

CITY OF HARRISONBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR
JULY 1, 2005 TO JUNE 30, 2006

This Report
Prepared by Department of Finance
Lester O. Seal, CPA
Director

CITY OF HARRISONBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006

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INTRODUCTORY SECTION

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City of Harrisonburg Virginia

Office of City Manager
345 South Main Street
Post Office Box 20031
Harrisonburg, Virginia 22801
(540) 432-7701/Fax (540) 432-7778

Roger D. Baker
City Manager

November 15, 2006

To the Honorable Mayor, Members of the City Council and the
Citizens of the City of Harrisonburg:

The Comprehensive Annual Financial Report of the City of Harrisonburg, Virginia (City), for the fiscal year ended June 30, 2006 is hereby submitted in accordance with Section 45 of the *City Charter* and Section 15.2-2511 of the *Code of Virginia*, 1950, as amended. The *City Charter* and the *Code of Virginia* require that the City issue annually a report on its financial position and operations, and that this report be audited by either the state auditor or an independent firm of certified public accountants in accordance with generally accepted auditing standards (GAAS). This report has been prepared by the Department of Finance to conform with the standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), generally accepted accounting principles (GAAP) and the Commonwealth of Virginia Auditor of Public Accounts (APA).

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations for the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Brown, Edwards & Company, LLP, a firm of licensed certified public accountants, have audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. This examination was conducted using guidelines set forth by GAAS and the *Specifications for Audits of Counties, Cities and Towns*, issued by the APA. Based upon this audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements was also designed to meet the federal Single Audit Act Amendments of 1996 and the related U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements set forth in the General Accounting Office's *Government Auditing*

The City With the Planned Future

Standards require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and compliance with legal requirements involving the administration of federal awards. These reports are available in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

This report is divided into four sections: introductory, financial, statistical tables and compliance. The introductory section is intended to familiarize readers with the organizational structure of the City government, the nature and scope of services that are provided and the specifics of the legal operating environment. The financial section provides management's analysis of the City's current financial position and the outcome of its operations, the opinion of the independent auditor and the financial statements. The statistical table section is designed to provide some historical perspective of the City's financial condition and to reflect the social and economic trends of the area. The compliance section is prepared in conformity with the provisions of the Single Audit Act Amendments of 1996 and the OMB Circular A-133. This section includes a schedule of expenditures of federal awards, the independent auditors report on compliance and on internal controls over financial reporting, a schedule of findings and questioned costs and comments on the resolution of prior year findings.

Profile of the City of Harrisonburg

Background. The City was established in 1780 and was named for Thomas Harrison, who donated the land for the Rockingham County Court House, which became the permanent county seat of Rockingham County in 1781. The City was incorporated in 1849 and was proclaimed a city of the first class in April 1990. It now encompasses 17.3 square miles and serves a population of approximately 44,008.

The City lies in the geographic center of the Shenandoah Valley of Virginia. The Blue Ridge Mountains on the East and the Alleghenies on the West provide protection so the area is markedly free from climate extremes and disturbances. The Valley floor itself is at an elevation of 1,000 feet while the City's elevation is 1,329 feet. The City is equidistant from Washington, D.C. (124 miles), Richmond, Virginia (116 miles), and Roanoke, Virginia (111 miles).

The City is operated under the Council-Manager form of government. The City Council is the governing body, which formulates policies for the administration of the City. It is comprised of five members elected on an at-large basis to serve four-year terms. The City Council appoints a City Manager to serve as the City's chief administrative officer. The City Manager is responsible for implementing the policies of the City Council, directing business and administrative procedures and appointing departmental officials and certain other City employees.

Services provided. The City provides a full range of services including police and fire protection; sanitation services; construction and maintenance of streets and bridges; water and sewer services; public transportation; community development; and parks, recreational activities and cultural events.

The operation of primary and secondary education in the City is the responsibility of the School Board. The City voters elect the six members of the School Board, who appoint the Superintendent of Schools. The local share of funds for operating public schools in the City is provided by an appropriation from the City's General Fund to the School Board. The School Board, however, is a separate legal entity and autonomous policy-making body in matters governing education.

The City provides court house and jail facilities, as well as the services of the Sheriff, Commonwealth Attorney, and Clerk of the Circuit Court through Rockingham County (County). The City reimburses the County one-half of the net expenditures for providing these services.

The City also provides social services through the Harrisonburg-Rockingham Social Services District (District), which is jointly governed with the County. The District is a separate legal entity and is a discretely presented component unit of the County. The City makes contributions to the District based upon its pro rata share of the population for the City and County as a whole.

Electricity is provided by the Harrisonburg Electric Commission, created by ordinance of the City Council pursuant to the City Charter. The Commission is composed of 5 members appointed for 3-year terms by the City Council and is a separate legal entity.

Budgetary Compliance and Control. The City prepares a budget in accordance with Section 60 of the *City Charter* and Section 15.2-2503 of the *Code of Virginia*, 1950, as amended. The *City Charter* requires the City Manager to submit a balanced budget to the City Council at least sixty days prior to the beginning of each fiscal year (July 1). City Council is required to convene a public hearing regarding the City Manager's proposed budget. The proposed budget, which may be modified by the City Council, is required to be adopted by a majority vote of the City Council members prior to the beginning of the ensuing fiscal year. On the basis of the budget, City Council appropriates funds for expenditures and establishes tax rates sufficient to produce the revenues needed to pay such expenditures. The *City Charter* requires the annual budget to be balanced and prohibits expenditures for which moneys are not available or reasonably expected to be forthcoming in time to meet such expenditures. The *City Charter* also requires the annual budget and the annual appropriation ordinance to make a provision for a reasonable contingency fund.

Budgetary control is maintained at the department level as delineated in the appropriation ordinance. The City Manager is authorized to transfer budgeted amounts within departments, from reserve for contingencies to other expenditure line items and re-arrange salaries as may best meet the needs and interest of the City. Supplemental appropriations, transfers between departments and funds, other than the situation aforementioned, require the approval of City Council. Also, supplemental appropriations, which exceed \$500,000 or 1% of the budget, whichever is less, require a public hearing prior to approval by City Council. All appropriations lapse at year-end except for appropriations for capital projects funds. Appropriations for capital projects are valid until the end of the project. Encumbrances outstanding at year-end are reported as reservation of fund balance, since they do not constitute expenditures or liabilities, and are generally reappropriated in the following fiscal year. A budget-to-actual comparison is provided in this report for the general fund. This comparison is presented on page 28.

Major Initiatives

The City's staff, following specific directives of the City Council and the City Manager, has been involved in a variety of projects and activities throughout the year. These projects and activities reflect the City's commitment to ensuring that the citizens of Harrisonburg are able to live and work in an enviable environment. The significant projects and activities are as follows:

- Hired a full time City attorney.
- Hired four additional police personnel.
- Hired three firefighters.
- Hired three additional transportation personnel.
- Hired two additional Sanitation Department personnel.
- Hired four Emergency Communication Center personnel.
- Appropriated \$100,000 for a down payment on a new fire truck.
- Appropriated \$296,000 for traffic signals upgrades.
- Appropriated \$150,000 for Westover Pool bathhouse renovations.
- Appropriated \$220,250 for Westover Pool improvements
- Appropriated \$950,000 for water storage tanks.
- Appropriated \$395,000 for four transit buses.
- Appropriated \$230,000 for three school buses.
- Appropriated \$577,050 for the City's share of Rockingham County's landfill expenses.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City is in the center of commerce and travel for the area, while the surrounding area is known for its poultry industry. The area is an educational center served by four institutions of higher learning with a total enrollment of approximately 23,516. James Madison University, a state-supported school, is located near the geographic center of the City and has approximately 16,546 undergraduate students. Eastern Mennonite University, a private institution with approximately 1,660 students is also located in the City. Bridgewater College, located just south of the City, is also private and has an approximate enrollment of 1,506 students. State-supported Blue Ridge Community College has an enrollment of approximately 3,804 students.

Rockingham Memorial Hospital provides hospital and many related healthcare services. Air, rail and bus transportation is available in the area. U.S. Airways Express operates out of the Shenandoah Valley Regional Airport in Weyers Cave, Virginia and provides passenger and freight service. There are several private airfields located in the area including Bridgewater Air Park located in Bridgewater. The area is served by the Norfolk Southern Corporation railroad. There are locally based private and common carriers serving the nation with general freight and specialties. Parcel post services are available for shopping, mailing and delivery service. Interstate 81 runs North and South through the area and intersects with Interstate 64 East and West at Staunton, Virginia for travel by car.

Long-term financial planning. Each year the City prepares a comprehensive Capital Improvements Program (CIP). The CIP is prepared in an effort to prioritize capital improvement needs over a five-year period and to plan for the appropriate financing of these projects. Planning for capital improvements is an important process for the City in order to ensure that assets are acquired or constructed in time to meet specific needs and to spread costs over several fiscal years in order to avoid a large peak in capital expenditures during a single year.

The City continues to plan and work on its next major transportation project: Erickson Avenue Extension and Stone Spring Road Improvement. The total project is anticipated to cost approximately \$59.1 million of which \$3.6 million has already been expended and approximately \$.8 million in cash is on hand. It is planned that this project will be completed in at least five phases. It is currently projected that \$5.9 million will be borrowed in fiscal year 2007; \$2.6 million will be borrowed in the fiscal year 2008; \$9 million will be borrowed in fiscal year 2009; \$5.2 million will be borrowed in fiscal year 2010; \$3 million will be borrowed in fiscal year 2011; \$5.2 million will be borrowed in fiscal year 2012 and the final \$8 million will be borrowed in fiscal year 2013. The remaining \$10.9 million will be provided from VDOT Urban Funds and \$4.9 million from the Commonwealth of Virginia through revenue sharing funds. The estimated final completion date for the project is 2013, but various phases will be completed during the construction period. Because of the rebuild of the Stone Spring Road bridge over Interstate 81, the widening of Interstate 81 by the Commonwealth of Virginia will ultimately impact the final completion date. In fiscal year 2007 the City will start using a portion of its annual state road allocation funding to defray the cost of the aforementioned indebtedness.

The City is in the process of constructing a waterline to the Shenandoah River, which is located approximately 17 miles east of the City. The estimated total cost of the project is \$19 million of which \$3.4 million has already been expended and \$3.6 million in cash is on hand. The projected completion date is estimated to be prior to 2012.

Cash Management. The City's investment policy is to invest with the same care, skill, prudence and diligence that a prudent and knowledgeable person would exercise when undertaking an enterprise of like character and aims. It is the policy of the City that all investments and investment practices meet or exceed those enumerated in Chapter 3, Title 26 of the *Code of Virginia*, 1950, as amended. The City's primary investment objectives, in order

of priority are safety, liquidity and return on investments. Investments are limited to those maturing in three years or less from the time of purchase. The City uses Trusco Capital Management, Inc., a non-bank affiliate of SunTrust Bank, and the State Treasurer's Local Government Investment Pool to handle its investments. Additional information can be found in Note 3 of the notes to financial statements.

Risk Management. The City uses a variety of techniques to identify and monitor its risks and exposures for the programs and activities that are provided. An on-going safety program has been initiated to help prevent losses and to better identify problem areas that need attention. Additional information can be found in Note 31 of the notes to financial statements.

Certificate of Achievement

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 for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eleventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We would like to express our appreciation to all members of the staff who assisted and contributed to the preparation of this report. The preparation of this report would not have been accomplished without their efficient and dedicated services. We would also like to thank the members of the City Council for their continued interest and support in planning and conducting the financial operations of the City in a responsible, timely and progressive manner.

Respectfully submitted,

Roger D. Baker
City Manager

Lester O. Seal, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Harrisonburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



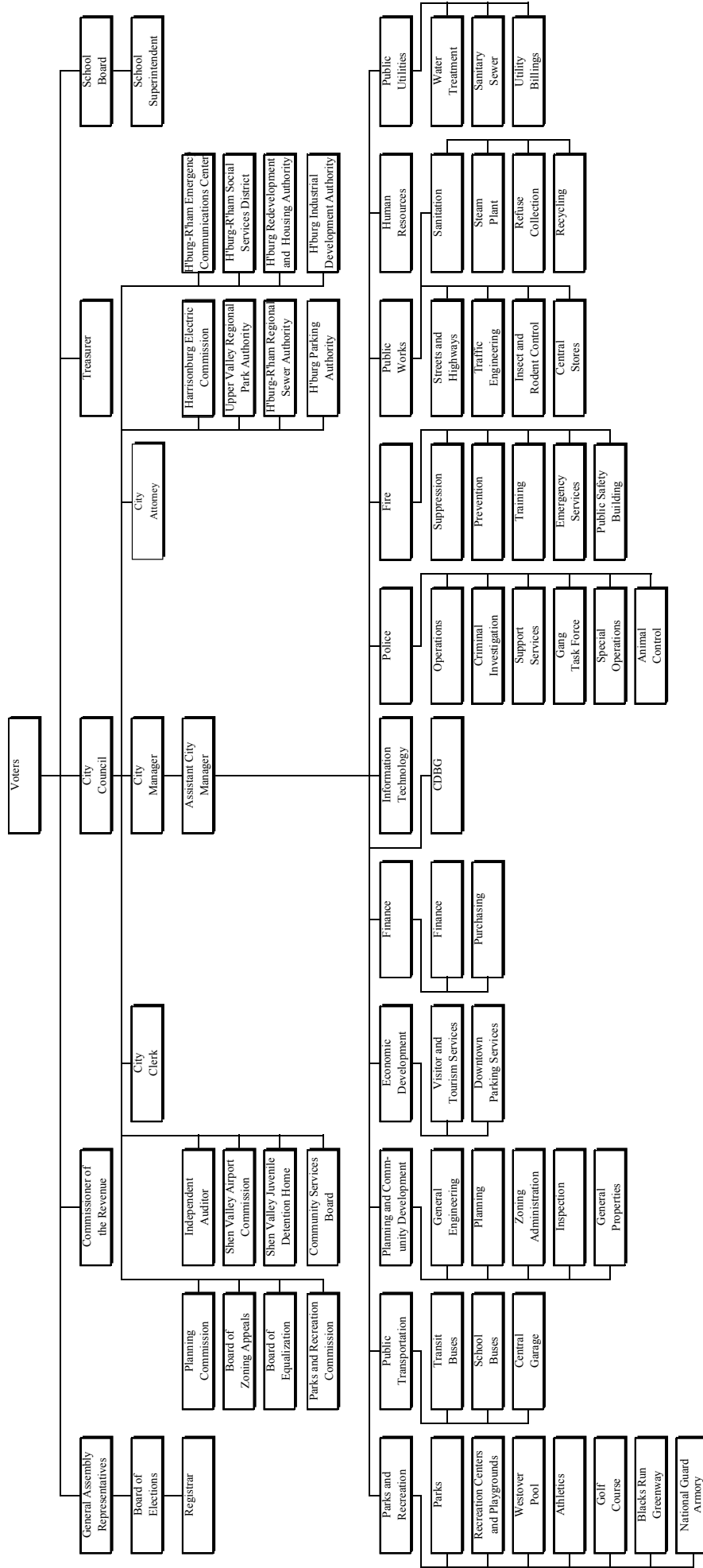
Carla E. Perry

President

Jeffrey R. Emery

Executive Director

City of Harrisonburg, Virginia Organization Chart



CITY OF HARRISONBURG, VIRGINIA

Directory of Principal Officials

June 30, 2006

CITY COUNCIL

Larry M. Rogers, Mayor

Rodney L. Eagle, Vice Mayor

Charles R. Chenault, Council Member

Hugh J. Lantz, Council Member

George W. Pace, Council Member

OFFICIALS

Roger D. Baker

City Manager

Kurt D. Hodgen

Assistant City Manager

Rebecca B. Neal

City Treasurer

June W. Hosaflook

Commissioner of the Revenue

Earl Q. Thumma, Jr.

City Attorney

Yvonne H. "Bonnie" Ryan

City Clerk

Lester O. Seal

Director of Finance

E. Lee Foerster, Jr.

Director of Parks and Recreation

Donald G. Harper

Police Chief

Larry W. Shifflett

Fire Chief

A. Michael Collins

Director of Public Utilities

James D. Baker

Director of Public Works

Stacy H. Turner

Director of Planning and Community Development

Reginald S. Smith

Director of Transportation

Jennifer W. Rhodes

Director of Human Resources

Brian B. Shull

Director of Economic Development

Emily H. Long

City Registrar

Keith E. Markel

City Planner

Daniel J. Rublee

City Engineer

Alison B. Banks

Zoning Administrator

SCHOOL BOARD

Donald J. Ford, Ed.D., Superintendent of Schools

Lisa M. Lantz, Clerk

James M. Triplett, Jr., Director of Budget and Finance

Catherine M. Slusher, M.D., Chairperson (Resigned 6/14/06)

Thomas C. Mendez, Board Member

Michael D. Walsh, Vice Chairperson

Timothy J. Lacey, Board Member

Gregory L. Coffman, Board Member

Kerri M. Wilson, Board Member

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of City Council
City of Harrisonburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia, as of and for the year ended June 30, 2006, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit Harrisonburg Electric Commission, which statements reflect total assets of \$67,854,336 as of June 30, 2006, and total revenues of \$51,785,132 for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us; and our opinion, insofar as it relates to the amounts included for the discretely presented component unit Harrisonburg Electric Commission, is based on the reports of the other auditors.

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 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, based on our audit and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund 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 November 10, 2006, 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 11 through 20 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors 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 combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Harrisonburg, Virginia. 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 introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 10, 2006

Management's Discussion and Analysis

As management of the City of Harrisonburg (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$233.2 million (net assets). Of this amount, \$44.4 million (unrestricted net assets) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets increased by \$13.6 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23.9 million, a decrease of \$8.7 million in comparison with the prior year. Approximately 63.9 percent of this total amount, \$15.3 million, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$12.3 million, or 16.5 percent of total General Fund expenditures and other financing uses.
- The City's total long-term debt decreased by \$4.9 million during the current fiscal year.

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 basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, public works, health and welfare, education, parks and recreation, and planning and community development. The business-type activities of the City include water, sewer, public transportation, sanitation and public parking services.

The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate Harrisonburg City School Board (School Board) and the Harrisonburg Electric Commission (HEC) for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. To obtain a copy of

the separately issued audited financial statements for HEC, contact the Harrisonburg Electric Commission, 89 West Bruce Street, Harrisonburg, Virginia 22801. The School Board does not issue separate financial statements.

The government-wide financial statements can be found on pages 21 through 23 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, General Capital Projects Fund, and the School Bond Capital Projects Fund, which are considered to be major funds. The other two governmental funds are combined into a single, aggregated presentation. Individual fund information for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24 through 28 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, public transportation, sanitation and public parking operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions, as well as to some external organizations. The City uses internal service funds to account for the operations of its central garage, central stores and a self-insured health insurance plan. Because these services mainly benefit governmental rather than business-type functions, they are included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains six enterprise funds and three internal service funds. The proprietary fund financial statements provide separate information for the Water Fund, Sewer Fund, Public Transportation Fund, Sanitation Fund and Parking Authority Fund, which are considered to be major enterprise funds. Also, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the other supplementary information part of the financial section of this report.

The basic proprietary fund financial statements can be found on pages 29 through 32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 33 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 34 through 69 of this report.

Other supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. This information includes the combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, agency funds and School Board individual fund financial statements. This information is presented immediately following the notes to financial statements. The combining and individual fund statements and schedules can be found on pages 70 through 89 of this report.

Government-wide Financial Analysis (Primary Government)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceed liabilities by \$233,151,989 at the close of the most recent fiscal year.

The largest portion of the City's net assets (80.4 percent) reflects its investment in capital assets (e.g., land, buildings and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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.

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, which amounts to \$44,351,099, may be used to meet the City's ongoing obligations to citizens and creditors.

City of Harrisonburg's Net Assets

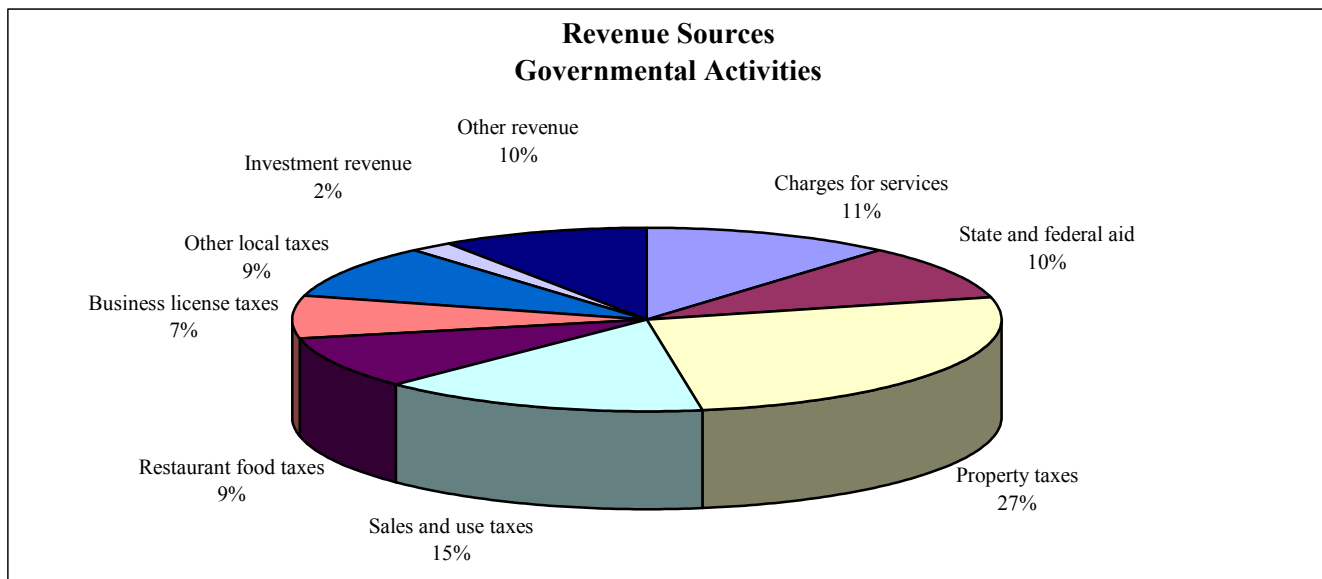
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 60,900,531	\$ 66,165,419	\$ 29,929,699	\$ 30,125,205	\$ 90,830,230	\$ 96,290,624
Capital assets	220,607,641	204,600,247	89,775,121	88,922,038	310,382,762	293,522,285
Total assets	\$ 281,508,172	\$ 270,765,666	\$ 119,704,820	\$ 119,047,243	\$ 401,212,992	\$ 389,812,909
Current and other liabilities	\$ 30,784,734	\$ 27,928,238	\$ 2,112,122	\$ 2,257,645	\$ 32,896,856	\$ 30,185,883
Long-term liabilities	92,556,098	96,751,008	42,608,049	43,349,668	135,164,147	140,100,676
Total liabilities	\$ 123,340,832	\$ 124,679,246	\$ 44,720,171	\$ 45,607,313	\$ 168,061,003	\$ 170,286,559
Net assets:						
Invested in capital assets, net of related debt	\$ 135,387,466	\$ 120,778,336	\$ 52,109,133	\$ 52,218,830	\$ 187,496,599	\$ 172,997,166
Restricted	1,304,291	1,119,024	-	-	1,304,291	1,119,024
Unrestricted	21,475,583	24,189,060	22,875,516	21,221,100	44,351,099	45,410,160
Total net assets	\$ 158,167,340	\$ 146,086,420	\$ 74,984,649	\$ 73,439,930	\$ 233,151,989	\$ 219,526,350

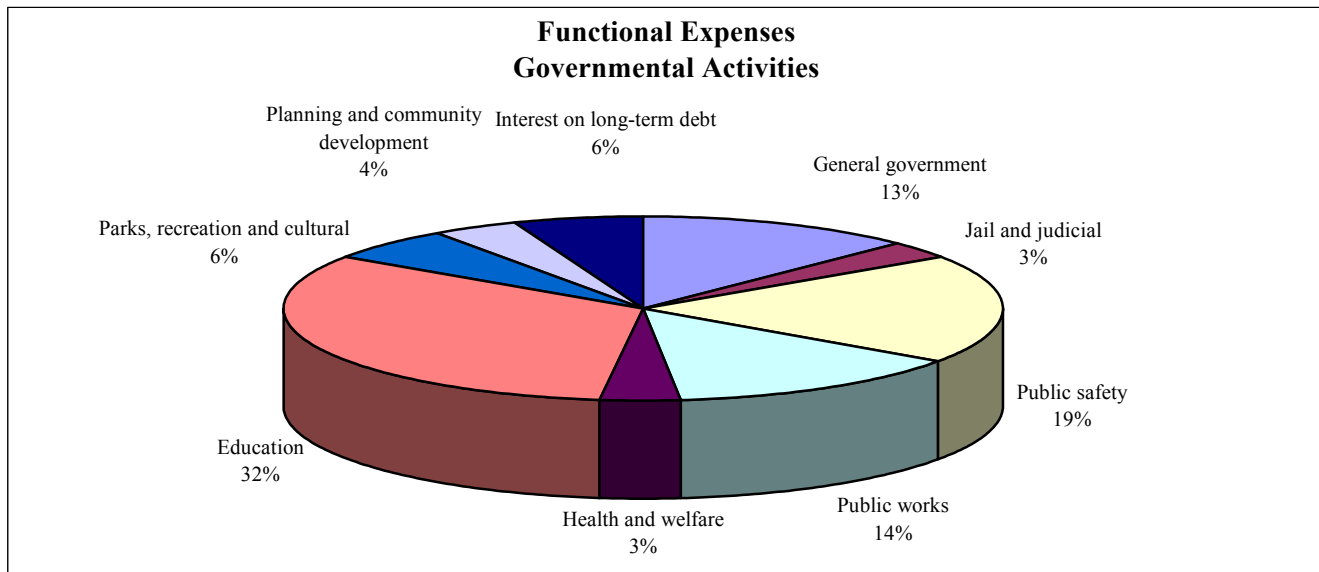
City of Harrisonburg's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Programs revenues:						
Charges for services	\$ 8,699,474	\$ 8,424,291	\$ 20,542,341	\$ 19,253,517	\$ 29,241,815	\$ 27,677,808
Operating grants and contributions	5,182,303	4,411,515	1,198,685	966,231	6,380,988	5,377,746
Capital grants and contributions	71,267	622,947	2,571,747	1,824,444	2,643,014	2,447,391
General revenues:						
Property taxes	20,248,223	18,235,771	-	-	20,248,223	18,235,771
Sales and use taxes	11,421,441	10,739,589	-	-	11,421,441	10,739,589
Restaurant food taxes	7,091,567	6,723,886	-	-	7,091,567	6,723,886
Business license taxes	5,728,339	5,306,290	-	-	5,728,339	5,306,290
Other local taxes	7,201,363	6,503,792	-	-	7,201,363	6,503,792
Grants and contributions not restricted to specific programs	3,216,835	3,014,121	-	-	3,216,835	3,014,121
Investment revenue	1,363,309	752,552	1,082,397	609,291	2,445,706	1,361,843
Other revenue	6,272,657	4,979,680	1,149,279	1,167,979	7,421,936	6,147,659
Gain on sale of capital assets	-	535,732	-	-	-	535,732
Total revenues	\$ 76,496,778	\$ 70,250,166	\$ 26,544,449	\$ 23,821,462	\$ 103,041,227	\$ 94,071,628
Expenses:						
General government administration	\$ 9,494,062	\$ 8,659,789	\$ -	\$ -	\$ 9,494,062	\$ 8,659,789
Jail and judicial administration	2,247,160	1,720,208	-	-	2,247,160	1,720,208
Public safety	14,598,247	13,385,735	-	-	14,598,247	13,385,735
Public works	10,280,042	8,932,355	-	-	10,280,042	8,932,355
Health and welfare	2,571,383	2,318,720	-	-	2,571,383	2,318,720
Education	24,630,393	21,784,772	-	-	24,630,393	21,784,772
Parks, recreation and cultural	4,458,904	2,781,327	-	-	4,458,904	2,781,327
Planning and community development	2,970,408	2,426,890	-	-	2,970,408	2,426,890
Interest on long-term debt	4,368,265	3,869,356	-	-	4,368,265	3,869,356
Water	-	-	4,034,616	3,805,703	4,034,616	3,805,703
Sewer	-	-	5,075,967	4,872,836	5,075,967	4,872,836
Public transportation	-	-	5,070,888	4,635,925	5,070,888	4,635,925
Sanitation	-	-	10,446,049	8,764,331	10,446,049	8,764,331
Public parking	-	-	175,050	209,084	175,050	209,084
Golf course	-	-	-	1,416,361	-	1,416,361
Total expenses	\$ 75,618,864	\$ 65,879,152	\$ 24,802,570	\$ 23,704,240	\$ 100,421,434	\$ 89,583,392
Increase in net assets before transfers and special item	\$ 877,914	\$ 4,371,014	\$ 1,741,879	\$ 117,222	\$ 2,619,793	\$ 4,488,236
Special item	11,005,846	-	-	-	11,005,846	-
Transfers	197,160	(258,180)	(197,160)	258,180	-	-
Change in net assets	\$ 12,080,920	\$ 4,112,834	\$ 1,544,719	\$ 375,402	\$ 13,625,639	\$ 4,488,236
Net assets at beginning of year	146,086,420	141,973,586	73,439,930	73,064,528	219,526,350	215,038,114
Net assets at end of year	\$ 158,167,340	\$ 146,086,420	\$ 74,984,649	\$ 73,439,930	\$ 233,151,989	\$ 219,526,350

Governmental activities. Governmental activities increased the City’s net assets by \$12,080,920. Key elements affecting governmental activities are as follows:

- Property tax revenue increased \$2,012,452 (11 percent) during the current year as a result of an increase in real estate assessments.
- Sales and use taxes increased \$681,852 (6.3 percent) during the current year as a result of increased economic activity in the City.
- Restaurant food taxes and business license taxes increased \$367,681 (5.5 percent) and \$422,049 (8 percent), respectively, as a result of increased economic activity in the City.
- Other local taxes increased \$697,571 (10.7 percent) mainly due to a tax rate increase for emergency telephone service taxes (E911 tax) and an increase in recordation and will tax revenue.
- Investment revenue increased \$610,757 (81.2 percent) as a result of a rise in interest rates during the year.
- Other revenue increased \$1,292,977 (26 percent) primarily due to rental payments from James Madison University from the lease of the old Harrisonburg High School complex.
- Charges for services increased \$783,895 (9.9 percent) due to the operations of the golf course that are now being reported as a governmental activity as opposed to being reported as a business-type activity in the previous year.
- Capital grants and contributions decreased \$551,680 due to one-time grant funding in the previous year.
- Expenses in the public safety activity increased \$1,212,512 (9.1 percent) due to full year of expenses for the expanded emergency communications center that is jointly operated with Rockingham County and the hiring of additional fire department personnel.
- Expenses in the public works activity increased \$1,347,687 (15.1 percent) primarily due an increase in expenses associated with the City’s street repaving program.
- Expenses in the education activity increased \$2,845,621 (13.1 percent) due to an increase in operating payments made to the School Board for purposes of funding their operating budget.
- Expenses in the parks, recreation and cultural activity increased \$1,677,577 (60.3 percent) due to the operations of the golf course that are now being reported as a governmental activity as opposed to being reported as a business-type activity in the previous year.
- The City recognized an \$11,005,846 special item from the transfer of the old Harrisonburg High School complex from the School Board. This transaction is explained further in Note 28 of the notes to the financial statements.
- Transfers increased \$455,340 due mainly to a transfer from the Parking Authority Fund (a business-type activity). The Parking Authority Fund was closed out as an operating fund as of March 31, 2006. This resulted in \$865,660 in ending net assets of the Parking Authority Fund being transferred into governmental activities.





