

CITY OF COLONIAL HEIGHTS VIRGINIA

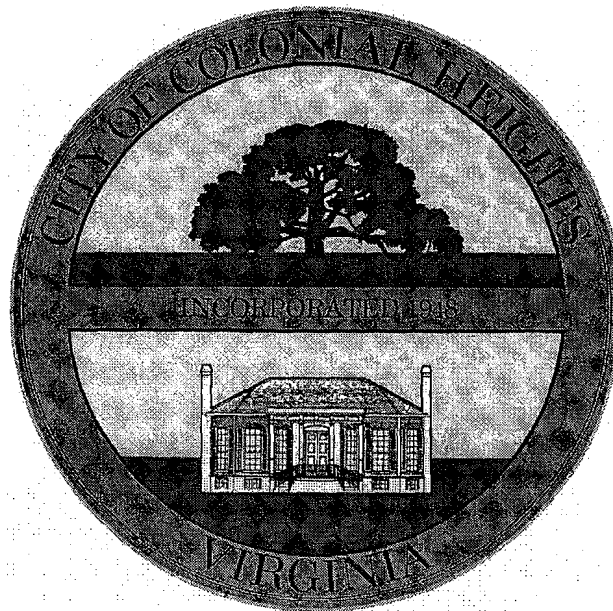


COMPREHENSIVE ANNUAL FINANCIAL REPORT ENDING JUNE 30, 2007

CITY OF COLONIAL HEIGHTS, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2006 THROUGH JUNE 30, 2007



Prepared by the Department of Financial Administration

Richard A. Anzolut Jr.
City Manager

William E. Johnson
Director of Finance



**CITY OF COLONIAL HEIGHTS, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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INTRODUCTORY SECTION



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December 18, 2007

The Honorable Mayor, Members of City Council
Colonial Heights, Virginia

The Comprehensive Annual Financial Report (CAFR) of the City of Colonial Heights, Virginia (the "City") for the fiscal year ended June 30, 2007, is transmitted herewith. This report was prepared by the Department of Financial Administration, which assumes full responsibility for the accuracy of data, completeness and the fairness of presentation. We believe the data, as presented, is accurate in all material respects, and that it is presented in a manner designed to fairly set forth the financial position and results as measured by the financial activity of its various governmental activities, business-type activities and funds. All disclosures necessary for a reader to fully understand the City's financial affairs have been included.

The basic financial statements consist of government-wide and fund financial statements, notes to the basic financial statements and required supplementary information. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual single audit in conformity with provisions of the *Single Audit Act Amendment of 1996* and the U.S. Office of Management and Budget's Circular A-133 (*Audits of States, Local Governments, and Non-Profit Organizations*). The Schedule of Expenditures of Federal Awards and the independent auditors' reports on internal controls and compliance with applicable laws and regulations has been issued in a separate document.

The financial reporting entity includes all funds of the primary government (i.e. the City of Colonial Heights as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The primary government provides a full range of services including general administration, public safety, public works, recreational activities, judicial functions, health and welfare activities, and community development activities.

Discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from the primary government. The School Board of the City of Colonial Heights is reported as a discretely presented component unit.

Additional information on the City's financial status can be found in the Management's Discussion and Analysis section of this report.

Economic Condition and Outlook

The City, with a land area of 8.14 square miles, is located in southeastern Virginia. The City is strategically located on Interstate 95 near its intersection with interstates, I85 and I64, thus giving the City access to the East Coast's major markets.

The City is less than 20 miles south of Virginia's state capital, Richmond, and 120 miles south of the nation's capital, Washington, D.C. The City of Petersburg lies just across the Appomattox River which bisects the two cities, with Colonial Heights on the north bank. Richmond's deepwater terminal is approximately 15 miles north and the ports at Hampton Roads are some 80 miles to the southeast.

The population of the City is estimated at 17,676 as projected by the Virginia Employment Commission. The City is part of the Richmond Tri-Cities Metropolitan Statistical Area and as such has immediate access to the area's dynamic business complex. Richmond is a center for manufacturing, distribution and trade. State and Federal offices are located in Richmond and the area houses numerous corporate headquarters.

In the immediate Tri-Cities area (Petersburg, Colonial Heights and Hopewell), government continues to be a major employer. Government facilities include Central State Hospital, Southside Virginia Training Center, Richard Bland College, and the United States Army Quartermaster Center and Fort Lee.

The City has a civilian labor force of 9,450 and an unemployment rate of 3.3%. The surrounding labor pool consists of tens of thousands of workers representing the entire spectrum of occupational groups and training opportunities in the area are abundant.

The City's goal is to promote development and expansion of a diversified business base to enhance the quality and standard of living through expanded job opportunities and tax base.

