

## COUNTY OF JAMES CITY, VIRGINIA

### Management's Discussion and Analysis (Unaudited)

June 30, 2004

As management of James City County (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the County's financial statements, which follow this analysis.

#### Financial Highlights

- The County's total debt outstanding for governmental activities at June 30, 2004 was \$91,944,441. During the current year, the County entered into a \$14,500,000 capital lease to finance an 800 MHz radio system.
- The County's total net assets increased by \$14.9 million over the course of this year's operations. The majority of the increase is attributed to the increase in the James City Service Authority, the business-type activity, which accepted capital grants and contributions totaling \$5,233,761.
- The assets of the County exceeded its liabilities as of June 30, 2004 by \$264.6 million. Of this amount, \$177.7 million or 67% is the net investment in capital assets.
- Actual General Fund revenues received were 0.7%, or \$742,034 more than what had been budgeted and showed a 5.0% increase, or \$5,444,299 over fiscal year 2003.
- The County had \$8.2 million of expenditures from Hurricane Isabel, which swept through the County in September 2003. Federal and state funds totaling \$7.6 million, or 92.6%, assisted the County with cleanup efforts.

#### Overview of the Financial Statements

The County's Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance. The financial section consists of three components – government-wide financial statements, fund financial statements, and notes to the basic financial statements.

#### Government-Wide Financial Statements

The government-wide financial statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the County's net assets and how they have changed. Net assets—the difference between the County's assets and liabilities—is one way to measure the County's financial health, or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional nonfinancial factors, such as changes in the County's property tax base.
- The government-wide financial statements of the County are divided into three categories:
- *Governmental activities* – Most of the County's basic services are included here, such as the police, fire, parks and recreation, and general administration. Property taxes and state and federal funding finance most of these activities.

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- *Business-type activity* – Activity that is intended to recover all or a significant portion of their costs through user fee charges to external parties for goods or services are included here.
- *Component units* – The County includes two other entities in its report – The Public Schools and the Industrial Development Authority. Although legally separate, these “component units” are important because of the County’s financial accountability for them.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the County’s most significant funds, not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and by bond covenants. Other funds are established to control and manage money for particular purposes or to show that the County is properly using certain taxes and grants. The County has three kinds of funds:

- *Governmental funds* – Most of the County’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services that are intended to recover all or a significant portion of their costs through user fees are generally reported in the proprietary fund. Proprietary funds, like the government-wide statements, provide both long- and short-term financing information. The County’s enterprise fund (one type of proprietary fund) is the same as its business-type activity, but provides more detail and additional information, such as cash flows.
- *Fiduciary funds* – The County is responsible for assets of various agency funds. It is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the County’s government-wide financial statements because the County cannot use their assets to finance its operations.

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County’s General Fund budget and progress in funding its obligation to provide pension benefits to its employees. The combining statements for nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budget and defined benefit pension plans.

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**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's assets exceeded liabilities by \$264,648,202 at the close of the most recent fiscal year. This represents a 6.0% increase over last year.

**Condensed Summary of Net Assets**  
**As of June 30, 2004**

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>	<u>Component Unit – Public Schools</u>
<b>Assets:</b>				
Current and other assets	\$ 71,874,635	28,864,844	100,739,479	11,559,352
Capital assets	161,042,704	119,563,991	280,606,695	24,162,846
Total assets	<u>\$ 232,917,339</u>	<u>148,428,835</u>	<u>381,346,174</u>	<u>35,722,198</u>
<b>Liabilities:</b>				
Long-term liabilities	\$ 91,944,441	14,782,165	106,726,606	677,297
Other liabilities	7,683,969	2,287,397	9,971,366	7,803,228
Total liabilities	<u>\$ 99,628,410</u>	<u>17,069,562</u>	<u>116,697,972</u>	<u>8,480,525</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	\$ 72,906,650	104,781,826	177,688,476	24,162,846
Unrestricted and restricted	60,382,279	26,577,447	86,959,726	3,078,827
Total net assets	<u>\$ 133,288,929</u>	<u>131,359,273</u>	<u>264,648,202</u>	<u>27,241,673</u>

