232,738</u>
Net change in fund balance	<u>(1,857,257)</u>	<u>(4,572,376)</u>	<u>9,730,026</u>	<u>14,302,402</u>
FUND BALANCE				
Beginning	660,019	660,019	20,886,657	20,226,638
Ending	<u>\$ (1,197,238)</u>	<u>\$ (3,912,357)</u>	<u>\$ 30,616,683</u>	<u>\$ 34,529,040</u>

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

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

ASSETS

Current Assets

Cash and cash equivalents	\$	34,899
Investments		4,905,416
Receivables (net of allowance for uncollectibles)		
Accounts		43,597
Unbilled		632,593
Due to other funds		(31,359)
Deferred charges		17,972

Total current assets		5,603,118
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Noncurrent Assets

Capital assets (net of accumulated depreciation)		7,585,586
Capital assets (not being depreciated)		9,073,717

Total Assets	\$	22,262,421
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Current Liabilities

Accounts payable		252,188
Accrued payroll		8,678
Accrued vacation pay		89,762
Accrued interest payable		73,150
Deposits payable		36,187
General obligation bonds - current		6,081,556

Total current liabilities		6,541,521
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Noncurrent Liabilities

General obligation bonds payable		857,295
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Total Liabilities		7,398,816
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NET ASSETS

Investment in capital assets, net of related debt		9,720,452
Unrestricted		5,143,153

Total Net Assets		14,863,605
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Total Liabilities and Net Assets	\$	22,262,421
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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, 2005

OPERATING REVENUES

Water and sewer services	\$ 3,646,950
Miscellaneous	126,296
Tap, connection and availability fees	<u>422,425</u>

Total Operating Revenues 4,195,671

OPERATING EXPENSES

Salaries and wages	926,110
Fringe benefits	337,419
Contractual services	771,738
Other charges	1,372,081
Depreciation and amortization	<u>363,375</u>

Total Operating Expenses 3,770,723

Operating Income 424,948

NONOPERATING REVENUE (EXPENSE)

Interest earned	105,671
Interest expense	<u>(212,848)</u>

Total Nonoperating Expense (107,177)

Net income 317,771

NET ASSETS

Beginning 14,545,834

Ending \$ 14,863,605

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, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 3,768,061
Miscellaneous receipts	126,296
Tap, connection and availability fees	423,500
Payments to suppliers	(2,163,470)
Payments to employees	<u>(1,250,389)</u>
Net cash provided by operating activities	<u>903,998</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Grant revenue for capital expenditures	(40,000)
Principal payments on general obligation bonds	(298,303)
Purchase of capital assets	(1,029,743)
Interest paid on general obligation bonds	<u>(212,848)</u>
Net cash used in capital and related financing activities	<u>(1,580,894)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	105,671
Net investment disposals	<u>259,329</u>
Net cash provided by investing activities	<u>365,000</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(311,896)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>346,795</u>
End of year	<u>\$ 34,899</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 424,948
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	363,375
Changes in operating assets and liabilities:	
Receivables	121,111
Accounts payable	(51,783)
Due to other funds	32,094
Accrued payroll	2,566
Accrued vacation pay	10,574
Accrued interest payable	38
Customer deposits	<u>1,075</u>
Net cash provided by operating activities	<u>\$ 903,998</u>

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

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF NET ASSETS
AGENCY FUNDS
June 30, 2005

ASSETS

Cash and cash equivalents	\$ 184,022
Investments	<u>7,157</u>
Total Assets	<u>\$ 191,179</u>

LIABILITIES

Accounts payable	\$ 28,719
Due to agency	<u>162,460</u>
Total Liabilities	<u>\$ 191,179</u>

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

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 2005	1.28
FY 2006	1.23
FY 2007	1.18

The percentages used, considering the appropriate funding formula for fiscal years 2005 and 2004 are 10.0% and 11.35%, 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, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary financial information on the school operations as of June 30, 2005, is as follows:

Total assets	\$ 10,116,313
Liabilities	\$ 8,421,522
Fund equity and other credits	1,694,791
Total liabilities, fund equity and other credits	<u>\$ 10,116,313</u>
Revenues and other financing sources	\$ 85,506,169
Expenditures	<u>86,860,374</u>
Surplus of revenues and other financing sources over expenditures	(1,354,205)
Fund balance, beginning	<u>3,048,996</u>
Fund balance, ending	<u>\$ 1,694,791</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 \$770,892 to the Library's operating budget, or 13.5% 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 nonagency 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, 2005

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 agency funds, even though the agency 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 only types of agency funds the City maintains are agency funds. Agency funds report only assets and liabilities and, therefore, do not have a measurement focus.

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

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, 2005

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 \$373,939 at June 30, 2005.

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, 2004 and June 1, 2005, 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, 2005

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

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, 2005

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

The details of this \$1,345,077 difference is as follows:

Capital outlay	\$ 3,425,364
Depreciation expense	<u>2,080,287</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>\$ 1,345,077</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 \$11,755 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>\$ 11,755</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>\$ 7,541,111</u>
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Another element of that reconciliation states “the issuance of capital leases provides current financial resources to governmental funds, while the repayment of the principal of capital leases 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 capital leases 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>\$ 44,987</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 \$24,454 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>\$ 25,454</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.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)

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.

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	\$ 228,225	\$ 103,025
Landscaping	493,074	492,685	389

4. DEPOSITS AND INVESTMENTS

A. Deposits

At year-end, the City's carrying amount of deposits with banks and savings institutions was \$504,019 and the bank balance was \$910,309. 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, 2005.

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.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

4. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2005, the City had the following investment and maturities:

	Investment Maturities (in years)		
	Less than 1 yr	1-3 yrs	Fair Value
U.S. Government Agencies	\$ 1,090,460	\$ 3,734,400	\$ 4,824,860
Corporate Bonds	1,639,087	2,436,599	4,075,686
Commercial Paper	847,646	-	847,646
Repurchase agreements	2,626,137	-	2,626,137
	\$ 6,203,330	\$ 6,170,999	\$ 12,374,329

Reconciliation to Total Cash and Investments:

Add:

Cash on Hand and in Banks	\$ 540,019
Cash and Investments in Custody of Others	21,992,784
Total Deposits and Investments	\$ 34,907,132

Investment Policy

The City's investment policy requires that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, including the Investment Code of Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board. State statutes limit investment in commercial paper to no more than 35% of the total portfolio, with not more than 5% per issuer. The policy imposes additional restrictions to minimize investment risk.

Credit Risk

A portion of the City's investment portfolio is professionally managed by Evergreen Investments, which strictly follows the investment policy. The policy requires all bonds or notes of the Commonwealth of Virginia, states, or political subdivisions of any state of the U.S., or asset-backed securities have at least AAA by two rating agencies, one of which must be Moody's Investor Services or Standard & Poor's. Repurchase agreements must be collateralized by Treasury or Agency obligations the market value of which is at least 102% of the purchase price of the security. Certificates of deposit of domestic banks must have at least A-1 rating by S & P and P-1 by Moody's for maturities less than 1 year, and AA by S & P and Aa by Moody's for maturities over one year and not exceeding 3 years. Commercial paper must be rated "prime quality" with at least a P-1 rating by Moody's, A-1 rating by S & P, and Duff and Phelps within its rating of D-1. Corporate notes and bonds must have a rating of at least A by S & P, and A by Moody's. The City also invested funds during the year with the State Treasurer's Local Government Investment Pool, a 2a7 like pool, and the Virginia State Non-Arbitrage Program (VaSNAP), both rated AAAM by Standard & Poor's.

