

COUNTY OF JAMES CITY, VIRGINIA

Management's Discussion and Analysis

June 30, 2008

As management of James City County (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, 2008. 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 net assets increased by \$24.5 million over the course of this year's operations. The majority of the increase is attributed to an increase in capitalization of assets from the capitalization of the new high school and new elementary school.
- The assets of the County exceeded its liabilities as of June 30, 2008 by \$383.6 million. Of this amount, \$294.7 million, or 76.8%, is the net investment in capital assets.
- The County's total debt outstanding for governmental activities at June 30, 2008 was \$241,600,035.
- Actual General Fund revenues received were 1.9%, or \$3,174,012 less than what had been budgeted and showed a 6.4% increase, or \$9,995,187 over fiscal year 2007.

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 primary 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.
 - *Business-type activities* – Activities that are 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.

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- *Component units* – The County includes two other entities in its report – The Public Schools and the Economic 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 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 \$383,561,144 at the close of the most recent fiscal year. This represents a 6.8% increase over last year.

Condensed Summary of Net Assets

June 30, 2008

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>	<u>Component unit – public schools</u>
Assets:				
Current and other assets	\$ 162,349,883	40,337,350	202,687,233	18,194,746
Capital assets	<u>299,606,277</u>	<u>145,379,730</u>	<u>444,986,007</u>	<u>30,770,521</u>
Total assets	<u>\$ 461,956,160</u>	<u>185,717,080</u>	<u>647,673,240</u>	<u>48,965,267</u>
Liabilities:				
Long-term liabilities	\$ 241,600,035	11,571,899	253,171,934	809,845
Other liabilities	<u>8,945,911</u>	<u>1,994,251</u>	<u>10,940,162</u>	<u>15,035,951</u>
Total liabilities	<u>\$ 250,545,946</u>	<u>13,566,150</u>	<u>264,112,096</u>	<u>15,845,796</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 160,168,505	134,569,730	294,738,235	30,745,916
Restricted net assets:				
Capital projects	6,498,734	1,305,775	7,804,509	---
Inventory	288,734	---	288,734	---
Loans	144,538	---	144,538	---
Unrestricted net assets	<u>44,309,703</u>	<u>36,275,425</u>	<u>80,585,128</u>	<u>2,373,555</u>
Total net assets	<u>\$ 211,410,214</u>	<u>172,150,930</u>	<u>383,561,144</u>	<u>33,119,471</u>

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Condensed Summary of Net Assets

June 30, 2007

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>	<u>Component unit – public schools</u>
Assets:				
Current and other assets	\$ 183,087,733	36,064,572	219,152,305	18,260,366
Capital assets	<u>279,976,191</u>	<u>144,278,943</u>	<u>424,255,134</u>	<u>28,460,394</u>
Total assets	<u>\$ 463,063,924</u>	<u>180,343,515</u>	<u>643,407,439</u>	<u>46,720,760</u>
Liabilities:				
Long-term liabilities	\$ 256,282,482	12,133,794	268,416,276	800,214
Other liabilities	<u>13,742,953</u>	<u>2,203,433</u>	<u>15,946,386</u>	<u>14,088,751</u>
Total liabilities	<u>\$ 270,025,435</u>	<u>14,337,227</u>	<u>284,362,662</u>	<u>14,888,965</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 25,413,961	132,145,149	157,559,110	28,358,026
Restricted net assets:				
Capital projects	124,329,355	—	124,329,355	—
Inventory	291,364	—	291,364	—
Loans	170,886	—	170,886	—
Unrestricted net assets	<u>42,832,923</u>	<u>33,861,139</u>	<u>76,694,062</u>	<u>3,473,769</u>
Total net assets	<u>\$ 193,038,489</u>	<u>166,006,288</u>	<u>359,044,777</u>	<u>31,831,795</u>

The largest portion of the County's net assets at June 30, 2008 (76.8%) 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 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 (21.0%) may be used to meet the County's ongoing obligations to citizens and creditors. The remaining portion of net assets (2.2%) 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 4.0% to \$33.1 million. Of the balance, \$2.4 million of net assets are unrestricted, but designated for specific purposes. The increase in net assets is primarily attributable to the ongoing and completed capital projects.

