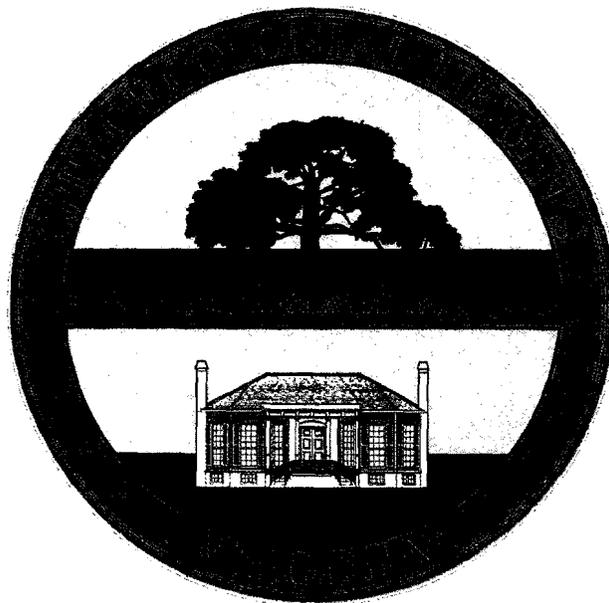


CITY OF COLONIAL HEIGHTS, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2007 THROUGH JUNE 30, 2008



Prepared by the Department of Financial Administration

Richard A. Anzolut Jr.
City Manager

William E. Johnson
Director of Finance

CITY OF COLONIAL HEIGHTS, VIRGINIA

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INTRODUCTORY SECTION



CITY OF COLONIAL HEIGHTS

P.O. Box 3401
COLONIAL HEIGHTS, VA 23834-9001
www.colonial-heights.com

December 18, 2008

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, 2008, 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 are included in the Compliance Section of this CAFR.

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, 185 and 164, 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 17,796 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 9,608 and a current unemployment rate of 4.8%. 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 space. The City currently has seen an additional hotel and a restaurant completed with a second hotel nearing completion. The area continues to expand with the 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 real estate rate was lower to partially counter the increase in biannual real estate assessments. The City continues 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, 2008.

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

It is City policy to balance the needs for public facilities with the financial capability to provide for these needs.

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 \$168,097,949, but has currently utilized 16.24% of its debt 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, 2008, totaled \$27,295,000, of which \$2,297,315 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 Investor Service	Standard & Poor's	Fitch Investors Service, Inc.
<hr/> A1	<hr/> AA-	<hr/> AA-

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, 2007. 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 28 consecutive years (fiscal years ended 1980 through 2007). 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

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, 2007

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.