**Condensed Summary of Net Assets**  
**As of June 30, 2003**

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>	<u>Component Unit – Public Schools</u>
<b>Assets:</b>				
Current and other assets	\$ 60,151,609	38,222,712	98,374,321	11,363,914
Capital assets	152,170,347	104,224,338	256,394,685	23,520,827
Total assets	<u>\$ 212,321,956</u>	<u>142,447,050</u>	<u>354,769,006</u>	<u>34,884,741</u>
<b>Liabilities:</b>				
Long-term liabilities	\$ 82,540,681	15,258,289	97,798,970	637,409
Other liabilities	3,958,660	3,274,646	7,233,306	8,173,194
Total liabilities	<u>\$ 86,499,341</u>	<u>18,532,935</u>	<u>105,032,276</u>	<u>8,810,603</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	\$ 66,576,674	88,966,049	155,542,723	23,354,520
Unrestricted and restricted	59,245,941	34,948,066	94,194,007	2,719,618
Total net assets	<u>\$ 125,822,615</u>	<u>123,914,115</u>	<u>249,736,730</u>	<u>26,074,138</u>

The largest portion of the County's net assets at June 30, 2004 (67%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related

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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.

The unrestricted portion of net assets (31%) may be used to meet the County's ongoing obligations to citizens and creditors. The remaining portion of net assets (2%) is restricted for specific purposes.

At the end of the current fiscal year, the County was able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities.

The Public Schools' net assets increased 4% to \$27.2 million. Of the balance, \$3.1 million of net assets are unrestricted. The increase in net assets is attributable to the capitalization of ongoing capital projects.

#### Summary of Changes in Net Assets Year ended June 30, 2004

	Governmental activities	Business-type activity	Total	Component Unit – Public Schools
<b>Revenues:</b>				
<b>Program revenues:</b>				
Charges for services	\$ 13,049,029	12,942,503	25,991,532	2,007,073
Operating grants and contributions	14,130,212	371,538	14,501,750	8,522,163
Capital grants and contributions	317,414	5,233,761	5,551,175	—
<b>General revenues:</b>				
Property taxes	68,374,743	—	68,374,743	—
Other taxes	30,760,494	—	30,760,494	—
Grants and contributions not restricted to specific programs	2,947,631	—	2,947,631	71,137,422
Interest and investment earnings	563,216	184,213	747,429	14,116
Gain (loss) on sale of capital assets	(93,129)	1,869	(91,260)	—
Miscellaneous	715,171	442,554	1,157,725	2,641
<b>Total revenues</b>	<b>130,764,781</b>	<b>19,176,438</b>	<b>149,941,219</b>	<b>81,683,415</b>
<b>Expenses:</b>				
General government administration	7,421,564	—	7,421,564	—
Judicial administration	4,006,887	—	4,006,887	—
Public safety	14,856,391	—	14,856,391	—
Public works	3,487,207	—	3,487,207	—
Health and welfare	6,141,730	—	6,141,730	—
Education	55,189,245	—	55,189,245	80,515,880
Parks, recreation, and cultural	8,304,480	—	8,304,480	—
Community development	9,811,644	—	9,811,644	—
Storm costs	8,239,127	—	8,239,127	—
Interest on long-term debt	4,197,067	—	4,197,067	—
Miscellaneous	1,643,125	—	1,643,125	—
Service Authority	—	11,731,280	11,731,280	—
<b>Total expenses</b>	<b>123,298,467</b>	<b>11,731,280</b>	<b>135,029,747</b>	<b>80,515,880</b>
<b>Change in net assets</b>	<b>7,466,314</b>	<b>7,445,158</b>	<b>14,911,472</b>	<b>1,167,535</b>
Net assets at beginning of year	125,822,615	123,914,115	249,736,730	26,074,138
Net assets at end of year	<b>\$ 133,288,929</b>	<b>131,359,273</b>	<b>264,648,202</b>	<b>27,241,673</b>