Business-type activities. Business-type activities increased the City's net assets by \$1,544,719. Key elements affecting business-type activities are as follows:

- Capital grants and contributions increased by \$747,303 (41 percent) during the current year. Rockingham County made a nonrecurring contribution of approximately \$1 million in water and sewer infrastructure assets to the City during the year.
- Charges for services increased \$1,288,824 (6.7 percent) due in large part to revenue increases in the sanitation activity. Sanitation revenue increased due to increased refuse collection rates, increased revenue from tipping fees at the steam plant and an increase in operating reimbursements for operations at the steam plant from James Madison University.
- Transfers decreased \$455,340 as mentioned above in the discussion of governmental activities.
- Expenses in the water activity increased \$228,913 (6 percent) mainly from increased depreciation expense from the completion of the water treatment plant expansion project. Also, interest expense increased due to a decrease in capitalized interest during the year from the above mentioned project.
- Expenses in the public transportation activity increased \$434,963 (9.4 percent) due to increased maintenance and repair expenses and higher fuel costs during the year
- Expenses in the sanitation activity increased \$1,681,718 (19.2 percent) mainly due to an increase in landfill closure and postclosure expenses.

Government-wide Financial Analysis (Component Units)

School Board activities. Unrestricted net assets of the School Board increased \$794,741 (26.7 percent) during the current year to \$3,773,108. School Board expenses increased \$4,192,907 (10.2 percent). This increase in expenses was partially offset by an increase in intergovernmental revenue of \$1,797,158 (8.6 percent) when compared to the prior year. Also, operating payments from the City increased \$2,429,373 (12.7 percent) when compared to the prior year. The increase in intergovernmental revenues was mainly due to an increase in the School Board's share of the state sales tax, state basic school aid, state standards of quality funds and funding from the Federal Government. The combination of the above factors resulted in the increase of unrestricted net assets previously mentioned.

The School Board also recognized a \$5,374,025 special item charge in fiscal year 2006. Effective July 1, 2005, the School Board transferred the old Harrisonburg High School complex to the City (primary government). Land at historical cost of \$61,000 and buildings with a book value of \$5,313,025 were removed from the School Board's capital assets as the result of the transfer. This transaction is explained further in Note 28 of the notes to the financial statements.

HEC activities. HEC's net assets increased \$583,489 during the year, as compared to a \$1,541,654 increase in the previous year. Operating revenues increased by \$6,943,059 (15.5 percent) during the current year, while expenses increased \$8,178,204 (18.8 percent). In fiscal year 2006, HEC received a rate increase for electricity it purchases and elected to only partially pass the increase through to its customers. Because purchased electricity rates were not fully passed through to its customers, the increase in operating expenses outpaced the increase in operating revenues for the year.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$12,276,469, while total fund balance was \$14,752,882. 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 expenditure and other financing uses. Unreserved fund balance represents 16.5 percent of total General Fund expenditures and other financing uses, while total fund balance represents 19.8 percent of that same amount.

Total fund balance in the General Fund decreased \$4,701,543 mainly due to the purchase of land in the amount of \$4,248,830 on Port Republic Road. Also, debt service increased \$437,391 due to a full year of interest payments on several new bond issues that occurred in the previous year. Other financial factors affecting the General Fund have been included in the above discussion of the City's governmental activities.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Water Fund. Net assets in the Water Fund increased \$2,024,235 compared to an increase of \$1,424,962 in the previous year. Charges for services increased \$419,988 (9 percent) due in part to an approximate three percent rate increase, while total operating expenses increased only \$75,873 (2 percent). Capital contributions also increased \$684,675 due to an increase in developer infrastructure contributions during the year, as well as, a nonrecurring infrastructure contribution from Rockingham County.

Sewer Fund. Net assets in the Sewer Fund increased \$1,054,743 compared to a decrease of \$92,341 in the previous year. Charges for services increased \$232,865 (4.8 percent) due in part to an approximate 2.1 percent rate increase, while total operating expenses increased \$192,926 (4 percent). Capital contributions also increased \$1,422,688 due to an increase in developer infrastructure contributions during the year, as well as, a nonrecurring infrastructure contribution from Rockingham County.

Public Transportation Fund. Net assets in the Public Transportation Fund decreased \$594,374 compared to an increase of \$744,912 in the previous year. Operating revenues increased \$231,080 (10.3 percent) mainly due to an increase in revenue from the James Madison University transit contract, while total operating expenses increased \$436,613 (9.4 percent) due to increased maintenance and repair expenses and higher fuel costs during the year. The increase in expenses was also offset by an increase of \$232,454 in operating grant revenue. Capital grant contributions decreased \$1.3 million due to factors discussed earlier in connection with the business-type activities analysis.

Sanitation Fund. Net assets in the Sanitation Fund increased \$7,264 compared to a decrease of \$645,910 in the previous year. The factors affecting the Sanitation Fund's results are the same as those discussed earlier in connection with the business-type activities analysis.

General Fund Budgetary Highlights

Differences between the original and the final amended General Fund budget amounted to \$9,400,523, or 14.2 percent of the original budget, and can be briefly summarized as follows:

- \$4,275,000 appropriated for the purchase of land.
- \$1,513,808 appropriated and transferred to the School Bond Capital Projects Fund for the new elementary/middle school project.
- \$1,279,420 appropriated for prior year encumbrances.
- \$610,942 appropriated and paid to the School Board for the new elementary/middle school project.
- \$504,619 appropriated and transferred to the General Capital Projects Fund for various projects.
- \$364,857 appropriated for various fire department purposes including state and federal grants.
- \$327,583 appropriated for additional capital and operating purposes for the jail and judicial complex.
- \$224,650 appropriated for various police department purposes including state and federal grants.
- \$299,644 appropriated for other purposes. Funding was provided by various sources such as police asset forfeiture funds, donations and other miscellaneous revenues.

There were several significant variances between the final amended budget and the actual results in the General Fund, and can be briefly summarized as follows:

- Other local tax revenue exceeded the final amended budget by \$1,997,801. This was primarily the result of business license tax, restaurant food tax and recordation and wills tax collections exceeding the amount budgeted.
- Use of money and property revenue exceeded the final amended budget by \$1,630,103. This was primarily the result of a general increase in interest rates which resulted in higher investment revenue during the year and from the City not budgeting for the JMU lease rental payment of the old Harrisonburg High School complex.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$310,382,762 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure (e.g., streets and bridges) and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 5.7 percent (a 7.8 percent increase for governmental activities and a 1.0 percent increase for business-type activities).

Significant capital asset events during the current fiscal year included the following:

- Purchased land on Port Republic Road increasing governmental activities' land by \$4.2 million.
- Purchased land for the new elementary/middle school increasing governmental activities' land by \$1.3 million.
- Land and buildings in the amount of \$1.4 million and \$9.6 million, respectively, were transferred from the School Board (component unit) in conjunction with a lease agreement with James Madison University increasing governmental activities' capital assets.
- Construction and development continued on the joint Harrisonburg-Rockingham radio communications system increasing governmental activities' construction in progress by \$1.2 million.
- Construction began on improvements to Port Republic Road (Phase II) increasing governmental activities' construction in progress by \$1.1 million.
- Construction and/or renovations were completed on several projects, including the new high school, increasing governmental activities' buildings and decreasing construction in progress by \$49.8 million.
- Construction was completed on the water treatment plant expansion increasing business-type activities' buildings and machinery and equipment by \$4.4 million and \$1.9 million, respectively.

City of Harrisonburg's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 43,643,286	\$ 37,234,859	\$ 3,241,739	\$ 3,549,772	\$ 46,885,025	\$ 40,784,631
Buildings	85,934,502	28,799,407	10,595,500	6,051,218	96,530,002	34,850,625
Improvements other than buildings	5,037,963	5,211,828	4,944,747	4,580,943	9,982,710	9,792,771
Machinery and equipment	5,145,264	4,715,199	28,729,586	29,370,859	33,874,850	34,086,058
Infrastructure	70,615,821	73,121,731	33,854,990	32,573,448	104,470,811	105,695,179
Construction in progress	10,230,805	55,517,223	8,408,559	12,795,798	18,639,364	68,313,021
Total capital assets	\$ 220,607,641	\$ 204,600,247	\$ 89,775,121	\$ 88,922,038	\$ 310,382,762	\$ 293,522,285

Additional information on the City's capital assets can be found in Note 7 on pages 44 through 46 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$135,164,147. Of this amount, \$118,503,637 comprises debt backed by the full faith and credit of the City. \$16,500,472 of this amount is debt that is secured by a specified revenue source that is also backed by the full faith and credit of the City in the event these revenues are insufficient to make debt service payments. The City's total long-term debt decreased \$4,936,529 during the current fiscal year.

There were no significant long-term debt events during the current fiscal year.

City of Harrisonburg's Long-term Debt Outstanding
(net of premiums/discounts and deferred refunding charges)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 22,136,433	\$ 22,929,704	\$ 28,152,909	\$ 29,292,721	\$ 50,289,342	\$ 52,222,425
General obligation school bonds	51,301,998	53,849,194	-	-	51,301,998	53,849,194
General obligation revenue bonds	6,321,024	6,343,292	10,179,448	10,356,284	16,500,472	16,699,576
Notes payable	400,000	400,000	-	-	400,000	400,000
Capital leases	9,797,450	10,575,685	-	-	9,797,450	10,575,685
State Literary Funds	11,825	23,650	-	-	11,825	23,650
Landfill closure and postclosure	-	-	3,459,270	2,959,112	3,459,270	2,959,112
Contractual obligation	-	286,773	-	-	-	286,773
Compensated absences	2,587,368	2,342,710	816,422	741,551	3,403,790	3,084,261
Total long-term debt	\$ 92,556,098	\$ 96,751,008	\$ 42,608,049	\$ 43,349,668	\$ 135,164,147	\$ 140,100,676

The City maintains an A rating from Standard & Poor's and an Aa3 rating from Moody's for general obligation debt based upon a May 2002 bond issue.

State statutes limit the amount of general obligation debt a governmental entity may incur to 10 percent of its total assessed real property valuation. The current debt limitation for the City is \$232,702,951 of which \$113,391,226 is available for use.

Additional information on the City's long-term debt can be found in Note 11 on pages 48 through 59 of this report.

Economic Factors and Next Year's Budgets and Rates

The following were factors in preparing the City's 2007 fiscal year budget.

- The unemployment rate of the City of Harrisonburg in June 2006 was 3.3 percent, which is a decrease from a rate of 3.8 percent a year ago. This rate still compares favorably to the 3.3 percent state and 4.8 percent national rates from June 2006.
- An increase of \$822,000 in debt service payments for a June 2005 general obligation bond issue and a payment on the principal for an outstanding note payable.
- An additional \$750,000 in funding for joint operations with Rockingham County which includes jail and judicial administration and social services.
- An increase of \$900,000 in transfers to the General Capital Projects Fund for various street improvements.

The approved \$73.1 million fiscal year 2007 General Fund budget included the use of \$1.5 million from unreserved and undesignated fund balance. Also, City Council approved increasing personal property taxes from \$2 to \$3 per \$100 of assessed value and motor vehicle license taxes from \$20 to \$29.50 per vehicle.

An approximate 2.8 percent increase in water rates was approved to assist in the continued funding of the debt service payments on the City's June 2002 Water Fund bond issue. A Sewer Fund rate increase of approximately 9.9 percent was approved to assist in the continued increase in operational costs at the Harrisonburg-Rockingham Regional Sewer Authority and to begin partially funding wastewater treatment improvements that are required to protect the Chesapeake Bay.

In the Sanitation Fund residential refuse collection rates were increased from \$16 to \$18 a month and commercial refuse collection rates were increased proportionally in order to continue funding of debt service payments on the City's June 2002 Sanitation Fund bond issue associated with the steam plant rebuild.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. A copy of this report in its entirety may be downloaded from the City's website at www.ci.harrisonburg.va.us. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the City of Harrisonburg, Director of Finance, 345 South Main Street, Harrisonburg, VA 22801.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF HARRISONBURG, VIRGINIA
STATEMENT OF NET ASSETS
At June 30, 2006

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	HEC
Assets					
Cash and cash equivalents	\$ 21,321,351	\$ 27,076,893	\$ 48,398,244	\$ 6,917,796	\$ 5,568,012
Investments	-	-	-	300,000	6,500,000
Receivables (net of allowance for uncollectibles)	29,885,857	1,835,399	31,721,256	810,919	4,762,713
Due from primary government	-	-	-	-	174,359
Due from component unit	4,273	-	4,273	-	75,522
Internal balances	256,108	(256,108)	-	-	-
Inventory	1,946,165	-	1,946,165	53,855	1,277,113
Prepaid expenses	140,012	67,012	207,024	215,908	69,204
Loans receivable	1,628,232	-	1,628,232	-	-
Restricted assets	5,334,513	435,884	5,770,397	-	-
Capital assets:					
Capital assets, not being depreciated	53,874,091	11,650,298	65,524,389	3,470,188	3,379,186
Capital assets (net of accumulated depreciation)	166,733,550	78,124,823	244,858,373	16,521,524	46,048,227
Other assets	384,020	770,619	1,154,639	-	-
Total assets	\$ 281,508,172	\$ 119,704,820	\$ 401,212,992	\$ 28,290,190	\$ 67,854,336
Liabilities					
Accounts payable	\$ 1,925,234	\$ 624,034	\$ 2,549,268	\$ 34,944	\$ 3,581,280
Accrued payroll	669,817	222,576	892,393	3,747,084	-
Accrued interest	1,468,809	772,869	2,241,678	-	-
Due to primary government	-	-	-	-	4,273
Due to component unit	94,629	79,730	174,359	75,522	-
Unearned revenue	26,213,301	-	26,213,301	-	-
Other liabilities	189,521	31,334	220,855	-	171,965
Customer deposits	-	239,615	239,615	-	514,649
Liabilities payable from restricted assets	223,423	141,964	365,387	-	-
Long-term debt:					
Due within one year	6,041,911	1,896,926	7,938,837	281,753	300,851
Due in more than one year	86,514,187	40,711,123	127,225,310	386,067	645,875
Total liabilities	\$ 123,340,832	\$ 44,720,171	\$ 168,061,003	\$ 4,525,370	\$ 5,218,893
Net assets					
Invested in capital assets, net of related debt	\$ 135,387,466	\$ 52,109,133	\$ 187,496,599	\$ 19,991,712	\$ 49,427,413
Restricted for:					
Debt service	746,555	-	746,555	-	-
E-911 system	241,304	-	241,304	-	-
Drug forfeiture	120,698	-	120,698	-	-
Police department grants	11,847	-	11,847	-	-
Fire department grants	183,887	-	183,887	-	-
Unrestricted	21,475,583	22,875,516	44,351,099	3,773,108	13,208,030
Total net assets	\$ 158,167,340	\$ 74,984,649	\$ 233,151,989	\$ 23,764,820	\$ 62,635,443

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 9,494,062	\$ 6,845,784	\$ 316,210	\$ -
Jail and judicial administration	2,247,160	517,689	-	-
Public safety	14,598,247	35,250	1,342,438	71,267
Public works	10,280,042	-	3,229,827	-
Health and welfare	2,571,383	-	-	-
Education	24,630,393	-	-	-
Parks, recreation and cultural	4,458,904	787,786	11,110	-
Planning and community development	2,970,408	512,965	282,718	-
Interest on long-term debt	4,368,265	-	-	-
Total governmental activities	\$ 75,618,864	\$ 8,699,474	\$ 5,182,303	\$ 71,267
Business-type activities:				
Water	\$ 4,034,616	\$ 5,263,336	\$ -	\$ 950,050
Sewer	5,075,967	5,148,993	-	1,549,895
Public transportation	5,070,888	2,467,922	1,198,685	71,802
Sanitation	10,446,049	7,483,560	-	-
Public parking	175,050	178,530	-	-
Total business-type activities	\$ 24,802,570	\$ 20,542,341	\$ 1,198,685	\$ 2,571,747
Total primary government	\$ 100,421,434	\$ 29,241,815	\$ 6,380,988	\$ 2,643,014
Component units:				
School Board	\$ 45,210,867	\$ 1,093,556	\$ 10,665,673	\$ -
Harrisonburg Electric Commission (HEC)	51,671,641	51,785,132	-	-
Total component units	\$ 96,882,508	\$ 52,878,688	\$ 10,665,673	\$ -

General revenues:
Property taxes
Sales and use taxes
Restaurant food taxes
Business license taxes
Other local taxes
Unrestricted grants and contributions
Unrestricted payment from primary government
Investment revenue
Other revenue
Special item
Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	School Board	HEC
\$ (2,332,068)	\$ -	\$ (2,332,068)	\$ -	\$ -
(1,729,471)	-	(1,729,471)	-	-
(13,149,292)	-	(13,149,292)	-	-
(7,050,215)	-	(7,050,215)	-	-
(2,571,383)	-	(2,571,383)	-	-
(24,630,393)	-	(24,630,393)	-	-
(3,660,008)	-	(3,660,008)	-	-
(2,174,725)	-	(2,174,725)	-	-
(4,368,265)	-	(4,368,265)	-	-
<u>\$ (61,665,820)</u>	<u>\$ -</u>	<u>\$ (61,665,820)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 2,178,770	\$ 2,178,770	\$ -	\$ -
-	1,622,921	1,622,921	-	-
-	(1,332,479)	(1,332,479)	-	-
-	(2,962,489)	(2,962,489)	-	-
-	3,480	3,480	-	-
<u>\$ -</u>	<u>\$ (489,797)</u>	<u>\$ (489,797)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (61,665,820)</u>	<u>\$ (489,797)</u>	<u>\$ (62,155,617)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (33,451,638)	\$ -
-	-	-	-	113,491
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,451,638)</u>	<u>\$ 113,491</u>
\$ 20,248,223	\$ -	\$ 20,248,223	\$ -	\$ -
11,421,441	-	11,421,441	-	-
7,091,567	-	7,091,567	-	-
5,728,339	-	5,728,339	-	-
7,201,363	-	7,201,363	-	-
3,216,835	-	3,216,835	13,878,379	-
-	-	-	21,622,750	-
1,363,309	1,082,397	2,445,706	32,582	469,998
6,272,657	1,149,279	7,421,936	798,155	-
11,005,846	-	11,005,846	(5,374,025)	-
197,160	(197,160)	-	-	-
<u>\$ 73,746,740</u>	<u>\$ 2,034,516</u>	<u>\$ 75,781,256</u>	<u>\$ 30,957,841</u>	<u>\$ 469,998</u>
\$ 12,080,920	\$ 1,544,719	\$ 13,625,639	\$ (2,493,797)	\$ 583,489
<u>146,086,420</u>	<u>73,439,930</u>	<u>219,526,350</u>	<u>26,258,617</u>	<u>62,051,954</u>
<u>\$ 158,167,340</u>	<u>\$ 74,984,649</u>	<u>\$ 233,151,989</u>	<u>\$ 23,764,820</u>	<u>\$ 62,635,443</u>

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS
BALANCE SHEET
At June 30, 2006

Exhibit 3

	<u>General Fund</u>	<u>General Capital Projects Fund</u>	<u>School Bond Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 12,029,341	\$ 4,959,300	\$ -	\$ 31,347	\$ 17,019,988
Receivables (net of allowance for uncollectibles)	29,506,901	8,334	-	364,189	29,879,424
Prepaid expenditures	128,035	-	-	7,748	135,783
Advances to other funds	370,026	-	-	-	370,026
Loans receivable	1,628,232	-	-	-	1,628,232
Restricted assets	746,555	4,587,958	-	-	5,334,513
Total assets	<u>\$ 44,409,090</u>	<u>\$ 9,555,592</u>	<u>\$ -</u>	<u>\$ 403,284</u>	<u>\$ 54,367,966</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 556,902	\$ 348,125	\$ -	\$ 21,604	\$ 926,631
Accrued payroll	598,436	-	-	49,277	647,713
Due to component unit	93,930	-	-	147	94,077
Advances from other funds	-	-	-	90,952	90,952
Deferred revenue	28,217,419	4,240	-	32,023	28,253,682
Other liabilities	189,521	-	-	-	189,521
Liabilities payable from restricted assets	-	223,423	-	-	223,423
Total liabilities	<u>\$ 29,656,208</u>	<u>\$ 575,788</u>	<u>\$ -</u>	<u>\$ 194,003</u>	<u>\$ 30,425,999</u>
Fund Balances:					
Reserved	\$ 2,476,413	\$ 6,155,814	\$ -	\$ 7,748	\$ 8,639,975
Unreserved:					
Designated	1,695,162	2,823,990	-	-	4,519,152
Undesignated, reported in:					
General fund	10,581,307	-	-	-	10,581,307
Special revenue funds	-	-	-	201,533	201,533
Total fund balances	<u>\$ 14,752,882</u>	<u>\$ 8,979,804</u>	<u>\$ -</u>	<u>\$ 209,281</u>	<u>\$ 23,941,967</u>
Total liabilities and fund balances	<u>\$ 44,409,090</u>	<u>\$ 9,555,592</u>	<u>\$ -</u>	<u>\$ 403,284</u>	<u>\$ 54,367,966</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
At June 30, 2006

Exhibit 4

Total fund balance of governmental funds (Exhibit 3)	\$ 23,941,967
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Certain revenues are not available to pay for current period expenditures and therefore are deferred in the funds.	2,040,381
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	219,791,320
Certain liabilities, including bonds and related accounts, are not payable from current financial resources and therefore are not reported in the funds.	(93,552,664)
Internal service funds are used by management to charge the costs of certain activities to other funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	<u>5,946,336</u>
Net assets of governmental activities (Exhibit 1)	\$ <u><u>158,167,340</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006

Exhibit 5

	General Fund	General Capital Projects Fund	School Bond Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
General property taxes	\$ 20,151,128	\$ -	\$ -	\$ -	\$ 20,151,128
Other local taxes	30,823,901	-	-	669,166	31,493,067
Permits, privilege fees and regulatory licenses	503,149	-	-	-	503,149
Fines and forfeitures	517,689	-	-	-	517,689
Use of money and property	1,986,403	232,634	8,003	942	2,227,982
Charges for services	811,677	-	-	-	811,677
Miscellaneous	5,120,793	-	-	-	5,120,793
Recovered costs	161,359	371,335	-	894,870	1,427,564
Intergovernmental	7,046,540	240,000	-	417,118	7,703,658
Total revenues	<u>\$ 67,122,639</u>	<u>\$ 843,969</u>	<u>\$ 8,003</u>	<u>\$ 1,982,096</u>	<u>\$ 69,956,707</u>
Expenditures:					
Current:					
General government administration	\$ 2,902,847	\$ -	\$ -	\$ -	\$ 2,902,847
Jail and judicial administration	1,975,668	-	-	-	1,975,668
Public safety	12,483,673	-	-	1,782,509	14,266,182
Public works	11,167,310	-	-	-	11,167,310
Health and welfare	2,549,518	-	-	-	2,549,518
Education	21,622,750	-	-	-	21,622,750
Parks, recreation and cultural	4,488,905	-	-	-	4,488,905
Planning and community development	2,923,859	-	-	282,718	3,206,577
Debt service:					
Principal retirement	4,202,660	-	-	-	4,202,660
Interest and fiscal charges	4,255,457	-	-	-	4,255,457
Capital projects	-	4,328,204	2,416,055	-	6,744,259
Total expenditures	<u>\$ 68,572,647</u>	<u>\$ 4,328,204</u>	<u>\$ 2,416,055</u>	<u>\$ 2,065,227</u>	<u>\$ 77,382,133</u>
Deficiency of revenues under expenditures	<u>\$ (1,450,008)</u>	<u>\$ (3,484,235)</u>	<u>\$ (2,408,052)</u>	<u>\$ (83,131)</u>	<u>\$ (7,425,426)</u>
Other financing sources (uses):					
Transfers in	\$ 2,657,569	\$ 1,196,972	\$ 1,513,808	\$ 292,412	\$ 5,660,761
Transfers out	<u>(5,909,104)</u>	<u>(1,031,121)</u>	<u>-</u>	<u>-</u>	<u>(6,940,225)</u>
Total other financing sources (uses)	<u>\$ (3,251,535)</u>	<u>\$ 165,851</u>	<u>\$ 1,513,808</u>	<u>\$ 292,412</u>	<u>\$ (1,279,464)</u>
Net change in fund balances	<u>\$ (4,701,543)</u>	<u>\$ (3,318,384)</u>	<u>\$ (894,244)</u>	<u>\$ 209,281</u>	<u>\$ (8,704,890)</u>
Fund balances at beginning of year	<u>19,454,425</u>	<u>12,298,188</u>	<u>894,244</u>	<u>-</u>	<u>32,646,857</u>
Fund balances at end of year	<u>\$ 14,752,882</u>	<u>\$ 8,979,804</u>	<u>\$ -</u>	<u>\$ 209,281</u>	<u>\$ 23,941,967</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Exhibit 6

Total net change in fund balances of governmental funds (Exhibit 5)	\$ (8,704,890)
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense in the current period.	5,610,740
Certain revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount is the net change in these revenues.	(103,397)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	4,415,569
Certain expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds. This amount is the net change in these expenses.	(286,870)
Internal service funds are used by management to charge the costs of certain activities to other funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	1,522,565
The transfer of certain assets and liabilities (i.e., capital assets and long-term debt) from the Parking Authority Fund affects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds.	463,767
The transfer of the old high school from the School Board (component unit) to the primary government affects only the statement of activities. This transfer does not have an effect on current financial resources and, therefore, is not reported in governmental funds.	11,005,846
The transfer of capital assets from the primary government to the School Board (component unit) affects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds.	<u>(1,842,410)</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ 12,080,920</u>

The accompanying notes to financial statements are an integral part of this statement.

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 20,431,873	\$ 20,431,873	\$ 20,151,128	\$ (280,745)
Other local taxes	28,826,100	28,826,100	30,823,901	1,997,801
Permits, privilege fees and regulatory licenses	352,050	352,050	503,149	151,099
Fines and forfeitures	577,000	577,000	517,689	(59,311)
Use of money and property	356,300	356,300	1,986,403	1,630,103
Charges for services	777,200	787,813	811,677	23,864
Miscellaneous	4,933,900	5,013,475	5,120,793	107,318
Recovered costs	129,000	169,023	161,359	(7,664)
Intergovernmental	6,735,482	6,829,505	7,046,540	217,035
Total revenues	<u>\$ 63,118,905</u>	<u>\$ 63,343,139</u>	<u>\$ 67,122,639</u>	<u>\$ 3,779,500</u>
Expenditures:				
Current:				
General government administration	\$ 3,065,113	\$ 3,003,916	\$ 2,902,847	\$ 101,069
Jail and judicial administration	1,700,000	2,027,583	1,975,668	51,915
Public safety	12,159,587	12,795,376	12,483,673	311,703
Public works	6,711,501	11,626,286	11,167,310	458,976
Health and welfare	2,537,562	2,550,370	2,549,518	852
Education	21,011,808	21,622,750	21,622,750	-
Parks, recreation and cultural	4,404,260	4,756,750	4,488,905	267,845
Planning and community development	2,874,965	2,988,470	2,923,859	64,611
Debt service:				
Principal retirement	4,202,660	4,202,660	4,202,660	-
Interest and fiscal charges	4,115,995	4,256,122	4,255,457	665
Total expenditures	<u>\$ 62,783,451</u>	<u>\$ 69,830,283</u>	<u>\$ 68,572,647</u>	<u>\$ 1,257,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 335,454</u>	<u>\$ (6,487,144)</u>	<u>\$ (1,450,008)</u>	<u>\$ 5,037,136</u>
Other financing sources (uses):				
Transfers in	\$ 1,492,884	\$ 2,614,704	\$ 2,657,569	\$ 42,865
Transfers out	(3,454,036)	(5,807,727)	(5,909,104)	(101,377)
Total other financing sources (uses)	<u>\$ (1,961,152)</u>	<u>\$ (3,193,023)</u>	<u>\$ (3,251,535)</u>	<u>\$ (58,512)</u>
Net change in fund balance	<u>\$ (1,625,698)</u>	<u>\$ (9,680,167)</u>	<u>\$ (4,701,543)</u>	<u>\$ 4,978,624</u>
Fund balance at beginning of year			<u>19,454,425</u>	
Fund balance at end of year			<u>\$ 14,752,882</u>	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
 PROPRIETARY FUNDS
 BALANCE SHEET
 At June 30, 2006

Exhibit 8

	Enterprise Funds						Internal Service Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Sanitation Fund	Parking Authority Fund	Total	
Assets							
Current assets:							
Cash and cash equivalents	\$ 10,961,447	\$ 5,882,153	\$ 264,462	\$ 9,968,831	\$ -	\$ 27,076,893	\$ 4,301,363
Receivables (net of allowance for uncollectibles)	600,885	592,868	10,871	475,585	-	1,680,209	6,433
Due from component unit	-	-	-	-	-	-	4,273
Due from other governments	-	-	155,190	-	-	155,190	-
Inventory	-	-	-	-	-	-	1,946,165
Prepaid expenses	10,062	8,526	29,490	18,934	-	67,012	4,229
Total current assets	<u>\$ 11,572,394</u>	<u>\$ 6,483,547</u>	<u>\$ 460,013</u>	<u>\$ 10,463,350</u>	<u>\$ -</u>	<u>\$ 28,979,304</u>	<u>\$ 6,262,463</u>
Noncurrent assets:							
Restricted assets	\$ 232,396	\$ -	\$ -	\$ 203,488	\$ -	\$ 435,884	\$ -
Capital assets (net of accumulated depreciation)	34,292,424	21,449,273	5,541,363	28,492,061	-	89,775,121	816,321
Other assets	106,995	-	-	663,624	-	770,619	-
Total noncurrent assets	<u>\$ 34,631,815</u>	<u>\$ 21,449,273</u>	<u>\$ 5,541,363</u>	<u>\$ 29,359,173</u>	<u>\$ -</u>	<u>\$ 90,981,624</u>	<u>\$ 816,321</u>
Total assets	<u>\$ 46,204,209</u>	<u>\$ 27,932,820</u>	<u>\$ 6,001,376</u>	<u>\$ 39,822,523</u>	<u>\$ -</u>	<u>\$ 119,960,928</u>	<u>\$ 7,078,784</u>
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	\$ 212,207	\$ 139,003	\$ 16,323	\$ 256,501	\$ -	\$ 624,034	\$ 998,603
Accrued payroll	45,839	39,657	56,804	80,276	-	222,576	22,104
Accrued interest	226,728	-	-	546,141	-	772,869	-
Due to component unit	10,269	3,103	1,999	64,359	-	79,730	552
Advances from other funds	-	-	-	-	-	-	279,074
Compensated absences	85,343	92,756	135,679	133,062	-	446,840	45,503
Other liabilities	31,334	-	-	-	-	31,334	-
Customer deposits	239,615	-	-	-	-	239,615	-
Landfill closure and postclosure	-	-	-	78,439	-	78,439	-
Current portion of bonds payable	186,836	-	-	1,184,811	-	1,371,647	-
Total current liabilities	<u>\$ 1,038,171</u>	<u>\$ 274,519</u>	<u>\$ 210,805</u>	<u>\$ 2,343,589</u>	<u>\$ -</u>	<u>\$ 3,867,084</u>	<u>\$ 1,345,836</u>
Noncurrent liabilities:							
Liabilities payable from restricted assets	\$ 141,964	\$ -	\$ -	\$ -	\$ -	\$ 141,964	\$ -
Compensated absences	123,887	69,892	60,122	115,681	-	369,582	42,720
Landfill closure and postclosure	-	-	-	3,380,831	-	3,380,831	-
Bonds payable	9,992,612	-	-	26,968,098	-	36,960,710	-
Total noncurrent liabilities	<u>\$ 10,258,463</u>	<u>\$ 69,892</u>	<u>\$ 60,122</u>	<u>\$ 30,464,610</u>	<u>\$ -</u>	<u>\$ 40,853,087</u>	<u>\$ 42,720</u>
Total liabilities	<u>\$ 11,296,634</u>	<u>\$ 344,411</u>	<u>\$ 270,927</u>	<u>\$ 32,808,199</u>	<u>\$ -</u>	<u>\$ 44,720,171</u>	<u>\$ 1,388,556</u>
Net assets:							
Invested in capital assets, net of related debt	\$ 24,310,403	\$ 21,449,273	\$ 5,541,363	\$ 808,094	\$ -	\$ 52,109,133	\$ 816,321
Unrestricted	10,597,172	6,139,136	189,086	6,206,230	-	23,131,624	4,873,907
Total net assets	<u>\$ 34,907,575</u>	<u>\$ 27,588,409</u>	<u>\$ 5,730,449</u>	<u>\$ 7,014,324</u>	<u>\$ -</u>	<u>\$ 75,240,757</u>	<u>\$ 5,690,228</u>
Total liabilities and net assets	<u>\$ 46,204,209</u>	<u>\$ 27,932,820</u>	<u>\$ 6,001,376</u>	<u>\$ 39,822,523</u>	<u>\$ -</u>	<u>\$ 119,960,928</u>	<u>\$ 7,078,784</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(256,108)	
Net assets of business-type activities (Exhibit 1)						\$ 74,984,649	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2006