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Summary of Changes in Net Assets

Year ended June 30, 2008

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>	<u>Component unit – public schools</u>
Revenues:				
Program revenues:				
Charges for services	\$ 16,371,794	16,928,117	33,299,911	2,292,794
Operating grants and contributions	24,593,841	—	24,593,841	14,246,298
Capital grants and contributions	3,087,066	3,154,158	6,241,224	—
General revenues:				
Property taxes	109,559,232	—	109,559,232	—
Other taxes and permits, fees and licenses	28,774,704	—	28,774,704	—
Grants and contributions not restricted to specific programs	—	—	—	104,607,974
Interest and investment earnings	5,105,721	2,004,957	7,110,678	279,854
Miscellaneous	2,962,156	1,490,767	4,452,923	32,773
Total revenues	<u>190,454,514</u>	<u>23,577,999</u>	<u>214,032,513</u>	<u>121,459,693</u>
Expenses:				
General government administration	18,873,491	—	18,873,491	—
Judicial administration	5,151,971	—	5,151,971	—
Public safety	24,704,720	—	24,704,720	—
Public works	5,990,017	—	5,990,017	—
Health and welfare	7,116,193	—	7,116,193	—
Education	75,880,133	—	75,880,133	120,172,017
Parks, recreation and cultural	6,534,492	—	6,534,492	—
Community development	16,633,166	—	16,633,166	—
Interest on long-term debt	11,198,606	—	11,198,606	—
Service Authority	—	16,551,103	16,551,103	—
Stormwater Utility	—	882,254	882,254	—
Total expenses	<u>172,082,789</u>	<u>17,433,357</u>	<u>189,516,146</u>	<u>120,172,017</u>
Change in net assets	18,371,725	6,144,642	24,516,367	1,287,676
Net assets at beginning of year	<u>193,038,489</u>	<u>166,006,288</u>	<u>359,044,777</u>	<u>31,831,795</u>
Net assets at end of year	<u>\$ 211,410,214</u>	<u>172,150,930</u>	<u>383,561,144</u>	<u>33,119,471</u>

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Summary of Changes in Net Assets

Year ended June 30, 2007

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Total</u>	<u>Component unit – public schools</u>
Revenues:				
Program revenues:				
Charges for services	\$ 15,768,525	17,899,853	33,668,378	2,318,883
Operating grants and contributions	22,448,104	—	22,448,104	13,624,163
Capital grants and contributions	5,039,467	7,926,456	12,965,923	—
General revenues:				
Property taxes	94,855,055	—	94,855,055	—
Other taxes and permits, fees and licenses	30,528,204	—	30,528,204	—
Grants and contributions not restricted to specific programs	—	—	—	93,086,380
Interest and investment earnings	7,306,357	1,503,939	8,810,296	281,474
Miscellaneous	5,102,599	1,378,725	6,481,324	29,030
Total revenues	<u>181,048,311</u>	<u>28,708,973</u>	<u>209,757,284</u>	<u>109,339,930</u>
Expenses:				
General government administration	18,576,094	—	18,576,094	—
Judicial administration	5,053,351	—	5,053,351	—
Public safety	23,819,070	—	23,819,070	—
Public works	3,361,025	—	3,361,025	—
Health and welfare	6,762,204	—	6,762,204	—
Education	63,874,870	—	63,874,870	105,636,488
Parks, recreation and cultural	2,131,929	—	2,131,929	—
Community development	15,154,960	—	15,154,960	—
Interest on long-term debt	9,857,524	—	9,857,524	—
Storm costs	166,546	—	166,546	—
Service Authority	—	17,688,528	17,688,528	—
Total expenses	<u>148,757,573</u>	<u>17,688,528</u>	<u>166,446,101</u>	<u>105,636,488</u>
Change in net assets	<u>32,290,738</u>	<u>11,020,445</u>	<u>43,311,183</u>	<u>3,703,442</u>
Net assets at beginning of year	<u>160,747,751</u>	<u>154,985,843</u>	<u>315,733,594</u>	<u>28,128,353</u>
Net assets at end of year	<u>\$ 193,038,489</u>	<u>166,006,288</u>	<u>359,044,777</u>	<u>31,831,795</u>

Governmental Activities

For the fiscal year ended June 30, 2008, revenues from governmental activities totaled \$190,454,514. Of this amount, \$52,120,578, or 27.4%, is received from sources other than local tax revenue. Real estate tax revenues, the County's largest single revenue source, totaled \$82,836,381. The County's assessed real property tax base for fiscal year 2008 was \$10,672,714,225. The County continues to experience growth in residential and commercial development. Net assets increased by \$18,371,725, or 9.5% over last year.