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**Summary of Changes in Net Assets**  
**Year ended June 30, 2003**

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>	<u>Component Unit – Public Schools</u>
<b>Revenues:</b>				
<b>Program revenues:</b>				
Charges for services	\$ 11,630,870	11,801,581	23,432,451	1,840,374
Operating grants and contributions	6,081,590	—	6,081,590	7,862,036
Capital grants and contributions	—	5,696,575	5,696,575	—
<b>General revenues:</b>				
Property taxes	65,470,090	—	65,470,090	—
Other taxes	21,429,693	—	21,429,693	—
Grants and contributions not restricted to specific programs	11,696,289	—	11,696,289	67,330,197
Interest and investment earnings	880,626	302,872	1,183,498	8,047
Gain (loss) on sale of capital assets	23,809	(117,874)	(94,065)	—
Miscellaneous	—	286,296	286,296	1,833
<b>Total revenues</b>	<u>117,212,967</u>	<u>17,969,450</u>	<u>135,182,417</u>	<u>77,042,487</u>
<b>Expenses:</b>				
General government administration	7,197,198	—	7,197,198	—
Judicial administration	4,117,622	—	4,117,622	—
Public safety	14,199,802	—	14,199,802	—
Public works	3,295,519	—	3,295,519	—
Health and welfare	5,774,531	—	5,774,531	—
Education	52,526,017	—	52,526,017	75,818,115
Parks, recreation and cultural	8,090,348	—	8,090,348	—
Community development	10,129,125	—	10,129,125	—
Interest on long-term debt	4,179,994	—	4,179,994	16,276
Miscellaneous	829,715	—	829,715	—
Service Authority	—	10,505,144	10,505,144	—
<b>Total expenses</b>	<u>110,339,871</u>	<u>10,505,144</u>	<u>120,845,015</u>	<u>75,834,391</u>
<b>Change in net assets</b>	6,873,096	7,464,306	14,337,402	1,208,096
<b>Net assets at beginning of year</b>	<u>118,949,519</u>	<u>116,449,809</u>	<u>235,399,328</u>	<u>24,866,042</u>
<b>Net assets at end of year</b>	<u>\$ 125,822,615</u>	<u>123,914,115</u>	<u>249,736,730</u>	<u>26,074,138</u>

**Governmental Activities**

For the fiscal year ended June 30, 2004, revenues from governmental activities totaled \$130,764,781. Of this amount, \$47,092,999, or 36.0%, is received from sources other than local tax revenue. Real estate tax revenues, the County's largest single revenue source, totaled \$68,374,743. The County's assessed real property tax base for fiscal year 2004 was \$6,024,565,600. The County continues to experience growth in residential and commercial development. Net assets increased by \$7,466,314, or 5.9% over last year.

In fiscal year 2004, the County reported current year collections of \$9,911,198 in personal property taxes, and received reimbursement from the Commonwealth of Virginia of \$8,807,578. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was approximately 70% of most taxpayer's payments.

For the fiscal year ended June 30, 2004, expenses for governmental activities totaled \$123,298,467, including payments of \$53,057,298 to Public Schools and \$249,407 to the James City Industrial Development Authority.

Expenses increased by \$12,958,596 over fiscal year 2003. This was primarily due to cleanup efforts from Hurricane Isabel. Revenues from grants increased by \$8,366,036 over the previous fiscal year. This was due to receiving funds from federal and state governments to support these efforts.

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#### **Business-Type Activity**

The business-type activity increased the County's net assets by \$7,445,158, accounting for 49.9% of the total growth in the County's net assets. The majority of the increase is attributed to the contribution of water and sewer systems.