Exhibit 9

	Enterprise Funds						Internal Service Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Sanitation Fund	Parking Authority Fund	Total	
Operating revenues:							
Charges for services	\$ 5,067,182	\$ 5,101,219	\$ 2,467,922	\$ 7,350,937	\$ 116,066	\$ 20,103,326	\$ 12,257,528
Connection fees	196,154	47,774	-	-	-	243,928	-
Other revenue	-	-	-	-	62,464	62,464	-
Total operating revenues	<u>\$ 5,263,336</u>	<u>\$ 5,148,993</u>	<u>\$ 2,467,922</u>	<u>\$ 7,350,937</u>	<u>\$ 178,530</u>	<u>\$ 20,409,718</u>	<u>\$ 12,257,528</u>
Operating expenses:							
Personal services	\$ 1,025,143	\$ 860,213	\$ 2,065,619	\$ 1,816,896	\$ 79,273	\$ 5,847,144	\$ 496,432
Fringe benefits	367,007	314,669	648,702	701,798	27,794	2,059,970	165,144
Purchased services	281,865	70,276	104,638	1,908,728	10,830	2,376,337	491,936
Internal services	155,615	146,689	1,013,597	196,552	11,553	1,524,006	2,241
Other charges	443,631	72,453	261,164	1,456,101	27,077	2,260,426	450,800
Materials and supplies	294,908	107,563	77,251	336,427	8,955	825,104	41,136
Depreciation and amortization	1,216,490	1,018,690	897,306	2,171,796	9,164	5,313,446	30,287
Regional sewer authority:							
Operations	-	1,492,033	-	-	-	1,492,033	-
Debt service	-	987,786	-	-	-	987,786	-
Landfill closure and postclosure	-	-	-	587,164	-	587,164	-
Cost of inventory issued	-	-	-	-	-	-	2,552,551
Claims related charges	-	-	-	-	-	-	7,757,445
Total operating expenses	<u>\$ 3,784,659</u>	<u>\$ 5,070,372</u>	<u>\$ 5,068,277</u>	<u>\$ 9,175,462</u>	<u>\$ 174,646</u>	<u>\$ 23,273,416</u>	<u>\$ 11,987,972</u>
Operating income (loss)	<u>\$ 1,478,677</u>	<u>\$ 78,621</u>	<u>\$ (2,600,355)</u>	<u>\$ (1,824,525)</u>	<u>\$ 3,884</u>	<u>\$ (2,863,698)</u>	<u>\$ 269,556</u>
Nonoperating revenues (expenses):							
Operating grants	\$ -	\$ -	\$ 1,198,685	\$ -	\$ -	\$ 1,198,685	\$ -
Connection availability fees	401,142	373,615	-	-	-	774,757	-
Miscellaneous revenue	24,205	1,717	22,534	681	385	49,522	-
Reimbursement of bond payment	-	-	-	457,623	-	457,623	-
Investment revenue	479,634	233,232	5,848	350,616	13,067	1,082,397	173,259
Interest expense	(184,134)	-	-	(1,278,127)	-	(1,462,261)	-
Total nonoperating revenues (net)	<u>\$ 720,847</u>	<u>\$ 608,564</u>	<u>\$ 1,227,067</u>	<u>\$ (469,207)</u>	<u>\$ 13,452</u>	<u>\$ 2,100,723</u>	<u>\$ 173,259</u>
Income (loss) before contributions and transfers	<u>\$ 2,199,524</u>	<u>\$ 687,185</u>	<u>\$ (1,373,288)</u>	<u>\$ (2,293,732)</u>	<u>\$ 17,336</u>	<u>\$ (762,975)</u>	<u>\$ 442,815</u>
Capital contributions	950,050	1,549,895	71,802	-	-	2,571,747	-
Transfers in	-	-	707,112	2,300,996	1,818	3,009,926	1,012,857
Transfers out	(1,125,339)	(1,182,337)	-	-	(899,410)	(3,207,086)	-
Change in net assets	<u>\$ 2,024,235</u>	<u>\$ 1,054,743</u>	<u>\$ (594,374)</u>	<u>\$ 7,264</u>	<u>\$ (880,256)</u>	<u>\$ 1,611,612</u>	<u>\$ 1,455,672</u>
Net assets at beginning of year	<u>32,883,340</u>	<u>26,533,666</u>	<u>6,324,823</u>	<u>7,007,060</u>	<u>880,256</u>		<u>4,234,556</u>
Net assets at end of year	<u>\$ 34,907,575</u>	<u>\$ 27,588,409</u>	<u>\$ 5,730,449</u>	<u>\$ 7,014,324</u>	<u>\$ -</u>		<u>\$ 5,690,228</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(66,893)	
Change in net assets of business-type activities (Exhibit 2)						<u>\$ 1,544,719</u>	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	Enterprise Funds						Internal Services Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Sanitation Fund	Parking Authority Fund	Total	
Cash flows from operating activities:							
Receipts from customers	\$ 5,036,139	\$ 5,069,361	\$ 2,472,161	\$ 7,293,355	\$ 174,670	\$ 20,045,686	\$ 3,209,353
Receipts from connection fees	196,154	47,774	-	-	-	243,928	-
Receipts from premiums	-	-	-	-	-	-	9,046,169
Receipts from other sources	24,205	1,717	22,534	681	385	49,522	-
Receipts from customer deposits	135,680	-	-	-	-	135,680	-
Payments to employees	(1,016,000)	(840,273)	(2,026,948)	(1,776,251)	(78,614)	(5,738,086)	(489,385)
Payments for fringe benefits	(376,410)	(321,691)	(661,913)	(717,628)	(28,607)	(2,106,249)	(168,848)
Payments to vendors	(1,009,850)	(244,903)	(441,156)	(3,759,329)	(59,271)	(5,514,509)	(3,725,336)
Payments for internal services	(155,615)	(146,689)	(1,013,597)	(196,552)	(11,553)	(1,524,006)	(2,241)
Payments to regional sewer authority	-	(2,326,285)	-	-	-	(2,326,285)	-
Payments for claims related charges	-	-	-	-	-	-	(7,810,371)
Payments to refund customer deposits	(123,877)	-	-	-	-	(123,877)	-
Net cash provided by (used for) operating activities	\$ 2,710,426	\$ 1,239,011	\$ (1,648,919)	\$ 844,276	\$ (2,990)	\$ 3,141,804	\$ 59,341
Cash flows from noncapital financing activities:							
Operating grants	\$ -	\$ -	\$ 1,081,177	\$ -	\$ -	\$ 1,081,177	\$ -
Transfers in	-	-	707,112	2,300,996	1,818	3,009,926	257,633
Transfers out	(851,244)	(701,208)	-	-	(481,459)	(2,033,911)	-
Interfund loan	-	-	-	-	-	-	142,414
Net cash provided by (used for) noncapital financing activities	\$ (851,244)	\$ (701,208)	\$ 1,788,289	\$ 2,300,996	\$ (479,641)	\$ 2,057,192	\$ 400,047
Cash flows from capital and related financing activities:							
Capital grants	\$ -	\$ -	\$ 71,802	\$ -	\$ -	\$ 71,802	\$ -
Connection availability fees	401,142	373,615	-	-	-	774,757	-
Payment from JMU for long-term debt	-	-	-	459,554	-	459,554	-
Principal paid on long-term debt	(180,000)	-	-	(1,165,000)	-	(1,345,000)	-
Interest paid on long-term debt	(498,279)	-	-	(1,266,418)	-	(1,764,697)	-
Purchase and construction of capital assets	(3,540,427)	(839,743)	(311,254)	(130,496)	-	(4,821,920)	(26,487)
Net cash used for capital and related financing activities	\$ (3,817,564)	\$ (466,128)	\$ (239,452)	\$ (2,102,360)	\$ -	\$ (6,625,504)	\$ (26,487)
Cash flows from investing activities:							
Interest received	\$ 477,035	\$ 231,994	\$ 5,818	\$ 348,004	\$ 13,030	\$ 1,075,881	\$ 172,054
Net cash provided by investing activities	\$ 477,035	\$ 231,994	\$ 5,818	\$ 348,004	\$ 13,030	\$ 1,075,881	\$ 172,054
Net increase (decrease) in cash and cash equivalents	\$ (1,481,347)	\$ 303,669	\$ (94,264)	\$ 1,390,916	\$ (469,601)	\$ (350,627)	\$ 604,955
Cash and cash equivalents:							
Beginning	12,675,190	5,578,484	358,726	8,781,403	469,601	27,863,404	3,696,408
Ending	\$ 11,193,843	\$ 5,882,153	\$ 264,462	\$ 10,172,319	\$ -	\$ 27,512,777	\$ 4,301,363
Reconciliation of cash and cash equivalents to the balance sheet:							
Cash and cash equivalents - Current assets	\$ 10,961,447	\$ 5,882,153	\$ 264,462	\$ 9,968,831	\$ -	\$ 27,076,893	\$ 4,301,363
Cash and cash equivalents - Restricted assets	232,396	-	-	203,488	-	435,884	-
	\$ 11,193,843	\$ 5,882,153	\$ 264,462	\$ 10,172,319	\$ -	\$ 27,512,777	\$ 4,301,363

(continued)

CITY OF HARRISONBURG, VIRGINIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2006

	Enterprise Funds						Internal Services Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Sanitation Fund	Parking Authority Fund	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	\$ 1,478,677	\$ 78,621	\$ (2,600,355)	\$ (1,824,525)	\$ 3,884	\$ (2,863,698)	\$ 269,556
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation and amortization	1,216,490	1,018,690	897,306	2,171,796	9,164	5,313,446	30,287
Landfill closure and monitoring costs	-	-	-	500,158	-	500,158	-
Miscellaneous revenue	24,205	1,717	22,534	681	385	49,522	-
Change in assets and liabilities:							
(Increase) decrease in:							
Accounts receivable	(38,804)	(31,858)	4,238	(58,868)	(9,480)	(134,772)	(1,293)
Due from component unit	-	-	-	484	-	484	(712)
Inventory	-	-	-	-	-	-	(334,808)
Prepaid expenses	(10,062)	22,884	(16,894)	(18,934)	(872)	(23,878)	(4,229)
Increase (decrease) in:							
Accounts payable	10,708	127,292	2,444	19,458	(11,815)	148,087	92,726
Accrued payroll	8,155	4,927	3,129	9,216	(1,124)	24,303	4,853
Due to component unit	1,305	235	277	10,300	(633)	11,484	258
Deferred revenue	-	-	-	-	5,660	5,660	-
Other liabilities	6,307	-	-	-	-	6,307	-
Customer deposits	11,803	-	-	-	-	11,803	-
Compensated absences	1,642	16,503	38,402	34,510	1,841	92,898	2,703
Net cash provided by (used for) operating activities	<u>\$ 2,710,426</u>	<u>\$ 1,239,011</u>	<u>\$ (1,648,919)</u>	<u>\$ 844,276</u>	<u>\$ (2,990)</u>	<u>\$ 3,141,804</u>	<u>\$ 59,341</u>
Non - cash capital and related financing activities:							
Additions to capital assets:							
Contributed by developers	\$ 695,650	\$ 544,430	\$ -	\$ -	\$ -	\$ 1,240,080	\$ -
Contributed by other governments	254,400	805,465	-	-	-	1,059,865	-
Contributed by other funds	-	-	-	-	-	-	755,224
Purchase and construction on account	296,323	39	-	-	-	296,362	-
Deletions to capital assets:							
Contributed to other funds	(274,095)	(481,129)	-	-	-	(755,224)	-

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
At June 30, 2006

Exhibit 11

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 28,426
Interest receivable	15
Prepaid expenses	<u>468</u>
Total assets	<u>\$ 28,909</u>
Liabilities	
Accounts payable	\$ 6
Accrued payroll	1,316
Amounts held for others	<u>27,587</u>
Total liabilities	<u>\$ 28,909</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISONBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Harrisonburg, Virginia conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Reporting entity

The City of Harrisonburg (City) is a municipality governed by an elected five-member council (City Council). The accompanying financial statements present the City, the primary government, and its component units. The component units discussed in the section below are included in the City's reporting entity because of the significance of their operations, financial relationship and accountability to the City.

Discretely presented component units. The Harrisonburg City School Board (School Board) is responsible for elementary and secondary education within the City's jurisdiction. The School Board is comprised of five elected members. The School Board is dependent on the City in that it does not have taxing authority, and the City Council must approve the School Board's budget and any debt issuance. The School Board does not issue separate financial statements.

The Harrisonburg Electric Commission (HEC) is responsible for the operations of the City owned electricity distribution system. HEC purchases electrical energy indirectly from Dominion Virginia Power through the Virginia Municipal Electric Association and resells it to city residents. HEC is managed by a five-member commission appointed by the City Council. HEC is dependent on the City in that it may not issue debt without the approval of City Council. To obtain a copy of the audited financial statements contact the Harrisonburg Electric Commission, 89 West Bruce Street, Harrisonburg, Virginia 22801.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, report only assets and liabilities; therefore, they do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize assets and liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, property taxes are recorded as receivables when assessed, net of allowances for uncollectible amounts, and revenues when the property taxes become available. Sales, restaurant food, admission and amusement, hotel and motel, franchise license, and utility taxes are recognized as receivables and revenue upon collection by the merchant or utility since the taxes are generally remitted in time to be used as a current financial resource for the payment of obligations incurred during the year. Property and other taxes not collected or remitted within 45 days after year-end are reflected as deferred revenues.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It accounts for all financial resources of the general government, except those accounted for in other funds.

General Capital Projects Fund – This fund accounts for the financial resources to be used for the acquisition and construction of major capital facilities of the general government.

School Bond Capital Projects Fund – This fund accounts for the financial resources obtained through bond issuances on behalf of the School Board to be used for the acquisition and construction of major capital school facilities.

The City reports the following major proprietary funds:

Water Fund – This fund accounts for the activities of the City's water treatment and distribution operations.

Sewer Fund – This fund accounts for the activities of the City's sewage collection, transmission and disposal operations.

Note 1. Summary of Significant Accounting Policies (continued)

Public Transportation Fund – This fund accounts for the activities of the City’s transit and school bus operations

Sanitation Fund – This fund accounts for the activities of the City’s steam plant, refuse collection, recycling and landfill operations.

Parking Authority Fund – This fund accounts for the activities of the City’s two parking decks and other metered parking operations. This fund was closed out to the General Fund on April 1, 2006.

Additionally, the City reports the following fund types:

Internal service funds account for central garage, central stores and self-insured health insurance services provided to other departments or agencies of the City, or to other governments or agencies, on a cost reimbursement basis.

Agency funds account for assets held by the City in the **Juvenile Crime Control Fund** for the 26th Judicial District Court Service Unit as a participant in the Virginia Juvenile Community Crime Control Act (VJCCCA) and in the **Harrisonburg Industrial Development Authority Fund**.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow private sector guidance issued after December 1, 1989. HEC, a component unit, applies private-sector guidance issued before and after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transfers and other charges between the City’s enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s proprietary funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue connection fees that cover the cost of connecting a customer to the City’s water and sewer lines. Operating expenses for the City’s proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 1. Summary of Significant Accounting Policies (continued)

D. Stewardship, Compliance, and Accountability

Budgets and budgetary accounting. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the General Capital Projects and School Bond Capital Projects Funds, which adopt project-length budgets. Formal budgetary integration is employed in all funds as a management control device during the year except for the Health Insurance, Juvenile Crime Control and Industrial Development Authority Funds.

Prior to May 1, the City Manager submits to the City Council a balanced proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Prior to June 30, the City Council holds public hearings to obtain citizen comments, and a final budget is legally enacted through the passage of an Appropriation Ordinance. All budget data presented in the accompanying financial statements is the original budget and the revised budget as of June 30, 2006.

The appropriated budget places legal restrictions on expenditures at the department or category level. The total appropriation for each department can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within departments, from reserve for contingencies to other departments and re-arrange salaries as may best meet the needs and interest of the City. The City may amend its budget by increasing total appropriations at the fund level through approval of City Council. Supplemental appropriations were made during the year in the General Fund totaling \$9,400,523. Supplemental appropriations that exceed \$500,000 or 1% of the budget, whichever is less, require a public hearing prior to approval. Appropriations lapse at June 30, except for capital projects funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General and General Capital Projects Funds. Encumbrances outstanding at the end of the fiscal year are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbered amounts are generally reappropriated by City Council in the next fiscal year.

Excess of expenditures over appropriations. For the year ended June 30, 2006, expenditures exceeded appropriations at the fund, activity or element level as follows:

General Fund:	
Public safety building	\$ 25,022
Street lights	1,105
Snow and ice removal	383
General properties	116,610
Simms recreation center	41,032
Downtown parking services	1,329

The over expenditure for general properties was funded by lease rental payments from James Madison University. The other over expenditures in the General Fund departmental budgets were funded by available fund balance.

Note 1. Summary of Significant Accounting Policies (continued)

E. Assets, liabilities and net asset or fund equity

1. Cash and cash equivalents. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less from the date of acquisition.

2. Investments. The City's investments are reported at fair value, which is obtained by using readily determinable quoted market valuations. Interest earned on pooled investments held by the School Board is assigned to the General Fund.

The City is a voluntary participant in the LGIP, which is an external investment pool. The LGIP is not registered with the Securities Exchange Commission (SEC); however, the pool is managed consistent with the definition of a "2a-7 like pool" as defined in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Virginia General Assembly has authorized the Treasury Board to administer the LGIP, which has delegated to the State Treasurer the administrative aspects of managing the pool. The City is an involuntary participant in SNAP as required by localities that borrow through the Virginia Public School Authority. All other uses of SNAP are voluntary. SNAP is an open-end management investment company registered with the SEC. The fair value of the investment in these pools is determined by the pool's share price

3. Receivables. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Property taxes. Property taxes are levied as of January 1 on property values assessed every two years. The last effective general real property reassessment was January 1, 2005. Property taxes attach as an enforceable lien on property as of January 1, but are not collected until the following fiscal year. Real estate taxes are due and collectible twice a year, on December 5 and June 5. Personal property taxes are due and collectible annually on December 5. The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of 10% of the tax is assessed after the applicable payment date. Interest at an annual rate of 10% is charged on unpaid accounts beginning January 1 and July 1.

The City calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2006 amounted to \$815,590.

5. Inventory and prepaid items. Inventories are valued at average cost. Inventory consists of expendable supplies held for consumption and is accounted for using the consumption method. The costs are recorded as expenditures or expenses at the time individual inventory items are used or issued. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

6. Restricted assets. The City has cash, investments and receivables presented on the balance sheet as restricted for specific purposes. These restrictions limit the use of these funds based on bond debt service reserve and construction covenants.

Note 1. Summary of Significant Accounting Policies (continued)

7. Capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. In general, the City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Infrastructure, water/sewer lines and certain other improvements have a capitalization threshold that ranges from \$25,000 to \$100,000. All purchased capital assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period. The amount of interest capitalized for the year in the Water Fund was \$314,009.

Depreciation for capital assets is computed over the following useful lives using the straight-line method.

Buildings	40 years
Machinery and equipment	2-30 years
Infrastructure	15-50 years

8. School Board Capital Assets. Under current legislation enacted by the Commonwealth of Virginia, local governments have a "tenancy in common" with the School Board whenever the locality incurs "on-behalf" debt for school property, which is payable over more than one fiscal year. In order to match the capital asset with the related debt, the legislation permits the City to report the portion of the school property related to the outstanding financial obligation in the primary government. As principal is repaid, capital assets equal to the amount of principal debt reduction will be removed from the primary government financial statements and reported in the School Board's financial statements. The School Board retains authority and responsibility over the operation and control of the property. The City transferred \$1,842,410 in net capital assets to the School Board during the current year on the government-wide statement of activities.

9. Deferred revenue. Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met. Deferred revenue also consists of amounts that have not been earned as of year-end.

10. Compensated absences. It is the City's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. The City pays a benefit for accumulated sick leave upon an employee's separation from service to the extent the employee meets certain criteria. Vacation and sick pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and retirements.

11. Long-term obligations. In the government-wide financial statements, and proprietary fund types in fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Deferred amounts from bond refundings are amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts from bond refundings. Bond issuance costs are reported in other assets as bond issue costs.

Note 1. Summary of Significant Accounting Policies (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Bond premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as expenditures.

12. Fund equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

13. Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

A reconciliation between the total fund balance as reported in the governmental fund balance sheet and net assets of governmental activities as reported in the government-wide statement of net assets is provided on Exhibit 4. One element of that reconciliation explains that "Certain liabilities, including bonds and related accounts, are not payable from current financial resources and therefore are not reported in the funds." The details of the \$93,552,664 difference are as follows:

Bonds payable	\$ (80,229,900)
Bond issue premiums/discounts (net)	(85,592)
Deferred charge for bond issue costs	384,020
Deferred charge for bond refunding	556,037
Notes payable	(400,000)
Capital leases	(9,797,450)
Literary Fund Loans	(11,825)
Compensated absences (not including internal service funds)	(2,499,145)
Accrued interest	<u>(1,468,809)</u>
Net adjustment	<u><u>\$ (93,552,664)</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

A reconciliation between the total net changes as reported in the fund balance on the governmental fund statement of revenues, expenditures and changes in fund balances and changes in net assets of governmental activities as reported in the government-wide statement of activities is provided on Exhibit 6. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$5,610,740 difference are as follows:

Capital outlay	\$ 11,936,916
Depreciation expense	<u>(6,326,176)</u>
Net adjustment	<u><u>\$ 5,610,740</u></u>

Note 2. Reconciliation of Government-wide and Fund Financial Statements (continued)

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$4,415,569 difference are as follows:

Principal payments	\$	4,202,660
Amortization of bond premiums/discounts (net)		5,508
Amortization of bond issue costs		(23,999)
Amortization of deferred bond refunding charges		(55,373)
Contractual obligation payment		<u>286,773</u>
Net adjustment	\$	<u>4,415,569</u>

Another element of that reconciliation states that “Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds.” The details of this \$286,870 difference are as follows:

Compensated absences	\$	(223,927)
Accrued interest		<u>(62,943)</u>
Net adjustment	\$	<u>(286,870)</u>

Note 3. Deposits and Investments

Deposits. The entire bank balances of the City and its component units were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Amounts collateralized in accordance with the Act are considered insured. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and savings and loan institutions.

Investments. *Interest rate risk.* In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by investing only in securities maturing in three years or less from the time of purchase. The only security that is subject to interest rate risk is a callable Federal Home Loan Bank bond with a fair value of \$427,253 that matures in March 2007.

Credit risk. Statutes authorize the City and its component units to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, the State Treasurer’s Local Government Investment Pool (LGIP) and the Virginia State Non-Arbitrage Program (SNAP). The City’s investment policy does not further limit these investment choices.

As of June 30, 2006, the City’s investment in the Federal Home Loan Bank bond was rated AAA by Standard & Poor’s and Aaa by Moody’s Investors Service. The City’s investment in the LGIP and SNAP was rated AAAM by Standard & Poor’s.

Note 3. Deposits and Investments (continued)

As of June 30, 2006, total deposit and investment balances were as follows:

Primary Government:

Investments:

Virginia State Treasurer's Local Government Investment Pool (LGIP)	\$ 46,006,200
Virginia State Non-Arbitrage Pool (SNAP)	5,023,842
U.S. Government Securities Money Market Fund	5,064,297
U.S. Treasury Securities Money Market Fund	315,911
Federal Home Loan Bank Bond	427,253
Deposits	<u>(3,050,682)</u>

Total deposits and investments of the primary government	\$ <u><u>53,786,821</u></u>
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Component Unit - School Board:

Investments:

Virginia State Treasurer's Local Government Investment Pool (LGIP)	\$ 6,285,861
U.S. Government Securities Money Market Fund	606,982
Certificates of Deposit	300,000
Deposits	<u>24,953</u>

Total deposits and investments of the component unit - School Board	\$ <u><u>7,217,796</u></u>
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Component Unit - HEC:

Investments:

Virginia State Treasurer's Local Government Investment Pool (LGIP)	\$ 4,429,473
Certificates of Deposit	6,500,000
Deposits	<u>1,136,239</u>

Total deposits and investments of the component unit - HEC	\$ <u><u>12,065,712</u></u>
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Reconciliation to Government-wide Financial Statements

Cash on hand and petty cash (primary government)	\$ 406,855
Cash on hand and petty cash (component units)	2,300
Grand total deposits and investments of the reporting entity	<u>73,070,329</u>

Total reporting entity	\$ <u><u>73,479,484</u></u>
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Cash and cash equivalents (primary government)	\$ 48,398,244
Cash and cash equivalents (component unit - School Board)	6,917,796
Cash and cash equivalents (component unit - HEC)	5,568,012
Investments (component unit - School Board)	300,000
Investments (component unit - HEC)	6,500,000

Restricted assets:

Cash and cash equivalents (primary government)	5,339,753
Investments (primary government)	427,253
Cash and cash equivalents (Exhibit 11)	<u>28,426</u>

Total reporting entity	\$ <u><u>73,479,484</u></u>
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Note 4. Receivables

The following is a summary of the receivables account at June 30, 2006:

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	HEC
Property taxes receivable	\$ 26,696,514	\$ -	\$ 26,696,514	\$ -	\$ -
Other taxes receivable	1,396,650	-	1,396,650	-	-
Accounts receivable	4,361	1,677,313	1,681,674	-	4,574,835
Interest receivable	95,340	14,203	109,543	-	-
Other receivable	55,310	32,108	87,418	77,009	187,878
Due from other governments:					
County of Rockingham	235,932	-	235,932	-	-
Commonwealth of Virginia	2,119,619	23,242	2,142,861	508,137	-
Federal Government	97,721	131,948	229,669	225,773	-
Allowance for uncollectibles	(815,590)	(43,415)	(859,005)	-	-
Total	\$ 29,885,857	\$ 1,835,399	\$ 31,721,256	\$ 810,919	\$ 4,762,713

Note 5. Restricted Assets

The City has cash and receivables presented on the statement of net assets as restricted for specific purposes. These amounts and restrictions at June 30, 2006 are as follows:

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents:			
Bond construction account	\$ 4,587,958	\$ 435,884	\$ 5,023,842
Bond debt service reserve account	315,911	-	315,911
Investments:			
Bond debt service reserve account	427,253	-	427,253
Interest receivable:			
Bond debt service reserve account	3,391	-	3,391
Total	\$ 5,334,513	\$ 435,884	\$ 5,770,397

Note 6. Loans Receivable

The following is a summary of the loans receivable in the General Fund at June 30, 2006:

Borrowing Entity	Loan Date	Term (in years)	Interest Rate	Balance June 30, 2006	Current Portion
Massanutten Regional Library	May 15, 2000	n/a	0.0%	\$ 375,000	\$ -
Virginia Technology Incubator, LLC	July 6, 2001	5	7.0%	83,232	83,232
Lucy F. Simms, LP	January 20, 2004	20	4.76%	1,170,000	-
Total				<u>\$ 1,628,232</u>	<u>\$ 83,232</u>

Note 7. Capital Assets

The following is a summary of the changes in capital assets for the year ended June 30, 2006:

Primary Government:

	Balance June 30, 2005	Additions	Reductions	Parking Authority Transfer	Balance June 30, 2006
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 37,234,859	\$ 7,195,394	\$ (1,095,000)	\$ 308,033	\$ 43,643,286
Construction in progress	<u>55,517,223</u>	<u>5,403,790</u>	<u>(50,690,208)</u>	-	<u>10,230,805</u>
Capital assets, not being depreciated	<u>\$ 92,752,082</u>	<u>\$ 12,599,184</u>	<u>\$ (51,785,208)</u>	<u>\$ 308,033</u>	<u>\$ 53,874,091</u>
Capital assets, being depreciated:					
Buildings	\$ 38,444,191	\$ 60,046,161	\$ (956,825)	\$ 1,659,615	\$ 99,193,142
Improvements other than buildings	6,800,609	41,757	-	34,424	6,876,790
Machinery and equipment	11,882,432	1,353,968	(302,419)	44,264	12,978,245
Infrastructure	<u>113,490,669</u>	<u>402,204</u>	<u>-</u>	<u>-</u>	<u>113,892,873</u>
Capital assets, being depreciated	<u>\$ 170,617,901</u>	<u>\$ 61,844,090</u>	<u>\$ (1,259,244)</u>	<u>\$ 1,738,303</u>	<u>\$ 232,941,050</u>
Less accumulated depreciation:					
Buildings	\$ (9,644,784)	\$ (2,304,900)	\$ 209,415	\$ (1,518,371)	\$ (13,258,640)
Improvements other than buildings	(1,588,781)	(245,686)	-	(4,360)	(1,838,827)
Machinery and equipment	(7,167,233)	(926,356)	302,419	(41,811)	(7,832,981)
Infrastructure	<u>(40,368,938)</u>	<u>(2,908,114)</u>	<u>-</u>	<u>-</u>	<u>(43,277,052)</u>
Accumulated depreciation	<u>\$ (58,769,736)</u>	<u>\$ (6,385,056)</u>	<u>\$ 511,834</u>	<u>\$ (1,564,542)</u>	<u>\$ (66,207,500)</u>
Capital assets, being depreciated (net)	<u>\$ 111,848,165</u>	<u>\$ 55,459,034</u>	<u>\$ (747,410)</u>	<u>\$ 173,761</u>	<u>\$ 166,733,550</u>

The primary government has included in the above schedule land in the amount of \$113,878, construction in progress in the amount of \$4,061,429 and buildings in the amount of \$11,704,921 (\$3,196,988 in accumulated depreciation) that are associated with capital lease obligations.

