

November 15, 2001

The Citizens of James City County:

The Comprehensive Annual Financial Report of James City County, Virginia (the County), for the fiscal year ended June 30, 2001, is presented to you as required under Section 15.1-167 of the Code of Virginia. This report presents the financial position of all fund types and account groups and component units of the County and the results of operations of the various fund types for the year then ended.

This report was prepared by the County's Department of Financial and Management Services to conform with the Standards of Financial Reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officer's Association of the United States and Canada (GFOA), and the Auditor of Public Accounts of the Commonwealth of Virginia.

The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

FINANCIAL STATEMENT PRESENTATION

This report uses the "pyramid approach" to financial reporting whereby financial information is arranged in terms of increasing levels of detail. The report is divided in four sections: an Introductory Section, which contains a list of principal County officials, the transmittal letter, an Organization Chart, a Table of Contents and the Certificate of Achievement for the preceding fiscal year; the Financial Section, which contains the Auditors' report, the general purpose financial statements, and provides an overview of the County's financial position and operating results, followed by combining statements by fund type and other schedules that provide additional detailed information relative to the general purpose financial statements, and the Treasurer's accountability, which includes schedules of cash receipts and disbursements, cash reconciliation and the Treasurer's accountability to the Commonwealth of Virginia. The Statistical Section includes a number of statistical tables and charts that present various financial, economic, social and demographic data about the County. The Single Audit Section deals with the County's requirement to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, the Schedule of Findings and Questioned Costs, and the independent auditor's report on internal controls and report on compliance, are included in the Single Audit Section of the report. This report conforms to the "pyramid" approach noted above.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The County's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and when the liabilities are incurred with the exception of interest on debt which is expensed when due. Accounting records for the James City Service Authority are maintained on the accrual basis. Under the accrual method of accounting, revenue is recognized when earned and expenses when incurred.

In developing and updating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding:

the safeguarding of assets against loss from unauthorized use or disposition; and

the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

the cost of control should not exceed the benefits likely to be derived; and

the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary control is maintained at the activity level of each department by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders are reviewed for adequate appropriations prior to their release to vendors. Purchase orders which result in an overrun of an account balance are not released until additional funds are made available by either an intradepartmental account transfer, authorized by the County Administrator, or by additional transfer or appropriation by the governing body. Open encumbrances are reported as reservations of fund balance at the end of the fiscal year.

As part of the annual audit, our external auditors review and assess the County's systems of internal accounting and financial management controls. We are committed to deriving the maximum benefits from this review process and will continue to actively pursue the implementation of all such recommended policy and procedural changes, where it is practical.

THE REPORTING ENTITY AND ITS SERVICES

James City County, for financial reporting purposes, as a primary government, includes all funds, account groups and component units for which the County has financial accountability. Financial accountability is defined by the ability of the County to appoint a voting majority of an organization's governing body and to impose its will on the organization, or if there is a financial benefit or burden relationship. The reporting entity also includes any organization that is fiscally dependent on the primary government. Included with the primary government of James City County are:

James City Service Authority
James City County Transit Company

Colonial Community Corrections
Williamsburg-James City County Public Schools
James City County Industrial Development Authority
Williamsburg Area Medical Assistance Corporation
Virginia Peninsula Regional Jail Authority
Middle Peninsula Juvenile Detention Commission

Not included in the County's annual report are:

Virginia Peninsulas Public Service Authority
Williamsburg Regional Library

A more detailed description of these entities can be found in the Notes to Financial Statements, Note 1 Summary of Significant Accounting Policies.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

James City County is located in southeastern Virginia and partially surrounds the City of Williamsburg. Although much of the County's 144 square miles consists of developed suburban areas, it has retained a considerable amount of undeveloped agricultural and forest land.

The County is organized under the County Administrator Form of Government (as defined under Virginia Law). Under this form of government, the Board of Supervisors appoints a County Administrator to serve as the Chief Executive Officer of the County. The Administrator serves at the pleasure of the Board of Supervisors, implements its policies, appoints department heads, and directs business and administrative procedures.