Concentration of Credit Risk

State statute requires that not more than 35% of the City's total investment portfolio can be invested in commercial paper, and not more than 5% per issuer. The portion of the City's investment portfolio at June 30, 2005, not including portions in the State LGIP or VaSNAP Fund that exceeded 5% of the total portfolio were five Federal Home Loan Bank notes, which represented 8.73% of the total investment portfolio.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

4. DEPOSITS AND INVESTMENTS (Concluded)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy puts restrictions above the Code of Virginia and the State Treasury Board. A minimum of 10% of the City's funds available for investment must be invested in securities maturing within 30 days. A minimum of 50% of the City's investment portfolio must mature within 12 months. Additionally, not more than 50% of the investment portfolio may be invested in securities maturing beyond 12 months. No securities having a final maturity longer than 36 months may be purchased without the express written approval of the Investment Committee.

Custodial Credit Risk

The investment policy requires that all securities purchased for the City shall be held by the City or by the City's designated custodian, identifiable on the custodian's books in the City's name. As of June 30, 2005, all City investments were held with a financial institution's trust department in the City's name.

5. NOTES RECEIVABLE

The City has two non-interest bearing notes receivable for \$150,000 and \$110,000 due from the Williamsburg Redevelopment and Housing Authority secured by deeds of trust. The notes are due on the sale of the respective properties.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivables and Payables:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental	\$ 31,359	\$ -
Proprietary	<u>-</u>	<u>31,359</u>
	<u>\$ 31,359</u>	<u>\$ 31,359</u>

Transfers:

<u>Fund</u>	<u>Transfers In (Out)</u>	
	<u>General</u>	<u>Non-major Governmental</u>
General	\$ (485,000)	\$ 485,000
Special Revenue	<u>160,835</u>	<u>(160,835)</u>
Total Transfers	<u>\$ (324,165)</u>	<u>\$ 324,165</u>

The transfer from the General Fund of \$485,000 to the Virginia Public Assistance Fund was to subsidize the services provided. The transfer of \$160,835 from the Nonmajor Governmental Fund (the Law Enforcement Block Grant Fund) to the General Fund resulted from the transfer of equipment.

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

7. DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units at June 30, 2005, are as follows:

Commonwealth of Virginia	
Street and highway maintenance	\$ 356,201
Local sales tax	704,493
State sales tax	117,624
Rolling stock tax	5,158
Shared expenses	23,286
Other local taxes	7,836
Social services	89,533
	<u>1,304,131</u>
James City County	
Shared expenses	<u>4,498</u>
Total	<u>\$ 1,308,629</u>

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

Governmental activities:

	Balance <u>July 1, 2004</u>	Additions	Deletions	Balance <u>June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 16,585,371	\$ 683,006	\$ -	\$ 17,268,377
Construction in progress	<u>617,035</u>	<u>982,758</u>	<u>617,035</u>	<u>982,758</u>
Total capital assets not being depreciated	<u>17,202,406</u>	<u>1,665,764</u>	<u>617,035</u>	<u>18,251,135</u>
Capital assets being depreciated:				
Buildings	28,593,602	15,000	-	28,608,602
Improvements other than buildings	7,520,254	648,814	-	8,169,068
Infrastructure	36,321,848	1,077,455	-	37,399,303
Equipment	<u>5,453,245</u>	<u>635,366</u>	<u>532,444</u>	<u>5,556,167</u>
Total capital assets being depreciated	<u>77,888,949</u>	<u>2,376,635</u>	<u>532,444</u>	<u>79,733,140</u>
Less accumulated depreciation for:				
Buildings	7,240,400	714,079	-	7,954,479
Improvements other than buildings	2,611,933	369,696	-	2,981,629
Infrastructure	21,003,692	450,933	-	21,454,625
Equipment	<u>3,810,206</u>	<u>545,579</u>	<u>520,689</u>	<u>3,835,096</u>
Total accumulated depreciation	<u>34,666,231</u>	<u>2,080,287</u>	<u>520,689</u>	<u>36,225,829</u>
Total capital assets being depreciated, net	<u>43,222,718</u>	<u>296,348</u>	<u>11,755</u>	<u>43,507,311</u>
Government activities capital assets, net	<u>\$ 60,425,124</u>	<u>\$ 1,962,112</u>	<u>\$ 628,790</u>	<u>\$ 61,758,446</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

8. CAPITAL ASSETS (Concluded)

Business-type activity:

	Balance <u>July 1, 2004</u>	Additions	Deletions	Balance <u>June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 7,955,924	\$ 463,993	\$ -	\$ 8,419,917
Construction in Process	11,866	-	11,866	-
Open easement	<u>653,800</u>	-	-	<u>653,800</u>
Total capital assets not being depreciated	<u>8,621,590</u>	<u>463,993</u>	<u>11,866</u>	<u>9,073,717</u>
Capital assets being depreciated:				
Buildings	9,515,470	358,318	-	9,873,788
Improvements other than buildings	5,904,282	60,458	-	5,964,740
Equipment	<u>771,550</u>	<u>158,840</u>	<u>4,849</u>	<u>925,541</u>
Total capital assets being depreciated	<u>16,191,302</u>	<u>577,616</u>	<u>4,849</u>	<u>16,764,069</u>
	Balance			Balance
	<u>July 1, 2004</u>	Additions	Deletions	<u>June 30, 2005</u>
Less accumulated depreciation for:				
Buildings	\$ 4,677,181	\$ 191,382	\$ -	\$ 4,868,563
Improvements other than buildings	3,656,297	92,920	-	3,749,217
Equipment	<u>486,479</u>	<u>79,073</u>	<u>4,849</u>	<u>560,703</u>
Total accumulated depreciation	<u>8,819,957</u>	<u>363,375</u>	<u>4,849</u>	<u>9,178,483</u>
Total capital assets being depreciated, net	<u>7,371,345</u>	<u>214,241</u>	<u>-</u>	<u>7,585,586</u>
Business-type activity capital assets, net	<u>\$ 15,992,935</u>	<u>\$ 678,234</u>	<u>\$ 11,866</u>	<u>\$ 16,659,303</u>

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

Governmental activities:	
General government	\$ 917,065
Judicial administration	269,034
Public safety	111,414
Health and welfare	9,639
Highways and streets, including depreciation of general infrastructure assets	579,873
Parks and recreation	183,901
Community development	<u>9,361</u>
Total depreciation expense – governmental activities	<u>\$ 2,080,287</u>
Business-type activities:	
Water and sewer	<u>\$ 363,375</u>

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 \$33,911,555. 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.	\$ 388,000
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
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.	2,125,000
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.	1,933,334
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.	966,667
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
The City authorized and issued a \$8,500,000 general obligation bond in April 2005 for the purpose of prepayment on \$4,500,000 note pertaining to the Prince George Parking Garage and to finance the construction of a new High School. The bond is payable in annual principal installments plus semi-annual interest payments at a fixed rate of 3.76%. Payments are due the first day of April. Payments began October 1, 2005 and end April 2020.	<u>8,500,000</u>