The above total for additions to accumulated depreciation does not agree with the total depreciation by activity shown on the following page by \$28,593. This difference represents accumulated depreciation on capital assets transferred from business-type activities.

Note 7. Capital Assets (continued)

	Balance <u>June 30, 2005</u>	Additions	Reductions	Parking Authority Transfer	Balance <u>June 30, 2006</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 3,549,772	\$ -	\$ -	\$ (308,033)	\$ 3,241,739
Construction in progress	<u>12,795,798</u>	<u>4,418,564</u>	<u>(8,805,803)</u>	<u>-</u>	<u>8,408,559</u>
Capital assets, not being depreciated	<u>\$ 16,345,570</u>	<u>\$ 4,418,564</u>	<u>\$ (8,805,803)</u>	<u>\$ (308,033)</u>	<u>\$ 11,650,298</u>
Capital assets, being depreciated:					
Buildings	\$ 9,936,782	\$ 4,972,160	\$ -	\$ (1,659,615)	\$ 13,249,327
Improvements other than buildings	8,716,214	653,874	-	(34,424)	9,335,664
Machinery and equipment	41,459,599	2,423,634	(366,141)	(44,264)	43,472,828
Infrastructure	<u>54,820,404</u>	<u>2,973,093</u>	<u>-</u>	<u>-</u>	<u>57,793,497</u>
Capital assets, being depreciated	<u>\$ 114,932,999</u>	<u>\$ 11,022,761</u>	<u>\$ (366,141)</u>	<u>\$ (1,738,303)</u>	<u>\$ 123,851,316</u>
Less accumulated depreciation:					
Buildings	\$ (3,885,564)	\$ (286,634)	\$ -	\$ 1,518,371	\$ (2,653,827)
Improvements other than buildings	(4,135,271)	(260,006)	-	4,360	(4,390,917)
Machinery and equipment	(12,088,740)	(3,062,454)	366,141	41,811	(14,743,242)
Infrastructure	<u>(22,246,956)</u>	<u>(1,691,551)</u>	<u>-</u>	<u>-</u>	<u>(23,938,507)</u>
Accumulated depreciation	<u>\$ (42,356,531)</u>	<u>\$ (5,300,645)</u>	<u>\$ 366,141</u>	<u>\$ 1,564,542</u>	<u>\$ (45,726,493)</u>
Capital assets, being depreciated (net)	<u>\$ 72,576,468</u>	<u>\$ 5,722,116</u>	<u>\$ -</u>	<u>\$ (173,761)</u>	<u>\$ 78,124,823</u>

The above total for additions to accumulated depreciation does not agree with the total depreciation by activity shown below by \$34,786. This difference represents accumulated depreciation on capital assets transferred from governmental activities.

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:

General government administration	\$ 31,775
Jail and judicial administration	283,859
Public safety	701,798
Public works	3,535,933
Health and welfare	21,865
Education	1,165,233
Parks, recreation and culture	548,334
Planning and community development	37,379
Internal service funds (allocated to various functions)	<u>30,287</u>
Total governmental activities depreciation expense	<u>\$ 6,356,463</u>

Business-type activities:

Water	\$ 1,212,533
Sewer	1,018,690
Public transportation	897,306
Sanitation	2,128,166
Public parking	<u>9,164</u>
Total business-type activities depreciation expense	<u>\$ 5,265,859</u>

Note 7. Capital Assets (continued)**Component Unit – School Board:**

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 1,804,232	\$ 1,726,956	\$ (61,000)	\$ 3,470,188
Capital assets, not being depreciated	<u>\$ 1,804,232</u>	<u>\$ 1,726,956</u>	<u>\$ (61,000)</u>	<u>\$ 3,470,188</u>
Capital assets, being depreciated:				
Buildings	\$ 33,976,853	\$ 956,825	\$ (9,581,586)	\$ 25,352,092
Improvements other than buildings	50,800	20,368	-	71,168
Machinery and equipment	2,042,410	340,153	-	2,382,563
Capital assets, being depreciated	<u>\$ 36,070,063</u>	<u>\$ 1,317,346</u>	<u>\$ (9,581,586)</u>	<u>\$ 27,805,823</u>
Less accumulated depreciation:				
Buildings	\$ (13,459,942)	\$ (806,529)	\$ 4,268,561	\$ (9,997,910)
Improvements other than buildings	-	(2,879)	-	(2,879)
Machinery and equipment	(1,134,103)	(149,407)	-	(1,283,510)
Accumulated depreciation	<u>\$ (14,594,045)</u>	<u>\$ (958,815)</u>	<u>\$ 4,268,561</u>	<u>\$ (11,284,299)</u>
Capital assets, being depreciated (net)	<u>\$ 21,476,018</u>	<u>\$ 358,531</u>	<u>\$ (5,313,025)</u>	<u>\$ 16,521,524</u>

Component Unit – HEC:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 1,891,799	\$ 16,800	\$ -	\$ 1,908,599
Construction in progress	2,331,023	2,668,526	(3,528,962)	1,470,587
Capital assets, not being depreciated	<u>\$ 4,222,822</u>	<u>\$ 2,685,326</u>	<u>\$ (3,528,962)</u>	<u>\$ 3,379,186</u>
Capital assets, being depreciated:				
Buildings	\$ 2,723,674	\$ -	\$ -	\$ 2,723,674
Machinery and equipment	6,954,441	687,399	(2,595,856)	5,045,984
Infrastructure	76,671,268	3,961,093	(291,799)	80,340,562
Capital assets, being depreciated	<u>\$ 86,349,383</u>	<u>\$ 4,648,492</u>	<u>\$ (2,887,655)</u>	<u>\$ 88,110,220</u>
Less accumulated depreciation:				
Buildings	\$ (1,272,514)	\$ (72,139)	\$ -	\$ (1,344,653)
Machinery and equipment	(6,881,309)	(907,614)	2,583,908	(5,205,015)
Infrastructure	(33,052,465)	(2,760,198)	300,338	(35,512,325)
Accumulated depreciation	<u>\$ (41,206,288)</u>	<u>\$ (3,739,951)</u>	<u>\$ 2,884,246</u>	<u>\$ (42,061,993)</u>
Capital assets, being depreciated (net)	<u>\$ 45,143,095</u>	<u>\$ 908,541</u>	<u>\$ (3,409)</u>	<u>\$ 46,048,227</u>

Note 8. Interfund Balances

The General Fund has a due from other funds balance in the amount \$370,026. This amount is comprised of loans to the Community Development Block Grant and Central Stores Funds of \$90,952 and \$279,074, respectively, to eliminate deficit cash and cash equivalent balances in these two funds.

Note 9. Interfund Transfers

Interfund transfers are generally used mainly to subsidize the operations and programs of certain funds, except for a \$144,814 transfer from the Parking Authority Fund to the General Fund and a \$257,079 transfer from the Parking Authority Fund to the General Capital Projects Fund that were related to the elimination of the Parking Authority Fund. Also, the Water and Sewer Funds transferred a capital asset in the amount of \$274,095 and \$481,129, respectively, to the Central Stores Fund (an internal service fund). The following is a summary of interfund transfers for the year ended June 30, 2006:

Transfer in	Transfer out					Total
	General Fund	General Capital Projects Fund	Water Fund	Sewer Fund	Parking Authority Fund	
General Fund	\$ -	\$ 1,031,121	\$ 755,580	\$ 692,304	\$ 178,564	\$ 2,657,569
General Capital Projects Fund	939,893	-	-	-	257,079	1,196,972
School Bond Capital Projects Fund	1,513,808	-	-	-	-	1,513,808
Nonmajor Governmental Funds	292,412	-	-	-	-	292,412
Public Transportation Fund	707,112	-	-	-	-	707,112
Sanitation Fund	2,300,996	-	-	-	-	2,300,996
Parking Authority Fund	1,818	-	-	-	-	1,818
Internal Service Funds	153,065	-	369,759	490,033	-	1,012,857
Total	\$ 5,909,104	\$ 1,031,121	\$ 1,125,339	\$ 1,182,337	\$ 435,643	\$ 9,683,544

Interfund transfers do not balance when compared to the fund financial statements. The Parking Authority Fund had an additional transfer out of \$463,767 related to that fund being closed out to the General Fund. This amount was not reported in the General Fund, as the amount did not involve the transfer of financial resources.

Note 10. Deferred Revenue

The following is a summary of deferred revenue at June 30, 2006:

	General Fund	General Capital Projects Fund	Nonmajor Governmental Funds	Total
Uncollected property tax billings	\$ 599,420	\$ -	\$ -	\$ 599,420
Property taxes billed in fiscal year 2007	25,185,283	-	-	25,185,283
Other local taxes	19,333	-	-	19,333
Interest receivable	84,320	-	-	84,320
Lease rental payment	950,000	-	-	950,000
Intergovernmental	47,813	4,240	32,023	84,076
Advance collection of parking leases	37,440	-	-	37,440
Golf memberships/sponsorships	40,578	-	-	40,578
Loans receivable	1,253,232	-	-	1,253,232
Total	\$ 28,217,419	\$ 4,240	\$ 32,023	\$ 28,253,682

Note 11. Long-term Debt

Primary Government

Debt Service Requirements for Long-term Debt:

Governmental activities:

Year Ending June 30,	General Obligation Bonds		General Obligation School Bonds		General Obligation Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,119,695	\$ 858,241	\$ 2,550,000	\$ 2,514,606	\$ 65,000	\$ 357,465	\$ 400,000	\$ 7,500
2008	1,177,510	815,630	2,570,000	2,386,484	75,000	353,965	-	-
2009	1,221,000	774,121	2,605,000	2,257,415	85,000	349,965	-	-
2010	1,263,924	730,273	2,600,000	2,127,777	95,000	345,441	-	-
2011	1,306,392	684,621	2,615,000	1,998,056	105,000	340,352	-	-
2012-2016	7,296,557	2,650,103	11,110,000	8,179,100	730,000	1,600,610	-	-
2017-2021	5,020,933	1,335,912	11,510,000	5,471,748	1,150,000	1,345,969	-	-
2022-2026	2,958,889	624,581	12,660,000	2,430,915	1,715,000	942,281	-	-
2027-2031	660,000	266,000	2,945,000	75,097	2,365,000	319,556	-	-
2032-2035	655,000	84,000	-	-	-	-	-	-
Total	\$ 22,679,900	\$ 8,823,482	\$ 51,165,000	\$ 27,441,198	\$ 6,385,000	\$ 5,955,604	\$ 400,000	\$ 7,500

Year Ending June 30,	Capital Leases		State Literary Fund Loans		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 738,510	\$ 423,238	\$ 11,825	\$ 591	\$ 4,885,030	\$ 4,161,641
2008	771,577	389,802	-	-	4,594,087	3,945,881
2009	806,898	354,324	-	-	4,717,898	3,735,825
2010	845,061	317,053	-	-	4,803,985	3,520,544
2011	883,446	277,984	-	-	4,909,838	3,301,013
2012-2016	3,900,958	764,895	-	-	23,037,515	13,194,708
2017-2021	1,851,000	142,448	-	-	19,531,933	8,296,077
2022-2026	-	-	-	-	17,333,889	3,997,777
2027-2031	-	-	-	-	5,970,000	660,653
2032-2035	-	-	-	-	655,000	84,000
Total	\$ 9,797,450	\$ 2,669,744	\$ 11,825	\$ 591	\$ 90,439,175	\$ 44,898,119

Business-type activities:

Year Ending June 30,	General Obligation Bonds		General Obligation Revenue Bonds		Total Business-type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,210,000	\$ 1,231,806	\$ 190,000	\$ 490,879	\$ 1,400,000	\$ 1,722,685
2008	1,250,000	1,192,656	195,000	483,057	1,445,000	1,675,713
2009	1,290,000	1,148,368	205,000	474,807	1,495,000	1,623,175
2010	1,335,000	1,100,459	210,000	466,247	1,545,000	1,566,706
2011	1,385,000	1,049,824	220,000	456,966	1,605,000	1,506,790
2012-2016	7,800,000	4,338,999	1,260,000	2,125,154	9,060,000	6,464,153
2017-2021	7,095,000	2,663,800	1,575,000	1,801,578	8,670,000	4,465,378
2022-2026	7,040,000	725,250	2,000,000	1,362,500	9,040,000	2,087,750
2027-2031	-	-	2,550,000	796,250	2,550,000	796,250
2031-2034	-	-	1,860,000	142,500	1,860,000	142,500
Total	\$ 28,405,000	\$ 13,451,162	\$ 10,265,000	\$ 8,599,938	\$ 38,670,000	\$ 22,051,100

Note 11. Long-term Debt (continued)

Changes in Long-term Debt:

	Balance <u>June 30, 2005</u>	Additions	Reductions	Parking Authority Transfer	Balance <u>June 30, 2006</u>	Due Within <u>One Year</u>
Governmental activities:						
Bonds payable:						
General obligation bonds	\$ 23,527,500	\$ -	\$ (847,600)	\$ -	\$ 22,679,900	\$ 1,119,695
General obligation school bonds	53,705,000	-	(2,540,000)	-	51,165,000	2,550,000
General obligation revenue bonds	6,410,000	-	(25,000)	-	6,385,000	65,000
Bond premiums/discounts (net)	91,100	-	(5,508)	-	85,592	5,712
Deferred bond refunding charges	<u>(611,410)</u>	<u>-</u>	<u>55,373</u>	<u>-</u>	<u>(556,037)</u>	<u>(55,373)</u>
Total bonds payable	\$ 83,122,190	\$ -	\$ (3,362,735)	\$ -	\$ 79,759,455	\$ 3,685,034
Notes payable	400,000	-	-	-	400,000	400,000
Capital leases	10,575,685	-	(778,235)	-	9,797,450	738,510
State Literary Fund Loans	23,650	-	(11,825)	-	11,825	11,825
Contractual obligation	286,773	-	(286,773)	-	-	-
Compensated absences	<u>2,342,710</u>	<u>1,333,949</u>	<u>(1,107,318)</u>	<u>18,027</u>	<u>2,587,368</u>	<u>1,206,542</u>
Governmental activities long-term debt	<u>\$ 96,751,008</u>	<u>\$ 1,333,949</u>	<u>\$ (5,546,886)</u>	<u>\$ 18,027</u>	<u>\$ 92,556,098</u>	<u>\$ 6,041,911</u>

Long-term debt for governmental activities is generally liquidated by the General Fund. The Central Garage and Central Stores Fund are consolidated into the governmental activities in the government-wide financial statements. Accordingly, long-term liabilities for these funds are included as part of the above totals. At June 30, 2006, \$88,223 of these internal service funds compensated absences are included in the above amounts.

	Balance <u>June 30, 2005</u>	Additions	Reductions	Parking Authority Transfer	Balance <u>June 30, 2006</u>	Due Within <u>One Year</u>
Business-type activities:						
Bonds payable:						
General obligation bonds	\$ 29,570,000	\$ -	\$ (1,165,000)	\$ -	\$ 28,405,000	\$ 1,210,000
General obligation revenue bonds	10,445,000	-	(180,000)	-	10,265,000	190,000
Bond premiums/discounts (net)	(61,467)	-	(1,358)	-	(62,825)	1,357
Deferred bond refunding charges	<u>(304,528)</u>	<u>-</u>	<u>29,710</u>	<u>-</u>	<u>(274,818)</u>	<u>(29,710)</u>
Total bonds payable	\$ 39,649,005	\$ -	\$ (1,316,648)	\$ -	\$ 38,332,357	\$ 1,371,647
Landfill closure and postclosure	2,959,112	587,164	(87,006)	-	3,459,270	78,439
Compensated absences	<u>741,551</u>	<u>463,568</u>	<u>(370,670)</u>	<u>(18,027)</u>	<u>816,422</u>	<u>446,840</u>
Business-type activities long-term debt	<u>\$ 43,349,668</u>	<u>\$ 1,050,732</u>	<u>\$ (1,774,324)</u>	<u>\$ (18,027)</u>	<u>\$ 42,608,049</u>	<u>\$ 1,896,926</u>

Details of Long-term Debt:

The following is the detail of the primary government's long-term debt as of June 30, 2006.

Governmental activities:

General Obligation Bonds:

\$7,330,000 Public Improvement Bonds, Series 1996, issued June 11, 1996,
maturing annually with interest payable semi-annually:

Bonds bearing interest at 5.50% maturing on July 15, 2006	\$ <u>350,000</u>
Subtotal	\$ <u>350,000</u>

Note 11. Long-term Debt (continued)

General Obligation Bonds (continued):

\$1,600,000 Infrastructure Revenue Bonds (Virginia Resource Authority Pooled Loan Bond Program), issued December 14, 2001, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.85% maturing on April 1, 2007	\$	60,000
Bonds bearing interest at 3.85% maturing on April 1, 2008		60,000
Bonds bearing interest at 3.85% maturing on April 1, 2009		65,000
Bonds bearing interest at 3.85% maturing on April 1, 2010		70,000
Bonds bearing interest at 3.85% maturing on April 1, 2011		70,000
Bonds bearing interest at 3.85% maturing on April 1, 2012		75,000
Bonds bearing interest at 3.85% maturing on April 1, 2013		80,000
Bonds bearing interest at 3.85% maturing on April 1, 2014		80,000
Bonds bearing interest at 3.85% maturing on April 1, 2015		85,000
Bonds bearing interest at 3.85% maturing on April 1, 2016		90,000
Bonds bearing interest at 3.85% maturing on April 1, 2017		95,000
Bonds bearing interest at 3.85% maturing on April 1, 2018		100,000
Bonds bearing interest at 3.85% maturing on April 1, 2019		105,000
Bonds bearing interest at 3.85% maturing on April 1, 2020		110,000
Bonds bearing interest at 3.85% maturing on April 1, 2021		115,000
Bonds bearing interest at 3.85% maturing on April 1, 2022		<u>120,000</u>
Subtotal	\$	<u>1,380,000</u>

\$6,080,000 Public Safety Bonds, Series 2002A, issued May 22, 2002, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.250% maturing on July 15, 2006	\$	325,000
Bonds bearing interest at 3.750% maturing on July 15, 2007		340,000
Bonds bearing interest at 4.000% maturing on July 15, 2008		350,000
Bonds bearing interest at 4.000% maturing on July 15, 2009		365,000
Bonds bearing interest at 4.000% maturing on July 15, 2010		380,000
Bonds bearing interest at 4.250% maturing on July 15, 2011		395,000
Bonds bearing interest at 4.375% maturing on July 15, 2012		410,000
Bonds bearing interest at 4.375% maturing on July 15, 2013		430,000
Bonds bearing interest at 4.400% maturing on July 15, 2014		450,000
Bonds bearing interest at 4.500% maturing on July 15, 2015		470,000
Bonds bearing interest at 4.625% maturing on July 15, 2016		490,000
Bonds bearing interest at 4.750% maturing on July 15, 2017		510,000
Bonds bearing interest at 4.750% maturing on July 15, 2018		<u>535,000</u>
Subtotal	\$	<u>5,450,000</u>

\$5,616,300 Public Improvement Refunding Bonds, Series 2003, issued May 16, 2003, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.17% maturing on July 15, 2006	\$	85,300
Bonds bearing interest at 3.17% maturing on July 15, 2007		458,000
Bonds bearing interest at 3.17% maturing on July 15, 2008		472,100

Note 11. Long-term Debt (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 3.17% maturing on July 15, 2009	485,300
Bonds bearing interest at 3.17% maturing on July 15, 2010	502,700
Bonds bearing interest at 3.17% maturing on July 15, 2011	518,400
Bonds bearing interest at 3.17% maturing on July 15, 2012	532,900
Bonds bearing interest at 3.17% maturing on July 15, 2013	551,200
Bonds bearing interest at 3.17% maturing on July 15, 2014	568,000
Bonds bearing interest at 3.17% maturing on July 15, 2015	588,600
Bonds bearing interest at 3.17% maturing on July 15, 2016	607,400
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Subtotal	\$ 5,369,900

\$2,935,000 General Obligation Bonds, Series 2003B, issued December 1, 2003, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.50% maturing on June 1, 2007	\$ 55,000
Bonds bearing interest at 2.50% maturing on June 1, 2008	55,000
Bonds bearing interest at 2.75% maturing on June 1, 2009	60,000
Bonds bearing interest at 3.00% maturing on June 1, 2010	60,000
Bonds bearing interest at 3.30% maturing on June 1, 2011	60,000
Bonds bearing interest at 3.40% maturing on June 1, 2012	65,000
Bonds bearing interest at 3.625% maturing on June 1, 2013	65,000
Bonds bearing interest at 3.75% maturing on June 1, 2014	65,000
Bonds bearing interest at 3.875% maturing on June 1, 2015	70,000
Bonds bearing interest at 4.00% maturing on June 1, 2016	75,000
Bonds bearing interest at 4.10% maturing on June 1, 2017	75,000
Bonds bearing interest at 4.20% maturing on June 1, 2018	80,000
Bonds bearing interest at 4.75% maturing on June 1, 2019	80,000
Bonds bearing interest at 4.75% maturing on June 1, 2020	85,000
Bonds bearing interest at 4.75% maturing on June 1, 2021	90,000
Bonds bearing interest at 4.75% maturing on June 1, 2022	95,000
Bonds bearing interest at 4.75% maturing on June 1, 2023	100,000
Bonds bearing interest at 4.75% maturing on June 1, 2024	105,000
Bonds bearing interest at 4.75% maturing on June 1, 2025	110,000
Bonds bearing interest at 5.00% maturing on June 1, 2026	115,000
Bonds bearing interest at 5.00% maturing on June 1, 2027	120,000
Bonds bearing interest at 5.00% maturing on June 1, 2028	125,000
Bonds bearing interest at 5.00% maturing on June 1, 2029	130,000
Bonds bearing interest at 5.00% maturing on June 1, 2030	140,000
Bonds bearing interest at 5.00% maturing on June 1, 2031	145,000
Bonds bearing interest at 5.00% maturing on June 1, 2032	150,000
Bonds bearing interest at 5.00% maturing on June 1, 2033	160,000
Bonds bearing interest at 5.00% maturing on June 1, 2034	170,000
Bonds bearing interest at 5.00% maturing on June 1, 2035	175,000
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Subtotal	\$ 2,880,000

Note 11. Long-term Debt (continued)

General Obligation Bonds (continued):

\$7,250,000 General Obligation Bonds, Series 2005, issued June 29, 2005, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.55% maturing on July 15, 2006	\$	244,395
Bonds bearing interest at 3.55% maturing on July 15, 2007		264,510
Bonds bearing interest at 3.55% maturing on July 15, 2008		273,900
Bonds bearing interest at 3.55% maturing on July 15, 2009		283,624
Bonds bearing interest at 3.55% maturing on July 15, 2010		293,692
Bonds bearing interest at 3.55% maturing on July 15, 2011		304,119
Bonds bearing interest at 3.55% maturing on July 15, 2012		314,915
Bonds bearing interest at 3.55% maturing on July 15, 2013		326,094
Bonds bearing interest at 3.55% maturing on July 15, 2014		337,671
Bonds bearing interest at 3.55% maturing on July 15, 2015		349,658
Bonds bearing interest at 3.55% maturing on July 15, 2016		362,071
Bonds bearing interest at 3.55% maturing on July 15, 2017		374,924
Bonds bearing interest at 3.55% maturing on July 15, 2018		388,234
Bonds bearing interest at 3.55% maturing on July 15, 2019		402,016
Bonds bearing interest at 3.55% maturing on July 15, 2020		416,288
Bonds bearing interest at 3.55% maturing on July 15, 2021		431,066
Bonds bearing interest at 3.55% maturing on July 15, 2022		446,369
Bonds bearing interest at 3.55% maturing on July 15, 2023		462,215
Bonds bearing interest at 3.55% maturing on July 15, 2024		478,624
Bonds bearing interest at 3.55% maturing on July 15, 2025		<u>495,615</u>
Subtotal	\$	<u>7,250,000</u>
Total General Obligation Bonds	\$	<u><u>22,679,900</u></u>

General Obligation School Bonds:

\$10,000,000 Virginia Public School Authority Bonds, Series 1992, issued December 1, 1992, maturing annually with interest payable semi-annually:

Bonds bearing interest at 5.85% maturing on December 15, 2006	\$	480,000
Bonds bearing interest at 5.85% maturing on December 15, 2007		460,000
Bonds bearing interest at 5.85% maturing on December 15, 2008		450,000
Bonds bearing interest at 5.85% maturing on December 15, 2009		410,000
Bonds bearing interest at 5.85% maturing on December 15, 2010		385,000
Bonds bearing interest at 5.85% maturing on December 15, 2011		380,000
Bonds bearing interest at 5.85% maturing on December 15, 2012		<u>305,000</u>
Subtotal	\$	<u>2,870,000</u>

Note 11. Long-term Debt (continued)

General Obligation School Bonds (continued):

\$11,210,000 Virginia Public School Authority Bonds, Refunding Series 1994A, issued January 4, 1994, maturing annually with interest payable semi-annually:

Bonds bearing interest at 6.35% maturing on December 15, 2006	\$	360,000
Bonds bearing interest at 6.35% maturing on December 15, 2007		350,000
Bonds bearing interest at 6.35% maturing on December 15, 2008		345,000
Bonds bearing interest at 6.40% maturing on December 15, 2009		330,000
Bonds bearing interest at 6.40% maturing on December 15, 2010		310,000
Bonds bearing interest at 6.40% maturing on December 15, 2011		<u>275,000</u>
Subtotal	\$	<u>1,970,000</u>

\$4,250,000 Virginia Public School Authority Bonds, Series 1994A, issued May 5, 1994, maturing annually with interest payable semi-annually:

Bonds bearing interest at 6.100% maturing on July 15, 2006	\$	215,000
Bonds bearing interest at 6.100% maturing on July 15, 2007		220,000
Bonds bearing interest at 6.225% maturing on July 15, 2008		220,000
Bonds bearing interest at 6.225% maturing on July 15, 2009		215,000
Bonds bearing interest at 6.225% maturing on July 15, 2010		220,000
Bonds bearing interest at 6.225% maturing on July 15, 2011		220,000
Bonds bearing interest at 6.225% maturing on July 15, 2012		215,000
Bonds bearing interest at 6.300% maturing on July 15, 2013		<u>220,000</u>
Subtotal	\$	<u>1,745,000</u>

\$2,005,000 Virginia Public School Authority Bonds, Series 1999A, issued May 13, 1999, maturing annually with interest payable semi-annually:

Bonds bearing interest at 4.100% maturing on July 15, 2006	\$	100,000
Bonds bearing interest at 4.200% maturing on July 15, 2007		100,000
Bonds bearing interest at 4.225% maturing on July 15, 2008		100,000
Bonds bearing interest at 5.100% maturing on July 15, 2009		100,000
Bonds bearing interest at 4.475% maturing on July 15, 2010		100,000
Bonds bearing interest at 4.600% maturing on July 15, 2011		100,000
Bonds bearing interest at 4.600% maturing on July 15, 2012		100,000
Bonds bearing interest at 4.725% maturing on July 15, 2013		100,000
Bonds bearing interest at 4.725% maturing on July 15, 2014		100,000
Bonds bearing interest at 5.100% maturing on July 15, 2015		100,000
Bonds bearing interest at 5.100% maturing on July 15, 2016		100,000
Bonds bearing interest at 5.100% maturing on July 15, 2017		100,000
Bonds bearing interest at 5.225% maturing on July 15, 2018		100,000
Bonds bearing interest at 5.225% maturing on July 15, 2019		<u>100,000</u>
Subtotal	\$	<u>1,400,000</u>

Note 11. Long-term Debt (continued)

General Obligation School Bonds (continued):

\$5,100,000 Virginia Public School Authority Bonds, Series 2000A, issued May 13, 2000, maturing annually with interest payable semi-annually:

Bonds bearing interest at 5.100% maturing on July 15, 2006	\$ 255,000
Bonds bearing interest at 5.100% maturing on July 15, 2007	255,000
Bonds bearing interest at 5.100% maturing on July 15, 2008	255,000
Bonds bearing interest at 5.100% maturing on July 15, 2009	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2010	255,000
Bonds bearing interest at 5.225% maturing on July 15, 2011	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2012	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2013	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2014	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2015	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2016	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2017	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2018	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2019	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2020	255,000
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Subtotal	\$ 3,825,000

\$41,500,000 Virginia Public School Authority Bonds, Series 2001C, issued November 15, 2001, maturing annually with interest payable semi-annually:

Bonds bearing interest at 4.100% maturing on July 15, 2006	\$ 1,140,000
Bonds bearing interest at 4.100% maturing on July 15, 2007	1,185,000
Bonds bearing interest at 4.100% maturing on July 15, 2008	1,235,000
Bonds bearing interest at 4.100% maturing on July 15, 2009	1,290,000
Bonds bearing interest at 4.100% maturing on July 15, 2010	1,345,000
Bonds bearing interest at 4.100% maturing on July 15, 2011	1,400,000
Bonds bearing interest at 5.100% maturing on July 15, 2012	1,465,000
Bonds bearing interest at 5.100% maturing on July 15, 2013	1,540,000
Bonds bearing interest at 4.600% maturing on July 15, 2014	1,620,000
Bonds bearing interest at 4.850% maturing on July 15, 2015	1,695,000
Bonds bearing interest at 4.850% maturing on July 15, 2016	1,780,000
Bonds bearing interest at 4.850% maturing on July 15, 2017	1,870,000
Bonds bearing interest at 4.850% maturing on July 15, 2018	1,960,000
Bonds bearing interest at 4.975% maturing on July 15, 2019	2,060,000
Bonds bearing interest at 5.100% maturing on July 15, 2020	2,165,000
Bonds bearing interest at 5.100% maturing on July 15, 2021	2,280,000
Bonds bearing interest at 5.100% maturing on July 15, 2022	2,400,000
Bonds bearing interest at 5.100% maturing on July 15, 2023	2,525,000
Bonds bearing interest at 5.100% maturing on July 15, 2024	2,660,000
Bonds bearing interest at 5.100% maturing on July 15, 2025	2,795,000
Bonds bearing interest at 5.100% maturing on July 15, 2026	2,945,000
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Subtotal	\$ 39,355,000
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Total General Obligation School Bonds	\$ 51,165,000

Note 11. Long-term Debt (continued)

General Obligation Revenue Bonds:

\$6,410,000 Public Recreational Facility Bonds, Series 2000, issued June 29, 2000, maturing annually with interest payable semi-annually:

Bonds bearing interest at 5.45% maturing on December 1, 2006	\$ 65,000
Bonds bearing interest at 5.50% maturing on December 1, 2007	75,000
Bonds bearing interest at 5.55% maturing on December 1, 2008	85,000
Bonds bearing interest at 5.60% maturing on December 1, 2009	95,000
Bonds bearing interest at 5.65% maturing on December 1, 2010	105,000
Bonds bearing interest at 5.75% maturing on December 1, 2011	120,000
Bonds bearing interest at 5.80% maturing on December 1, 2012	130,000
Bonds bearing interest at 5.80% maturing on December 1, 2013	145,000
Bonds bearing interest at 5.85% maturing on December 1, 2014	160,000
Bonds bearing interest at 5.90% maturing on December 1, 2015	175,000
Bonds bearing interest at 6.20% maturing on December 1, 2016	190,000
Bonds bearing interest at 6.20% maturing on December 1, 2017	210,000
Bonds bearing interest at 6.10% maturing on December 1, 2018	230,000
Bonds bearing interest at 6.10% maturing on December 1, 2019	250,000
Bonds bearing interest at 6.10% maturing on December 1, 2020	270,000
Bonds bearing interest at 6.25% maturing on December 1, 2021	290,000
Bonds bearing interest at 6.25% maturing on December 1, 2022	315,000
Bonds bearing interest at 6.25% maturing on December 1, 2023	340,000
Bonds bearing interest at 6.25% maturing on December 1, 2024	370,000
Bonds bearing interest at 6.25% maturing on December 1, 2025	400,000
Bonds bearing interest at 6.25% maturing on December 1, 2026	430,000
Bonds bearing interest at 6.25% maturing on December 1, 2027	465,000
Bonds bearing interest at 6.25% maturing on December 1, 2028	500,000
Bonds bearing interest at 6.25% maturing on December 1, 2029	970,000
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Subtotal	\$ 6,385,000
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Total General Obligation Revenue Bonds	\$ 6,385,000
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Notes Payable:

\$400,000 Harrisonburg Redevelopment and Housing Authority Note, dated January 20, 2005, with interest payable quarterly:

Note bearing interest at 2.5% maturing on January 20, 2007	\$ 400,000
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Subtotal	\$ 400,000
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Total Notes Payable	\$ 400,000
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Note 11. Long-term Debt (continued)

Capital Leases:

\$2,665,000 Harrisonburg Redevelopment and Housing Authority Bonds, issued August 24, 1995, with principal and interest payable semi-annually. \$1,066,000, which is 40 percent of the \$2,665,000, is the City's share of this debt based upon a lease agreement between the City, Rockingham County and the Harrisonburg Redevelopment and Housing Authority:

Lease bearing interest at 6.08% maturing August 24, 2006 and February 26, 2007	\$	51,510
Lease bearing interest at 6.08% maturing August 24, 2007 and February 26, 2008		55,077
Lease bearing interest at 6.08% maturing August 24, 2008 and February 26, 2009		58,398
Lease bearing interest at 6.08% maturing August 24, 2009 and February 26, 2010		62,061
Lease bearing interest at 6.08% maturing August 24, 2010 and February 26, 2011		65,946
Lease bearing interest at 6.08% maturing August 24, 2011 and February 26, 2012		70,073
Lease bearing interest at 6.08% maturing August 24, 2012 and February 26, 2013		74,354
Lease bearing interest at 6.08% maturing August 24, 2013 and February 26, 2014		79,142
Lease bearing interest at 6.08% maturing August 24, 2014 and February 26, 2015		84,060
Lease bearing interest at 6.08% maturing August 24, 2015 and February 26, 2016		89,329
		<hr/>
Subtotal	\$	<u>689,950</u>

\$12,305,000 Harrisonburg Redevelopment and Housing Authority Bonds, issued May 1, 1998, maturing annually with interest payable semi-annually. \$6,152,500, which is 50 percent of the \$12,305,000, is the City's share of this debt based upon a lease agreement between the City, Rockingham County and the Harrisonburg Redevelopment and Housing Authority:

Lease bearing interest at 4.75% maturing on June 20, 2007	\$	385,000
Lease bearing interest at 5.00% maturing on June 20, 2008		402,500
Lease bearing interest at 5.00% maturing on June 20, 2009		422,500
Lease bearing interest at 5.00% maturing on June 20, 2010		445,000
Lease bearing interest at 5.00% maturing on June 20, 2011		467,500
Lease bearing interest at 5.00% maturing on June 20, 2012		490,000
Lease bearing interest at 5.00% maturing on June 20, 2013		515,000
Lease bearing interest at 5.00% maturing on June 20, 2014		540,000
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Subtotal	\$	<u>3,667,500</u>

\$5,740,000, lease purchase, effective December 17, 2004, maturing annually with interest payable semi-annually:

Lease bearing interest at 3.76% maturing on December 1, 2006	\$	302,000
Lease bearing interest at 3.76% maturing on December 1, 2007		314,000
Lease bearing interest at 3.76% maturing on December 1, 2008		326,000
Lease bearing interest at 3.76% maturing on December 1, 2009		338,000
Lease bearing interest at 3.76% maturing on December 1, 2010		350,000
Lease bearing interest at 3.76% maturing on December 1, 2011		364,000
Lease bearing interest at 3.76% maturing on December 1, 2012		377,000
Lease bearing interest at 3.76% maturing on December 1, 2013		391,000
Lease bearing interest at 3.76% maturing on December 1, 2014		406,000

Note 11. Long-term Debt (continued)

Capital Leases (continued):

Lease bearing interest at 3.76% maturing on December 1, 2015	421,000
Lease bearing interest at 3.76% maturing on December 1, 2016	437,000
Lease bearing interest at 3.76% maturing on December 1, 2017	454,000
Lease bearing interest at 3.76% maturing on December 1, 2018	471,000
Lease bearing interest at 3.76% maturing on December 1, 2019	<u>489,000</u>
Subtotal	\$ <u>5,440,000</u>
Total Capital Leases	\$ <u><u>9,797,450</u></u>

State Literary Fund Loans:

\$236,428 State Literary Fund Loan of 1986, issued August 15, 1986, maturing annually with interest payable annually:

Loan bearing interest at 5.00% maturing on August 15, 2006	\$ <u>11,825</u>
Subtotal	\$ <u>11,825</u>
Total State Literary Fund Loans	\$ <u><u>11,825</u></u>
Total Governmental Activities	\$ <u><u>90,439,175</u></u>

Business-type activities:

General Obligation Bonds:

\$25,310,000 Steam Plant Bonds, Series 2002A, issued May 22, 2002, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.250% maturing on July 15, 2006	\$ 865,000
Bonds bearing interest at 3.750% maturing on July 15, 2007	895,000
Bonds bearing interest at 4.000% maturing on July 15, 2008	925,000
Bonds bearing interest at 4.000% maturing on July 15, 2009	965,000
Bonds bearing interest at 4.000% maturing on July 15, 2010	1,000,000
Bonds bearing interest at 4.250% maturing on July 15, 2011	1,045,000
Bonds bearing interest at 4.375% maturing on July 15, 2012	1,085,000
Bonds bearing interest at 4.375% maturing on July 15, 2013	1,135,000
Bonds bearing interest at 4.400% maturing on July 15, 2014	1,185,000
Bonds bearing interest at 4.500% maturing on July 15, 2015	1,235,000
Bonds bearing interest at 4.625% maturing on July 15, 2016	1,290,000
Bonds bearing interest at 4.750% maturing on July 15, 2017	1,350,000
Bonds bearing interest at 4.750% maturing on July 15, 2018	1,415,000
Bonds bearing interest at 5.000% maturing on July 15, 2019	1,485,000
Bonds bearing interest at 5.000% maturing on July 15, 2020	1,555,000

Note 11. Long-term Debt (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 5.000% maturing on July 15, 2021	1,635,000
Bonds bearing interest at 5.000% maturing on July 15, 2022	1,715,000
Bonds bearing interest at 5.000% maturing on July 15, 2023	1,800,000
Bonds bearing interest at 5.000% maturing on July 15, 2024	1,890,000
Subtotal	<u>\$ 24,470,000</u>

\$4,260,000 Solid Waste Disposal System Refunding Bonds (Virginia Resources Authority), Series 2004, issued October 17, 2004, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.375% maturing on October 1, 2006	\$ 345,000
Bonds bearing interest at 2.375% maturing on October 1, 2007	355,000
Bonds bearing interest at 2.625% maturing on October 1, 2008	365,000
Bonds bearing interest at 2.875% maturing on October 1, 2009	370,000
Bonds bearing interest at 3.125% maturing on October 1, 2010	385,000
Bonds bearing interest at 3.375% maturing on October 1, 2011	395,000
Bonds bearing interest at 3.625% maturing on October 1, 2012	410,000
Bonds bearing interest at 3.625% maturing on October 1, 2013	420,000
Bonds bearing interest at 3.625% maturing on October 1, 2014	435,000
Bonds bearing interest at 4.4766% maturing on October 1, 2015	455,000
Subtotal	<u>\$ 3,935,000</u>
Total General Obligation Bonds	<u>\$ 28,405,000</u>

General Obligation Revenue Bonds:

\$10,620,000 Water Bonds, Series 2002B, issued May 22, 2002, maturing annually with interest payable semi-annually:

Bonds bearing interest at 4.000% maturing on July 15, 2006	\$ 190,000
Bonds bearing interest at 4.125% maturing on July 15, 2007	195,000
Bonds bearing interest at 4.125% maturing on July 15, 2008	205,000
Bonds bearing interest at 4.125% maturing on July 15, 2009	210,000
Bonds bearing interest at 4.500% maturing on July 15, 2010	220,000
Bonds bearing interest at 4.500% maturing on July 15, 2011	230,000
Bonds bearing interest at 4.500% maturing on July 15, 2012	240,000
Bonds bearing interest at 4.300% maturing on July 15, 2013	250,000
Bonds bearing interest at 4.400% maturing on July 15, 2014	265,000
Bonds bearing interest at 4.500% maturing on July 15, 2015	275,000
Bonds bearing interest at 4.625% maturing on July 15, 2016	285,000
Bonds bearing interest at 4.700% maturing on July 15, 2017	300,000
Bonds bearing interest at 4.750% maturing on July 15, 2018	315,000
Bonds bearing interest at 4.875% maturing on July 15, 2019	330,000
Bonds bearing interest at 5.000% maturing on July 15, 2020	345,000
Bonds bearing interest at 5.000% maturing on July 15, 2021	360,000
Bonds bearing interest at 5.000% maturing on July 15, 2022	380,000
Bonds bearing interest at 5.000% maturing on July 15, 2023	400,000
Bonds bearing interest at 5.000% maturing on July 15, 2024	420,000

Note 11. Long-term Debt (continued)

General Obligation Revenue Bonds (continued):

Bonds bearing interest at 5.000% maturing on July 15, 2025	440,000
Bonds bearing interest at 5.000% maturing on July 15, 2026	460,000
Bonds bearing interest at 5.000% maturing on July 15, 2027	485,000
Bonds bearing interest at 5.000% maturing on July 15, 2028	510,000
Bonds bearing interest at 5.000% maturing on July 15, 2029	535,000
Bonds bearing interest at 5.000% maturing on July 15, 2030	560,000
Bonds bearing interest at 5.000% maturing on July 15, 2031	590,000
Bonds bearing interest at 5.000% maturing on July 15, 2032	620,000
Bonds bearing interest at 5.000% maturing on July 15, 2033	650,000
	<hr/>
Subtotal	\$ 10,265,000
	<hr/>
Total General Obligation Revenue Bonds	\$ 10,265,000
	<hr/> <hr/>

Landfill Closure and Postclosure:

Estimated cost of landfill closure and postclosure:	
City Landfill	\$ 1,692,719
County Landfill - Assumed by the City	1,766,551
	<hr/>
Total Landfill Closure and Postclosure	\$ 3,459,270
	<hr/>
Total Business-type Activities	\$ 42,129,270
	<hr/> <hr/>
<i>Total Primary Government Long-term Debt (Excluding the contractual obligation, compensated absences and unamortized premiums/discounts)</i>	\$ 132,568,445
	<hr/> <hr/>

Additional information pertaining to the Primary Government's long-term debt:

In June 2004, the City and James Madison University (JMU) entered into a revised and amended agreement concerning the sale and purchase of steam and chilled water at the City owned resource recovery facility. This facility produces steam and chilled water to meet all the heating and cooling needs of JMU's College of Integrated Science and Technology, as well as, other buildings. To the extent that the City continues to operate this facility, JMU has agreed to annually reimburse the City for the annual debt service payments on the City's \$4,260,000 Solid Waste Disposal System Refunding Bonds. The current year reimbursement for principal, interest and bank service charges on this bond totaled \$459,554. The outstanding balance of the City's bond issue at June 30, 2006 was \$3,935,000.

Component Unit – School Board

At June 30, 2006, the School Board had \$667,820 in long-term liabilities outstanding. This long-term liability is comprised of \$667,820 in compensated absences, of which \$281,753 is due within one year.

Component Unit – HEC

At June 30, 2006, HEC had \$946,726 in long-term liabilities outstanding. This long-term liability is comprised of \$300,851 in compensated absences, of which the entire amount is due within one year and \$645,875 in postretirement health care benefits, of which the entire amount is due in more than one year.

The Harrisonburg Electric Commission has a \$1 million unsecured line of credit with SunTrust Bank at a rate equal to LIBOR plus 100 basis points. There were no borrowings against this line of credit at June 30, 2006.

Note 12. 1996 Public Improvement Bonds Partially Refunded and Defeased

In May 2003, the City partially defeased its Public Improvement Bonds (Series 1996). Bonds maturing after July 15, 2006 were defeased by placing the proceeds of the City's Public Improvement Refunding Bonds (Series 2003) in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2006, \$4,805,000 of these old outstanding bonds are considered defeased. These bonds are callable on or after July 15, 2006.

Note 13. Conduit Debt

From time to time, the City has issued Industrial Revenue Bonds and Redevelopment and Housing Authority Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, public and private facilities deemed to be in the public interest. The bonds are secured by property financed and are payable from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2006, there were three series of Industrial Revenue Bonds and 24 series of Redevelopment and Housing Authority Bonds outstanding, with an aggregate principal amount of \$50.7 million and \$210 million respectively.

Note 14. Fund Balance

The amounts that are reported on the fund financial balance sheet identified as reserved fund balance and designated fund balance are comprised of the following:

	General Fund	General Capital Projects Fund	Nonmajor Governmental Funds	Total
Reserved for:				
Encumbrances	\$ 540,365	\$ 1,791,279	\$ -	\$ 2,331,644
Prepaid expenditures	128,035	-	7,748	135,783
Advances to other funds	370,026	-	-	370,026
Loans receivable	375,000	-	-	375,000
Capital projects	-	4,364,535	-	4,364,535
Debt service	746,555	-	-	746,555
Drug forfeiture	120,698	-	-	120,698
Police department grants	11,847	-	-	11,847
Fire department grants	183,887	-	-	183,887
Total reserved fund balance	<u>\$ 2,476,413</u>	<u>\$ 6,155,814</u>	<u>\$ 7,748</u>	<u>\$ 8,639,975</u>
Designated for:				
Subsequent years' expenditures	\$ 1,519,022	\$ 2,823,990	\$ -	\$ 4,343,012
Parks and recreation department	145,538	-	-	145,538
Denton park	30,602	-	-	30,602
Total designated fund balance	<u>\$ 1,695,162</u>	<u>\$ 2,823,990</u>	<u>\$ -</u>	<u>\$ 4,519,152</u>

Note 15. Judicial Complex Lease Agreement

In May 1998, the City and the County of Rockingham (the County) entered into a restated and amended lease agreement with the Harrisonburg Redevelopment and Housing Authority (the Authority). Pursuant to the terms of this lease, the Authority sold a bond issue for \$12,305,000 entitled "Public Facility Lease Revenue Refunding Bonds (Rockingham County and City of Harrisonburg Project) Series of 1998." The proceeds of this bond issue were used to purchase U. S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series Lease Revenue Bonds.

The bonds are limited obligations of the Authority payable solely from certain rent payments to be made by the County and the City, pursuant to the lease agreement, and from certain funds established for the project under the trust agreement. The obligations of the County and the City to make rent payments will be subject to annual appropriation by each of the Board of Supervisors of the County and the City Council of the City, neither of which shall be under any legal obligation to make such appropriation. Neither the bonds nor the lease agreement constitutes a debt of the County or the City for a pledge of the faith and credit or taxing power of the County or the City. However, this is a capital lease and is shown as long-term debt of the City.

Note 16. Social Services and Health Department Lease Agreement

In August 1995, the City and the County of Rockingham (the County) entered into a lease agreement with the Harrisonburg Redevelopment and Housing Authority (the Authority). Pursuant to the terms of this lease, the Authority sold a bond issue for \$2,665,000 entitled "Public Facility Lease Revenue Bond (Rockingham County and City of Harrisonburg Project)." The proceeds of this bond issue were used to renovate and equip a building to house the City's and County's combined Social Services and Health Departments. This building is on land owned by the Authority and located within the City limits.

The bonds are limited obligations of the Authority payable solely from certain rent payments to be made by the County and City, pursuant to the lease agreement. The obligations of the County and the City to make rent payments will be subject to annual appropriation by each of the Board of Supervisors of the County and the City Council of the City, neither of which shall be under any obligation to make such appropriation. Neither the bonds nor the lease agreement constitutes a debt of the County or the City for a pledge of the faith and credit or taxing power of the County or the City. However, this is a capital lease and has been shown as other long-term debt of the City.

Note 17. Defined Benefit Pension Plan

Plan Description. The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 50 with 30 years of credited service (age 50 and 25 years of credited service for participating local law enforcement officers and firefighters) or at age 65 with five years of credited service (age 60 and five years of credited service for participating local law enforcement officers and firefighters). Employees who retire with an unreduced benefit are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of salary. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of credited service or age 55 with five years of credited service (age 50 for participating local law enforcement officers and firefighters). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment limited to five percent per year beginning in their second year of retirement. Participating local law enforcement officers and firefighters may receive a

Note 17. Defined Benefit Pension Plan (continued)

monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/2005AnnuRept.pdf> or obtained by writing to the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy. Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City, the City of Harrisonburg School Board (School Board) and the Harrisonburg Electric Commission (HEC), are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by statute and approved by the VRS Board of Trustees. The City and HEC's contribution rate for the fiscal year ended 2006 was 10.25% of annual covered payroll. The School Board non-professional employees' contribution rate for the fiscal year ended 2006 was 0.75% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the years ending June 30, 2006, 2005, and 2004 were \$1,560,303, \$1,314,375, and \$777,273, respectively, and were equal to the required contributions for each year.

Annual Pension Cost. For 2006, the City of Harrisonburg and HEC's annual pension cost of \$2,161,429 was equal to the required and actual contributions. The School Board's non-professional employees annual pension cost of \$9,631 was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City, HEC and the School Board's non-professional employees unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City of Harrisonburg and HEC Employees:			
2006	\$ 2,161,429	100%	\$ -
2005	2,001,569	100%	-
2004	1,035,499	100%	-
School Board Non-Professional Employees:			
2006	\$ 9,631	100%	-
2005	8,752	100%	-
2004	5,493	100%	-

Note 17. Defined Benefit Pension Plan (continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Harrisonburg and HEC Employees:						
June 30, 2005	\$ 56,257,984	\$ 71,254,458	\$ 14,996,474	78.95%	\$ 19,804,909	75.72%
June 30, 2004	53,519,519	62,496,891	8,977,372	85.64%	18,584,069	48.31%
June 30, 2003	52,085,791	57,237,259	5,151,468	91.00%	15,747,673	32.71%
School Board Non-Professional Employees:						
June 30, 2005	\$ 3,660,582	\$ 3,713,584	\$ 53,002	98.57%	\$ 1,188,221	4.46%
June 30, 2004	3,564,405	3,109,100	(455,305)	114.64%	1,109,692	(41.03%)
June 30, 2003	3,500,295	2,791,788	(708,507)	125.38%	979,233	(72.35%)

The assumptions used for the June 30, 2005 actuarial valuation reflect a change in economic and demographic assumptions, which include a decrease in the investment rate of return, a change in projected salary increases, a decrease in the cost-of-living assumption, and a decrease in the inflation component of the investment rate of return and projected salary increases.

Note 18. Postretirement Health Care Benefits

Primary Government. The City provides certain health care benefits for retirees who are at least 50 years of age and have at least 15 years of consecutive retirement eligible service with the City. The employee must also meet VRS retirement or disability requirements and must not be eligible for Medicare. The City contributes on a "pay-as-you-go" basis. At June 30, 2006, there were 506 employees eligible to participate in the plan with 26 retired employees receiving benefits at year end. The City made contributions totaling \$87,867 during the year.

Component Unit – School Board. The School Board provides certain health care benefits for retirees who are at least 50 years of age and have at least 10 years of cumulative service (a minimum of five years with the School Board immediately preceding retirement). The employee must also meet VRS retirement or disability requirements and must not be eligible for Medicare. The School Board contributes on a "pay-as-you-go" basis. At June 30, 2006, there were 667 employees eligible to participate in the plan with 54 retired employees receiving benefits at year end. The School Board made contributions totaling \$180,425 during the year.

Component Unit – HEC. The Harrisonburg Electric Commission (HEC) provides certain health care benefits for retirees who are at least 50 years of age and have at least 15 years of consecutive retirement eligible service with HEC. The employee must also meet VRS retirement or disability requirements and must not be eligible for Medicare. HEC adopted Financial Accounting Standards Board Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. The statement requires the cost of employee postretirement benefits to be accrued over the employee's service period. The estimated employee postretirement benefit payable as of June 30, 2006 was \$645,875.

Note 19. Landfill Closure and Postclosure Care Costs

In accordance with state and federal laws and regulations, the City is required to perform certain maintenance and monitoring functions at the City's closed landfill site for 30 years after the date of closure. The City closed its landfill in 1994. \$1,692,719 of the amount reported as landfill closure and postclosure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of 100% of the capacity of the landfill. Included in the total liability is an additional \$703,234 for groundwater remediation. The City plans to fund its landfill closure and postclosure care costs with available funds from the Sanitation Fund.

Note 20. Rockingham County Landfill Closure and Postclosure Care Costs

Beginning July 1, 1994, the City entered into an agreement with Rockingham County (County) to use its landfill. The City recognizes that it has an obligation to fund a portion of the County's closure and postclosure care costs. \$377,006 of the amount reported as landfill closure and postclosure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of 100% of the capacity of the County's old landfill cell. This amount is based upon the estimated closure and postclosure care costs incurred since July 1, 1994, which is calculated by using the population ratio of the City and County, plus \$21,219 in liability incurred by the City prior to July 1, 1994. The County closed this cell in 2000.

The City also recognizes \$1,389,545 associated with a new, and subsequently expanded, landfill cell opened in 2001, which is based on the use of 79% of the estimated capacity of the new landfill cell. The City will recognize its remaining estimated cost of closure and postclosure care of \$369,138 as the remaining capacity of this new cell is used. The County expects to begin closing the new cell in 2007. Actual costs may be different due to inflation, changes in technology, or changes in regulations. The City plans to fund these landfill closure and postclosure care costs with available funds from the Sanitation Fund.

Note 21. Transactions with Component Units

For the year ended June 30, 2006, the City's General Fund made cash payments to the School Board, a component unit, totaling \$21,622,750. These payments were comprised of \$21,111,808 paid monthly for the purpose of funding the School Board's operating budget and \$510,942 paid for capital purposes.

For the year ended June 30, 2006, the Harrisonburg Electric Commission, a component unit, made cash payments to the City's General Fund totaling \$4,400,000. These payments are made monthly for the purpose of funding the General Fund budget.

Note 22. Joint Venture

The City, Rockingham County, and the towns of Bridgewater, Dayton and Mt. Crawford have entered into a contract with the Harrisonburg-Rockingham Regional Sewer Authority (Authority), whereby the Authority agrees to operate a sewage disposal system for the participating municipalities. The municipalities have an ongoing financial responsibility based on an agreement to make annual contributions to the Authority for operations and maintenance based on their respective usage of the system. The municipalities also agree to make annual contributions to the Authority for debt service, except for Mt. Crawford, which made an upfront payment for its share. The Authority has \$16,264,839 of total debt outstanding that includes refunding and project debt. The payments on the refunding portion of the debt are computed in the same ratio as volume of waste treated, and the payments on the project debt are at a fixed percentage. The City's variable rate is approximately 61.59 percent and the fixed rate is 73.884 percent. The City does not have an ongoing financial interest in the Authority since it does not have access to the Authority's resources or surpluses, nor is it liable for the Authority's debts or deficits. To obtain a copy of the audited financial statements, contact the Harrisonburg-Rockingham Regional Sewer Authority, P.O. Box 8, 856 North River Road, Mt. Crawford, Virginia 22841.

Note 22. Joint Venture (continued)

Assuming that the ratio of volume of waste treated between the participating municipalities does not change significantly, the City's share of the required principal and interest payments for the Authority's bond issues, which are made by the City's Sewer Fund, can be projected as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 530,245	\$ 517,625	\$ 1,047,870
2008	570,792	501,959	1,072,751
2009	499,418	479,729	979,147
2010	519,263	456,930	976,193
2011	542,415	432,707	975,122
2012-2016	3,142,037	1,738,069	4,880,106
2017-2021	4,001,963	862,226	4,864,189
2022	926,074	46,906	972,980
Total	<u>\$ 10,732,207</u>	<u>\$ 5,036,151</u>	<u>\$ 15,768,358</u>

The following information is a condensed statement of net assets as of the end of the two most recent fiscal years for the Authority.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Increase (Decrease)</u>
Current assets	\$ 1,925,165	\$ 2,215,137	\$ (289,972)
Restricted assets	2,350,728	2,385,267	(34,539)
Capital assets	21,483,304	22,398,914	(915,610)
Other assets	570,828	545,360	25,468
Total assets	<u>\$ 26,330,025</u>	<u>\$ 27,544,678</u>	<u>\$ (1,214,653)</u>
Current liabilities	\$ 401,745	\$ 440,671	\$ (38,926)
Liabilities payable from restricted assets	975,319	951,700	23,619
Long-term liabilities	14,288,659	15,032,796	(744,137)
Total liabilities	<u>\$ 15,665,723</u>	<u>\$ 16,425,167</u>	<u>\$ (759,444)</u>
Net assets	<u>\$ 10,664,302</u>	<u>\$ 11,119,511</u>	<u>\$ (455,209)</u>

Note 23. Jointly Governed Organizations

The Harrisonburg-Rockingham Social Services District (District) was created by the City and the County of Rockingham (County) to provide social services for the residents of the City and County. Both the City and County appoint one member each to the governing board. The District is a separate legal entity and is a discretely presented component unit of the County. The City contributed \$1,991,283 to the District for the year ended June 30, 2006.

Note 24. Related Organization

The City created the Harrisonburg Redevelopment and Housing Authority (Authority) to provide low-income housing to the residents of the City. The Authority is a separate legal entity and is governed by five commissioners who are appointed solely by the City Council. The City does not have an ongoing financial interest or responsibility to the Authority.

Note 25. James Madison University Lease Agreement and Real Estate Purchase Agreements

In June 2005, the City entered into a lease agreement with James Madison University (JMU) whereby the City agreed to lease the former Harrisonburg High School property to JMU. Pursuant to the agreement, the City is leasing the property to JMU for a five-year period which began on July 1, 2005. The lease provides for JMU to pay the City \$7.5 million over a five-year period with payments of \$1 million each of the first four years and a final payment of \$3.5 million in the fifth year. JMU shall have the right to purchase the property during the term of the lease agreement at a purchase price not to exceed \$18 million with any prior lease payments being applied as payment toward the purchase price. The lease is an operating lease. Land in the amount of \$1,364,900 and buildings in the amount of \$13,648,169 (\$1,393,100 in accumulated depreciation) associated with the operating lease are included with the City's capital assets.

In March and May 2006, the City entered into two separate real estate purchase agreements with JMU and the JMU Real Estate Foundation, Inc. for the sale of the former Harrisonburg High School property. The total purchase price of the property will be \$17.04 with the closings on the property occurring in fiscal year 2007. As of June 30, 2006, JMU had paid the City \$2 million in lease payments which are being applied towards the purchase price.

Note 26. Harrisonburg Redevelopment and Housing Authority Agreements

One Court Square. In December 2004, the City entered into a support agreement with the Harrisonburg Redevelopment and Housing Authority (Authority) whereby the Authority purchased and plans to renovate an office building in the downtown area. The building was originally intended to serve as an incubator to attract telecommunication and other technology firms to the City by providing leaseable office space to qualifying businesses; however, the building is now being considered for use as the School Board's administration offices. Pursuant to the agreement, the Authority incurred \$2 million in debt to finance the project with final maturity occurring in December 2014.

The City has agreed to a non-binding moral obligation pledge to pay all operating expenses for the project, including debt service, to the extent that revenues from any leases are insufficient to pay these expenses. In fiscal year 2006, the City made payments totaling \$253,623 to the Authority for this project.

Harrisonburg Children's Museum. In April 2005, the City entered into a support agreement with the Harrisonburg Redevelopment and Housing Authority (Authority) whereby the Authority purchased and renovated a building in the downtown area. Upon completion of the renovations, the Authority leased the building to the Harrisonburg Children's Museum, Inc., a non-profit corporation, that is using the building as its permanent location. Pursuant to the agreement, the Authority incurred \$750,000 in debt to finance the project with final maturity occurring in April 2020.

The City has agreed to a non-binding moral obligation pledge to pay all operating expenses for the project, including debt service, to the extent that the revenue from the lease is insufficient to pay these expenses. In fiscal year 2006, the City made payments totaling \$67,668 to the Authority for this project.

Note 27. Lucy F. Simms Continuing Education Center

In January 2005, the City entered into an agreement to sell the historic portion of the Lucy F. Simms Continuing Education Center (Center) to Lucy F. Simms, LP (Partnership). This arrangement allowed for the use of certain tax credits to assist in financing the renovations of the historic portion of the Center. Pursuant to the agreement, the Partnership issued to the City a \$1.17 million deferred principal and interest note maturing in November 2024 at an interest rate of 4.76%. Also, the Partnership assumed an outstanding \$2.97 million general obligation note payable that the City had previously issued in December 2003. The City has the option to purchase back the historic portion of the building after the close of the five-year compliance period for the tax credit.

Note 28. Special Item

Primary Government. In conjunction with the City's agreement with James Madison University to lease the former Harrisonburg High School property, the School Board (component unit) declared the property surplus and transferred ownership to the City on July 1, 2005. The special item reported in the amount of \$11 million under governmental activities on the statement of activities represents the current value of the transferred property as of July 1, 2005.

Component Unit – School Board. In conjunction with the City's agreement with James Madison University to lease the former Harrisonburg High School property, the School Board declared the property surplus and transferred ownership to the City (primary government) on July 1, 2005. The special item reported in the amount of \$5,374,025 on the School Board's statement of activities represents the book value of the transferred property as of July 1, 2005.

Note 29. Commitments

The City has a contract outstanding for engineering services regarding connecting Erickson Avenue and Stone Spring Road. The contract totals \$2,847,580 and \$2,668,715 has been expended on the contract as of June 30, 2006. This contract is a commitment of the General Capital Projects Fund and is being financed through transfers from the General Fund.

The City has a joint contract outstanding with the County of Rockingham for the implementation and construction of a radio communications system. The City's share of the contract totals \$9,358,756 and \$4,211,440 had been expended on the contract as of June 30, 2006. This contract is a commitment of the General Capital Projects Fund and is being financed through the proceeds of a capital lease obligation.

The City has a construction contract outstanding for improvements to Port Republic Road (Phase II). The contract totals \$1,974,386 and \$1,285,949 had been expended on the contract as of June 30, 2006. This contract is a commitment of the General Capital Projects Fund and is being financed through transfers from the General Fund.

The City has a contract outstanding for engineering services regarding improvement to Port Republic Road (Phase III). The contract totals \$259,909 and \$66,937 had been expended on the contract as of June 30, 2006. This contract is a commitment of the General Capital Projects Fund and is being financed through transfers from the General Fund.