The City has seen 2.4 million square feet of retail, office and service industry development in the City's regionally based commercial center area known as "Southpark". Beginning with the opening of the area's only regional mall in 1989, the area has become a Mecca for giant retailers, specialty retailers and office seekers. The City currently has two additional hotels and a restaurant under construction. The area continues to expand with new developments as demonstrated by the completion of a 16-screen stadium style seating movie theater and the two planned expansions of existing big box stores. Transportation access and diversity have been two key elements of the area's sustained success. The City's older retail areas along the US1/301 corridor continue to benefit from the increased exposure of the City's regional emphasis.

The City's Capital Improvement Program is centered around infrastructure improvements

to update or expand the current services. Other major projects include the renovation and expansion of the current courts building, and the replacement and improvement of infrastructure.

The closure of the former landfill has been completed and approved by the Virginia Department of Waste Management. This has opened up additional land for development in the Southpark commercial center.

The City has endured the past economic challenges by maintaining a good local tax base that softened the effects of the Commonwealth's budget and economic cutbacks. This year's financial operations continued all of current services and expanded the replacement of Capital items. The City will continue to adhere to a conservative budget in order to keep existing programs funded and salaries of public employees competitive while dealing with budgetary challenges.

Accounting System and Budgetary Controls

In developing and refining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, not absolute, assurance regarding (a) the safeguarding of assets against loss from unauthorized use or disposition and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (a) the cost of a control should not exceed the benefits likely to be derived and (b) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the department line-item level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of line item balances are not released until funds are appropriated or transferred to the specific line item. Open encumbrances are recorded as reservation of fund balances at June 30, 2007.

As required by law, each year the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget study process and a public hearing to receive citizen input, City Council makes its decision on the adopted budget.

City of Colonial Heights Pension Plan

The City contributes to the Virginia Retirement System, an agent and cost-sharing multiple-employer defined benefit pension plan, which covers all City employees.

Capital Financing and Debt Service

The City's Financial Management policies were adopted by City Council in 1995 and formally reviewed in 1999 and 2003. Included in these policies are the following debt guidelines: General Fund supported long-term debt will not exceed 4% of assessed value of real estate, General Fund supported long-term debt will not exceed 10% of governmental fund expenditures, and minimum amortization of General Fund supported long-term debt will be 50% within 10 years. The City monitors these ratios to ensure ongoing compliance with the debt policy.

The Constitution of Virginia establishes a debt limit for Virginia cities of 10% of the assessed value of real estate. The City of Colonial Heights could incur debt in the amount of \$140,653,077, but has currently utilized 13.73% of its debt obligatory capacity.

Long-term liabilities, excluding notes payable, compensated absences, retirement incentive programs and environmental liabilities, for all funds of the primary government as of June 30, 2007, totaled \$19,320,000, of which \$2,579,389 for Enterprise Fund purposes is considered self-supporting and shown only as a liability of the respective fund.

The City's bonds were maintained by all three rating agencies These ratings are:

Moody's Investors <u>Service</u> A1	Standard & Poor's AA-	Fitch Investors <u>Service, Inc</u> AA-
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The City annually develops a Capital Improvements Program. Submitted projects are evaluated on a rating system using eleven criteria for funding recommendation. This annual rating by administrative staff is evaluated and approved by the City's Planning Commission and submitted to the governing body for future funding consideration. This list is used to allocate future bond and pay-as-you funding by the City.

Cash Management

The City follows the pooled cash concept, which maximizes investment flexibility, providing the best possible investment return. Cash temporarily idle during the year is invested in instruments as allowed by the *Code of Virginia*, Chapter 3, Title 26, and in accordance with the City's investment policy. The objectives of this policy are to assure safety and repayment of principal, provide flexibility to meet cash requirements, accomplish the maximum investment of all available funds and allow the City to obtain the highest competitive yield on investments.

Risk Management

The City established an Insurance and Risk Management department in 1987. This

department has expanded its original scope from the reduction of risk through adequate insurance to include the ongoing training of personnel and the reduction of hazards in the workplace.

Certificates of Achievement for Excellence

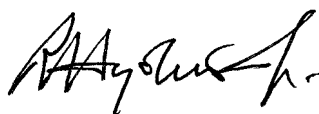
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Colonial Heights, Virginia for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR 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. The City has received a Certificate of Achievement for the last 27 consecutive years (fiscal years ended 1980 through 2006). We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for consideration.

Acknowledgments

We would like to express our appreciation to the staff of the Department of Finance for their dedication in assuring the financial integrity of the City and the preparation of this report. Appreciation is also expressed to City Council for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

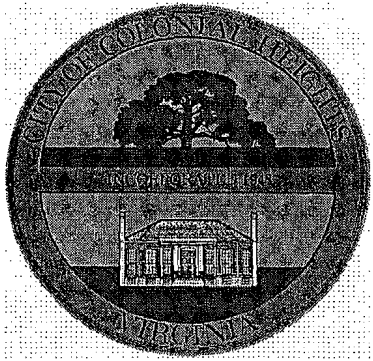
Respectfully submitted,



Richard A. Anzolut, Jr.
City Manager



William E. Johnson
Director of Finance



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CITY OF COLONIAL HEIGHTS, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

CITY COUNCIL

**JOHN T. WOOD
MAYOR**

**DAVID A. SALOT
VICE MAYOR**

PATRICIA L. COX

C. SCOTT DAVIS

MILTON E. FREELAND, JR.