In fiscal year 2008, the County reported current year collections of \$15,826,039 in personal property taxes, and received reimbursement from the Commonwealth of Virginia of \$9,770,137. Under the provisions of the

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Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was approximately 58% of most taxpayer's payments.

For the fiscal year ended June 30, 2008, expenses for governmental activities totaled \$172,082,789, including payments of \$91,739,476 to Public Schools. Expenses increased by \$23,325,216 over fiscal year 2007. This was primarily due to transfers to schools to cover construction costs for the new schools.

Business-Type Activities

The business-type activities increased the County's net assets by \$6,144,642, accounting for 25.1% 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, as well as the addition of the Stormwater Utility. Expenses decreased from last year by 1.4%, which is primarily due to a reduction in the nonoperating expenses from the lift station donations in 2007. In addition, there was an increase in special services, which is a result of a new position being approved during the current fiscal year, bad debt expenses related to accounts receivable and increased fuel costs. Revenues decreased 17.8% from last year, which was primarily due to a reduction in the connection fees collected.

Component Unit – Public Schools

The Schools received \$91,739,476 from the County during fiscal year 2008. This represents 83.7% of their total intergovernmental revenue. This money supported the operating and capital activities for the Schools. Expenses increased by 13.8% over fiscal year 2007. This is primarily a result of increases in expenses for salaries, fringe benefits and pupil transportation. Revenues also increased by 11.1% over the previous fiscal year. This is primarily due to funding received from the City of Williamsburg and the County for construction costs associated with the two new schools.

Financial Analysis of the County's Funds

The County's General Fund experienced an overall decrease in fund balance of \$2,791,248. The portion of the unreserved fund balance designated for fiscal liquidity totaled \$20,424,202, which was 9.6% of the total general governmental expenditures (from table 10A on page 97), 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 decreased by \$2,867,183, which was primarily a result of the landbook values being lower than predicted during the budget process. There was a 4.7% increase in reassessments as opposed to an estimated 5.2% in the original budget. In addition, there was an increase of 4.0% in new construction as opposed to the 8.1% increase in the original budget projection. Actual General Fund revenues received were 1.9%, or \$3,174,012 less than what had been budgeted and showed a 6.3% increase, or \$9,995,187 over fiscal year 2007.

The largest increase in revenues from fiscal year 2007 to fiscal year 2008 occurred in real estate tax revenues totaling \$7,039,468. Real estate tax revenues, both current and delinquent, are the County's largest revenue source and for fiscal year 2008 totaled \$82,836,381 and was \$774,891 less than the amended budget. Personal property taxes, another large source of local tax funding, had combined collections from the state and local taxpayers of \$25,596,176. This was \$853,582 more than budget, and \$1,176,098, or a 4.8% increase over fiscal

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year 2007. State revenues, not including the personal property tax reimbursement, were \$682,431 less than budgeted. State revenues, not including the personal property tax reimbursement, increased \$1,339,888 in fiscal year 2008 from fiscal year 2007 levels. This increase is primarily due to the communications sales and use tax, which increased \$887,119 over fiscal year 2007. Effective January 1, 2007, the state eliminated the local telecommunication taxes and replaced this with the communications sales and use tax.

General Fund budgeted expenditures were 3.6% below the final budget, or \$5,175,884. Of this amount, \$1,675,181 is reserved in the fund balance for encumbered commitments.

Proprietary Funds

The County operates two proprietary funds, James City Service Authority (JCSA or the Authority), which provides water and sewer service to County residents and Stormwater Utility, which provides for environmental issues affecting stormwater runoff. The proprietary funds had an increase of \$6,144,642 in net assets during the fiscal year primarily due to the acceptance of contributed capital assets. In addition, the stormwater utility was added during the current fiscal year.