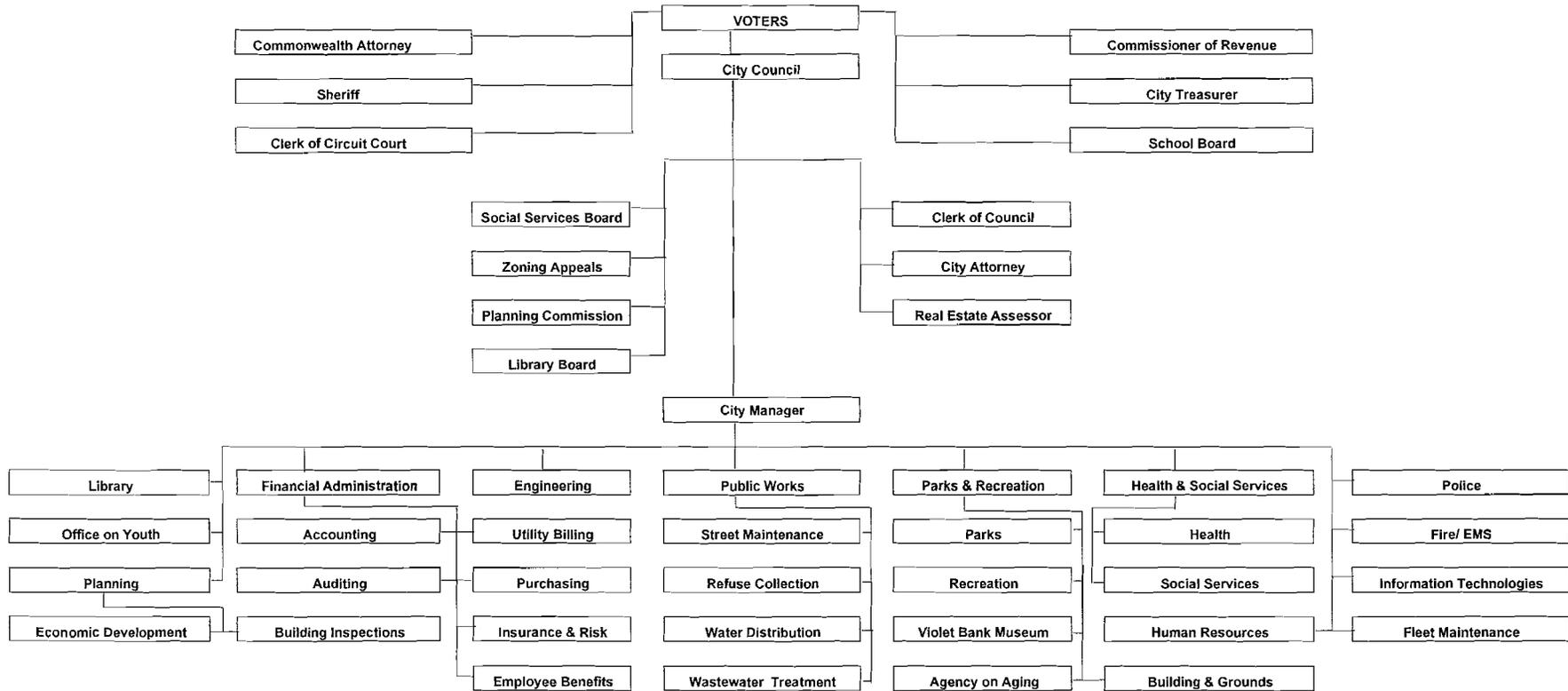
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF COLONIAL HEIGHTS, VIRGINIA ORGANIZATIONAL CHART



CITY OF COLONIAL HEIGHTS, VIRGINIA

Directory of Principal Officials
June 30, 2008

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

Other Officials

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

FINANCIAL SECTION



www.pbgh.com

Mensel D. Dean
Gregory W. Geisert
Herman W. Hale
John L. Vincie, III
Keith L. Wampler
Daniel B. Martin
Sean R. O'Connell
Kevin D. Humphries
Bradford R. Jones

Virginia B. Miller
John E. Zigler, Jr.
Michael T. Kennison
Michael A. Garber
Donald W. Knotts
Daniel J. Bender
Lawrence W. Schwartz
Helaine S. Weissman

INDEPENDENT AUDITORS' REPORT

To the Honorable Members of City Council
City of Colonial Heights, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Colonial Heights, Virginia (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 11 to 21) and the required supplementary information (pages 55 to 61) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary schedules, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PBGH, LLP

Harrisonburg, Virginia
December 15, 2008

**CITY OF COLONIAL HEIGHTS, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

The following discussion and analysis of the City of Colonial Heights, Virginia (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. It should be read in conjunction with the transmittal letter and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

The City's total net assets, excluding those of its component unit, on the government-wide basis, totaled \$38,434,361 at June 30, 2008. Of this amount, \$6,648,101 may be used to meet ongoing obligations to citizens and creditors, and \$31,786,260 is invested in capital assets, net of related debt.

On a government-wide basis for governmental activities, the City had expenses net of program revenues of \$40,468,903, which totaled \$3,441,809 greater than the general revenues of \$37,027,094.

At June 30, 2008, the City's governmental funds balance sheet reported fund balances of \$15,647,765. Of this amount, \$15,592,986 remains in the various governmental funds of the City as unreserved.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements present two types of statements, each with a different snapshot of the City's finances. The focus is on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both short-term and long-term information about the City's overall financial status. The fund financials focus on the individual part of City government, reporting the City's operations in more detail than the government-wide statements, which present a longer-term view. Presentation of both perspectives provides the user a broader overview, enhances the basis for comparisons, and better reflects the City's accountability.

Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements provide information about the City as a whole using the accrual basis of accounting, which is the method used by most private-sector enterprises. All current year revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. These statements allow readers to answer the question, "Is the City's position, as a whole, better or worse as a result of the year's activities?"

One of the main goals of these two statements is to report the City's net assets and changes that affected net assets during the fiscal year. The change in the City's net assets, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Increases or decreases in net assets are indicators of whether the City's financial health is improving or declining. Other nonfinancial factors, such as changes in the City's property tax base and the condition of the City's infrastructure should also be considered in assessing the overall financial health of the City.

In the Statement of Net Assets and the Statement of Activities, the City's activity is classified as follows:

Governmental activities - Most of the City's basic services are reported here, including general government, judicial administration, public safety, public works, health and welfare, parks, recreation and cultural and community development departments. Property taxes, other local taxes, and federal and state grants finance most of these activities.

Business-type activities - The City's water, sewage and solid waste operations are reported here as the City charges a fee to customers designed to cover all of the cost of services it provides.

Component unit - The City includes a discretely presented component unit in this report, the School Board of the City of Colonial Heights. Although legally separate, the component unit is important because the City is financially accountable for it.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statement presentation more familiar. However, the focus is now on the City's most significant funds as well as fund types. The fund financial statements begin on page 24 and provide detailed information about the most significant funds, not the City as a whole. The City has two types of funds:

Governmental funds – Most of the City's basic services are included with the governmental funds. Fund-based statements focus on how resources flow into and out of those funds and the balances left at year-end that are available for future spending. These funds are reported on the modified accrual basis of accounting, which measures cash and other liquid assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities as reported in the government-wide and fund financial statements are reconciled in Exhibits C and D on pages 25 and 27.

Proprietary funds – When the City charges customers for services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, utilize the accrual basis of accounting, and their statements provide both short and long-term financial information.

The City's enterprise funds, one type of proprietary fund, is the same as the government-wide, business-type activities; however, the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds are the Water, Sewer, and Solid Waste funds.

The following table presents a condensed comparison of net assets:

Summary Statement of Net Assets
June 30, 2008 and 2007
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2008	2007	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$28.8	\$22.6	\$1.1	\$1.0	\$29.9	\$23.6	\$8.3	\$5.9
Capital Assets, net	42.1	43.2	11.5	11.9	53.6	55.1	14.7	11.1
Total Assets	<u>70.9</u>	<u>65.8</u>	<u>12.6</u>	<u>12.9</u>	<u>83.5</u>	<u>78.7</u>	<u>23.0</u>	<u>17.0</u>
Other Liabilities	18.9	14.3	.7	.5	19.6	14.8	3.8	3.0
Non-current Liabilities	23.4	19.4	2.1	2.4	25.5	21.8	1.2	1.5
Total Liabilities	<u>42.3</u>	<u>33.7</u>	<u>2.8</u>	<u>2.9</u>	<u>45.1</u>	<u>36.6</u>	<u>5.0</u>	<u>4.5</u>
Net Assets								
Invested in Capital Assets, net of related debt	22.6	22.5	9.2	9.2	31.8	31.7	14.7	11.1
Restricted								
Unrestricted	6.0	9.5	0.6	0.8	6.6	10.3	3.3	1.4
Total Net Assets	<u>\$28.6</u>	<u>\$32.0</u>	<u>\$9.8</u>	<u>\$10.0</u>	<u>\$38.4</u>	<u>\$42.0</u>	<u>\$18.0</u>	<u>\$12.5</u>

The City's combined net assets decreased from \$42.0 million to \$38.4 million. Net assets of the Governmental activities decreased by \$3.4 million or 10.7%. Governmental activities unrestricted net assets, the portion of net assets that can be used to finance the day-to-day operations of the City totaled \$6.0 million. Invested in capital assets, net of related depreciation and debt, represents the amount of capital assets owned by the City including infrastructure, net of any outstanding debt used to fund the asset purchase or construction. Net assets are reported as restricted when constraints on asset use are externally imposed by creditors, grantors, contributors, regulators, or are imposed by law through constitutional provisions or enabling legislation.