Total governmental activities \$ 19,713,000

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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

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%. \$ 5,807,754

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. 966,667

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. 164,430

Total business type activity \$ 6,938,851

Changes in long-term liabilities

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

Year Ended June 30	Governmental Activities		Business-type Activity	
	Principal	Interest	Principal	Interest
2006	\$ 5,872,180	\$ 640,089	\$ 6,081,556	\$ 200,009
2007	992,426	559,075	157,295	39,237
2008	2,314,249	487,730	133,333	32,645
2009	1,036,704	415,306	133,333	25,835
2010	1,059,817	391,377	133,333	38,404
2011 - 2015	4,051,907	513,094	300,000	18,804
2016 - 2020	<u>4,385,719</u>	<u>176,173</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,713,000</u>	<u>\$ 3,182,844</u>	<u>\$ 6,938,850</u>	<u>\$ 354,934</u>

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Balance			Balance	Due Within
	July 1, 2004	Additions	Reductions		
Governmental activities:					
General obligation bonds	\$10,831,000	\$ 8,500,000	\$ 918,000	\$18,413,000	\$ 5,872,180
Note payable	1,300,000	-	-	1,300,000	-
Compensated absences	533,189	463,576	427,805	568,960	358,295
Lease payable	<u>23,378</u>	<u>66,544</u>	<u>21,556</u>	<u>68,366</u>	<u>21,556</u>
Governmental activities long-term obligations	<u>\$12,687,567</u>	<u>\$ 9,030,120</u>	<u>\$ 1,367,361</u>	<u>\$20,350,326</u>	<u>\$ 6,252,031</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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

Business-type activity:					
General obligation bonds	\$ 7,237,154	\$	\$ 298,303	\$ 6,938,851	\$ 6,081,556
Compensated absences	<u>79,188</u>	<u>65,635</u>	<u>55,061</u>	<u>89,762</u>	<u>51,862</u>
Business-type activity long-term obligations	<u>\$ 7,316,342</u>	<u>\$ 65,635-</u>	<u>\$ 353,364</u>	<u>\$ 7,007,138</u>	<u>\$ 6,133,418</u>

10. SURETY BONDS OF PRINCIPAL OFFICIALS

As of June 30, 2005, the City maintains surety bonds in the following amounts:

Fidelity and Deposit Company of Maryland

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

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.

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

11. DEFINED BENEFIT PENSION PLAN (Concluded)

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, 2005 was 14.25% of annual covered payroll.

C. Annual Pension Cost

For the fiscal year ended June 30, 2005, the City's annual pension cost of \$1,064,846 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004, 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, 2003	\$ 696,032	100%	\$ -
June 30, 2004	725,515	100%	-
June 30, 2005	1,064,846	100%	-

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 \$4 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, 2005, there were 29 retirees receiving supplemental payments. The City finances the program on a pay-as-you-go basis. Total payments during the year were \$18,848.

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.

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 2005.

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.

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, 2005, this balance is \$576,716. 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>
2003	\$288,715	\$874,785	\$888,991	\$274,509
2004	274,509	923,723	743,746	454,486
2005	454,486	990,611	868,381	576,716

CITY OF WILLIAMSBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

16. SUBSEQUENT EVENTS

On April 22, 2005 the City issued an \$8.5 million bank qualified bond, \$4.5 million of which was designated as a current refunding for a short-term note, due in October, 2005 and previously issued to fund construction of the Prince George Parking Garage. Bond proceeds were deposited with the Virginia SNAP program as escrow agent on the date of issue. The \$4.5 Million note was refunded with these proceeds on July 7, 2005 to SunTrust Bank.

On September 8, 2005, Williamsburg City Council authorized a sales contract for approximately 70 acres of land acquired in 2001 by the City as part of the Royals Property purchase. The contract is in the amount of \$6.13 million to a residential developer proposing to build 500-550 age-restricted apartment-type units.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WILLIAMSBURG, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
June 30, 2005**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2000	\$ 26,798,629	\$ 26,219,796	\$ (578,833)	102.21%	\$ 6,241,551	-9.27%
June 30, 2001	\$ 29,626,026	\$ 28,096,800	\$ (1,529,226)	105.44%	\$ 6,439,813	-23.75%
June 30, 2002	\$ 30,740,960	\$ 30,564,554	\$ (176,406)	100.58%	\$ 6,841,914	-2.58%
June 30, 2003	\$ 30,940,656	\$ 32,977,544	\$ 2,036,888	93.82%	\$ 7,149,147	28.49%
June 30, 2004	\$ 31,432,030	\$ 35,779,472	\$ 4,347,442	87.85%	\$ 7,483,762	58.09%