Expenses increased from last year by 10.4%, which is due to costs associated with Hurricane Isabel and interest payments on the revenue bond. Revenues increased 12.5% from last year, which was mainly a result of a rate increase in water and sewer service as well as customer growth.

#### **Component Unit – Public Schools**

The Schools received \$53,057,298 from the County during fiscal year 2004. This represents 66.9% of their total intergovernmental revenue. This money supported the operating and capital activities for the Schools.

Expenses increased by 6.2% over fiscal year 2003. This is primarily a result of increases in expenses for salaries, fringe benefits and pupil transportation. Revenues also increased by 6.0% over the previous fiscal year. This is primarily due to receiving additional allocations from the state, City of Williamsburg and the County as a result of increasing student enrollments.

#### **Financial Analysis of the County's Funds**

The County's General Fund experienced an overall increase in fund balance of \$2,981,597. A key factor to this increase was the reduced spending for personnel and debt service obligations. The Reserve for Fiscal Liquidity totaled \$13,864,878, which was 8.4% of the total general governmental expenditures, including the County's share of the Public Schools' operating expenditures, and within the goal of 8% to 12%.

#### **General Fund Budgetary Highlights**

The overall difference between the original budget and the final amended budget for revenues was reduced by \$561,018, or 5%, primarily resulting from a one-cent real estate tax reduction approved by the Board of Supervisors in September 2003. Actual General Fund revenues received were 0.7%, or \$742,034 more than what had been budgeted and showed a 5.0% increase, or \$5,444,299 over fiscal year 2003.

The largest increase in revenues from fiscal year 2003 to fiscal year 2004 occurred in real estate tax revenues totaling \$3,703,264. Real estate tax revenues, both current and delinquent, are the County's largest revenue source and for fiscal year 2004 totaled \$51,717,912 and was \$183,076 greater than expected. This helped to offset shortfalls in other revenue sources, particularly in the use of money and property, where there was a decrease due to the decline of interest rates on County investments. Personal property taxes, another large source of local tax funding, combined collections from the state and local taxpayers of \$18,718,776. This was \$239,224 less than budget and \$457,914, or a 4.8% increase over fiscal year 2003.

State revenues, not including the personal property tax reimbursement, were \$334,932 more than budgeted. State revenues, not including the personal property tax reimbursement, increased \$450,627 in fiscal year 2004 from fiscal year 2003 levels. This increase is primarily due to state sales tax, which increased \$535,841 over fiscal year 2003 and was \$324,176 over the current year's budget.

General Fund budgeted expenditures were 6.4% below the final budget, or \$3,013,778. Of this amount, \$1,209,242 is reserved in the fund balance for encumbered commitments and \$1,465,000 has been identified in the fiscal year 2005 budget as designated for Capital Projects. Additionally, the County experienced savings from employee turnover with military deployments and retirements of police personnel.

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**Proprietary Fund**

The County operates one proprietary fund, James City Service Authority (JCSA or the Authority), which provides water and sewer service to County residents. The Authority had an increase of \$7,445,158 in net assets during the fiscal year primarily due to the acceptance of contributed capital assets.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the fiscal year 2004, the County's investment in capital assets for its governmental and business-type activities totaled \$280,606,695 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, water and sewer systems, infrastructure, equipment, and vehicles. The County does not own its roads and they are therefore not included in the capital assets. In addition, the Public Schools own all school buildings and the related debt is County debt. The value associated with the purchase and/or construction of the Public Schools' buildings is reported as capital assets in the governmental activities of the County to properly match with the associated debt, as allowed by Virginia state law. In fiscal year 2004, the net value of school buildings reflected in the governmental activities of the County equals \$87,015,629 and the associated current year's depreciation expense of \$2,115,808 is reflected in the educational expense line of the County's governmental activities in the statement of net assets.