The component unit net assets reflect an increase in City support due to the established funding agreement with the School Board. The City agreement provides that the School system receive 50.73% of specified revenues. The increase also reflects increased amounts being established for pay-as-you-go infrastructure maintenance.

The following table presents a condensed comparison of the changes in net assets:

Summary Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 and 2007
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues:								
Program revenues:								
Charges for services	\$ 5.3	\$ 5.3	\$ 5.2	\$ 4.9	\$10.5	\$10.2	\$ 0.5	\$ 0.5
Operating grants and contributions	5.5	4.7	-	-	5.5	4.7	14.4	14.1
Capital grants and contributions								
General revenues:								
Property taxes	20.3	18.3	-	-	20.3	18.3	-	-
Other local taxes	14.1	13.7	-	-	14.1	13.7	-	-
Payment from other governments	-	-	-	-	-	-	23.3	16.7
Intergovernmental, non-categorical aid	1.8	1.9	-	-	1.8	1.9	-	-
Use of money and property	0.7	0.7	-	-	0.7	0.7	0.1	0.3
Miscellaneous	0.3	0.3	-	-	0.3	0.3	0.3	0.1
Total revenues	48.0	44.9	5.2	4.9	53.2	49.8	38.6	31.7
Expenses:								
General government	7.6	6.6	-	-	7.6	6.6	-	-
Judicial administration	4.4	3.7	-	-	4.4	3.7	-	-
Public safety	7.6	6.7	-	-	7.5	3.5	-	-
Public works	3.7	3.5	-	-	3.7	3.5	-	-
Health and welfare	0.7	0.9	-	-	0.7	0.9	-	-
Parks, recreation and cultural	2.4	1.8	-	-	2.4	1.8	-	-
Community development	0.6	0.6	-	-	0.6	0.6	-	-
Education	23.3	16.7	-	-	23.3	16.7	33.1	29.6
Interest	1.1	0.9	-	-	1.1	0.9	-	-
Water, sewer and solid waste	-	-	5.6	5.3	5.6	5.3	-	-
Total expenses	51.2	41.4	5.6	5.3	56.8	46.7	33.1	29.6
Change in Net Assets Before Transfers	(3.2)	3.5	(0.4)	(0.4)	(3.6)	3.1	5.5	2.1
Transfers	(0.2)	(0.4)	0.2	0.4	-	-	-	-
Change in Net Assets	(3.4)	3.1	(0.2)	-	(3.6)	3.1	-	2.1
Net Assets, beginning	32.0	28.9	10.0	10.0	42.0	38.9	12.5	10.4
Net Assets, ending	\$28.6	\$32.0	\$ 9.8	\$10.0	\$38.4	\$42.0	\$18.0	\$12.5

The property tax classification, which comprised approximately 42.3% of total revenue generated by governmental activities, includes real estate tax, the local portion of personal property tax, and public services corporation taxes. Real estate tax revenue, the largest source of revenue for the City totaled \$16.8 million. The assessed value of real property in the City increased 20.1% for the calendar year due to a 2008 real estate reassessment and new construction.