**GOVERNMENTAL FUNDS
DETAILED BUDGETARY COMPARISON FOR 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.

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Revenue from Local Sources				
General Property Taxes				
Real property taxes	\$ 6,330,000	\$ 6,330,000	\$ 6,526,520	\$ 196,520
Real and personal public service corporation property taxes	280,000	280,000	316,177	36,177
Personal property taxes	913,829	913,829	1,056,463	142,634
Mobile home taxes	3,100	3,100	4,000	900
Business property taxes	1,274,000	1,274,000	1,259,291	(14,709)
Penalties	35,000	35,000	63,900	28,900
Interest	<u>24,000</u>	<u>24,000</u>	<u>15,386</u>	<u>(8,614)</u>
Total General Property Taxes	<u>8,859,929</u>	<u>8,859,929</u>	<u>9,241,737</u>	<u>381,808</u>
Other Local Taxes				
Local sales and use taxes	4,000,000	4,000,000	4,219,603	219,603
Consumers' utility taxes	684,000	684,000	1,062,031	378,031
Business license taxes	1,593,000	1,593,000	1,749,413	156,413
Franchise license taxes	177,000	177,000	235,196	58,196
Bank stock taxes	130,000	130,000	118,772	(11,228)
Taxes on recordation and wills	185,000	185,000	266,594	81,594
Hotel and motel room taxes	4,040,000	4,040,000	3,695,937	(344,063)
\$2 lodging taxes	1,800,000	1,800,000	1,582,047	(217,953)
Restaurant food taxes	5,430,000	5,430,000	5,367,745	(62,255)
Tobacco taxes	<u>275,000</u>	<u>275,000</u>	<u>209,340</u>	<u>(65,660)</u>
Total Other Local Taxes	<u>18,314,000</u>	<u>18,314,000</u>	<u>18,506,678</u>	<u>192,678</u>
Permits, Privilege Fees and Regulatory Licenses				
Animal licenses	500	500	1,110	610
Permits and other licenses	<u>206,650</u>	<u>206,650</u>	<u>255,552</u>	<u>48,902</u>
Total Permits, Privilege Fees and Regulatory Licenses	<u>207,150</u>	<u>207,150</u>	<u>256,662</u>	<u>49,512</u>
Fines and Forfeitures	<u>256,050</u>	<u>256,050</u>	<u>234,157</u>	<u>(21,893)</u>
Revenue from Use of Money and Property				
Revenue from use of money	400,000	400,000	464,761	64,761
Revenue from use of property	<u>341,560</u>	<u>341,560</u>	<u>378,192</u>	<u>36,632</u>
Total Revenue from Use of Money and Property	<u>741,560</u>	<u>741,560</u>	<u>842,953</u>	<u>101,393</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue from Local Sources (Concluded)				
Charges for Services				
Sheriff's fees	\$ 1,366	\$ 1,366	\$ 1,366	\$ -
Commonwealth Attorney's fees	500	500	412	(88)
Parks and recreation	307,500	307,500	316,991	9,491
Planning and community development	<u>45,800</u>	<u>45,800</u>	<u>46,257</u>	<u>457</u>
Total Charges for Services	<u>355,166</u>	<u>355,166</u>	<u>365,026</u>	<u>9,860</u>
Miscellaneous revenue	<u>734,418</u>	<u>734,418</u>	<u>956,588</u>	<u>222,170</u>
Total Revenue from Local Sources	<u>29,468,273</u>	<u>29,468,273</u>	<u>30,403,801</u>	<u>935,528</u>
Revenue from the Commonwealth				
Noncategorical Aid				
ABC profits	8,103	8,103	7,034	(1,069)
Wine taxes	7,780	7,780	7,373	(407)
Rolling stock taxes	4,964	4,964	6,906	1,942
Rental car taxes	7,500	7,500	5,737	(1,763)
Grantor's tax	64,713	64,713	49,980	(14,733)
DJCP grants for law enforcement	<u>304,170</u>	<u>304,170</u>	<u>340,364</u>	<u>36,194</u>
Total Noncategorical Aid	<u>397,230</u>	<u>397,230</u>	<u>417,394</u>	<u>20,164</u>
Categorical Aid				
Shared expenses				
Commissioner of the Revenue	67,000	67,000	71,946	4,946
Treasurer	18,000	18,000	19,556	1,556
Medical Examiner	120	120	450	330
Registrar/Electoral Board	<u>38,000</u>	<u>38,000</u>	<u>44,049</u>	<u>6,049</u>
Total Shared Expenses	<u>123,120</u>	<u>123,120</u>	<u>136,001</u>	<u>12,881</u>
Education				
State sales tax	<u>566,072</u>	<u>566,072</u>	<u>657,483</u>	<u>91,411</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue from the Commonwealth (Concluded)				
Other Categorical Aid				
Arts Commission	\$ 68,150	\$ 68,150	\$ 73,150	\$ 5,000
Street and highway maintenance	1,131,859	1,131,859	1,169,565	37,706
Emergency services	5,500	5,500	75,836	70,336
Fire program fund	16,000	16,000	-	(16,000)
Police program fund	34,000	34,000	34,032	32
Litter prevention & recycling	-	-	4,375	4,375
Disaster relief funds	-	-	-	-
Total Other Categorical Aid	<u>1,255,509</u>	<u>1,255,509</u>	<u>1,356,958</u>	<u>101,449</u>
Total Categorical Aid	<u>1,944,701</u>	<u>1,944,701</u>	<u>2,150,442</u>	<u>205,741</u>
Total Revenue from the Commonwealth	<u>2,341,931</u>	<u>2,341,931</u>	<u>2,567,836</u>	<u>225,905</u>
Revenue from the Federal Government				
Disaster relief funds	-	-	36,087	36,087
Total Intergovernmental Revenue	<u>2,341,931</u>	<u>2,341,931</u>	<u>2,603,923</u>	<u>261,992</u>
Total Revenues	<u>31,810,204</u>	<u>31,810,204</u>	<u>33,007,724</u>	<u>1,197,520</u>
EXPENDITURES				
General Government Administration				
City Council	134,498	138,498	136,726	1,772
Clerk of Council	<u>83,564</u>	<u>82,940</u>	<u>80,176</u>	<u>2,764</u>
Total Legislative	<u>83,564</u>	<u>82,940</u>	<u>216,902</u>	<u>4,536</u>
General and Financial Administration				
City Manager	422,086	418,933	410,526	8,407
City Attorney	125,200	125,200	228,225	(103,025)
Commissioner of Revenue	174,700	173,402	165,755	7,647
Assessor	139,224	138,205	136,623	1,582
Treasurer	47,883	47,563	43,842	3,721
Finance	818,143	812,233	794,577	17,656
City Shop	<u>208,887</u>	<u>207,614</u>	<u>191,996</u>	<u>15,618</u>
Total General and Financial Administration	<u>1,936,123</u>	<u>1,923,150</u>	<u>1,971,544</u>	<u>(48,394)</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
General Government Administration (Concluded)				
Board of Elections				
Electoral board and officials	\$ 17,450	\$ 17,450	\$ 17,271	\$ 179
Registrar	<u>87,221</u>	<u>86,779</u>	<u>85,049</u>	<u>1,730</u>
Total Board of Elections	<u>104,671</u>	<u>104,229</u>	<u>102,320</u>	<u>1,909</u>
Total General Government Administration	<u>2,124,358</u>	<u>2,110,319</u>	<u>2,290,766</u>	<u>(41,949)</u>
Judicial Administration				
Courts				
Courthouse	<u>310,000</u>	<u>310,000</u>	<u>308,361</u>	<u>1,639</u>
Total Judicial Administration	<u>310,000</u>	<u>310,000</u>	<u>308,361</u>	<u>1,639</u>
Public Safety				
Law Enforcement and Traffic Control	<u>2,825,307</u>	<u>2,797,247</u>	<u>2,897,137</u>	<u>(99,890)</u>
E-911	<u>527,554</u>	<u>518,840</u>	<u>502,267</u>	<u>16,573</u>
Prince George Parking Garage	<u>129,355</u>	<u>129,355</u>	<u>100,450</u>	<u>28,905</u>
Fire and Rescue Services	<u>2,626,076</u>	<u>2,589,666</u>	<u>2,531,801</u>	<u>57,865</u>
Correction and Detention				
Regional jail	658,402	658,402	755,827	(97,425)
Juvenile detention commission	137,550	137,550	74,561	62,989
Group home commission	<u>48,210</u>	<u>48,210</u>	<u>48,210</u>	<u>-</u>
Total Correction and Detention	<u>844,162</u>	<u>844,162</u>	<u>878,598</u>	<u>(34,436)</u>
Inspections	<u>402,102</u>	<u>399,504</u>	<u>373,616</u>	<u>25,888</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Public Safety (Concluded)				
Other Protection				
Animal Control	\$ 24,000	\$ 24,000	\$ 14,745	\$ 9,255
Medical Examiner	150	150	750	(600)
Emergency management	<u>5,275</u>	<u>5,275</u>	<u>7,237</u>	<u>(1,962)</u>
Total Other Protection	<u>29,425</u>	<u>29,425</u>	<u>22,732</u>	<u>6,693</u>
Total Public Safety	<u>7,383,981</u>	<u>7,308,199</u>	<u>7,306,601</u>	<u>1,598</u>
Public Works				
Maintenance of Highways, Streets, Bridges and Sidewalks				
General engineering	213,093	211,563	206,501	5,062
Highways, streets, bridges and sidewalks	<u>1,471,150</u>	<u>1,467,388</u>	<u>1,470,911</u>	<u>(3,523)</u>
Total Maintenance of Highways, Streets, Bridges and Sidewalks	<u>1,684,243</u>	<u>1,678,951</u>	<u>1,677,412</u>	<u>1,539</u>
Sanitation and Waste Removal				
Refuse collection	<u>533,800</u>	<u>736,200</u>	<u>745,407</u>	<u>(9,207)</u>
Total Sanitation and Waste Removal	<u>533,800</u>	<u>736,200</u>	<u>745,407</u>	<u>(9,207)</u>
Maintenance of General Buildings and Grounds				
Municipal complex - new	473,393	456,068	424,190	31,878
Rental properties	13,435	13,435	2,400	11,035
Information resources	288,300	288,300	286,382	1,918
Landscaping	<u>495,588</u>	<u>493,074</u>	<u>492,685</u>	<u>389</u>
Total Maintenance of General Buildings and Grounds	<u>1,270,716</u>	<u>1,250,877</u>	<u>1,205,657</u>	<u>45,220</u>
Total Public Works	<u>3,488,759</u>	<u>3,666,028</u>	<u>3,628,476</u>	<u>37,552</u>
Health and Welfare				
Health				
Local health department	212,655	212,655	212,655	-
Mosquito control	<u>7,950</u>	<u>7,950</u>	<u>6,923</u>	<u>1,027</u>
Total Health	<u>220,605</u>	<u>220,605</u>	<u>219,578</u>	<u>1,027</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Health and Welfare (Concluded)				
Mental Health and Mental Retardation Colonial Services Board	\$ 194,935	\$ 194,935	\$ 194,935	\$ -
Social Services				
Public Assistance	3,146	3,146	433	2,713
Transportation	<u>3,500</u>	<u>3,500</u>	<u>3,366</u>	<u>134</u>
Total Social Services	<u>6,646</u>	<u>6,646</u>	<u>3,799</u>	<u>2,847</u>
Total Health and Welfare	<u>422,186</u>	<u>422,186</u>	<u>418,312</u>	<u>3,874</u>
Education				
Administration of schools	7,643	7,643	7,051	592
Contributions to local school district	<u>6,632,494</u>	<u>6,632,494</u>	<u>6,260,916</u>	<u>371,578</u>
Total Education	<u>6,640,137</u>	<u>6,640,137</u>	<u>6,267,967</u>	<u>372,170</u>
Parks, Recreation and Cultural				
Parks and Recreation				
Administration	429,028	426,741	414,435	12,306
Parks supervision	187,947	187,623	173,320	14,303
Playgrounds	627,989	626,073	625,507	566
Cemeteries	<u>48,710</u>	<u>48,399</u>	<u>40,863</u>	<u>7,536</u>
Total Parks and Recreation	<u>1,293,674</u>	<u>1,288,836</u>	<u>1,254,125</u>	<u>34,711</u>
Regional Library	<u>790,892</u>	<u>790,892</u>	<u>771,595</u>	<u>19,297</u>
Total Parks, Recreation and Cultural	<u>2,084,566</u>	<u>2,079,728</u>	<u>2,025,720</u>	<u>54,008</u>
Community Development				
Planning and Community Development				
Planning	435,327	432,717	383,882	48,835
Community development	<u>4,429,494</u>	<u>4,429,494</u>	<u>4,340,380</u>	<u>89,114</u>
Total Planning and Community Development	<u>4,864,821</u>	<u>4,862,211</u>	<u>4,724,262</u>	<u>137,949</u>
Arts Commission	<u>128,800</u>	<u>128,800</u>	<u>128,401</u>	<u>399</u>
Total Community Development	<u>4,993,621</u>	<u>4,991,011</u>	<u>4,852,663</u>	<u>138,348</u>