T. GREGORY KOCHUBA

BETSY G. LUCK

RICHARD A. ANZOLUT JR., CITY MANAGER

HUGH P. FISHER, III, CITY ATTORNEY

KIMBERLY P. ROLLINSON, CITY CLERK

WILLIAM E. JOHNSON, DIRECTOR OF FINANCE

JEFFREY W. FARIES, CHIEF OF POLICE

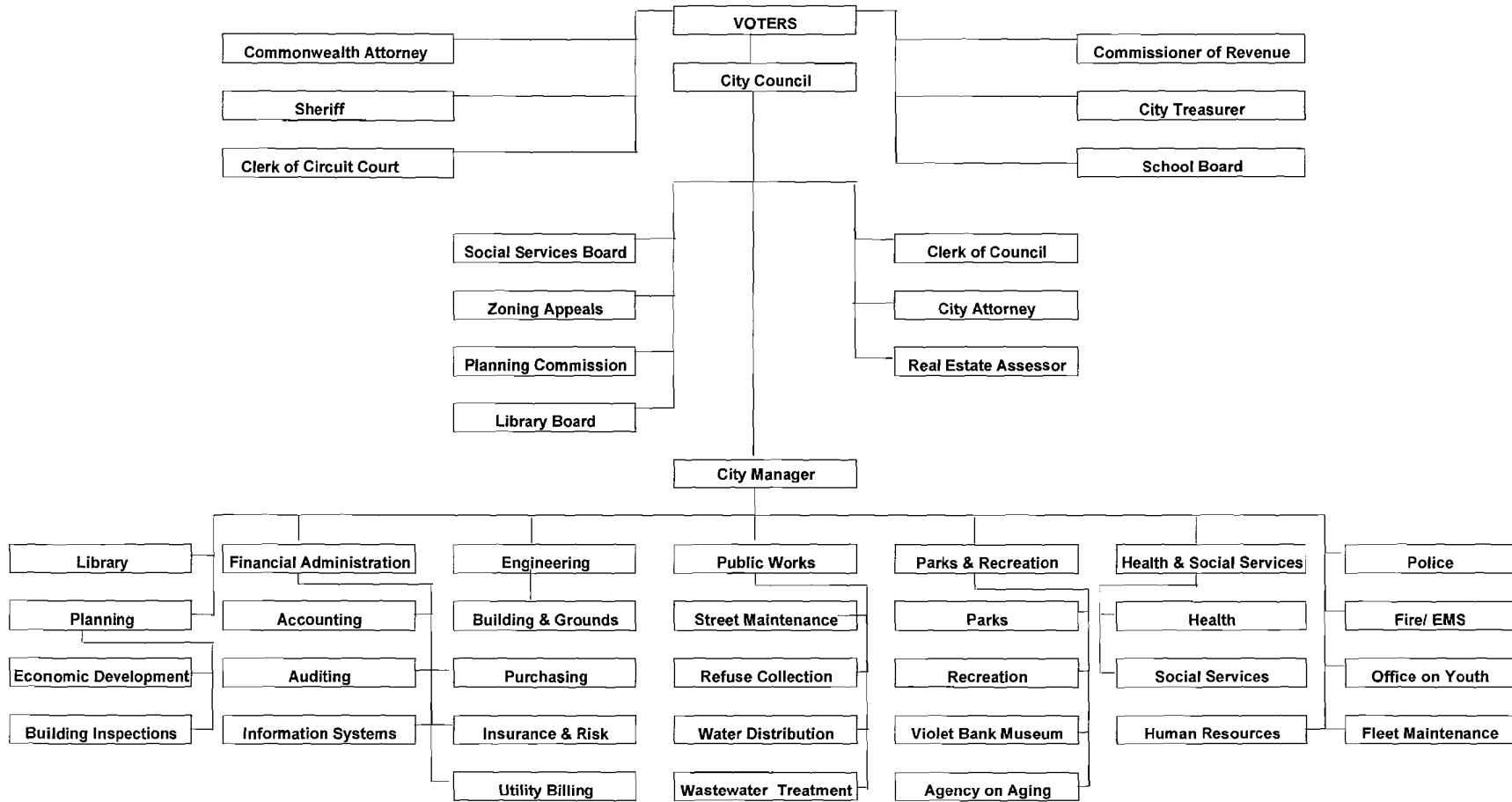
WILLIAM E. HENLEY, DIRECTOR OF PUBLIC WORKS

SEAN E. GLEASON, DIRECTOR OF RECREATION AND PARKS

BRUCE N. HANSEN, LIBRARY DIRECTOR

DR. JOSEPH O. COX, SUPERINTENDENT OF SCHOOLS

CITY OF COLONIAL HEIGHTS, VIRGINIA ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Colonial Heights Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.



A handwritten signature in black ink, appearing to read "Ronald J. Klein".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