The City has a construction contract outstanding for engineering services regarding the extension of Linda Lane. The contract totals \$702,422 and \$103,462 had been expended on the contract as of June 30, 2006. This contract is a commitment of the General Capital Projects Fund and is being financed through the proceeds of a bond issue.

Note 30. Subsequent Events

In August 2006, the City entered into a \$37.1 million contract for the construction of a new elementary/middle school complex. The contract will be a commitment of the School Bond Capital Projects Fund and is being financed through the proceeds of a bond issue.

On September 14, 2006, the City made a final payment of \$1.7 million for the purchase of land for the new elementary/middle school complex. The purchase is being financed through the proceeds of a bond issue.

Note 30. Subsequent Events (continued)

On September 15, 2006, the City received a payment of \$11.04 million for the sale of a portion of the former Harrisonburg High School property from the James Madison University Real Estate Foundation, Inc.

On October 25, 2006, the City issued a \$50 million general obligation bond issue. The City will use \$46.5 million of the bond issue to finance the acquisition of land and construction of a new elementary/middle school complex, as well as, related infrastructure improvements around the site of the complex. The remaining \$3.5 million will be used by the Harrisonburg Redevelopment and Housing Authority for the renovation of public housing units.

Subsequent to June 30, 2006, the City entered into a \$1.5 million contract for the construction of a new five million gallon water tank on Ramblewood Road. The contract will be a commitment of the Water Fund and is being financed through current available resources of the Water Fund.

Note 31. Risk Management

The City is a member of the Virginia Municipal League Group Self Insurance Association (VML) for vehicles, property, inland marine, EDP, flood, general liability, workman's compensation, boiler and machinery. Each VML member jointly and severally agrees to assume, pay and discharge any liability. The City makes contributions and assessments into a designated cash reserve fund. This reserve fund is used to pay claims and awards, as well as, expenses incurred by VML. In the event of a loss deficit and depletion of all available excess reserves, VML may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. However, since the inception of this insurance association, no additional assessments have been required. There has been no reduction in insurance coverage from coverage in the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years. Beginning July 1, 2006, the City has increased the deductible on its vehicle liability insurance coverage from \$1,000 to \$250,000. Also, the City insures its transit buses through the Virginia Transit Liability Pool.

The City is self-insured for health insurance purposes and has retained Anthem Blue Cross and Blue Shield to administer the program. The City currently reports these activities in the Health Insurance Fund, which is an internal service fund. This fund serves the City, primary government; Harrisonburg School Board and Harrisonburg Electric Commission, component units; the Harrisonburg-Rockingham Community Services Board; Harrisonburg-Rockingham Regional Sewer Authority; Harrisonburg Redevelopment and Housing Authority; and the Massanutten Regional Library. This fund accounts for the health insurance activities of the aforementioned entities but does not constitute a transfer of risk from the City. Significant claims, over \$100,000, are covered by commercial insurance.

The City records an estimated liability for indemnity health care claims. Claims liabilities are based on estimates of the ultimate cost of reported claims, related claim adjustment expenses and an estimate for claims incurred but not reported (IBNR) based on historical experience. The following represents the change in approximate aggregate liabilities for the fund from July 1, 2004 to June 30, 2006:

<u>Fiscal Year</u>	<u>Beginning Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2006	\$ 856,879	\$ 7,756,698	\$ 7,809,624	\$ 803,953
2005	830,570	6,888,402	6,862,093	856,879

Note 32. Parking Operations Reported in the General Fund

Beginning April 1, 2006, the operations of the downtown parking services were no longer reported as an enterprise fund. As a result, all financial assets, liabilities and net assets of the Parking Authority Fund were transferred to the General Fund and General Capital Projects Fund. The closure of the Parking Authority Fund resulted in a transfer to the General Fund and General Capital Projects Fund of \$178,564 and \$257,079, respectively. This transfer represented the Parking Authority Fund's financial net assets. This transaction also resulted in the additional transfer of \$463,767 in nonfinancial net assets to the governmental activities in the government-wide financial statements.

Note 33. James Madison University Steam Agreement

In September 1981, the City entered into an agreement with James Madison University (JMU) whereby the City paid JMU \$2.5 million over a five year period in consideration for conveying a suitable site for the construction of the City's steam plant and entering into a twenty year agreement with the City for the purpose of purchasing steam produced by the steam plant. In June 2004, a new twenty-five year agreement with JMU replaced an amended and updated April 1995 agreement. This agreement is shown on the financial statements as other assets of the Sanitation Fund and is being amortized over a twenty-five year period that began July 1, 1996.

Note 34. Contingent Liabilities

All major federal programs and certain other programs in which the City participates were tested, by our auditors, for compliance with applicable grant requirements pursuant to the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Nonprofit Organizations*. While no material matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

In January 2005, the Harrisonburg Redevelopment and Housing Authority (Authority) issued a \$2.7 million taxable note maturing in January 2008 at an interest rate of 2.5% to assist in financing the renovations of the historic portion of the Lucy F. Simms Continuing Education Center. The City has guaranteed the repayment of this note. The Authority anticipates receiving contributions totaling \$2.3 million from the Boys & Girls Club of Harrisonburg and Rockingham County (Boys & Girls Club), the Harrisonburg-Rockingham Association for Retarded Children, Inc. (ARC) and Lucy F. Simms, LP (Partnership) to assist in the repayment of the note. The City has also guaranteed these contributions to the Authority. The Boys & Girls Club, ARC and the Partnership are currently conducting fund raising campaigns to raise the needed contributions. It is the City's opinion that the Boys & Girls Club, ARC and the Partnership will be able to meet its contribution requirements without the City's assistance.

The City has certain debt instruments subject to arbitrage rebate calculations. The City is of the opinion that no amounts will be required to be rebated.

Note 35. New Governmental Accounting Standards Board (GASB) Standards

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes new standards for other postemployment benefits (OPEB) by state and local government employers, i.e. postretirement healthcare benefits. This Statement addresses the measurement, recognition, and display of OPEB expenditures/expenses and related liabilities, assets, note disclosures, and, if applicable, required supplementary information. The provisions of this statement are effective for fiscal year 2009 and will have an effect on the City's government-wide and proprietary fund financial statements, although management has not been able to determine the impact at this time.

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**OTHER
SUPPLEMENTARY INFORMATION**

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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Emergency Communications Center Fund - This fund accounts for the operations of the emergency communications center (ECC). The ECC is a joint operation between the City and the County of Rockingham. Financing is provided by E911 emergency telephone tax collections, transfers from the General Fund, funding from the Commonwealth of Virginia and by the County of Rockingham.

Community Development Block Grant Fund - This fund accounts for the administration of the community development block grant. Financing is provided by grants from the Federal Government.

**CITY OF HARRISONBURG, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
At June 30, 2006**

Exhibit A-1

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Emergency Communications Center Fund</u>	<u>Community Development Block Grant Fund</u>	
Assets			
Cash and cash equivalents	\$ 31,347	\$ -	\$ 31,347
Receivables	266,469	97,720	364,189
Prepaid expenditures	7,534	214	7,748
Total assets	<u>\$ 305,350</u>	<u>\$ 97,934</u>	<u>\$ 403,284</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 16,542	\$ 5,062	\$ 21,604
Accrued payroll	47,357	1,920	49,277
Due to component unit	147	-	147
Advances from other funds	-	90,952	90,952
Deferred revenue	32,023	-	32,023
Total liabilities	<u>\$ 96,069</u>	<u>\$ 97,934</u>	<u>\$ 194,003</u>
Fund balances:			
Reserved	\$ 7,534	\$ 214	\$ 7,748
Unreserved:			
Undesignated	201,747	(214)	201,533
Total fund balances	<u>\$ 209,281</u>	<u>\$ -</u>	<u>\$ 209,281</u>
Total liabilities and fund balances	<u>\$ 305,350</u>	<u>\$ 97,934</u>	<u>\$ 403,284</u>

**CITY OF HARRISONBURG, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS**

Exhibit A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Emergency Communications Center Fund</u>	<u>Community Development Block Grant Fund</u>	
Revenues:			
Other local taxes	\$ 669,166	\$ -	\$ 669,166
Use of money and property	942	-	942
Recovered costs	894,870	-	894,870
Intergovernmental	134,400	282,718	417,118
Total revenues	<u>\$ 1,699,378</u>	<u>\$ 282,718</u>	<u>\$ 1,982,096</u>
Expenditures:			
Current:			
Public safety	\$ 1,782,509	\$ -	\$ 1,782,509
Planning and community development	-	282,718	282,718
Total expenditures	<u>\$ 1,782,509</u>	<u>\$ 282,718</u>	<u>\$ 2,065,227</u>
Deficiency of revenues under expenditures	<u>\$ (83,131)</u>	<u>\$ -</u>	<u>\$ (83,131)</u>
Other financing sources (uses):			
Transfers in	\$ 292,412	\$ -	\$ 292,412
Total other financing sources (uses)	<u>\$ 292,412</u>	<u>\$ -</u>	<u>\$ 292,412</u>
Net change in fund balances	\$ 209,281	\$ -	\$ 209,281
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ 209,281</u>	<u>\$ -</u>	<u>\$ 209,281</u>

**CITY OF HARRISONBURG, VIRGINIA
EMERGENCY COMMUNICATIONS CENTER FUND**

Exhibit A-3

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other local taxes	\$ 783,299	\$ 783,299	\$ 669,166	\$ (114,133)
Use of money and property	-	-	942	942
Recovered costs	889,219	889,219	894,870	5,651
Intergovernmental	126,060	126,060	134,400	8,340
Total revenues	<u>\$ 1,798,578</u>	<u>\$ 1,798,578</u>	<u>\$ 1,699,378</u>	<u>\$ (99,200)</u>
Expenditures:				
Current:				
Public safety	\$ 2,016,498	\$ 2,016,498	\$ 1,782,509	\$ 233,989
Total expenditures	<u>\$ 2,016,498</u>	<u>\$ 2,016,498</u>	<u>\$ 1,782,509</u>	<u>\$ 233,989</u>
Deficiency of revenues under expenditures	<u>\$ (217,920)</u>	<u>\$ (217,920)</u>	<u>\$ (83,131)</u>	<u>\$ 134,789</u>
Other financing sources (uses):				
Transfers in	\$ 217,920	\$ 217,920	\$ 292,412	\$ 74,492
Total other financing sources (uses)	<u>\$ 217,920</u>	<u>\$ 217,920</u>	<u>\$ 292,412</u>	<u>\$ 74,492</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,281</u>	<u>\$ 209,281</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ 209,281</u>	

**CITY OF HARRISONBURG, VIRGINIA
COMMUNITY DEVELOPMENT BLOCK GRANT FUND**

Exhibit A-4

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 613,397	\$ 943,882	\$ 282,718	\$ (661,164)
Total revenues	<u>\$ 613,397</u>	<u>\$ 943,882</u>	<u>\$ 282,718</u>	<u>\$ (661,164)</u>
Expenditures:				
Current:				
Planning and community development	\$ 613,397	\$ 841,933	\$ 282,718	\$ 559,215
Total expenditures	<u>\$ 613,397</u>	<u>\$ 841,933</u>	<u>\$ 282,718</u>	<u>\$ 559,215</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 101,949</u>	<u>\$ -</u>	<u>\$ (101,949)</u>
Other financing sources (uses):				
Transfers out	\$ -	\$ (101,949)	\$ -	\$ 101,949
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (101,949)</u>	<u>\$ -</u>	<u>\$ 101,949</u>
Net change in fund balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u><u>\$ -</u></u>	

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Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other governmental units, on a cost reimbursement basis.

Central Garage Fund - This fund accounts for the operations of the City's central garage. Financing is provided by charges to other departments and agencies for services rendered and transfers from other funds for overhead costs.

Central Stores Fund - This fund accounts for the operations of the City's central stores. Financing is provided by charges to other departments and agencies for the sale of materials and supplies and transfers from other funds for overhead costs.

Health Insurance Fund - This fund accounts for the health insurance premium collections and claims payments related to the operation of the City's self-insured health insurance program. Financing is provided by premiums paid by departments, employees and organizations which participate in the insurance plan.

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET
At June 30, 2006

Exhibit B-1

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 121,121	\$ -	\$ 4,180,242	\$ 4,301,363
Receivables	4,215	211	2,007	6,433
Due from component unit	4,273	-	-	4,273
Inventory	600,996	1,345,169	-	1,946,165
Prepaid expenses	4,067	162	-	4,229
Total current assets	<u>\$ 734,672</u>	<u>\$ 1,345,542</u>	<u>\$ 4,182,249</u>	<u>\$ 6,262,463</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation)	\$ 48,790	\$ 767,531	\$ -	\$ 816,321
Total noncurrent assets	<u>\$ 48,790</u>	<u>\$ 767,531</u>	<u>\$ -</u>	<u>\$ 816,321</u>
Total assets	<u><u>\$ 783,462</u></u>	<u><u>\$ 2,113,073</u></u>	<u><u>\$ 4,182,249</u></u>	<u><u>\$ 7,078,784</u></u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 149,298	\$ 45,352	\$ 803,953	\$ 998,603
Accrued payroll	19,553	2,551	-	22,104
Due to component unit	-	552	-	552
Advances from other funds	-	279,074	-	279,074
Compensated absences	42,756	2,747	-	45,503
Total current liabilities	<u>\$ 211,607</u>	<u>\$ 330,276</u>	<u>\$ 803,953</u>	<u>\$ 1,345,836</u>
Noncurrent liabilities:				
Compensated absences	\$ 39,614	\$ 3,106	\$ -	\$ 42,720
Total noncurrent liabilities	<u>\$ 39,614</u>	<u>\$ 3,106</u>	<u>\$ -</u>	<u>\$ 42,720</u>
Total liabilities	<u><u>\$ 251,221</u></u>	<u><u>\$ 333,382</u></u>	<u><u>\$ 803,953</u></u>	<u><u>\$ 1,388,556</u></u>
Net assets:				
Invested in capital assets	\$ 48,790	\$ 767,531	\$ -	\$ 816,321
Unrestricted	<u>483,451</u>	<u>1,012,160</u>	<u>3,378,296</u>	<u>4,873,907</u>
Total net assets	<u><u>\$ 532,241</u></u>	<u><u>\$ 1,779,691</u></u>	<u><u>\$ 3,378,296</u></u>	<u><u>\$ 5,690,228</u></u>
Total liabilities and net assets	<u><u>\$ 783,462</u></u>	<u><u>\$ 2,113,073</u></u>	<u><u>\$ 4,182,249</u></u>	<u><u>\$ 7,078,784</u></u>

CITY OF HARRISONBURG, VIRGINIA

Exhibit B-2

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2006

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Operating revenues:				
Charges for services	\$ 2,350,505	\$ 860,854	\$ 9,046,169	\$ 12,257,528
Total operating revenues	<u>\$ 2,350,505</u>	<u>\$ 860,854</u>	<u>\$ 9,046,169</u>	<u>\$ 12,257,528</u>
Operating expenses:				
Personal services	\$ 443,762	\$ 52,670	\$ -	\$ 496,432
Fringe benefits	148,212	16,932	-	165,144
Purchased services	20,088	37,431	434,417	491,936
Internal services	900	1,341	-	2,241
Other charges	9,629	18,399	422,772	450,800
Materials and supplies	28,836	12,300	-	41,136
Depreciation	12,655	17,632	-	30,287
Cost of inventory issued	1,711,415	841,136	-	2,552,551
Claims related charges	-	-	7,757,445	7,757,445
Total operating expenses	<u>\$ 2,375,497</u>	<u>\$ 997,841</u>	<u>\$ 8,614,634</u>	<u>\$ 11,987,972</u>
Operating income (loss)	<u>\$ (24,992)</u>	<u>\$ (136,987)</u>	<u>\$ 431,535</u>	<u>\$ 269,556</u>
Nonoperating revenues:				
Investment revenue	\$ 5,158	\$ -	\$ 168,101	\$ 173,259
Total nonoperating revenues	<u>\$ 5,158</u>	<u>\$ -</u>	<u>\$ 168,101</u>	<u>\$ 173,259</u>
Income (loss) before transfers	<u>\$ (19,834)</u>	<u>\$ (136,987)</u>	<u>\$ 599,636</u>	<u>\$ 442,815</u>
Transfers in	<u>93,912</u>	<u>918,945</u>	<u>-</u>	<u>1,012,857</u>
Change in net assets	<u>\$ 74,078</u>	<u>\$ 781,958</u>	<u>\$ 599,636</u>	<u>\$ 1,455,672</u>
Net assets at beginning of year	<u>458,163</u>	<u>997,733</u>	<u>2,778,660</u>	<u>4,234,556</u>
Net assets at end of year	<u><u>\$ 532,241</u></u>	<u><u>\$ 1,779,691</u></u>	<u><u>\$ 3,378,296</u></u>	<u><u>\$ 5,690,228</u></u>

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 2,348,710	\$ 860,643	\$ -	\$ 3,209,353
Receipts from premiums	-	-	9,046,169	9,046,169
Payments to employees	(438,913)	(50,472)	-	(489,385)
Payments for fringe benefits	(151,921)	(16,927)	-	(168,848)
Payments to vendors	(1,796,596)	(1,071,551)	(857,189)	(3,725,336)
Payments for internal services	(900)	(1,341)	-	(2,241)
Payments for claims related charges	-	-	(7,810,371)	(7,810,371)
Net cash provided by (used for) operating activities	<u>\$ (39,620)</u>	<u>\$ (279,648)</u>	<u>\$ 378,609</u>	<u>\$ 59,341</u>
Cash flows from noncapital financing activities:				
Transfers in	\$ 93,912	\$ 163,721	\$ -	\$ 257,633
Interfund loan	-	142,414	-	142,414
Net cash provided by noncapital financing activities	<u>\$ 93,912</u>	<u>\$ 306,135</u>	<u>\$ -</u>	<u>\$ 400,047</u>
Cash flows from capital and related financing activities:				
Purchase and construction of capital assets	\$ -	\$ (26,487)	\$ -	\$ (26,487)
Net cash used for capital and related financing activities	<u>\$ -</u>	<u>\$ (26,487)</u>	<u>\$ -</u>	<u>\$ (26,487)</u>
Cash flows from investing activities:				
Interest received	\$ 5,113	\$ -	\$ 166,941	\$ 172,054
Net cash provided by investing activities	<u>\$ 5,113</u>	<u>\$ -</u>	<u>\$ 166,941</u>	<u>\$ 172,054</u>
Net increase in cash and cash equivalents	\$ 59,405	\$ -	\$ 545,550	\$ 604,955
Cash and cash equivalents:				
Beginning	<u>61,716</u>	<u>-</u>	<u>3,634,692</u>	<u>3,696,408</u>
Ending	<u><u>\$ 121,121</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,180,242</u></u>	<u><u>\$ 4,301,363</u></u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	<u>Central Garage Fund</u>	<u>Central Stores Fund</u>	<u>Health Insurance Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash used for operating activities:				
Operating income (loss)	\$ (24,992)	\$ (136,987)	\$ 431,535	\$ 269,556
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	12,655	17,632	-	30,287
Change in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(1,082)	(211)	-	(1,293)
Due from component unit	(712)	-	-	(712)
Inventory	(127,483)	(207,325)	-	(334,808)
Prepaid expenses	(4,067)	(162)	-	(4,229)
Increase (decrease) in:				
Accounts payable	100,867	44,785	(52,926)	92,726
Accrued payroll	3,497	1,356	-	4,853
Due to component unit	-	258	-	258
Compensated absences	1,697	1,006	-	2,703
Net cash provided by (used for) operating activities	<u>\$ (39,620)</u>	<u>\$ (279,648)</u>	<u>\$ 378,609</u>	<u>\$ 59,341</u>
Non-cash capital and related financing activities:				
Additions to capital assets:				
Contributed by other funds	\$ -	\$ 755,224	\$ -	\$ 755,224

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Agency Funds

Agency funds are used to account for assets held by a government as an agent for individuals, private organizations or other governments.

Juvenile Crime Control Fund - This fund accounts for assets held by the City of Harrisonburg (City) for the 26th Judicial District Court Service Unit as a participant in the Virginia Juvenile Community Crime Control Act. The City acts as the fiscal agent for both the City and the County of Rockingham.

Industrial Development Authority Fund - This fund accounts for assets held by the City for the Harrisonburg Industrial Development Authority.

CITY OF HARRISONBURG, VIRGINIA
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
At June 30, 2006

Exhibit C-1

	Juvenile Crime Control Fund	Industrial Development Authority Fund	Total
Assets			
Cash and cash equivalents	\$ 11,739	\$ 16,687	\$ 28,426
Interest receivable	6	9	15
Prepaid expenses	<u>468</u>	<u>-</u>	<u>468</u>
Total assets	<u>\$ 12,213</u>	<u>\$ 16,696</u>	<u>\$ 28,909</u>
Liabilities			
Accounts payable	\$ 6	\$ -	\$ 6
Accrued payroll	1,316	-	1,316
Amounts held for others	<u>10,891</u>	<u>16,696</u>	<u>27,587</u>
Total liabilities	<u>\$ 12,213</u>	<u>\$ 16,696</u>	<u>\$ 28,909</u>

AGENCY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

For the Year Ended June 30, 2006

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
<u>Juvenile Crime Control Fund</u>				
Assets:				
Cash and cash equivalents	\$ 11,669	\$ 122,731	\$ 122,661	\$ 11,739
Interest receivable	4	6	4	6
Prepaid expenses	-	468	-	468
Total assets	\$ 11,673	\$ 123,205	\$ 122,665	\$ 12,213
Liabilities:				
Accounts payable	\$ 1,348	\$ 6	\$ 1,348	\$ 6
Accrued payroll	1,696	1,316	1,696	1,316
Amounts held for others	8,629	122,734	120,472	10,891
Total liabilities	\$ 11,673	\$ 124,056	\$ 123,516	\$ 12,213
<u>Industrial Development Authority Fund</u>				
Assets:				
Cash and cash equivalents	\$ 10,229	\$ 7,058	\$ 600	\$ 16,687
Interest receivable	3	9	3	9
Total assets	\$ 10,232	\$ 7,067	\$ 603	\$ 16,696
Liabilities:				
Amounts held for others	\$ 10,232	\$ 7,064	\$ 600	\$ 16,696
Total liabilities	\$ 10,232	\$ 7,064	\$ 600	\$ 16,696
<u>Total - All Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 21,898	\$ 129,789	\$ 123,261	\$ 28,426
Interest receivable	7	15	7	15
Prepaid expenses	-	468	-	468
Total assets	\$ 21,905	\$ 130,272	\$ 123,268	\$ 28,909
Liabilities:				
Accounts payable	\$ 1,348	\$ 6	\$ 1,348	\$ 6
Accrued payroll	1,696	1,316	1,696	1,316
Amounts held for others	18,861	129,798	121,072	27,587
Total liabilities	\$ 21,905	\$ 131,120	\$ 124,116	\$ 28,909

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Discretely Presented Component Unit – School Board

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

School Fund - This fund accounts for the operations of the School Board's elementary, middle and high schools.

School Cafeteria Fund - This fund accounts for the operations of the School Board's centralized cafeterias.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

School Capital Projects Fund - This fund accounts for the financial resources to be used for the acquisition and construction of major capital facilities of the schools not financed through the issuance of debt.

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
BALANCE SHEET
At June 30, 2006

Exhibit D-1

	<u>School Fund</u>	<u>School Cafeteria Fund</u>	<u>School Capital Projects Fund</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 5,591,251	\$ 661,282	\$ 665,263	\$ 6,917,796
Investments	-	300,000	-	300,000
Receivables	810,919	-	-	810,919
Due from other funds	-	18,941	-	18,941
Inventory	-	53,855	-	53,855
Prepaid expenditures	215,908	-	-	215,908
	<u>215,908</u>	<u>-</u>	<u>-</u>	<u>215,908</u>
Total assets	<u>\$ 6,618,078</u>	<u>\$ 1,034,078</u>	<u>\$ 665,263</u>	<u>\$ 8,317,419</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 34,152	\$ 792	\$ -	\$ 34,944
Accrued payroll	3,747,084	-	-	3,747,084
Due to other funds	18,941	-	-	18,941
Due to component unit	75,522	-	-	75,522
	<u>75,522</u>	<u>-</u>	<u>-</u>	<u>75,522</u>
Total liabilities	<u>\$ 3,875,699</u>	<u>\$ 792</u>	<u>\$ -</u>	<u>\$ 3,876,491</u>
Fund Balances:				
Reserved	\$ 215,908	\$ -	\$ -	\$ 215,908
Unreserved:				
Designated	-	-	665,263	665,263
Undesignated	2,526,471	1,033,286	-	3,559,757
	<u>2,526,471</u>	<u>1,033,286</u>	<u>-</u>	<u>3,559,757</u>
Total fund balances	<u>\$ 2,742,379</u>	<u>\$ 1,033,286</u>	<u>\$ 665,263</u>	<u>\$ 4,440,928</u>
Total liabilities and fund balances	<u>\$ 6,618,078</u>	<u>\$ 1,034,078</u>	<u>\$ 665,263</u>	<u>\$ 8,317,419</u>

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
At June 30, 2006

Exhibit D-2

Total fund balance of governmental funds (Exhibit D-1)	\$ 4,440,928
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,991,712
Long-term liabilities, and related accounts, are not payable from current financial resources and therefore are not reported in the funds.	<u>(667,820)</u>
Net assets of governmental activities (Exhibit 1)	\$ <u><u>23,764,820</u></u>

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006

Exhibit D-3

	<u>School Fund</u>	<u>School Cafeteria Fund</u>	<u>School Capital Projects Fund</u>	<u>Totals</u>
Revenues:				
Use of money and property	\$ 18,452	\$ 27,548	\$ 5,034	\$ 51,034
Charges for services	576,093	517,463	-	1,093,556
Miscellaneous	500	-	660,945	661,445
Recovered costs	115,269	2,989	-	118,258
Payment from primary government	21,111,808	-	510,942	21,622,750
Intergovernmental	21,573,194	1,128,448	-	22,701,642
Total revenues	<u>\$ 43,395,316</u>	<u>\$ 1,676,448</u>	<u>\$ 1,176,921</u>	<u>\$ 46,248,685</u>
Expenditures:				
Current:				
Education	\$ 43,240,550	\$ 1,512,490	\$ -	\$ 44,753,040
Capital projects	-	-	644,606	644,606
Total expenditures	<u>\$ 43,240,550</u>	<u>\$ 1,512,490</u>	<u>\$ 644,606</u>	<u>\$ 45,397,646</u>
Excess of revenues over expenditures	<u>\$ 154,766</u>	<u>\$ 163,958</u>	<u>\$ 532,315</u>	<u>\$ 851,039</u>
Other financing sources (uses):				
Transfers in	\$ -	\$ 24,530	\$ -	\$ 24,530
Transfers out	(24,530)	-	-	(24,530)
Total other financing sources (uses)	<u>\$ (24,530)</u>	<u>\$ 24,530</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balances	\$ 130,236	\$ 188,488	\$ 532,315	\$ 851,039
Fund balances at beginning of year	<u>2,612,143</u>	<u>844,798</u>	<u>132,948</u>	<u>3,589,889</u>
Fund balances at end of year	<u>\$ 2,742,379</u>	<u>\$ 1,033,286</u>	<u>\$ 665,263</u>	<u>\$ 4,440,928</u>

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Exhibit D-4

Total net change in fund balances of governmental funds (Exhibit D-3) \$ 851,039

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense in the current period.

Capital outlay expenditures	\$ 992,477	
Depreciation expense	<u>(749,400)</u>	
Net adjustment	\$ <u>243,077</u>	243,077

Certain expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds. This amount is the net change in these expenses. (56,298)

The transfer of the old high school from the School Board (component unit) to the primary government effects only the statement of activities. This transfer does not have an effect on current financial resources and, therefore, is not reported in governmental funds. (5,374,025)

The transfer of capital assets between the primary government and the School Board (component unit) effects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds. 1,842,410

Change in net assets of governmental activities (Exhibit 2) \$ (2,493,797)

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHOOL FUND

Exhibit D-5

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 12,000	\$ 12,000	\$ 18,452	\$ 6,452
Charges for services	1,093,613	1,093,613	576,093	(517,520)
Miscellaneous	-	-	500	500
Recovered costs	47,500	52,645	115,269	62,624
Payment from primary government	21,011,808	21,111,808	21,111,808	-
Intergovernmental	21,317,549	21,708,682	21,573,194	(135,488)
Total revenues	<u>\$ 43,482,470</u>	<u>\$ 43,978,748</u>	<u>\$ 43,395,316</u>	<u>\$ (583,432)</u>
Expenditures:				
Current:				
Education	\$ 43,449,115	\$ 44,041,393	\$ 43,240,550	\$ 800,843
Total expenditures	<u>\$ 43,449,115</u>	<u>\$ 44,041,393</u>	<u>\$ 43,240,550</u>	<u>\$ 800,843</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 33,355</u>	<u>\$ (62,645)</u>	<u>\$ 154,766</u>	<u>\$ 217,411</u>
Other financing (uses):				
Transfers out	\$ (33,355)	\$ (33,355)	\$ (24,530)	\$ 8,825
Total other financing (uses)	<u>\$ (33,355)</u>	<u>\$ (33,355)</u>	<u>\$ (24,530)</u>	<u>\$ 8,825</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (96,000)</u>	<u>\$ 130,236</u>	<u>\$ 226,236</u>
Fund balance at beginning of year			<u>2,612,143</u>	
Fund balance at end of year			<u>\$ 2,742,379</u>	

**CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHOOL CAFETERIA FUND**

Exhibit D-6

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 27,548	\$ 27,548
Charges for services	616,459	696,459	517,463	(178,996)
Recovered costs	-	-	2,989	2,989
Intergovernmental	907,000	942,000	1,128,448	186,448
Total revenues	<u>\$ 1,523,459</u>	<u>\$ 1,638,459</u>	<u>\$ 1,676,448</u>	<u>\$ 37,989</u>
Expenditures:				
Current:				
Education	\$ 1,556,814	\$ 1,671,814	\$ 1,512,490	\$ 159,324
Total expenditures	<u>\$ 1,556,814</u>	<u>\$ 1,671,814</u>	<u>\$ 1,512,490</u>	<u>\$ 159,324</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (33,355)</u>	<u>\$ (33,355)</u>	<u>\$ 163,958</u>	<u>\$ 197,313</u>
Other financing sources:				
Transfers in	\$ 33,355	\$ 33,355	\$ 24,530	\$ (8,825)
Total other financing sources	<u>\$ 33,355</u>	<u>\$ 33,355</u>	<u>\$ 24,530</u>	<u>\$ (8,825)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,488</u>	<u>\$ 188,488</u>
Fund balance at beginning of year			<u>844,798</u>	
Fund balance at end of year			<u>\$ 1,033,286</u>	

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Other Supplementary Schedules

Schedule of Revenues – Budget to Actual - This schedule provides additional detailed final budget and actual revenue information for the City’s governmental funds and discretely presented component unit – School Board.

Schedule of Expenditures – Budget to Actual - This schedule provides additional detailed final budget and actual expenditure information for the City’s governmental funds and discretely presented component unit – School Board.