(Continued)

CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2005

(Concluded)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Nondepartmental	\$ 100,000	\$ 16,000	\$ 33,349	\$ (17,349)
Capital Projects	7,383,144	7,383,144	3,030,777	4,352,367
Debt Service				
Principal	918,000	918,000	918,000	-
Interest	407,330	407,330	437,444	(30,114)
Total Debt Service	1,325,330	1,325,330	1,355,444	(30,114)
Total Expenditures	36,256,082	36,252,082	31,518,436	4,872,144
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,445,878)	(4,441,878)	1,489,288	5,931,166
OTHER FINANCING SOURCES (USES)				
Disposal of capital assets	8,000	8,000	12,975	4,975
Bond proceeds	-	-	8,500,000	8,500,000
Capital leases	-	-	51,928	51,928
Transfer in	-	-	160,835	160,835
Transfer out	(547,350)	(547,350)	(485,000)	62,350
Total Other Financing Sources	(539,350)	(539,350)	8,240,738	8,780,088
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(4,985,228)	(4,981,228)	9,730,026	14,711,254
FUND BALANCE				
Beginning	660,019	660,019	20,886,657	20,226,638
Ending	\$ (4,325,209)	\$ (4,321,209)	\$ 30,616,683	\$ 34,937,892

NONMAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The special revenue funds consist of the following:

Virginia Public Assistance Fund

This fund is used to account for contributions for local public welfare administration. Funds are disbursed by the Department of Human Services.

Law Enforcement Block Grant Fund

This fund is used to underwrite projects to reduce crime and improve public safety through grants received from the U. S. Department of Homeland Security.

**CITY OF WILLIAMSBURG, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005**

	<u>Virginia Public Assistance Fund</u>	<u>Law Enforcement Block Grant Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 114,494	\$ 79,400	\$ 193,894
Due from other governmental units:			
Commonwealth of Virginia	27,285	-	27,285
Federal Government	<u>62,248</u>	<u>-</u>	<u>62,248</u>
Total Assets	<u>\$ 204,027</u>	<u>\$ 79,400</u>	<u>\$ 283,427</u>
LIABILITIES			
Accounts payable	\$ -	\$ 2,182	\$ 2,182
Accrued vacation pay	19,305	-	19,305
Due to general fund	14,283	-	14,283
Deferred revenue	<u>40,052</u>	<u>76,366</u>	<u>116,418</u>
Total Liabilities	<u>73,640</u>	<u>78,548</u>	<u>152,188</u>
FUND BALANCES			
Fund Balance			
Unreserved:			
Undesignated	90,335	852	91,187
Designated for summer youth program	<u>40,052</u>	<u>-</u>	<u>40,052</u>
Total Fund Balances	<u>130,387</u>	<u>852</u>	<u>131,239</u>
Total Liabilities and Fund Balances	<u>\$ 204,027</u>	<u>\$ 79,400</u>	<u>\$ 283,427</u>

**CITY OF WILLIAMSBURG, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005**

	Virginia Public Assistance Fund	Law Enforcement Block Grant Fund	Totals
REVENUES			
Revenue from the use of money	\$ -	608	\$ 608
Miscellaneous revenue	40,558	793	41,351
Intergovernmental:			
Commonwealth of Virginia	329,082	-	329,082
Federal government	771,027	160,286	931,313
Total Intergovernmental Revenues	1,100,109	160,286	1,260,395
Total Revenues	1,140,667	161,687	1,302,354
EXPENDITURES			
Public safety	-	-	-
Health and welfare	1,637,202	-	1,637,202
Total Expenditures	1,637,202	-	1,637,202
Deficiency of Revenues Over Expenditures	(496,535)	161,687	(334,848)
OTHER FINANCING SOURCES			
Transfers in (out)	485,000	(160,835)	324,165
Net Change in Fund Balances	(11,535)	852	(10,683)
FUND BALANCES			
Beginning	141,922	-	141,922
Ending	\$ 130,387	\$ 852	\$ 131,239