**Capital Assets, Net of Depreciation  
June 30, 2004 and 2003**

	2004			2003 Total
	Governmental activities	Business-type activity	Total	
Land	\$ —	1,580,428	1,580,428	1,580,428
Land and land rights – utility plant	—	910,138	910,138	887,638
Land and land improvements	15,415,814	—	15,415,814	14,528,168
Construction in progress	10,940,154	15,357,443	26,297,597	18,071,267
Water and sewer systems	—	99,786,128	99,786,128	87,969,432
Buildings and improvements	117,024,273	1,328,106	118,352,379	116,231,848
Improvements other than buildings	5,053,169	13,183	5,066,352	4,200,744
Equipment and vehicles	9,159,925	588,565	9,748,490	9,823,344
Infrastructure	3,449,369	—	3,449,369	3,101,816
<b>Total</b>	<b>\$ 161,042,704</b>	<b>119,563,991</b>	<b>280,606,695</b>	<b>256,394,685</b>

Additional information about the County's capital assets can be found in note 7 to the financial statements on pages 44-46.

**Capital Projects Fund**

The Capital Projects Fund is used by the County to account for the financing sources used to acquire and construct major capital projects for the general government. A major source of funding for the capital projects is transfers from the General Fund.

For fiscal year 2004, \$2,686,221 was transferred to the Capital Projects Fund from the General Fund. During the year, capital project expenditures of \$13,469,974 included the following:

- Renovation of a fire station and replacement of an ambulance
- Improvements to the district park
- Completion of a new government center building

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- Continuation of work on the acquisition of an 800 MHz radio system
- Purchase of Development Rights Program acquisitions

**Long-Term Debt**

At June 30, 2004, the County had total outstanding debt of \$103,505,069. Compensated absences and landfill postclosure care costs of \$3,221,537 and \$3,052,992 at June 30, 2004 and 2003, respectively, are not included in these figures.

**Summary of Long-Term Debt  
June 30, 2004 and 2003**

	2004			2003 Total
	Governmental activities	Business-type activity	Total	
General obligation bonds	\$ 73,636,054	—	73,636,054	78,746,889
State Literary Fund loan	86,850	—	86,850	115,800
Revenue bonds	—	14,782,165	14,782,165	15,258,289
Capital lease – radio system	14,500,000	—	14,500,000	—
Loan payable – Virginia Department of Transportation	500,000	—	500,000	625,000
<b>Total</b>	<b>\$ 88,722,904</b>	<b>14,782,165</b>	<b>103,505,069</b>	<b>94,745,978</b>

In November 2003, the County entered into a \$14,500,000 capital lease to finance an 800 MHz radio system, with an interest rate of 4.77%.

Additional information about the County's long-term debt can be found in note 10 to the financial statements on pages 47-51.

**Economic Factors and Next Year's Budgets and Tax Rates**

The County has a two-year budget cycle. The first year of a two-year cycle is adopted and appropriated and the second year is adopted for planning purposes. Fiscal year 2005 is the first year of the current two-year cycle. The fiscal year 2005 budget approved and amended budget for the General Fund is \$121,573,608.

This amended budget reflects \$8,603,329, or a 7.6% increase over fiscal year 2004. As similar to the previous year, almost the entire area of growth is located within real estate tax revenue, which is expected to increase \$3,917,073. The State of Virginia continues its fiscal crisis and revenues from the state are anticipated to continue to decline, reflecting a \$220,000 decrease from fiscal year 2004 levels. A review of local development fees, such as building permits, dog tags, landfill coupons, E-911, and environmental fees, noted that we were charging lower fees for services than other comparable communities. These fees are raised in fiscal year 2005 to provide service enhancements that will allow for the expedition of the review process for development plans.

More than 34% of the County's General Fund revenue increase is allocated to school spending. The County's contribution to the Williamsburg-James City County School Board increases by \$2,902,105.

**Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the Department of Financial and Management Services, 101-F Mounts Bay Road, P. O. Box 8784, Williamsburg, Virginia 23187-8784.