The Board of Supervisors is a five-member body, elected by the voters of the Electoral Districts in which they live to staggered terms. The Chairman of the Board is elected annually by its members. Each member serves a four-year term. This body enacts ordinances, appropriates funds, sets tax rates and establishes policies for the administration of the County's public services.

James City County is one of the fastest growing areas in the State of Virginia and continues to enjoy a strong local economy. The County is located near the Cities of Hampton, Newport News, and Williamsburg, and the County of York with major employers within commuting distance such as a Newport News Shipbuilding and Drydock Inc., Langley Air Force Base, Fort Eustis, Fort Monroe, National Aeronautics and Space Administration, and Colonial Williamsburg. The County's estimated population has grown to more than 49,000 for a 3.8 percent increase over last fiscal year. Retail sales have grown at a rate of 8.6 percent in average over the past five years and are projected to continue to grow. The commercial base continued to grow in FY 2001 with several business expanding or locating in James City County. The number of business licenses issued increased by 5.9 percent. The County continues to work to expand its industrial growth in order to balance its tax base and to provide jobs for its residents.

MAJOR INITIATIVES

In FY 2001, the County continued to utilize its Strategic Management Plan as a framework for planning and accountability and continued to seek out new partnerships to help achieve its goal.

November 15, 2001

Page 4

The County continues to balance its service demand with available resources. The County and the Virginia Peninsula Regional Jail Authority have enhanced their regional relationship by working to provide inmate resources for the maintenance of County roadways. A fifth fire station opened in the Berkeley District in May 2001. The County continues to work to enhance the character of the community with the Greenway Master Plan. This plan is designed to protect critical open spaces and link historic, cultural, natural, scenic, and recreational sites. The County also completed Phase II of the District Park Sports Complex which added two concession/rest room facilities, lighting, and utility installations. Promoting a healthy community is very important to the County, as evidenced by the "Best in Category" NACo (National Association of Counties) Award to the Block Buddies Program, a neighborhood health promoter program, and the Family Mediation Program which serves divorce cases where custody and visitation are undecided.

Economic Development had major business activity in FY 2001 including the opening of Wal-Mart Import Distribution Center. This project occupies one million square feet of warehouse in the Greenmount Industrial Park in the Roberts District of the County and employs 230 people.

FOR THE FUTURE

James City County will continue to face challenges over the next several years. Several years of population growth have produced demands for public services and facilities. An indication of anticipated impacts can be seen in the adopted budget and capital improvements program for the fiscal year beginning July 1, 2000.

The five-year Capital Improvement Program totals \$33,902,650 and focuses on a wide variety of needs. Long-term plans can be seen in the adopted budget and capital improvements program for the fiscal year beginning July 1, 2000. Replacement of the current radio system with an 800 MHz system for public safety dominates this list of needs which includes additional funding for Purchase of Development Rights, greenspace, underground utilities, and expansion of the Government Center. The Purchase of Development Rights program provides an incentive for landowners to preserve the agricultural and forestal use of their land and allows them some immediate financial benefits. The program will enable the County to acquire conservation easements voluntarily offered by owners and protect open space, community character, and natural resources as outlined in the Comprehensive Plan. A space needs study has already been completed for the Government Center and the facility is under design with construction to begin in early 2002. The County has awarded the contract for the design and engineering of the Hotwater Coles District Park. The park is considered passive with walking trails and open meadows. Construction is slated to begin in early 2002.