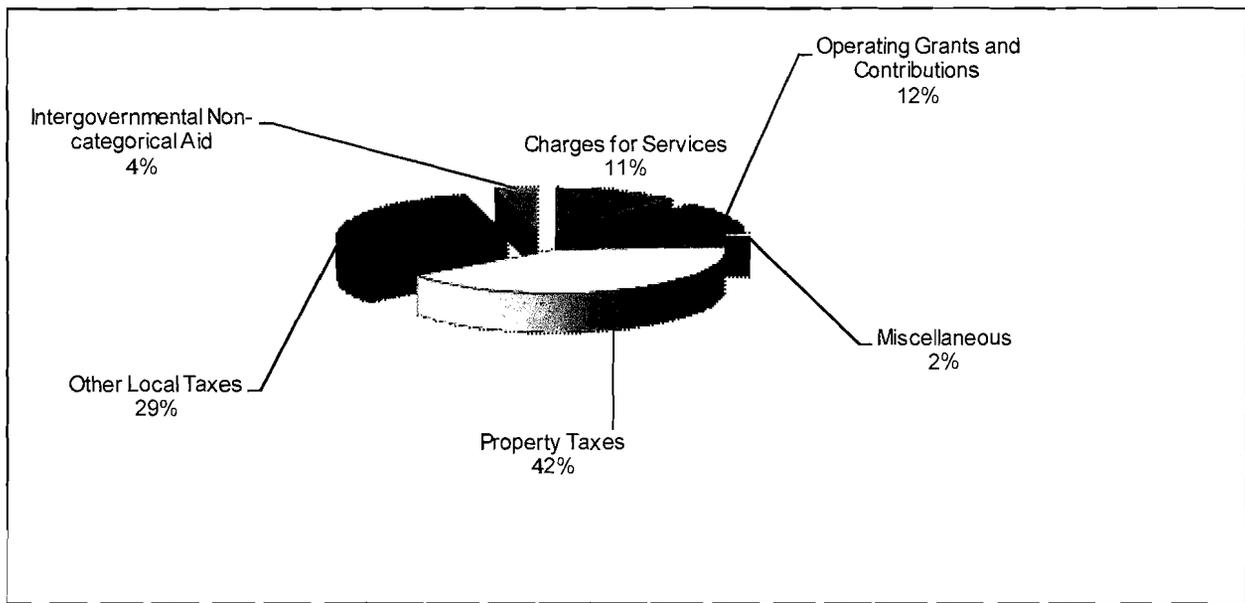
In 1998, the Commonwealth enacted the Personal Property Tax Relief Act. The Commonwealth's share of personal property taxes allocated to the City was 65% for the current fiscal year and is included in the intergovernmental category. Personal property tax revenue, including the Commonwealth share, totaled \$4.2 million as compared to 3.9 million in fiscal year 2007. The net assessed value of taxable personal property increased \$.9 million or .7 percent from 2007 to 2008 after an increase of \$2.9 million from 2006 to 2007. Increased property tax collections reflect increased collection procedures developed by the City Treasurer's Office.

Sales taxes, utility taxes, business and professional occupational taxes, prepared food and beverage taxes, transient room taxes, and utility taxes comprise the majority of other local taxes collected by the City. Other taxes comprised approximately 29.3% of total revenues generated for governmental activities.

Operating grants and contributions comprised approximately 11.4% of governmental activities revenues. Street maintenance funds, funding received under House Bill 599 for law enforcement, and reimbursement for shared expenses of the constitutional officers are some of the major sources of revenue included in this category.

Charges for services include items such as EMS transport fees, court fees, inspection fees, reimbursements for housing prisoners, and garbage collection fees. EMS fees were up by 4.3% but still under projected revenues by \$37,600 due to prior year changes in insurance coverage of transported patients.