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government:			
General Fund:			
General property taxes:			
Real property taxes	\$ 14,363,825	\$ 14,082,477	\$ (281,348)
Real and personal public service corporation property taxes	320,800	288,174	(32,626)
Personal property taxes	3,861,760	3,967,554	105,794
Mobile home taxes	7,488	7,036	(452)
Machinery and tools taxes	1,700,000	1,634,123	(65,877)
Penalties and interest	178,000	171,764	(6,236)
Total general property taxes	<u>\$ 20,431,873</u>	<u>\$ 20,151,128</u>	<u>\$ (280,745)</u>
Other local taxes:			
Local sales and use taxes	\$ 11,200,000	\$ 11,421,441	\$ 221,441
Consumer utility taxes	1,883,000	1,878,219	(4,781)
Business license taxes	5,075,000	5,745,193	670,193
Franchise license taxes	265,000	304,159	39,159
Motor vehicle license taxes	500,000	502,226	2,226
Bank stock taxes	330,000	501,430	171,430
Taxes on recordation and wills	330,000	746,064	416,064
Tobacco taxes	1,005,000	882,623	(122,377)
Admission and amusement taxes	187,000	169,701	(17,299)
Hotel and motel room taxes	1,290,000	1,429,097	139,097
Restaurant food taxes	6,630,000	7,099,944	469,944
Public rights-of-way use fee	131,100	143,804	12,704
Total other local taxes	<u>\$ 28,826,100</u>	<u>\$ 30,823,901</u>	<u>\$ 1,997,801</u>
Permits, privilege fees and regulatory licenses:			
Animal licenses	\$ 8,000	\$ 6,189	\$ (1,811)
Permits and other licenses	344,050	496,960	152,910
Total permits, privilege fees and regulatory licenses	<u>\$ 352,050</u>	<u>\$ 503,149</u>	<u>\$ 151,099</u>
Fines and forfeitures:			
Circuit court fines	\$ 577,000	\$ 407,322	\$ (169,678)
Parking fines	-	16,930	16,930
Drug forfeiture	-	93,437	93,437
Total fines and forfeitures	<u>\$ 577,000</u>	<u>\$ 517,689</u>	<u>\$ (59,311)</u>
Use of money and property:			
Use of money	\$ 350,000	\$ 888,903	\$ 538,903
Use of property	6,300	1,097,500	1,091,200
Total use of money and property	<u>\$ 356,300</u>	<u>\$ 1,986,403</u>	<u>\$ 1,630,103</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Charges for services:			
Charges for law enforcement and traffic control	\$ 7,500	\$ 7,886	\$ 386
Charges for parking	10,613	16,005	5,392
Charges for parks and recreation	769,700	787,786	18,086
Total charges for services	<u>\$ 787,813</u>	<u>\$ 811,677</u>	<u>\$ 23,864</u>
Miscellaneous:			
Payment from Harrisonburg Electric Commission	\$ 4,400,000	\$ 4,400,000	\$ -
Payments in lieu of taxes:			
Electric plant and equipment	304,200	304,200	-
Public housing	8,000	7,878	(122)
Others	12,000	10,294	(1,706)
Sale of land	-	39,584	39,584
Sale of used equipment	35,000	52,552	17,552
Donations - JMU & EMU	105,000	52,000	(53,000)
Donations	143,075	214,385	71,310
Other miscellaneous	6,200	39,900	33,700
Total miscellaneous	<u>\$ 5,013,475</u>	<u>\$ 5,120,793</u>	<u>\$ 107,318</u>
Recovered costs:			
Recoveries and rebates	\$ 136,028	\$ 116,517	\$ (19,511)
Court appointed attorney	24,000	21,175	(2,825)
Insurance recoveries	8,995	23,667	14,672
Total recovered costs	<u>\$ 169,023</u>	<u>\$ 161,359</u>	<u>\$ (7,664)</u>
Intergovernmental:			
Revenue from the Commonwealth:			
Non-categorical aid:			
ABC profits	\$ 24,000	\$ 23,715	\$ (285)
Wine taxes	25,000	24,858	(142)
Railroad rolling stock taxes	11,300	10,590	(710)
Mobile home titling taxes	4,500	3,027	(1,473)
Tax on deeds (grantor tax)	115,000	120,867	5,867
Personal property tax reimbursement	1,469,000	1,517,392	48,392
State aid to localities, police	1,354,061	1,384,336	30,275
Auto rental taxes	170,000	154,472	(15,528)
Animal friendly license plate	770	770	-
Weed and seed funds	12,394	12,394	-
Total non-categorical aid	<u>\$ 3,186,025</u>	<u>\$ 3,252,421</u>	<u>\$ 66,396</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Intergovernmental: (continued)			
Revenue from the Commonwealth: (continued)			
Categorical aid:			
Shared expenses:			
Commissioner of the revenue	\$ 142,700	\$ 143,765	\$ 1,065
Treasurer	122,800	122,648	(152)
Medical examiner fees	350	450	100
Registrar	30,200	48,257	18,057
Total shared expenses	<u>\$ 296,050</u>	<u>\$ 315,120</u>	<u>\$ 19,070</u>
Other categorical aid:			
Hazardous material grant	\$ 12,500	\$ 17,625	\$ 5,125
Fire programs fund	94,917	94,917	-
Two-for-life	20,625	21,625	1,000
Litter control grant	2,000	9,442	7,442
Department of forestry grant	-	4,650	4,650
Street and highway maintenance	3,053,309	3,156,364	103,055
Total other categorical aid	<u>\$ 3,183,351</u>	<u>\$ 3,304,623</u>	<u>\$ 121,272</u>
Total categorical aid	<u>\$ 3,479,401</u>	<u>\$ 3,619,743</u>	<u>\$ 140,342</u>
Total revenue from the Commonwealth	<u>\$ 6,665,426</u>	<u>\$ 6,872,164</u>	<u>\$ 206,738</u>
Revenue from the Federal Government:			
Categorical aid:			
Bulletproof vest partnership grant	\$ -	\$ 10,352	\$ 10,352
Police DMV grant	36,660	37,143	483
COPS technology grant	-	78,931	78,931
Homeland security grants	18,697	18,697	-
Gang prevention grant	103,762	-	(103,762)
Weed and seed funds	-	1,411	1,411
Justice assistance grant	-	19,842	19,842
Polling place accessibility grant	-	1,540	1,540
Urban forestry grant	4,960	4,960	-
Chesapeake bay watershed grant	-	1,500	1,500
Total revenue from the Federal Government	<u>\$ 164,079</u>	<u>\$ 174,376</u>	<u>\$ 10,297</u>
Total intergovernmental	<u>\$ 6,829,505</u>	<u>\$ 7,046,540</u>	<u>\$ 217,035</u>
Total General Fund	<u><u>\$ 63,343,139</u></u>	<u><u>\$ 67,122,639</u></u>	<u><u>\$ 3,779,500</u></u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
Special Revenue Funds:			
Emergency Communications Center Fund:			
Other local taxes:			
Emergency telephone service taxes	\$ 783,299	\$ 669,166	\$ (114,133)
Total other local taxes	<u>\$ 783,299</u>	<u>\$ 669,166</u>	<u>\$ (114,133)</u>
Use of money and property:			
Use of money	\$ -	\$ 942	\$ 942
Total use of money and property	<u>\$ -</u>	<u>\$ 942</u>	<u>\$ 942</u>
Recovered costs:			
ECC payments from Rockingham County	\$ 889,219	\$ 894,870	\$ 5,651
Total recovered costs	<u>\$ 889,219</u>	<u>\$ 894,870</u>	<u>\$ 5,651</u>
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
Shared expenses:			
Dispatchers	\$ 126,060	\$ 134,400	\$ 8,340
Total revenue from the Commonwealth	<u>\$ 126,060</u>	<u>\$ 134,400</u>	<u>\$ 8,340</u>
Total intergovernmental	<u>\$ 126,060</u>	<u>\$ 134,400</u>	<u>\$ 8,340</u>
Total Emergency Communications Center Fund	<u>\$ 1,798,578</u>	<u>\$ 1,699,378</u>	<u>\$ (99,200)</u>
Community Development Block Grant Fund:			
Intergovernmental:			
Revenue from the Federal Government:			
Non-categorical aid:			
Community Development Block Grant	\$ 943,882	\$ 282,718	\$ (661,164)
Total revenue from the Federal Government	<u>\$ 943,882</u>	<u>\$ 282,718</u>	<u>\$ (661,164)</u>
Total intergovernmental	<u>\$ 943,882</u>	<u>\$ 282,718</u>	<u>\$ (661,164)</u>
Total Community Development Block Grant Fund	<u>\$ 943,882</u>	<u>\$ 282,718</u>	<u>\$ (661,164)</u>
Total Special Revenue Funds	<u>\$ 2,742,460</u>	<u>\$ 1,982,096</u>	<u>\$ (760,364)</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
Capital Projects Funds:			
General Capital Projects Fund:			
Use of money and property:			
Use of money	\$ -	\$ 232,634	\$ 232,634
Total use of money and property	<u>\$ -</u>	<u>\$ 232,634</u>	<u>\$ 232,634</u>
Recovered costs:			
Reimbursement for radio system from Rockingham County	\$ -	\$ 145,140	\$ 145,140
Reimbursement for ECC from Rockingham County	-	226,195	226,195
Total recovered costs	<u>\$ -</u>	<u>\$ 371,335</u>	<u>\$ 371,335</u>
Intergovernmental:			
Revenue from the Federal Government:			
Categorical aid:			
Interoperative grant	\$ -	\$ 50,000	\$ 50,000
Joint competitive grant	-	190,000	190,000
Total revenue from the Federal Government	<u>\$ -</u>	<u>\$ 240,000</u>	<u>\$ 240,000</u>
Total intergovernmental	<u>\$ -</u>	<u>\$ 240,000</u>	<u>\$ 240,000</u>
Total General Capital Projects Fund	<u><u>\$ -</u></u>	<u><u>\$ 843,969</u></u>	<u><u>\$ 843,969</u></u>
School Bond Capital Projects Fund:			
Use of money and property:			
Use of money	\$ 10,554	\$ 8,003	\$ (2,551)
Total use of money and property	<u>\$ 10,554</u>	<u>\$ 8,003</u>	<u>\$ (2,551)</u>
Total School Bond Capital Projects Fund	<u><u>\$ 10,554</u></u>	<u><u>\$ 8,003</u></u>	<u><u>\$ (2,551)</u></u>
Total Capital Projects Funds	<u><u>\$ 10,554</u></u>	<u><u>\$ 851,972</u></u>	<u><u>\$ 841,418</u></u>
Grand Total Revenues - Primary Government	<u><u>\$ 66,096,153</u></u>	<u><u>\$ 69,956,707</u></u>	<u><u>\$ 3,860,554</u></u>
Component Unit - School Board:			
School Fund:			
Use of money and property	\$ 12,000	\$ 18,452	\$ 6,452
Charges for services	1,093,613	576,093	(517,520)
Miscellaneous	-	500	500
Recovered costs	52,645	115,269	62,624
Payment from primary government	21,111,808	21,111,808	-

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Component Unit - School Board: (continued)			
School Fund: (continued)			
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
Share of state sales tax	\$ 3,597,815	\$ 3,522,406	\$ (75,409)
Basic school aid	8,389,661	8,513,563	123,902
State standard of quality funds	1,997,209	2,028,899	31,690
Fringe benefits	935,852	883,936	(51,916)
Lottery funds	535,192	533,729	(1,463)
At risk	310,448	318,734	8,286
Primary class size	336,485	342,402	5,917
Technology initiative	206,000	206,000	-
English as second language	704,705	661,242	(43,463)
School construction	145,171	144,860	(311)
Other state funds	669,882	596,929	(72,953)
Total categorical aid	<u>\$ 17,828,420</u>	<u>\$ 17,752,700</u>	<u>\$ (75,720)</u>
Total revenue from the Commonwealth	<u>\$ 17,828,420</u>	<u>\$ 17,752,700</u>	<u>\$ (75,720)</u>
Revenue from the Federal Government:			
Categorical aid:			
Title I	\$ 991,562	\$ 839,118	\$ (152,444)
Special education	912,046	979,997	67,951
Education technology	925,000	964,231	39,231
Reading first grant	409,200	366,361	(42,839)
Title III	199,009	248,091	49,082
ESEA - Title II Part A	207,559	158,422	(49,137)
Vocational education	92,264	92,066	(198)
JROTC funds	43,908	48,491	4,583
Other federal funds	99,714	123,717	24,003
Total categorical aid	<u>\$ 3,880,262</u>	<u>\$ 3,820,494</u>	<u>\$ (59,768)</u>
Total revenue from the Federal Government	<u>\$ 3,880,262</u>	<u>\$ 3,820,494</u>	<u>\$ (59,768)</u>
Total intergovernmental	<u>\$ 21,708,682</u>	<u>\$ 21,573,194</u>	<u>\$ (135,488)</u>
Total School Fund	<u><u>\$ 43,978,748</u></u>	<u><u>\$ 43,395,316</u></u>	<u><u>\$ (583,432)</u></u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
 GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
 SCHEDULE OF REVENUES - BUDGET AND ACTUAL
 For the Year Ended June 30, 2006

<u>Fund, Major and Minor Revenue Sources</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Component Unit - School Board: (continued)			
School Cafeteria Fund:			
Use of money and property	\$ -	\$ 27,548	\$ 27,548
Charges for services	696,459	517,463	(178,996)
Recovered costs	-	2,989	2,989
Total revenue from local sources	<u>\$ 696,459</u>	<u>\$ 548,000</u>	<u>\$ (148,459)</u>
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
School food program	\$ 24,877	\$ 26,808	\$ 1,931
Total categorical aid	<u>\$ 24,877</u>	<u>\$ 26,808</u>	<u>\$ 1,931</u>
Total revenue from the Commonwealth	<u>\$ 24,877</u>	<u>\$ 26,808</u>	<u>\$ 1,931</u>
Revenue from the Federal Government:			
Categorical aid:			
School food program	\$ 917,123	\$ 1,013,712	\$ 96,589
USDA donated food	-	87,928	87,928
Total categorical aid	<u>\$ 917,123</u>	<u>\$ 1,101,640</u>	<u>\$ 184,517</u>
Total revenue from the Federal Government	<u>\$ 917,123</u>	<u>\$ 1,101,640</u>	<u>\$ 184,517</u>
Total intergovernmental	<u>\$ 942,000</u>	<u>\$ 1,128,448</u>	<u>\$ 186,448</u>
Total School Cafeteria Fund	<u><u>\$ 1,638,459</u></u>	<u><u>\$ 1,676,448</u></u>	<u><u>\$ 37,989</u></u>
School Capital Projects Fund:			
Use of money and property	\$ 5,034	\$ 5,034	\$ -
Miscellaneous revenue	710,945	660,945	(50,000)
Payment from primary government	510,942	510,942	-
Total School Capital Projects Fund	<u><u>\$ 1,226,921</u></u>	<u><u>\$ 1,176,921</u></u>	<u><u>\$ (50,000)</u></u>
Grand Total Revenues			
Component Unit - School Board	<u><u>\$ 46,844,128</u></u>	<u><u>\$ 46,248,685</u></u>	<u><u>\$ (595,443)</u></u>

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government:			
General Fund:			
General government administration:			
Legislative:			
City Council	\$ 185,131	\$ 184,813	\$ 318
Total legislative	<u>\$ 185,131</u>	<u>\$ 184,813</u>	<u>\$ 318</u>
General and financial administration:			
City manager	\$ 412,566	\$ 406,525	\$ 6,041
City attorney	199,550	198,941	609
Human resources	201,576	200,013	1,563
Independent auditor	8,000	8,000	-
Commissioner of the revenue	357,362	349,216	8,146
Assessors	228,262	196,547	31,715
Equalization	1,150	-	1,150
Treasurer	466,299	464,043	2,256
Finance	338,469	323,752	14,717
Information technology	300,259	286,162	14,097
Purchasing agent	113,165	111,060	2,105
Dues to municipal league	28,561	28,195	366
Reserve for contingencies	-	-	-
Total general and financial administration	<u>\$ 2,655,219</u>	<u>\$ 2,572,454</u>	<u>\$ 82,765</u>
Board of elections:			
Registrar	\$ 163,566	\$ 145,580	\$ 17,986
Total board of elections	<u>\$ 163,566</u>	<u>\$ 145,580</u>	<u>\$ 17,986</u>
Total general government administration	<u>\$ 3,003,916</u>	<u>\$ 2,902,847</u>	<u>\$ 101,069</u>
Jail and judicial administration:			
Joint expenditures with Rockingham County	\$ 2,027,583	\$ 1,975,668	\$ 51,915
Total jail and judicial administration	<u>\$ 2,027,583</u>	<u>\$ 1,975,668</u>	<u>\$ 51,915</u>
Public safety:			
Law enforcement and traffic control:			
Administration	\$ 392,529	\$ 381,209	\$ 11,320
Operations	3,534,927	3,525,243	9,684
Criminal investigations	759,979	750,173	9,806
Support services	1,511,132	1,418,755	92,377
Gang task force	111,608	104,063	7,545
Total law enforcement and traffic control	<u>\$ 6,310,175</u>	<u>\$ 6,179,443</u>	<u>\$ 130,732</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Public safety: (continued)			
Fire and rescue services:			
Administration	\$ 312,487	\$ 310,823	\$ 1,664
Suppression	4,557,602	4,420,534	137,068
Prevention	276,024	275,171	853
Training	174,760	174,743	17
Public safety building	292,447	317,469	(25,022)
Total fire and rescue services	<u>\$ 5,613,320</u>	<u>\$ 5,498,740</u>	<u>\$ 114,580</u>
Correction and detention:			
City operated institutions	\$ 86,000	\$ 61,472	\$ 24,528
Total correction and detention	<u>\$ 86,000</u>	<u>\$ 61,472</u>	<u>\$ 24,528</u>
Inspections:			
Building	\$ 576,628	\$ 569,599	\$ 7,029
Total inspections	<u>\$ 576,628</u>	<u>\$ 569,599</u>	<u>\$ 7,029</u>
Other protection:			
Animal control	\$ 118,975	\$ 115,118	\$ 3,857
Coroner	1,000	750	250
Emergency services	89,278	58,551	30,727
Total other protection	<u>\$ 209,253</u>	<u>\$ 174,419</u>	<u>\$ 34,834</u>
Total public safety	<u>\$ 12,795,376</u>	<u>\$ 12,483,673</u>	<u>\$ 311,703</u>
Public works:			
Maintenance of highways, streets, bridges and sidewalks:			
General engineering	\$ 784,434	\$ 753,137	\$ 31,297
Highway and street maintenance	4,034,772	3,702,145	332,627
Street lights	472,654	473,759	(1,105)
Snow and ice removal	170,577	170,960	(383)
Traffic engineering	1,048,519	856,634	191,885
Highway and street beautification	337,230	319,865	17,365
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 6,848,186</u>	<u>\$ 6,276,500</u>	<u>\$ 571,686</u>
Sanitation and waste removal:			
Street and road cleaning	\$ 268,104	\$ 267,578	\$ 526
Insect and rodent control	8,292	4,918	3,374
Total sanitation and waste removal	<u>\$ 276,396</u>	<u>\$ 272,496</u>	<u>\$ 3,900</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Public works: (continued)			
Maintenance of general buildings and grounds:			
General properties	\$ 4,501,704	\$ 4,618,314	\$ (116,610)
Total maintenance of general buildings and grounds	<u>\$ 4,501,704</u>	<u>\$ 4,618,314</u>	<u>\$ (116,610)</u>
Total public works	<u>\$ 11,626,286</u>	<u>\$ 11,167,310</u>	<u>\$ 458,976</u>
Health and welfare:			
Health:			
Local health department	\$ 321,156	\$ 320,312	\$ 844
Total health	<u>\$ 321,156</u>	<u>\$ 320,312</u>	<u>\$ 844</u>
Mental health and mental retardation:			
Community services board	\$ 206,470	\$ 206,470	\$ -
Total mental health and mental retardation	<u>\$ 206,470</u>	<u>\$ 206,470</u>	<u>\$ -</u>
Welfare/social services:			
Tax relief for the elderly	\$ 31,460	\$ 31,453	\$ 7
Social services - Joint expenditures with Rockingham County	1,991,284	1,991,283	1
Total welfare/social services	<u>\$ 2,022,744</u>	<u>\$ 2,022,736</u>	<u>\$ 8</u>
Total health and welfare	<u>\$ 2,550,370</u>	<u>\$ 2,549,518</u>	<u>\$ 852</u>
Education:			
Payment to School Board	\$ 21,622,750	\$ 21,622,750	\$ -
Total education	<u>\$ 21,622,750</u>	<u>\$ 21,622,750</u>	<u>\$ -</u>
Parks, recreation and culture:			
Parks and recreation:			
Administration	\$ 935,746	\$ 832,362	\$ 103,384
Parks	831,303	816,216	15,087
Recreation centers and playgrounds	621,185	613,707	7,478
National guard armory	91,371	90,935	436
Simms recreation center	172,065	213,097	(41,032)
Westover pool	662,802	651,447	11,355
Athletics	441,607	368,415	73,192
Blacks run greenway	53,220	41,431	11,789
Golf course grounds management	601,558	550,969	50,589
Golf course clubhouse management	345,893	310,326	35,567
Total parks and recreation	<u>\$ 4,756,750</u>	<u>\$ 4,488,905</u>	<u>\$ 267,845</u>
Total parks, recreation and culture	<u>\$ 4,756,750</u>	<u>\$ 4,488,905</u>	<u>\$ 267,845</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Planning and community development:			
Planning:			
Planning	\$ 176,610	\$ 152,379	\$ 24,231
Zoning administrator	156,527	149,109	7,418
Zoning and board of zoning appeals	6,520	3,834	2,686
Economic development	929,734	909,517	20,217
Downtown renaissance	58,199	58,198	1
Tourism and visitors services	176,388	173,944	2,444
Downtown parking services	50,551	51,880	(1,329)
Total planning	<u>\$ 1,554,529</u>	<u>\$ 1,498,861</u>	<u>\$ 55,668</u>
Community development:			
Convention and Visitors Bureau	\$ 49,625	\$ 49,625	\$ -
Chamber of Commerce (American Legion Parade)	3,000	3,000	-
Massanutten Regional Library	367,003	367,003	-
Salvation Army	15,000	15,000	-
Rescue Squad - Gas and oil	20,000	20,000	-
Upper Valley Regional Park Authority	17,250	15,000	2,250
Regional Juvenile Detention Home	287,844	287,844	-
Shenandoah Valley Soil and Water Conservation	4,000	4,000	-
Blue Ridge Community College	5,000	5,000	-
Blue Ridge Community College - Site improvement	41,484	41,484	-
First Night	5,000	5,000	-
Woodbine Cemetery	1,500	1,500	-
Boys and Girls Club	45,000	45,000	-
Central Shenandoah Valley Planning District	13,747	13,747	-
Valley Program for Aging	25,000	25,000	-
Blue Ridge Legal Services	10,077	10,077	-
Shenandoah Valley Airport	67,923	67,923	-
Community Mediation Center	2,000	2,000	-
Cats Cradle	385	385	-
Harrisonburg Little League Association	6,000	6,000	-
First Step, Inc.	21,000	21,000	-
Free Clinic - Operating	10,000	10,000	-
Free Clinic - Capital	250,000	250,000	-
Downtown Renaissance	21,801	21,801	-
Arts Council of the Valley	48,942	48,942	-
Roberta Webb Child Day Care Center	12,000	12,000	-
Quilt Museum	2,000	2,000	-

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
General Fund: (continued)			
Planning and community development: (continued)			
Community development: (continued)			
Jamestown 2000 Committee	7,000	7,000	-
Harrisonburg Children's Museum	67,667	67,667	-
Other non-departmental	6,693	-	6,693
Total community development	<u>\$ 1,433,941</u>	<u>\$ 1,424,998</u>	<u>\$ 8,943</u>
Total planning and community development	<u>\$ 2,988,470</u>	<u>\$ 2,923,859</u>	<u>\$ 64,611</u>
Debt service:			
Principal retirement	\$ 4,202,660	\$ 4,202,660	\$ -
Interest and fiscal charges	<u>4,256,122</u>	<u>4,255,457</u>	<u>665</u>
Total debt service	<u>\$ 8,458,782</u>	<u>\$ 8,458,117</u>	<u>\$ 665</u>
Total General Fund	<u><u>\$ 69,830,283</u></u>	<u><u>\$ 68,572,647</u></u>	<u><u>\$ 1,257,636</u></u>
Special Revenue Funds:			
Emergency Communications Center Fund:			
Public safety:			
Other protection:			
Emergency operations center	\$ 268,533	\$ 154,351	\$ 114,182
E-911 system	<u>1,747,965</u>	<u>1,628,158</u>	<u>119,807</u>
Total other protection	<u>\$ 2,016,498</u>	<u>\$ 1,782,509</u>	<u>\$ 233,989</u>
Total public safety	<u>\$ 2,016,498</u>	<u>\$ 1,782,509</u>	<u>\$ 233,989</u>
Total Emergency Communications Center Fund	<u><u>\$ 2,016,498</u></u>	<u><u>\$ 1,782,509</u></u>	<u><u>\$ 233,989</u></u>
Community Development Block Grant Fund:			
Planning and community development:			
Community development:			
Community development block grant	\$ 841,933	\$ 282,718	\$ 559,215
Total community development	<u>\$ 841,933</u>	<u>\$ 282,718</u>	<u>\$ 559,215</u>
Total planning and community development	<u>\$ 841,933</u>	<u>\$ 282,718</u>	<u>\$ 559,215</u>
Total Community Development Block Grant Fund	<u><u>\$ 841,933</u></u>	<u><u>\$ 282,718</u></u>	<u><u>\$ 559,215</u></u>
Total Special Revenue Funds	<u><u>\$ 2,858,431</u></u>	<u><u>\$ 2,065,227</u></u>	<u><u>\$ 793,204</u></u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2006

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Primary Government: (continued)			
Capital Projects Funds:			
General Capital Projects Fund:			
Capital projects	\$ 18,478,745	\$ 4,328,204	\$ 14,150,541
Total General Capital Projects Fund	<u>\$ 18,478,745</u>	<u>\$ 4,328,204</u>	<u>\$ 14,150,541</u>
School Bond Capital Projects Fund:			
Capital projects	\$ 2,416,055	\$ 2,416,055	\$ -
Total School Bond Capital Projects Fund	<u>\$ 2,416,055</u>	<u>\$ 2,416,055</u>	<u>\$ -</u>
Total Capital Projects Funds	<u>\$ 20,894,800</u>	<u>\$ 6,744,259</u>	<u>\$ 14,150,541</u>
Grand Total Expenditures - Primary Government	<u>\$ 93,583,514</u>	<u>\$ 77,382,133</u>	<u>\$ 16,201,381</u>
Component Unit - School Board:			
School Fund:			
Education:			
Instruction	\$ 33,883,434	\$ 33,417,441	\$ 465,993
Administration, attendance and health	2,116,008	2,048,424	67,584
Pupil transportation	1,417,939	1,353,359	64,580
Operations and maintenance	4,015,629	3,821,498	194,131
Technology	2,606,383	2,599,828	6,555
Facilities	2,000	-	2,000
Total education	<u>\$ 44,041,393</u>	<u>\$ 43,240,550</u>	<u>\$ 800,843</u>
Total School Fund	<u>\$ 44,041,393</u>	<u>\$ 43,240,550</u>	<u>\$ 800,843</u>
School Cafeteria Fund:			
Education:			
Food services	\$ 1,671,814	\$ 1,512,490	\$ 159,324
Total education	<u>\$ 1,671,814</u>	<u>\$ 1,512,490</u>	<u>\$ 159,324</u>
Total School Cafeteria Fund	<u>\$ 1,671,814</u>	<u>\$ 1,512,490</u>	<u>\$ 159,324</u>
School Capital Projects Fund:			
Capital projects	\$ 1,289,683	\$ 644,606	\$ 645,077
Total School Capital Projects Fund	<u>\$ 1,289,683</u>	<u>\$ 644,606</u>	<u>\$ 645,077</u>
Grand Total Expenditures Component Unit - School Board	<u>\$ 47,002,890</u>	<u>\$ 45,397,646</u>	<u>\$ 1,605,244</u>

STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures and other supplementary information says about the City's overall financial health.

Financial Trends. Tables 1 through 4 contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity. Tables 5 through 8 present information to help the reader assess the factors affecting the City's ability to generate property tax revenue which is the City's most significant local revenue source.

Debt Capacity. Tables 9 through 11 present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information. Tables 12 and 13 offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time with other governments.

Operating Information. Tables 14 through 16 contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

***Sources:** Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003, but developed comparative financial information for 2002 that was used in preparing management's discussion and analysis in the year of implementation. Tables presenting government-wide information (Tables 1 and 2) include information beginning with the 2002 comparative financial information.*

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CITY OF HARRISONBURG, VIRGINIA
NET ASSETS BY COMPONENT
Last Five Fiscal Years
(accrual basis of accounting)

Table 1

	Fiscal Year				
	2006	2005	2004	2003	2002
Governmental activities					
Invested in capital assets, net of related debt	\$ 135,387,466	\$ 120,778,336	\$ 118,163,476	\$ 117,314,943	\$ 116,289,421
Restricted ^a	1,304,291	1,119,024	766,544	905,353	621,915
Unrestricted	21,475,583	24,189,060	23,043,566	20,551,664	20,782,494
Total governmental activities net assets	\$ 158,167,340	\$ 146,086,420	\$ 141,973,586	\$ 138,771,960	\$ 137,693,830
Business-type activities					
Invested in capital assets, net of related debt	\$ 52,109,133	\$ 52,218,830	\$ 51,856,222	\$ 53,504,910	\$ 58,284,025
Restricted ^a	-	-	444,437	452,716	471,168
Unrestricted	22,875,516	21,221,100	20,763,869	16,986,219	15,319,553
Total business-type activities net assets	\$ 74,984,649	\$ 73,439,930	\$ 73,064,528	\$ 70,943,845	\$ 74,074,746
Primary government					
Invested in capital assets, net of related debt	\$ 187,496,599	\$ 172,997,166	\$ 170,019,698	\$ 170,819,853	\$ 174,573,446
Restricted	1,304,291	1,119,024	1,210,981	1,358,069	1,093,083
Unrestricted	44,351,099	45,410,160	43,807,435	37,537,883	36,102,047
Total primary government net assets	\$ 233,151,989	\$ 219,526,350	\$ 215,038,114	\$ 209,715,805	\$ 211,768,576

Notes: The City implemented GASB Statement 34 in 2003. Information for 2002 is comparative financials that was used in preparing management's discussion and analysis in 2003. Ultimately, this table will contain ten years of information.

^aFor 2005, the increase in governmental activities and the decrease in business-type activities' restricted net assets was due to a reporting change for the operations of the golf course. Prior to 2005, the golf course was reported as a business-type activity.