RESULTS OF OPERATIONS

General Fund

The General Fund had revenues of \$96,852,467 for FY 2001. Actual revenue was more than budgeted by \$6,656,063, which represents a 7.4 percent favorable variance. This was due to higher collections than expected in personal property taxes and delinquent real estate taxes. General Fund revenue increased by \$7,822,473 or 8.8 percent over FY 2000. The increased revenue was generated as a result of the County's continued residential and commercial growth. General property taxes increased by 2.3 percent and accounted for 59.4 percent of all General Fund revenue. The following table illustrates the General Fund's revenue components compared with the prior year:

	Actual Revenue				
	FY 01		FY 00		% Change
	Amount	%	Amount	%	
General Property Taxes	\$57,520,214	59.4	\$56,207,725	63.1	2.3
Other Local Taxes	13,711,689	14.2	13,069,350	14.7	4.9
Licenses, Permits and Fees	5,333,067	5.5	4,959,612	5.6	7.5
Fines and Forfeitures	176,803	0.2	155,245	0.2	13.9
Use of Money and Property	1,962,869	2.0	1,529,544	1.7	28.3
Revenue from Commonwealth	15,404,256	15.9	10,156,018	11.4	51.7
Charges for Current Services	2,328,716	2.4	2,200,328	2.5	5.8
Revenue from Federal Gov't.	222,352	0.2	247,767	0.3	(10.3)
Miscellaneous	<u>192,501</u>	<u>0.2</u>	<u>504,405</u>	<u>0.6</u>	<u>(61.8)</u>
	<u>\$96,852,467</u>	<u>100.0</u>	<u>\$89,029,994</u>	<u>100.0</u>	<u>8.8</u>

The percent of property taxes collected remained strong with current collections of the tax levy at 95.06 percent and total collections including delinquencies were 98.01 percent. The assessed value of taxable real property was valued at \$4,585,882,700, which is a 9.6 percent increase over 2000. The large decrease in Miscellaneous Income is due to an insurance recovery for damages sustained during Hurricane Floyd in FY 2000 that did not recur in FY 2001. The large increase in State revenues is due to the Personal Property Tax Relief Act where the State reimbursement for personal property taxes increased from 47.5 percent to 70 percent.

The following table illustrates the General Fund's expenditure components compared with the prior year:

	Actual Expenditures				
	FY 01		FY 00		% Change
	Amount	%	Amount	%	
General Government	\$ 4,190,117	4.6	\$4,066,741	4.7	3.0
Judicial Administration	2,550,406	2.8	2,274,832	2.6	12.1
Public Safety	11,837,816	13.0	11,149,855	12.9	6.2
Public Works	2,789,699	3.1	2,693,919	3.1	3.6
Health and Welfare	1,019,289	1.1	905,457	1.0	12.6
Education	42,953,127	47.1	38,963,222	45.2	10.2
Parks, Recreation, and Cultural	6,320,234	6.9	5,772,407	6.7	9.5
Community Development	5,190,542	5.7	5,073,548	5.9	2.3
Nondepartmental	25,886	0.0	13,985	0.0	85.1
Operating Transfers	<u>14,280,344</u>	<u>15.7</u>	<u>15,342,262</u>	<u>17.8</u>	<u>(6.9)</u>
	<u>\$91,157,460</u>	<u>100.0</u>	<u>\$86,256,228</u>	<u>100.0</u>	<u>5.7</u>

Expenditures, including transfers to the Discretely Presented Component Unit - Public Schools, totaled \$91,157,460. Not included in expenditures are \$305,056 in purchase orders and contracts where the goods or services were not received by June 30, 2001. Accordingly, the fund balance has been reserved in this amount for encumbrances. Net transfers to other funds were \$14,280,344 which, combined with revenues and expenditures, resulted in an ending fund balance of \$25,269,303. The County continues its commitment to Education with a 10.2 percent increase in spending in FY 2001 which equated to 47.1 percent of total County spending.

Accrued vacation and sick leave is recorded as a liability when earned, rather than when paid, in accordance with accounting principles generally accepted in the United States of America. The amount of accrued leave, \$1,968,538, is recorded in the General Long-Term Debt Account Group and represents a \$37,878 increase over FY 2000.

Capital Projects Fund

During the year, the Capital Projects Fund had expenditures and transfers of \$7,789,394. Several school projects are included in this total.

The fund balance is \$18,295,542 which is available to complete existing projects in various stages of planning and construction.