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGE
IN FUND NET ASSETS - BUDGET AND ACTUAL
PROPRIETARY FUND
Year Ended June 30, 2005

	Original and Final Budget	Actual	Variance with Budget
OPERATING REVENUES			
Water and sewer services	\$ 3,800,700	\$ 3,646,950	\$ (153,750)
Miscellaneous	24,000	126,296	102,296
Tap, connection and availability fees	<u>413,000</u>	<u>422,425</u>	<u>9,425</u>
Total Operating Revenues	<u>4,237,700</u>	<u>4,195,671</u>	<u>(42,029)</u>
OPERATING EXPENSES			
Personnel services	927,712	926,110	1,602
Fringe benefits	359,005	337,419	21,586
Contractual services	1,177,000	771,738	405,262
Other charges	3,562,819	1,372,081	2,190,738
Depreciation and amortization	<u>330,000</u>	<u>363,375</u>	<u>(33,375)</u>
Total Operating Expenses	<u>6,356,536</u>	<u>3,770,723</u>	<u>2,585,813</u>
Operating Income (Loss)	<u>(2,118,836)</u>	<u>424,948</u>	<u>2,543,784</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned	60,000	105,671	45,671
Interest expense	<u>(209,831)</u>	<u>(212,848)</u>	<u>(3,017)</u>
Total Nonoperating Expense	<u>(149,831)</u>	<u>(107,177)</u>	<u>42,654</u>
Change in net assets	<u>(2,268,667)</u>	<u>317,771</u>	<u>2,586,438</u>
NET ASSETS			
Beginning	10,754,165	14,545,834	3,791,669
Transfer	<u>-</u>	<u>-</u>	<u>-</u>
Ending	<u>\$ 8,485,498</u>	<u>\$ 14,863,605</u>	<u>\$ 6,378,107</u>

AGENCY FUNDS

Agency Funds are established to administer resources received and held by a governmental unit as the trustee or as the agent for others. The agency funds consist of the following:

Williamsburg Regional Library Fund

The City acts as agent for all funds received by the Library. The City accounts for and disburses all monies to the Library.

Williamsburg Tricentennial Fund

The City acts as agent for all funds received for the Williamsburg Tricentennial.

Colonial CASA Fund

The City acts as agent for all funds received for the Colonial CASA Fund.

Economic Development Authority

The City acts as an agent for all funds received for the Economic Development Authority.

Farmer's Market

The City acts as an agent for all funds received for the Farmer's Market.

Williamsburg Redevelopment and Housing Authority

The City acts as an agent for federal and state funds received by the Housing Authority.

CITY OF WILLIAMSBURG, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Fiscal Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>Williamsburg Regional Library</u>				
Assets:				
Cash and cash equivalents	\$ 36,206	\$ 5,826,475	\$ 5,818,161	\$ 44,520
Liabilities:				
Due to agency	\$ 36,206	\$ 5,826,475	\$ 5,818,161	\$ 44,520
<u>Williamsburg Tricentennial Fund</u>				
Assets:				
Investments	\$ 5,442	\$ 115	\$ -	\$ 5,557
Liabilities:				
Due to agency	\$ 5,442	\$ 115	\$ -	\$ 5,557
<u>Colonial CASA Fund</u>				
Assets:				
Cash and cash equivalents	\$ 33,505	\$ 192,346	\$ 187,533	\$ 38,318
Investments	1,600	-	-	1,600
Accounts receivable	10,059	-	10,059	-
Total assets	<u>\$ 45,164</u>	<u>\$ 192,346</u>	<u>\$ 197,592</u>	<u>\$ 39,918</u>
Liabilities:				
Accounts payable	\$ 9,526	\$ 28,258	\$ 9,526	\$ 28,258
Due to agency	35,638	164,088	188,066	11,660
Total liabilities	<u>\$ 45,164</u>	<u>\$ 192,346</u>	<u>\$ 197,592</u>	<u>\$ 39,918</u>
<u>Economic Development Authority</u>				
Assets:				
Cash and cash equivalents	\$ 78,967	\$ 2,333	\$ 16,003	\$ 65,297
Liabilities:				
Accounts payable	\$ 510	\$ -	\$ 218	\$ 292
Due to agency	78,457	2,333	15,785	65,005
Total liabilities	<u>\$ 78,967</u>	<u>\$ 2,333</u>	<u>\$ 16,003</u>	<u>\$ 65,297</u>
<u>Farmers' Market</u>				
Assets:				
Cash and cash equivalents	\$ 23,105	\$ 12,782	\$ -	\$ 35,887
Liabilities:				
Accounts payable	\$ 400	\$ 61	\$ -	\$ 461
Due to agency	22,705	12,721	-	35,426
Total liabilities	<u>\$ 23,105</u>	<u>\$ 12,782</u>	<u>\$ -</u>	<u>\$ 35,887</u>
<u>Williamsburg Redevelopment and Housing Authority</u>				
Assets:				
Cash and cash equivalents	\$ -	\$ 8,400	\$ 8,400	\$ -
Liabilities:				
Due to agency	\$ -	\$ 8,400	\$ 8,400	\$ -
<u>Total - All Agency Funds</u>				
Cash and cash equivalents	\$ 171,783	\$ 6,042,336	\$ 6,030,097	\$ 184,022
Investments	7,042	115	-	7,157
Accounts receivable	10,059	-	10,059	-
Total assets	<u>\$ 188,884</u>	<u>\$ 6,042,451</u>	<u>\$ 6,040,156</u>	<u>\$ 191,179</u>
Liabilities:				
Accounts payable	\$ 9,926	\$ 36,719	\$ 17,926	\$ 28,719
Due to agency	178,958	6,005,732	6,022,230	162,460
Total liabilities	<u>\$ 188,884</u>	<u>\$ 6,042,451</u>	<u>\$ 6,040,156</u>	<u>\$ 191,179</u>

CAPITAL ASSETS
USED IN THE OPERATION OF
GOVERNMENTAL FUNDS

CITY OF WILLIAMSBURG, VIRGINIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
June 30, 2005

GOVERNMENTAL FUNDS CAPITAL ASSETS

Land	\$ 17,268,377
Construction in process	982,758
Buildings	28,608,602
Improvements other than buildings	8,169,068
Infrastructure	37,399,303
Equipment	<u>5,556,167</u>
Total Governmental funds capital assets	<u>\$ 97,984,275</u>

INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE

General fund	<u>\$ 97,984,275</u>
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CITY OF WILLIAMSBURG, VIRGINIA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
GENERAL GOVERNMENT				
Administration	\$ 45,796,676	\$ 875,438	\$ 223,594	\$ 46,448,520
Legislative	5,658	54,030	-	59,688
Executive	18,000	-	-	18,000
Finance	305,048	25,001	108,500	221,549
Planning	38,025	17,565	-	55,590
Total General Government	<u>46,163,407</u>	<u>972,034</u>	<u>332,094</u>	<u>46,803,347</u>
PUBLIC SAFETY				
Police	2,146,958	222,152	156,359	2,212,751
Fire	2,010,085	228,646	16,053	2,222,678
Total Public Safety	<u>4,157,043</u>	<u>450,798</u>	<u>172,412</u>	<u>4,435,429</u>
PUBLIC WORKS AND ENGINEERING	<u>39,592,334</u>	<u>1,919,691</u>	<u>27,938</u>	<u>41,484,087</u>
PARKS AND RECREATION	<u>5,104,578</u>	<u>82,841</u>	<u>-</u>	<u>5,187,419</u>
HEALTH AND WELFARE	<u>73,993</u>	<u>-</u>	<u>-</u>	<u>73,993</u>
Total Governmental Funds Capital Assets	<u>\$ 95,091,355</u>	<u>\$ 3,425,364</u>	<u>\$ 532,444</u>	<u>\$ 97,984,275</u>

STATISTICAL SECTION

The statistical data gives report users a better historical perspective and assists in assessing current financial status in trends of the governmental unit.

**CITY OF WILLIAMSBURG, VIRGINIA
 ASSESSED VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Public Service Corporations		Total
			Real Estate	Personal Property	
1996	\$ 706,903,100	\$ 46,055,142	\$ 38,369,271	\$ 16,325	\$ 791,343,838
1997	735,851,100	51,406,969	37,580,129	29,212	824,867,410
1998	749,039,424	52,069,539	37,937,591	27,628	839,074,182
1999	792,641,200	56,325,500	40,999,777	18,895	889,985,372
2000	815,856,500	58,029,830	43,812,511	4,164	917,703,005
2001	863,961,268	63,697,973	47,224,673	18,775	974,902,689
2002	908,631,326	66,844,284	50,895,236	17,285	1,026,388,131
2003	995,635,300	68,232,529	49,990,963	340,727	1,114,199,519
2004	1,117,426,100	68,635,038	53,151,294	-	1,239,212,432
2005	1,202,692,600	67,621,580	55,531,820	17,388	1,325,863,388

**PROPERTY TAX RATES
 (Per \$100 of Assessed Values)
 Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
1996	\$ 0.54	\$ 3.50	\$ 3.50
1997	0.54	3.50	3.50
1998	0.54	3.50	3.50
1999	0.54	3.50	3.50
2000	0.54	3.50	3.50
2001	0.54	3.50	3.50
2002	0.54	3.50	3.50
2003	0.54	3.50	3.50
2004	0.54	3.50	3.50
2005	0.54	3.50	3.50

**CITY OF WILLIAMSBURG, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN AND
OVERLAPPING DEBT
June 30, 2005**

Direct:

Assessed Value of Real Estate Subject to Taxation	\$ <u>1,202,692,600</u>
Debt Limit: 10 Percent of Assessed Value	\$ 120,269,260
Total Amount of Debt Applicable to Debt Limit	<u>26,651,851</u>
Legal Debt Margin	<u>\$ 93,617,409</u>

Note:

Virginia state statute limits bond issuing authority of Virginia cities to 10% of the assessed real estate value. The above calculation includes all debt secured by the full faith and credit of the City.

There are no overlapping or underlying tax jurisdictions.

CITY OF WILLIAMSBURG, VIRGINIA
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross and Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	12,300	\$ 791,343,838	\$ 653,800	0.00083	\$ 53
1997	12,300	824,867,410	4,145,800	0.00503	337
1998	12,300	839,074,182	11,357,800	0.01354	924
1999	12,300	889,985,372	10,436,467	0.01173	848
2000	12,300	917,703,005	9,515,133	0.01037	774
2001	11,998	974,902,689	14,373,800	0.01474	1,198
2002	11,998	1,026,388,131	20,352,360	0.01983	1,696
2003	11,998	1,114,199,519	19,269,173	0.01729	1,606
2004	11,998	1,239,212,432	19,368,154	0.01563	1,614
2005	11,988	1,325,863,388	26,651,851	0.02010	2,223

CITY OF WILLIAMSBURG, VIRGINIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL OBLIGATION BONDED DEBT TO
TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to Total General Governmental Expenditures
1996	\$ -	\$ 44,132	\$ 44,132	\$ 20,539,358	0.00215
1997	388,000	147,653	535,653	26,720,395	0.02005
1998	788,000	494,410	1,282,410	27,359,673	0.04687
1999	921,333	465,741	1,387,074	30,506,772	0.04547
2000	788,000	345,542	1,133,542	26,113,019	0.04341
2001	908,000	323,094	1,231,094	26,685,723	0.04613
2002	788,000	290,907	1,078,907	28,797,775	0.03746
2003	908,000	361,125	1,269,125	33,455,967	0.03793
2004	5,413,000	352,333	5,765,333	38,864,623	0.14834
2005	918,000	336,211	1,254,211	33,155,638	0.03783

**CITY OF WILLIAMSBURG, VIRGINIA
PRINCIPAL TAXPAYERS
June 30, 2005**

Business Name	Type of Business	Assessed Valuation	Percent of Total Assessed Valuation
Colonial Williamsburg Foundation	Tourism	\$ 196,480,300	16.13%
Williamsburg Improvements, LLC	Shopping Center Management	14,032,100	1.15%
Art Williamsburg, Inc.	Hotel	15,252,100	1.25%
Jin, Inc.	Hotel	9,922,900	0.81%
351 York Street, LLC	Hotel	8,467,700	0.70%
Chelsea GCA Realty Partnership	Shopping Center Management	8,870,500	0.73%
Woodshire, LTD	Apartments	8,247,600	0.68%
Westgate Resorts, LTD	Hotel	7,389,700	0.61%
LTD Associates One, LLC	Hotel	7,172,200	0.59%
LTD Associates Two, LLC	Hotel	<u>7,268,600</u>	<u>0.60%</u>
Total		<u>\$ 283,103,700</u>	<u>23.24%</u>

**CITY OF WILLIAMSBURG, VIRGINIA
RETAIL SALES
(Source, Virginia Department of Taxation)**

<u>Year</u>	<u>Taxable Retail Sales</u>	<u>Percentage Increase (Decrease)</u>
1996	\$ 347,957,628	-3.56%
1997	340,364,913	-2.18%
1998	352,720,987	3.63%
1999	367,394,446	4.16%
2000	378,286,400	2.96%
2001	372,093,700	-1.64%
2002	401,931,500	8.02%
2003	378,123,152	-5.92%
2004	421,045,000	11.35%
2005	421,960,200	0.22%

**POPULATION
(Source, U.S. Census)**

<u>Year</u>	<u>Number</u>	<u>Percent Increase</u>
1930	3,778	0.00%
1940	3,942	4.34%
1950	6,735	70.85%
1960	6,832	1.44%
1970	9,069	32.74%
1980	9,869	8.82%
1990	11,430	15.82%
1995	12,300	7.61%
2000	11,998	-2.46%