Capital Assets and Debt Administration

At the end of fiscal year 2008, the County's investment in capital assets for its governmental and business-type activities totaled \$444,986,007 (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 2008, the net value of school buildings reflected in the governmental activities of the County equals \$158,651,855, 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, 2008 and 2007

	2008			2007 Total
	Governmental activities	Business-type activities	Total	
Land	\$ —	1,819,156	1,819,156	1,762,961
Land and land rights – utility plant	—	946,738	946,738	954,738
Land and land improvements	32,940,444	13,183	32,953,627	31,404,893
Construction in progress	18,572,133	3,582,979	22,155,112	103,080,644
Water and sewer systems	—	204,427,407	204,427,407	130,702,876
Buildings and improvements	238,863,840	2,070,494	240,934,334	116,376,462
Improvements other than buildings	21,746,698	—	21,746,698	8,074,975
Equipment and vehicles	46,789,940	3,170,910	49,960,850	26,540,129
Infrastructure	7,150,910	97,639	7,248,549	5,357,456
Total	\$ 366,063,965	216,128,506	582,192,471	424,255,134

Additional information about the County's capital assets can be found in note 7 to the financial statements.

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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 2008, \$6,166,000 was transferred to the Capital Projects Fund from the General Fund. During the year, capital project expenditures of \$26,526,776 included the following:

- Transfers to schools for site improvements and construction costs for the new schools
- Design and construction costs associated with the Warhill Sports Complex Recreational Facilities
- Purchase of mobile data terminals
- Improvements to the James City/Williamsburg Community Center playing fields

Long-Term Debt

At June 30, 2008 and 2007, the County had total outstanding debt of \$248,908,703 and \$264,542,544, respectively. Compensated absences and landfill postclosure care costs of \$4,263,231 and \$3,891,605 at June 30, 2008 and 2007, respectively, are not included in these amounts.

Summary of Long-Term Debt

June 30, 2008 and 2007

	2008			2007 Total
	Governmental activities	Business-type activities	Total	
General obligation bonds	\$ 118,369,735	—	118,369,735	126,590,560
Revenue bonds	107,200,000	11,212,670	118,412,670	124,913,794
Capital lease – radio system	11,564,000	—	11,564,000	12,350,000
Other capital leases	562,298	—	562,298	688,190
Total	<u>\$ 237,696,033</u>	<u>11,212,670</u>	<u>248,908,703</u>	<u>264,542,544</u>

In August 2008, the Authority issued revenue bonds totaling \$27,120,000 to finance the purchase from the City of Newport News, Virginia of a “safe yield share” of treated water capacity from the King William Reservoir Project or an alternate water supply source. The Authority also experienced an upgrade to their bond rating to AA+ by Standard & Poor’s and Aa3 by Moody’s Investors Service. Standard & Poor’s issues ratings ranging from AAA to D to designate the relative investment qualities of bonds. Moody’s issues ratings ranging from Aaa to C.

Additional information about the County’s long-term debt can be found in note 10 to the financial statements.

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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 2009 is the first year of the next two-year cycle. The fiscal year 2009 approved and amended budget for the General Fund is \$170,107,024.

This amended budget, adopted on June 10, 2008, reflects \$4,414,524, or a 2.5% decrease over fiscal year 2008. This reduction is primarily a result of the economy weakening for federal, state and local agencies. Thus, a reduction in the sources of revenue required to meet many of the needs and expectations of the citizens. In addition, the Board of Supervisors will reduce the fiscal year 2009 budget further by \$3 million on November 12, 2008.

By maintaining the tax rate at the current rate, eliminating the annual reassessment for the fiscal year 2009 budget and moving the fee-based funding of Stormwater Utility into the general tax base, there are less available resources in the fiscal year 2009 budget than in the previous year. During fiscal year 2009, real estate revenues, the largest source of general fund revenue, are projected to increase less than one percent. Significant areas of lower revenue estimates from fiscal year 2008 include revenues associated with the housing market, such as building permits, planning and zoning fees, erosion control revenues, deeds of conveyance, recordation taxes, and excess fees from the Clerk.

Expenditures will be reduced in County operations and capital/debt investments in order to provide increased funding to the Schools, the Library and transfers to other programs. The County's contribution to the Williamsburg-James City County School Board will be \$74,844,700, which is a 0.9% or \$646,415 increase over fiscal year 2008.

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.