Enterprise Fund

Included in this report is one enterprise fund. The Financial Statements of the James City Service Authority (JCSA) are included in this report in accordance with accounting principles generally accepted in the United States of America. The JCSA, for legal and management purposes, issues its own comprehensive annual financial report which is audited and available from the Department of Financial and Management Services. The following table illustrates the results of operations of the Enterprise Fund compared with the prior year:

	<u>FY 01</u> <u>Amount</u>	<u>FY 00</u> <u>Amount</u>	<u>%</u> <u>Change</u>
Operating Revenues	\$ <u>7,045,290</u>	\$ <u>7,590,119</u>	<u>8.0</u>
Operating Expense (excluding depreciation and amortization)	<u>5,679,512</u>	<u>6,018,181</u>	<u>5.2</u>
Depreciation and Amortization	<u>3,405,700</u>	<u>3,390,340</u>	<u>0.1</u>
Operating Loss	<u>(2,039,922)</u>	<u>(1,818,402)</u>	<u>12.1</u>
Net Nonoperating Revenue	<u>4,933,389</u>	<u>885,469</u>	<u>82.1</u>
Net Income (Loss)	<u>2,893,467</u>	<u>(932,933)</u>	<u>32.2</u>
Retained Earnings, Beginning	<u>9,693,442</u>	<u>8,368,462</u>	<u>15.8</u>
Depreciation on Contributed Fixed Assets	<u>2,598,468</u>	<u>2,257,913</u>	<u>15.1</u>
Retained Earnings, Ending	\$ <u>15,185,377</u>	\$ <u>9,693,442</u>	<u>56.7</u>

Service charge revenue decreased by 8.3 percent, while the net miscellaneous revenues increased by 46.7 percent. The combination of service charge revenue and miscellaneous revenue reflected an operating revenue decrease of 7.2 percent. During FY 01, JCSA implemented GASB Statement No. 33 and as a result, water and sewer facility fees are shown as nonoperating revenues. Net nonoperating revenue also increased due to changes in investments and an increase in cash flow. Operating expenses decreased by 5.2 percent, and the net result of operations was an increase in the operating loss by 12.1 percent.

The Board of Directors has authorized water and sewer operations for the JCSA within the Primary Service Area (PSA) in the County. The JCSA also provides water and/or sewer service to limited sections of York County and the City of Williamsburg with the concurrence of the appropriate governing bodies. The JCSA's operating funds are self-supporting, and the JCSA receives no share of any local or property tax levies.

November 15, 2001

Page 7

The JCSA's water system includes the central water system with 29 well facilities and seven independent water systems with eight well facilities. There are approximately 265 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 3.6 million gallons of water per day to 13,062 water customers.

The JCSA's sewer system includes 76 pump stations with approximately 320 miles of sewer collection lines. The sewer system facilities collect and move approximately 4.0 million gallons of sewage per day for 14,504 sewer customers. The JCSA has no sewage treatment facilities. Sewage treatment for areas served by the JCSA, as well as for other Hampton Roads communities, is provided by the Hampton Roads Sanitation District.

The Board of Directors has the sole power to set water and sewer utility rates and related fees. The Board of Directors adopted an inverted-block or inclining rate structure in 1996 to be effective for fiscal year 1997 for residential customers which incorporates a unit charge that increases with increasing consumption. The primary objective of establishing the inverted-block rate structure was to reduce water use, particularly from large-volume residential customers. On July 1, 1997, the residential water consumption service charge was set at the first block for \$2.30 per 1,000 gallons for less than 15,000 gallons consumed per quarter, the second block was set at \$2.60 per 1,000 gallons for more than 15,000 gallons but less than 25,000 gallons consumed per quarter, and a third block was set at \$6.00 per 1,000 gallons for more than 25,000 gallons consumed per quarter. Commercial and industrial customers remained at a flat or uniform rate structure of \$2.60 per 1,000 gallons. The sewer service charge for all categories of customers was set at \$2.30 per 1,000 gallons.