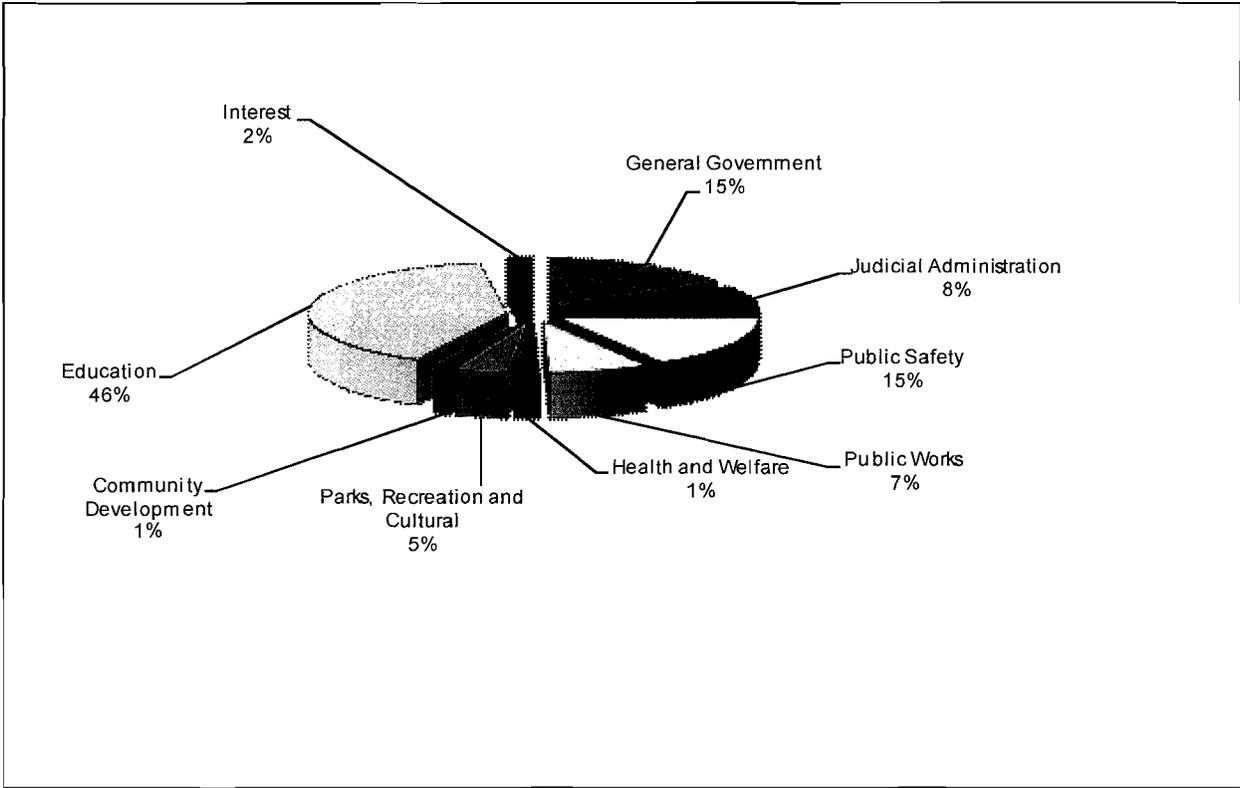
Revenue generated for governmental activities are presented below by category:



Public safety expenses comprised approximately 14.5% of expenses of the governmental activities. Operations of the labor-intensive Police and Fire Departments are included in this category, along with expenses of Emergency Medical Services, and Communications (E911 Call Center). Education expenses comprised 45.5% of governmental activities. Funding, established by the revenue sharing agreement, of \$17.8 million was provided to the City of Colonial Heights School Board to support School operations. This reflects a reduction of \$294,000 from the budgeted estimated \$18.1 million due to lower revenues collected by revenue sharing agreement formula revenues.

Public Works and Health and Welfare expenses comprised approximately 7.1% and 1.4% respectively, of governmental activities expenses. Expenses for Building Maintenance, Street Paving, and Street Maintenance are included in Public Works category. Solid Waste management previously included in this grouping is now treated as an enterprise fund. The City experienced turnover in key personal positions, which resulted in salary lapse/benefit savings and slowdown of some construction projects which resulted in a higher unexpended balance than traditionally projected. The Comprehensive Services Act and social services programs incurred the majority of expenses reported in the Health and Welfare category and reflect a minor decrease over last year.

Expenses of the governmental activities are shown by functional area:



The net assets of business-type activities decreased approximately \$184,000 during 2008.

The current rate structure was not maintaining sufficient revenues for water and sewer; therefore, the current rate structure was increased by 10% and 15% for the Water and Sewer Funds, respectfully, for fiscal year 2009. No major changes in operations were experienced. The City established and funded a new Stormwater Management Fund also for fiscal year 2009 to deal with operational and capital expenses for State and Federal mandates.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

For the fiscal year ended June 30, 2008, the governmental funds reflect a total fund balance of \$15,647,765. Approximately \$15.6 million of this amount constitutes unreserved fund balance, which is available for spending services and capital projects. Unreserved fund balance is designated to purchase capital equipment, pay claims, fund future debt service requirements, pay for future years' capital projects expenditures and encumbrances, which indicates that it has already been committed to liquidate contracts and purchase orders outstanding at year-end.

The City accounts for Solid Waste collection activities as a business-type activity. This included the establishment of a multiyear rate structure increase to bring the operations to be self-sufficient and not be a City supported service.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund unreserved fund balance was \$9,771,758, while the total fund balance was \$9,826,537. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 20.6% of the total General Fund expenditures and other financing uses, while total fund balance represents 20.7% of that same amount.