**CITY OF WILLIAMSBURG, VIRGINIA
UNEMPLOYMENT RATE AND LABOR FORCE
(Source, Virginia Employment Commission)**

<u>Year</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Percentage</u>
1994	6,077	5,476	601	9.89%
1995	6,274	5,779	495	7.90%
1996	6,418	5,970	448	6.98%
1997	6,387	6,040	347	5.44%
1998	5,855	5,576	279	4.77%
1999	5,920	5,570	350	5.92%
2000	6,120	5,845	275	4.49%
2001	6,353	6,019	334	5.26%
2002	6,153	5,752	401	6.52%
2003	6,016	5,562	454	7.50%
2004	4,685	4,321	361	7.70%

**LAND AREA OF ORIGINAL CITY OF WILLIAMSBURG
AND SUBSEQUENT ANNEXATIONS**

<u>Year</u>	<u>Description</u>	<u>Annexation Area (Sq. Miles)</u>	<u>Accumulative Area (Sq. Miles)</u>
1772	Original City	0	0.86
1915	Annexation	0.11	0.97
1923	Annexation	0.48	1.45
1941	Annexation	1.66	3.11
1964	Annexation	2.06	5.17
1984	Annexation	3.88	9.05

CITY OF WILLIAMSBURG, VIRGINIA
MISCELLANEOUS STATISTICS
June 30, 2005

Date Established by Virginia General Assembly	1699
Date of Incorporation by Royal Charter	1722
Form of Government since 1932	Council-Manager
Population (2000 Census)	11,998
Population (2003 Estimate)*	13,200
Area	9.05 Sq. Miles
Miles of Streets	48
Number of Traffic Signals	14
Fire and Emergency Medical Protection:	
Number of Stations	1
Firefighters: full-Time	31
volunteer	30
Police Protection:	
Number of Stations	1
Sworn Officers	34
Education (Joint School System):	
Schools	
Grades: K-5	7
6-8	3
9-12	2
Recreation:	
Number of parks	4
Number of ball fields	6
Number of tennis courts	10
Number of total acres	2,036
Culture:	
Number of public libraries (regional)	2
Number of volumes - June 2005	317,178
Number of patrons - June 2005	60,302
Municipal Water Department:	
Number of customers	3,875
Average daily consumption	3,200,000 Gallons
Miles of water distribution	48
Number of water tanks	5
Municipal employees	184
Number of hotels and motels	47
Number of bed and breakfasts	37
Number of restaurants	85

*Weldon Cooper Center for Public Service

FEDERAL AWARDS

The schedule of Federal Awards outlines Federal grant activity during the year. The Schedule is prepared on the modified accrual basis of accounting.

**CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2005**

Federal Granting Agency/Grant Program	Federal Catalog Number	Balance July 1, 2004	Revenues	Expenditures	Balance June 30, 2005
DEPARTMENT OF HOMELAND SECURITY					
Pass-through payments:					
Department of Emergency Management					
Disaster Relief Public Assistance	97.036	\$ -	\$ 760	\$ 760	\$ -
Citizen Corps	97.053	-	11,694	11,694	-
Hazardous Materials Assistance Program	97.021	-	6,000	6,000	-
Local Assessment for Readiness	97.042	-	2,000	2,000	-
State Homeland Security Grant Program	97.004	<u>71,668</u>	<u>157,852</u>	<u>139,176</u>	<u>90,344</u>
Total Federal Emergency Management Agency		<u>71,668</u>	<u>178,306</u>	<u>159,630</u>	<u>90,344</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Pass-through payments:					
Department of Social Services					
Food Stamp Administration	10.561	-	96,120	96,120	-
Promoting Safe and Stable Families	93.556	-	13,602	13,602	-
Temporary Assistance for Needy Families	93.558	-	98,024	98,024	-
Refugee and Entrant Assistance	93.566	-	125	125	-
Low Income Home Energy Assistance	93.568	-	880	880	-
Child Care and Development Block Grant	93.575	-	126,444	126,444	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	-	86,812	86,812	-
Foster Care Title IV-E	93.658	-	181,048	181,048	-
Adoption Assistance	93.659	-	17,580	17,580	-
Social Services Block Grant	93.667	-	67,321	67,321	-
Independent Living	93.674	-	1,418	1,418	-
Medical Assistance Program (Medical; Title XIX)	93.778	-	80,919	80,919	-
Statewide Fraud Program	N/A	<u>-</u>	<u>733</u>	<u>733</u>	<u>-</u>
Total Department of Health and Human Services		<u>-</u>	<u>771,026</u>	<u>771,026</u>	<u>-</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Pass-through payments:					
Department of Housing and Community Development					
Community Development Block Grant/State's Program	14.228	<u>-</u>	<u>8,400</u>	<u>8,400</u>	<u>-</u>
DEPARTMENT OF JUSTICE					
Pass-through payments:					
Local Law Enforcement Block Grant					
Byrne Formula Grant Program	16.592	-	7,133	7,133	-
Byrne Formula Grant Program	16.579	<u>-</u>	<u>2,633</u>	<u>2,633</u>	<u>-</u>
Total Department of Justice		<u>-</u>	<u>9,766</u>	<u>9,766</u>	<u>-</u>
DEPARTMENT OF TRANSPORTATION					
Pass-through payments:					
Department of Motor Vehicles					
State and Community Highway Safety	20.600	<u>-</u>	<u>13,000</u>	<u>13,000</u>	<u>-</u>
Totals		<u>\$ 71,668</u>	<u>\$ 980,498</u>	<u>\$ 961,822</u>	<u>\$ 90,344</u>

**CITY OF WILLIAMSBURG, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005**

SECTION I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes No

Type of auditor's report issued: UNQUALIFIED

Any audit findings disclosed that are required to be reported
In accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.004	State Homeland Security Grant Program
93.667	Social Services Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$500,000

SECTION II - Financial Statement Findings

None

SECTION III - Federal Award Findings and Questioned Costs

None

**CITY OF WILLIAMSBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
Year Ended June 30, 2005**

As more fully described in the Independent Auditors' Report on Compliance, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investment Laws
- Conflicts of Interest
- Debt Provisions
- Retirement Systems
- Procurement
- Personal Property Tax Relief Act
- Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

- Enhanced 911 Service Taxes
- Comprehensive Services Act Funds
- Highway Maintenance Funds
- Social Services

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments:

- Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

- Budget Laws
- City Purchasing and Procurement Policies and Procedures
- City Personnel Policies and Procedures
- City Investment Policy

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the City Council
City of Williamsburg, Virginia

We have audited the financial statements and related schedules of the City of Williamsburg, Virginia, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of public Accounts and the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Williamsburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Williamsburg in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of management, others within the organization, City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Newport News, Virginia
October 28, 2005

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

The Honorable Members of the City Council
City of Williamsburg, Virginia

We have audited the compliance of the City of Williamsburg, Virginia, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Williamsburg, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the City of Williamsburg, Virginia's management. Our responsibility is to express an opinion on the City of Williamsburg, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about whether the City of Williamsburg, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Williamsburg, Virginia's compliance with those requirements.

Internal Control over Compliance

The Management of the City of Williamsburg, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Williamsburg, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of the City of Williamsburg in a separate letter dated October 28, 2005.

This report is intended solely for the information and use of management, others within the organization, City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

In our opinion, the City of Williamsburg, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Newport News, Virginia
October 28, 2005

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