Trust and Agency Funds

Trust and Agency Funds account for money and property held in a fiduciary capacity for individuals, organizations, other governmental entities and other funds. The County has three trust funds, the Donation Trust Fund, the Bicentennial Trust Fund, and the Deferred Compensation Plan. The County has five agency funds, the Special Welfare Fund, the Williamsburg Area Medical Assistance Corporation ("WAMAC"), the Virginia Peninsula Regional Jail Authority, Regional Bikeways, and the Middle Peninsula Juvenile Detention Commission. The total assets held by the County in a fiduciary capacity as of June 30, 2001 were \$13,290,897.

General Fixed Asset Account Group

The investment in general fixed assets of the County is \$67,406,422 (historical costs) at June 30, 2001. These assets are used in the performance of general governmental operations, excluding the assets of the Enterprise Funds. Depreciation is not recorded for general fixed assets. The net additions and retirements during FY 2001 for the County were \$2,603,748. The increase reflected the additions to building and improvements, equipment and vehicles, and construction in progress.

General Long-Term Debt Group

The General Long-Term Debt Account Group accounts for general obligation debt, capitalized leases and direct obligations with the State of Virginia. In addition, the balance of these accounts also includes the compensated absences payable and the landfill closure and postclosure care cost as of June 30, 2001. Total long-term debt as of June 30, 2001 was \$93,133,794, a decrease of \$4,992,488 from June 30, 2000, which was primarily due to bond obligations being met for the current year.

DEBT ADMINISTRATION

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the County's debt portion to County management, citizens, and investors. These debts for the County as of June 30, 2001 and 2000, are as follows:

	<u>Amount</u>	<u>Ratio of Debt to Assessed Valuation</u>	<u>Debt Per Capita</u>
2001 Net Bonded Debt	\$78,893,952	.0148	\$1,602
2000 Net Bonded Debt	83,952,637	.0174	1,769

The County is authorized to issue general obligation bonds to finance general Capital Improvement Projects. Except for school construction bonds financed with the assistance of the State, all other general obligation bonds require voter approval. In FY 2001, Moody's Investors Services upgraded the County's credit rating from A1 to AA3. This credit rating indicates that bonds issued by the County are judged to be of high quality by all standards.

TREASURY MANAGEMENT

A conservative cash management system is carried out by the County Treasurer. Temporary idle funds are automatically invested overnight in repurchase agreements that are secured or collateralized by government securities as required by the Code of Virginia. During the year, the above system and use of a competitive bidding process for Certificates of Deposit yielded the County \$1,962,869 in investment income in the General Fund. During June, overnight investment averaged 3.40 percent.

RISK MANAGEMENT

In our opinion, the County maintains a practical insurance program through a variety of vendors which affords adequate protection against loss and includes comprehensive public liability insurance for bodily injury and property damage in amounts approved by our Risk Consultant.

INDEPENDENT AUDIT

Section 15.1-67 of the Code of Virginia (1950, as amended) requires the County to have an annual audit of the books of account, financial records, and transactions of the County. KPMG LLP was selected and approved by the Board of Supervisors to perform the required audit. The unqualified report of KPMG LLP the highest possible result of the audit process, accompanies the financial statements in this report.

SINGLE AUDIT

As a recipient of Federal and State financial assistance, the County also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

As part of the County's single audit, tests are made to assess the internal control structure, including the portion related to Federal Awards programs, as well as to determine that the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2001, indicated no

instances of material weakness in the internal control structure or material violations of applicable laws and regulations.

AWARDS OF ACHIEVEMENT

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to James City County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000.

In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America 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 Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The County has established and continues to maintain a strong and stable financial position through progressive management of financial operations and through sound accounting and financial reporting practices. Appreciation is expressed to the Members of the James City County Board of Supervisors and all of the Constitutional Officers for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

The preparation of this report could not have been accomplished without the extensive effort and efficient services of the staff of Financial and Management Services. We would like to express our appreciation to each employee of the Department who assisted with the annual audit and preparation of the financial statements.

Respectfully submitted,

Sanford B. Wanner
County Administrator

John E. McDonald
Manager of Financial and Management Services