The fund balance of the General Fund was increased by \$17,787 during the current fiscal year. The General Fund begins each year with budgeted revenue and expenditure amounts that are equal. This includes \$1,200,000 transferred to the Capital Projects fund for one time capital projects and reserve for future fire apparatus.

Local taxes generated the majority of General Fund revenue, totaling approximately \$33.8 million in fiscal 2008. Increased current collections of personal property taxes helped offset an additional non-budgeted 5 cent reduction in the Real Estate tax rate.

Intergovernmental revenue is the second largest source of General Fund revenues, generating approximately \$6.5 million in fiscal year 2008. The majority of this revenue is received from the Commonwealth and includes law enforcement funding received under Virginia House Bill 599, and street maintenance funds. This is a \$59,000 decrease from fiscal year 2007. Most of the decrease came from previous year's one-time increase in State portion of Personal Property Taxes. Normal increases to base street maintenance funds and the funding for Constitutional Offices were received.

CAPITAL PROJECTS FUND HIGHLIGHTS

The Capital Projects Fund reflects transfer of \$1,050,000 in excess unrestricted General Fund Balance for one-time capital project additions and continuing annual transfer of \$150,000 for future replacement of fire apparatus. Prior authorized \$10,000,000 in General Obligation Bonds were sold for the expansion/renovation of an elementary school and road projects. Project expenditures totaled \$5,715,162 which resulted in a net change in fund balances of \$5,542,238 for an ending fund balance of \$5,821,228.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues exceeded the original budgeted revenues by \$761,750 and final budgeted revenues by \$431,096 or .9 %. This was due to strong increases in real estate assessments offset by an additional reduction in the Real Estate tax rate, reduction in local sales tax collections, and increases in food tax revenues. EMS transport fees were near projections, after prior year changes in percentages of customer with third party insurances. Changes in budget estimates and collection procedures were modified to account for these changes.

General Fund expenditures and transfers were greater than the original budget by \$743,963, and were under the final, amended budget by \$1,391,121 or 2.9%. During fiscal year 2008, City Council amended the budget several times for increases to fund one-time capital projects from General Fund Balance reserves, the awarding of donations and receipt of operational grants. Higher than normal employee turnover resulted in unexpended personal and fringe benefits savings. Budgetary numbers also include equipment purchases authorized but not completed until the 2009 fiscal year.

CAPITAL ASSETS

As of June 30, 2008, the City's capital assets for its governmental and business-type activities amounted to \$53,627,914 (net of accumulated depreciation). This investment includes land, construction in progress, land improvements, buildings and structures, equipment and infrastructure. The total net decrease (additions less retirements and depreciation) in the City's investment in capital assets for the current fiscal year was \$1,462,569 or 2.7%.

Summary Statement of
Capital Assets, Net of Accumulated Depreciation
June 30, 2008 and 2007
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$4.6	\$4.6	\$0.1	\$0.1	\$4.7	\$4.7
Construction in Process	.7	2.3	-	-	.7	2.3
Building and Structures	14.1	14.7	2.0	2.1	16.1	16.8
Infrastructure	18.1	17.0	8.6	8.9	26.7	25.9
Equipment	4.6	4.6	0.8	0.8	5.4	5.4
Total	\$42.1	\$43.2	\$11.5	\$11.9	\$53.6	\$55.1

The changes in each category of Capital Assets are presented in detail in note 9 to the Basic Financial Statements.

Major capital asset events during the fiscal year included the following:

Expansion/renovation of an elementary school.

Storm drainage and road improvements southern end of City.

Recreational facilities design projects.

LONG-TERM DEBT

At June 30, 2008, the City's long-term liabilities, not including compensated absences, totaled \$31,516,590 consisting of \$29,138,657 related to governmental activities, and \$2,377,933 related to business-type activities. This amount increased by \$8,007,250 during the fiscal year, as a result of the sale of \$9,930,000 in General Obligation Bonds less normal debt retirement.

The City maintained ratings of AA-, AA- and A1 from Fitch Investors Service Inc., Standard & Poor's Rating Service and Moody's Investor Service, respectfully.

The Charter of the City, and Code of Virginia limits the City's net debt to 10% of the assessed valuation of real estate. The City's entity-wide debt of \$27,295,000 is below the legal debt limit of \$168,097,949.