CITY OF HARRISONBURG, VIRGINIA
CHANGES IN NET ASSETS
Last Five Fiscal Years
(accrual basis of accounting)

Table 2

	Fiscal Year				
	2006	2005	2004	2003	2002
Expenses:					
Governmental activities:					
General government administration	\$ 9,494,062	\$ 8,659,789	\$ 8,095,033	\$ 7,285,396	\$ 6,374,698
Jail and judicial administration	2,247,160	1,720,208	1,411,339	1,463,027	1,658,125
Public safety	14,598,247	13,385,735	12,308,346	10,483,000	9,755,527
Public works	10,280,042	8,932,355	9,570,485	8,654,789	9,090,230
Health and welfare	2,571,383	2,318,720	2,157,251	1,939,214	1,529,544
Education	24,630,393	21,784,772	20,351,713	21,325,763	20,508,326
Parks, recreation and cultural	4,458,904	2,781,327	2,636,326	2,551,774	2,328,603
Planning and community development	2,970,408	2,426,890	1,526,341	1,368,001	1,236,155
Interest on long-term debt	4,368,265	3,869,356	3,898,786	4,042,808	3,234,219
Business-type activities:					
Water	4,034,616	3,805,703	3,362,062	3,506,917	3,052,628
Sewer	5,075,967	4,872,836	4,870,754	4,457,413	4,237,627
Public transportation	5,070,888	4,635,925	4,162,232	3,882,258	3,381,260
Sanitation ^{a,b,c}	10,446,049	8,764,331	5,795,311	9,620,247	5,308,102
Public parking	175,050	209,084	208,202	200,964	188,878
Golf course	-	1,416,361	1,338,559	1,430,431	416,016
Total expenses	<u>\$ 100,421,434</u>	<u>\$ 89,583,392</u>	<u>\$ 81,692,740</u>	<u>\$ 82,212,002</u>	<u>\$ 72,299,938</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government administration	\$ 6,845,784	\$ 6,591,292	\$ 6,408,739	\$ 5,136,588	\$ 3,618,948
Jail and judicial administration	517,689	604,029	563,954	400,247	362,860
Parks, recreation and cultural	787,786	278,415	235,998	232,074	246,327
Other activities	548,215	441,843	109,456	427,509	278,135
Operating grants and contributions	5,182,303	4,920,227	4,517,758	3,826,403	3,533,820
Capital grants and contributions	71,267	622,947	115,122	505,800	95,013
Business-type activities:					
Charges for services:					
Water	5,263,336	4,802,169	4,690,818	4,558,073	4,509,192
Sewer	5,148,993	4,916,716	4,744,819	4,741,882	5,094,093
Public transportation	2,467,922	2,236,842	2,139,596	1,951,396	1,906,474
Sanitation	7,483,560	6,544,948	5,289,201	4,466,694	3,921,321
Other activities	178,530	752,842	717,992	664,239	395,689
Operating grants and contributions	1,198,685	966,231	912,114	910,460	840,845
Capital grants and contributions	2,571,747	1,824,444	1,041,271	675,965	1,576,411
Total program revenues	<u>\$ 38,265,817</u>	<u>\$ 35,502,945</u>	<u>\$ 31,486,838</u>	<u>\$ 28,497,330</u>	<u>\$ 26,379,128</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
CHANGES IN NET ASSETS
Last Five Fiscal Years
(accrual basis of accounting)

Table 2

	Fiscal Year				
	2006	2005	2004	2003	2002
Net (expense) revenue:					
Governmental activities	\$ (61,665,820)	\$ (52,420,399)	\$ (50,004,593)	\$ (48,585,151)	\$ (47,580,324)
Business-type activities	(489,797)	(1,660,048)	(201,309)	(5,129,521)	1,659,514
Total net (expense) revenue	<u>\$ (62,155,617)</u>	<u>\$ (54,080,447)</u>	<u>\$ (50,205,902)</u>	<u>\$ (53,714,672)</u>	<u>\$ (45,920,810)</u>
General revenues and other changes in net assets:					
Governmental activities:					
General revenues:					
Property taxes	\$ 20,248,223	\$ 18,235,771	\$ 18,120,703	\$ 17,387,139	\$ 17,838,430
Sales and use taxes	11,421,441	10,739,589	9,747,138	8,629,363	8,344,866
Restaurant food taxes ^d	7,091,567	6,723,886	6,351,607	4,882,551	4,609,629
Business license taxes	5,728,339	5,306,290	5,013,674	4,771,569	4,286,104
Other local taxes ^e	7,201,363	6,503,792	6,468,977	4,862,829	5,026,104
Unrestricted grants and contributions	3,216,835	3,014,121	3,086,923	3,221,206	2,765,133
Investment revenue	1,363,309	752,552	568,770	939,030	1,218,831
Other revenue	6,272,657	4,979,680	4,862,402	5,366,000	4,253,952
Gain on sale of capital asset	-	535,732	-	-	-
Special item	11,005,846	-	-	-	1,124,500
Transfers	197,160	(258,180)	(1,013,975)	(396,406)	(2,201,350)
Business-type activities:					
General revenues:					
Investment revenue	1,082,397	609,291	376,714	993,067	595,581
Other revenue	1,149,279	1,167,979	931,303	609,147	752,163
Transfers	(197,160)	258,180	1,013,975	396,406	2,201,350
Total general revenues and other changes in net assets	<u>\$ 75,781,256</u>	<u>\$ 58,568,683</u>	<u>\$ 55,528,211</u>	<u>\$ 51,661,901</u>	<u>\$ 50,815,293</u>
Change in net assets:					
Governmental activities	\$ 12,080,920	\$ 4,112,834	\$ 3,201,626	\$ 1,078,130	\$ (314,125)
Business-type activities	1,544,719	375,402	2,120,683	(3,130,901)	5,208,608
Total change in net assets	<u>\$ 13,625,639</u>	<u>\$ 4,488,236</u>	<u>\$ 5,322,309</u>	<u>\$ (2,052,771)</u>	<u>\$ 4,894,483</u>

Notes: The City implemented GASB Statement 34 in 2003. Information for 2002 is comparative financials that was used in preparing management's discussion and analysis in 2003. Ultimately, this table will contain ten years of information. Any significant increases or decreases for 2006 are explained in Management's Discussion and Analysis.

^aFor 2005, the increase in sanitation activity expenses reflected a full year of depreciation on the rebuilt steam plant and an increase in interest expense.

^bFor 2004, the decrease in sanitation activity expenses reflected a change in the method the City used to estimate its landfill closure liability. This change was treated as a change in accounting estimate and reported in expenses.

^cFor 2003, the increase in sanitation activity expenses reflected an increased usage of Rockingham County's landfill during the rebuild of the steam plant. The City also recognized a \$2.9 million capital asset write down after dismantling the original steam plant.

^dFor 2004, the City increased the rate on restaurant food taxes from five percent to six percent.

^eFor 2004, the City enacted a tobacco tax.

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CITY OF HARRISONBURG, VIRGINIA
 FUND BALANCES (GOVERNMENTAL FUNDS)
 Last Ten Fiscal Years

Table 3

(modified accrual basis of accounting)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved ^a	\$ 2,476,413	\$ 7,007,790	\$ 1,742,724	\$ 3,893,332	\$ 3,343,661	\$ 2,335,249	\$ 2,343,083	\$ 1,951,911	\$ 1,751,916	\$ 741,061
Unreserved	12,276,469	12,446,635	13,914,873	11,554,969	12,210,749	15,812,273	12,511,816	11,600,855	9,368,521	9,666,825
Total general fund	\$ 14,752,882	\$ 19,454,425	\$ 15,657,597	\$ 15,448,301	\$ 15,554,410	\$ 18,147,522	\$ 14,854,899	\$ 13,552,766	\$ 11,120,437	\$ 10,407,886
All other governmental funds										
Reserved ^b	\$ 6,163,562	\$ 6,653,999	\$ 14,481,938	\$ 34,289,267	\$ 44,510,372	\$ 1,714,575	\$ 666,868	\$ 2,744,170	\$ 5,900,375	\$ 7,632,105
Unreserved, reported in:										
Special revenue funds	201,533	-	-	-	-	-	-	-	-	-
Capital projects funds	2,823,990	6,538,433	6,505,695	5,739,731	5,675,612	4,347,952	4,757,342	3,467,995	3,133,301	3,905,666
Total all other governmental funds	\$ 9,189,085	\$ 13,192,432	\$ 20,987,633	\$ 40,028,998	\$ 50,185,984	\$ 6,062,527	\$ 5,424,210	\$ 6,212,165	\$ 9,033,676	\$ 11,537,771

Notes: Certain prior year balances have been reclassified to reflect current financial reporting (1997-2002).

^aFor 2005, the increase in general fund reserved fund balance was the result of unspent bond proceeds.

^bFor 2002, the increase in other governmental funds reserved fund balance was the result of unspent bond proceeds issued for the construction of a new high school.

CITY OF HARRISONBURG, VIRGINIA
CHANGES IN FUND BALANCES (GOVERNMENTAL FUNDS)

Table 4

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
General property taxes	\$ 20,151,128	\$ 18,083,460	\$ 18,331,474	\$ 17,664,091	\$ 17,486,315	\$ 17,045,598	\$ 17,054,434	\$ 16,011,451	\$ 15,371,970	\$ 14,681,417
Other local taxes	31,493,067	29,240,984	27,544,279	23,210,201	22,045,646	21,294,591	20,499,212	19,224,215	17,310,465	16,276,752
Permits, privilege fees and regulatory licenses	503,149	403,621	333,288	390,820	244,187	198,890	275,030	319,401	286,926	301,671
Fines and forfeitures	517,689	604,029	563,954	400,247	362,860	292,835	304,837	344,481	286,086	261,947
Use of money and property ^a	2,227,982	785,874	683,526	1,309,574	1,452,653	1,423,126	1,304,222	1,280,555	1,283,663	1,288,843
Charges for services	811,677	292,843	252,891	261,442	277,538	270,095	278,403	238,213	263,703	245,824
Miscellaneous	5,120,793	4,863,742	4,627,603	4,175,895	4,047,297	3,665,350	3,397,117	3,490,417	2,757,767	3,254,053
Recovered costs	1,427,564	1,862,953	1,065,326	1,403,609	545,251	1,118,922	449,642	416,599	415,699	367,847
Intergovernmental	7,703,658	7,760,161	6,953,417	7,123,215	6,120,590	5,825,737	6,694,052	3,851,903	3,721,448	3,964,634
Total revenues	\$ 69,956,707	\$ 63,897,667	\$ 60,355,758	\$ 55,939,094	\$ 52,582,337	\$ 51,135,144	\$ 50,256,949	\$ 45,177,235	\$ 41,697,727	\$ 40,642,988
Expenditures:										
Current:										
General government administration	\$ 2,902,847	\$ 2,689,218	\$ 2,460,537	\$ 2,241,589	\$ 2,351,943	\$ 2,070,324	\$ 1,991,202	\$ 1,808,890	\$ 1,760,554	\$ 1,604,917
Jail and judicial administration	1,975,668	1,929,277	1,696,498	1,192,269	1,387,367	1,114,568	1,103,909	760,227	782,737	598,001
Public safety	14,266,182	13,202,723	12,672,049	10,552,139	9,549,373	8,961,870	8,160,062	7,540,801	6,807,647	6,702,275
Public works ^b	11,167,310	6,096,761	6,548,826	5,829,360	6,996,447	5,700,813	5,595,777	5,308,267	5,196,689	5,164,780
Health and welfare	2,549,518	2,296,855	2,135,386	1,917,348	1,507,679	1,259,631	1,223,537	1,177,598	1,021,194	790,858
Education	21,622,750	19,193,377	18,667,629	19,167,629	18,378,482	16,662,462	16,726,462	15,226,055	14,559,166	13,416,240
Parks, recreation and cultural	4,488,905	2,686,375	2,763,595	2,693,787	2,299,492	3,096,183	1,952,945	2,421,165	1,777,893	1,967,162
Planning and community development ^c	3,206,577	3,014,724	2,118,465	1,352,651	1,215,923	1,904,718	2,962,276	939,101	738,485	882,526
Debt service:										
Principal retirement	4,202,660	4,156,753	3,130,078	3,907,176	3,121,527	2,737,399	2,788,393	2,740,545	3,518,673	2,474,354
Interest and fiscal charges ^d	4,255,457	3,863,973	3,687,224	4,191,172	2,002,919	1,990,527	1,925,710	2,080,094	2,379,575	2,267,224
Bond issuance costs	-	-	-	29,839	-	-	-	-	104,469	-
Capital projects ^e	6,744,259	21,094,715	28,078,487	14,601,540	9,477,302	482,713	3,848,734	4,014,542	3,769,847	1,375,693
Total expenditures	\$ 77,382,133	\$ 80,224,751	\$ 83,958,774	\$ 67,676,499	\$ 58,288,454	\$ 45,981,208	\$ 48,279,007	\$ 44,017,285	\$ 42,416,929	\$ 37,244,030
Excess (deficiency) of revenues over (under) expenditures	\$ (7,425,426)	\$ (16,327,084)	\$ (23,603,016)	\$ (11,737,405)	\$ (5,706,117)	\$ 5,153,936	\$ 1,977,942	\$ 1,159,950	\$ (719,202)	\$ 3,398,958

(continued)

**CITY OF HARRISONBURG, VIRGINIA
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years**

Table 5

Fiscal Year	Real Estate ¹	Personal Property ²	Machinery and Tools ³	Mobile Homes ¹	Public Service Corporations ⁴			Total
					Real Estate	Personal Property	Total	
2006	\$ 2,281,099,494	\$ 275,969,700	\$ 82,172,500	\$ 1,217,300	\$ 45,930,020	\$ 339,674	\$ 2,686,728,688	
2005	1,972,526,708	253,980,570	94,040,800	1,255,800	50,610,910	294,118	2,372,708,906	
2004	1,924,757,616	263,080,560	100,386,700	1,264,400	53,862,258	250,109	2,343,601,643	
2003	1,814,221,588	252,204,750	107,362,900	1,380,700	55,213,438	239,938	2,230,623,314	
2002	1,793,533,004	250,506,200	120,401,100	1,292,100	55,484,976	295,760	2,221,513,140	
2001	1,656,732,868	248,202,911	117,159,400	1,303,800	52,567,436	296,180	2,076,262,595	
2000	1,600,041,524	237,204,519	106,835,400	1,318,400	52,168,424	529,083	1,998,097,350	
1999	1,498,239,901	211,870,100	99,863,400	1,615,200	49,689,229	444,794	1,861,722,624	
1998	1,451,829,090	211,234,848	95,561,464	1,546,500	46,588,622	375,867	1,807,136,391	
1997	1,389,229,849	197,144,423	86,508,800	1,449,600	38,271,689	382,582	1,712,986,943	

Source: *City of Harrisonburg Commissioner of the Revenue Property Tax Records.*

Notes: ¹ Assessed at 100% of fair market value. ² Assessed at average trade-in value, as of January 1, as determined by the National Automobile Dealers Association (NADA). ³ Assessed values are based upon depreciation schedule, year of purchase and cost. ⁴ Assessed values are established by the State Corporation Commission.

CITY OF HARRISONBURG, VIRGINIA
PROPERTY TAX RATES - PER \$100 OF ASSESSED VALUE
Last Ten Fiscal Years

Table 6

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2006	\$ 0.62	\$ 2.00	\$ 2.00	\$ 0.62
2005	0.62	2.00	2.00	0.62
2004	0.62	2.00	2.00	0.62
2003	0.62	2.00	2.00	0.62
2002	0.62	2.00	2.00	0.62
2001	0.62	2.00	2.00	0.62
2000	0.62	2.00	2.00	0.62
1999	0.62	2.00	2.00	0.62
1998	0.62	2.00	2.00	0.62
1997	0.62	2.00	2.00	0.62

Source: *City of Harrisonburg Commissioner of the Revenue Property Tax Records.*

Notes: Public Service Corporations are taxed at the real estate and the personal property tax rates for those classes of assessed values established by the State Corporation Commission.

**CITY OF HARRISONBURG, VIRGINIA
 PRINCIPAL PROPERTY TAXPAYERS
 Current Year and Nine Years Ago**

Table 7

Property Taxpayer	Fiscal Year 2006			Fiscal Year 1997		
	Property Taxes	Rank	Percent of Total Property Taxes	Property Taxes	Rank	Percent of Total Property Taxes
Tenneco Automotive Inc.	\$ 392,863	1	1.81%	\$ 205,584	6	1.41%
IntraPac Corp.	339,698	2	1.57%	249,076	3	1.70%
Banta Corp.	293,636	3	1.35%	254,135	2	1.74%
Packaging Corporation of America	257,886	4	1.19%	-	-	-
GMH Communities Trust	218,538	5	1.01%	-	-	-
Graham Packaging Company, LP	171,628	6	0.79%	238,519	4	1.06%
SDG Macerich Properties, LP	170,977	7	0.79%	137,699	10	0.94%
Virginia Mennonite Retirement Community	167,778	8	0.77%	-	-	-
Reddy Ice Corp.	148,742	9	0.69%	166,120	8	1.14%
Verizon Communications Inc.	140,287	10	0.65%	159,535	9	1.09%
AMP Corporation	-	-	-	290,495	1	1.99%
Rocco, Inc.	-	-	-	224,203	5	1.53%
Wampler-Longacre Rockingham, Inc.	-	-	-	198,430	7	1.36%
Total	\$ 2,302,033		10.62%	\$ 2,123,796		13.96%

Source: City of Harrisonburg Commissioner of the Revenue Property Tax Records.

**CITY OF HARRISONBURG, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years**

Table 8

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)	Adjustments	Total Adjusted Levy	Collected within the			Collections in Subsequent Years	Total Collections to Date
				Fiscal Year of the Levy	Amount	Percentage of Levy		
2006	\$ 21,683,449	\$ -	21,683,449	\$ 21,076,071	97.20%	\$ -	21,076,071	97.20%
2005	19,595,631	7,906	19,603,537	18,925,288	96.58%	310,800	19,236,088	98.13%
2004	19,617,311	14,296	19,631,607	19,080,972	97.27%	297,490	19,378,462	98.71%
2003	18,890,133	(4,933)	18,885,200	18,103,663	95.84%	628,477	18,732,140	99.19%
2002	18,973,108	15	18,973,123	18,116,477	95.49%	711,360	18,827,837	99.23%
2001	17,990,551	35,990	18,026,541	17,226,173	95.75%	667,191	17,893,364	99.26%
2000	17,252,634	(9,113)	17,243,521	16,790,725	97.32%	350,434	17,141,159	99.41%
1999	15,944,864	62,999	16,007,863	15,385,882	96.49%	504,367	15,890,249	99.27%
1998	15,538,894	(6,711)	15,532,183	14,999,168	96.53%	457,939	15,457,107	99.52%
1997	14,631,278	35,400	14,666,678	14,236,008	97.30%	165,534	14,401,542	98.19%

Notes: Beginning fiscal year 2000, the Commonwealth of Virginia began directly reimbursing localities a percentage of certain personal property taxes. These reimbursements are included in current year collections and collections in subsequent years.

CITY OF HARRISONBURG, VIRGINIA
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Table 9

Type of debt	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Governmental activities:										
General obligation bonds ^b	\$ 22,679,900	\$ 23,527,500	\$ 17,032,600	\$ 14,531,300	\$ 14,785,000	\$ 7,435,000	\$ 7,750,000	\$ 8,045,000	\$ 8,320,000	\$ 8,375,000
General obligation school bonds ^c	51,165,000	53,705,000	56,230,000	57,755,000	59,840,000	20,385,000	22,205,000	18,845,000	18,505,000	20,190,000
General obligation revenue bonds ^a	6,385,000	6,410,000	-	-	-	-	-	-	-	-
Notes payable	400,000	400,000	3,297,307	916,785	1,135,035	1,382,053	701,958	893,668	954,280	140,143
Capital leases	9,797,450	10,575,685	5,373,206	5,888,681	6,051,585	6,440,419	6,812,238	7,049,452	7,478,710	11,132,635
State literary fund loans	11,825	23,650	35,475	101,900	205,350	316,025	426,700	537,375	648,050	758,725
VRS early retirement obligation	-	-	-	-	-	-	-	-	-	1,477,645
Business-type activities:										
General obligation bonds ^d	28,405,000	29,570,000	29,630,000	29,885,000	30,130,000	6,515,000	8,110,000	9,620,000	11,045,000	12,390,000
General obligation revenue bonds ^{a,e}	10,265,000	10,445,000	17,030,000	17,030,000	17,030,000	6,410,000	6,410,000	-	-	-
Notes payable	-	-	128,527	426,346	709,726	979,367	1,235,935	-	-	-
Total primary government	\$ 129,109,175	\$ 134,656,835	\$ 128,757,115	\$ 126,535,012	\$ 129,886,696	\$ 49,862,864	\$ 53,651,831	\$ 44,990,495	\$ 46,951,040	\$ 54,464,148
Percentage of personal income ^f	10.93%	12.10%	12.11%	12.61%	13.22%	5.47%	6.43%	6.41%	7.11%	8.47%
Per capita ^g	\$ 2,934	\$ 3,119	\$ 2,985	\$ 2,943	\$ 3,078	\$ 1,206	\$ 1,326	\$ 1,293	\$ 1,365	\$ 1,583

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. ^hSee Table 12 for personal income and population data.

^aThe increase in governmental activities and the decrease in business-type activities' general obligation revenue bonds in 2005 was due to a reporting change for the operations of the golf course. Prior to 2005, the golf course was reported as a business-type activity.

^bFor 2002, the City issued \$6 million in general obligation bonds for the purchase and renovation of a public safety building.

^cFor 2002, the City issued \$41.5 million in general obligation school bonds for the construction of a new high school.

^dFor 2002, the City issued \$25.3 million in general obligation bonds for the rebuild of the steam plant.

^eFor 2002, the City issued \$10.6 million in general obligation revenue bonds for the expansion of the water treatment plant and other water system projects.

CITY OF HARRISONBURG, VIRGINIA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Table 10

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General obligation bonds ^a	\$ 51,084,900	\$ 53,097,500	\$ 46,662,600	\$ 44,416,300	\$ 44,915,000	\$ 13,950,000	\$ 15,860,000	\$ 17,665,000	\$ 19,365,000	\$ 20,765,000
General obligation school bonds ^b	51,165,000	53,705,000	56,230,000	57,755,000	59,840,000	20,385,000	22,205,000	18,845,000	18,505,000	20,190,000
Total	\$ 102,249,900	\$ 106,802,500	\$ 102,892,600	\$ 102,171,300	\$ 104,755,000	\$ 34,335,000	\$ 38,065,000	\$ 36,510,000	\$ 37,870,000	\$ 40,955,000
Percentage of assessed real property value ¹	4.39%	5.28%	5.20%	5.47%	5.67%	2.01%	2.30%	2.36%	2.53%	2.87%
Per capita ²	\$ 2,323	\$ 2,474	\$ 2,385	\$ 2,376	\$ 2,482	\$ 830	\$ 941	\$ 1,049	\$ 1,101	\$ 1,191

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. ¹See Table 5 for assessed real property data. ²See Table 12 for population data.

^aFor 2002, the City issued \$31.3 million in general obligation bonds for the purchase and renovation of a public safety building and for the rebuild of the steam plant.

^bFor 2002, the City issued \$41.5 million in general obligation school bonds for the construction of a new high school.

**CITY OF HARRISONBURG, VIRGINIA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years**

Table 11

	Fiscal Year										
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	
Debt limit	\$ 232,702,951	\$ 202,313,762	\$ 197,861,987	\$ 186,943,503	\$ 184,901,798	\$ 170,930,030	\$ 165,220,995	\$ 154,792,913	\$ 149,841,771	\$ 142,750,154	
Total debt applicable to limit	119,311,725	124,081,150	123,383,909	120,646,331	123,835,111	43,422,445	46,839,593	37,941,043	39,472,330	43,331,513	
Legal debt margin	\$ 113,391,226	\$ 78,232,612	\$ 74,478,078	\$ 66,297,172	\$ 61,066,687	\$ 127,507,585	\$ 118,381,402	\$ 116,851,870	\$ 110,369,441	\$ 99,418,641	
Total debt applicable to the limit as percentage of debt limit ^a	51.27%	61.33%	62.36%	64.54%	66.97%	25.40%	28.35%	24.51%	26.34%	30.35%	
Legal Debt Margin Calculation for Fiscal Year 2006											
Total assessed value of taxed real property	\$ 2,327,029,514										
Debt limit (10% of total assessed value)	\$ 232,702,951										
Debt applicable to limit:											
General obligation bonds	51,084,900										
General obligation school bonds	51,165,000										
General obligation revenue bonds	16,650,000										
Notes payable	400,000										
State literary fund loans	11,825										
Legal debt margin	\$ 113,391,226										

Notes: Under the Constitution of Virginia, the City's bonds or other interest-bearing obligations shall not exceed ten percent of the total assessed value of taxed real property.

^aFor 2002, the City issued a total of \$83.4 million in debt to finance various projects. See Table 9 for a further explanation of the projects financed.

CITY OF HARRISONBURG, VIRGINIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Table 12

Fiscal Year	Population¹	Personal Income (in thousands)	Per Capita Personal Income²	School Enrollment³	Unemployment Rate Percentage⁴
2006	44,008	\$ 1,181,307	\$ 26,843	4,347	3.1
2005	43,178	1,113,129	25,780	4,088	3.6
2004	43,137	1,062,982	24,642	4,028	3.3
2003	43,001	1,003,084	23,327	4,026	3.3
2002	42,200	982,500	23,282	3,912	3.2
2001	41,350	911,933	22,054	3,768	2.3
2000	40,468	834,936	20,632	3,575	1.8
1999	34,800	701,742	20,165	3,557	1.3
1998	34,400	659,964	19,185	3,560	1.4
1997	34,400	642,970	18,691	3,492	2.3

Sources: ¹ Estimated by the City's Department of Planning and Community Development for 1997-1999 and 2001-2006. United State Census Bureau for 2000. ² Bureau of Economic Analysis, United States Department of Commerce. Amounts for 1997-2005 have been adjusted based upon the latest available data. Data for 2006 has been estimated based on per capita personal income trends for the previous ten years. ³ City of Harrisonburg School Board. ⁴ Virginia Employment Commission. The unemployment rate is an annual average.

CITY OF HARRISONBURG, VIRGINIA
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Table 13

Employers	Fiscal Year 2006			Fiscal Year 1997		
	Employees	Rank	Percent of Total City Employment	Employees	Rank	Percent of Total City Employment
James Madison University	2,899	1	9.51%	>1,000	1	n/a
Rockingham Memorial Hospital	2,006	2	6.58%	>1,000	2	n/a
Harrisonburg City Public Schools	689	3	2.26%	500 - 999	4	n/a
City of Harrisonburg	672	4	2.20%	500 - 999	6	n/a
Tenneco Automotive Inc.	600	5	1.97%	>1,000	3	n/a
Banta Corp.	435	6	1.43%	0	-	-
Graham Packaging Company, LP	419	7	1.37%	250 - 499	8	n/a
Virginia Mennonite Retirement Community	412	8	1.35%	0	-	-
Tyson Foods, Inc.	330	9	1.08%	250 - 499	7	n/a
Valley Blox, Inc.	288	10	0.95%	0	-	-
Dunham Bush Inc.	-	-	-	500 - 999	5	n/a
Wal-Mart Stores, Inc.	-	-	-	250 - 499	9	n/a
IntraPac Corp.	-	-	-	250 - 499	10	n/a
Total	8,750		28.70%	-		n/a

Source: City of Harrisonburg Department of Economic Development for 2006. Virginia Employment Commission for 1997.

CITY OF HARRISONBURG, VIRGINIA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Table 14

Function	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government administration	53.0	51.9	51.0	50.1	48.9	48.1	45.9	46.4	45.9	45.2
Public safety:										
Police ^a	101.8	97.7	100.4	94.8	94.2	90.9	86.1	84.1	79.7	72.1
Fire ^b	71.5	68.5	68.2	65.0	64.0	64.0	58.0	55.0	52.0	46.0
Other ^c	44.1	38.7	22.0	22.0	20.5	20.5	19.5	19.5	19.5	19.5
Public works	66.7	66.0	66.0	62.9	65.8	65.9	65.5	67.0	65.5	65.6
Parks, recreation and cultural ^d	66.8	65.6	66.7	63.1	60.4	46.6	46.6	44.6	42.9	43.3
Planning and community development	8.1	7.9	6.8	7.3	6.1	6.0	6.0	6.0	5.0	4.5
Water	29.7	29.7	29.6	28.6	28.6	28.6	28.6	27.7	27.4	27.3
Sewer	22.9	22.9	22.9	21.9	21.9	21.9	20.9	20.9	20.9	20.9
Public transportation ^e	79.2	76.4	77.1	67.7	66.6	65.4	66.9	64.8	64.3	60.7
Sanitation ^f	56.9	55.0	54.0	46.8	45.0	44.4	43.4	43.4	42.4	39.2
Public parking	3.8	3.8	3.8	4.0	4.0	3.2	3.2	3.2	3.4	3.4
Total	604.5	584.1	568.5	534.2	526.0	505.5	490.6	482.6	468.9	447.7

Source: *City of Harrisonburg Proposed Budget for the relevant year.*

Notes: Full-time equivalent amounts are budgeted positions.

^aThe City has added additional police department personnel over the past ten years as demand for services continue to increase.

^bThe increase for the fire department from 1997-2004 reflects the hiring of additional firefighters to comply with the National Fire Protection Association's "Two-In-Two-Out" rule.

^cThe increase for other public safety in 2005 reflects an expanded emergency communications center.

^dThe increase for parks and recreation in 2002 reflects the hiring of employees to staff the golf course.

^eThe City has added additional public transportation personnel over the past ten years as demand for transit and school bus services continue to increase.

^fThe increase for sanitation in 2004 reflects the hiring of additional personnel to staff the rebuilt and expanded steam plant.

**CITY OF HARRISONBURG, VIRGINIA
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years**

Table 15

Function	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Calls answered	30,901	34,059	33,987	30,839	29,960	26,329	22,438	20,233	19,195	n/a
Traffic citations	7,144	9,796	8,825	7,101	5,460	5,043	6,179	6,496	6,604	n/a
Fire										
Calls answered	4,088	3,994	3,763	3,606	3,313	3,162	3,321	3,302	3,252	3,158
Inspections	1,472	1,623	1,296	1,198	683	1,976	2,943	2,585	1,970	2,643
Public works										
Streets repaved (lane miles)	4.88	4.17	4.13	10.22	7.31	10.65	5.00	12.47	14.00	12.00
Potholes repaired	543	302	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Parks and recreation										
Pool admissions	42,060	44,273	45,182	44,856	43,726	33,154	39,354	44,083	47,306	n/a
Rounds of golf played ^a	20,220	20,522	20,418	18,239	6,074	-	-	-	-	-
Planning and community development										
Building permits issued	1,039	958	893	896	624	463	632	594	594	614
Water										
Average daily consumption (gallons)	5,353,198	5,154,657	5,139,902	4,956,810	5,331,149	5,917,515	5,711,483	5,339,800	4,912,200	4,792,400
New customer connections	435	262	272	267	302	237	274	260	319	n/a
Sewer										
Average daily consumption (gallons)	4,356,379	4,155,477	4,111,560	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New customer connections	46	42	33	22	38	15	30	51	43	n/a
Public transportation										
Transit bus passengers	1,380,851	1,150,587	1,040,010	993,823	1,047,320	1,256,856	1,260,787	1,217,596	1,383,227	1,264,830
Sanitation										
Average daily steam plant intake (tons) [†]	145.6	117.5	48.3	44.6	59.4	65.6	59.8	66.4	67.8	71.2
Recycling collected (tons)	1,824.5	1,353.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Various City of Harrisonburg departments.

Notes: Operating indicators are not available for the general government function. "n/a" means that the information is not available.

^aThe golf course opened for part of 2002. A full year of operations began in 2003.

^bDue to the rebuild and expansion of the steam plant, the steam plant was only in operation for a portion of 2003 and 2004.

**CITY OF HARRISONBURG, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years**

Table 16

Function	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Police stations	3	3	3	4	4	4	5	5	4	3
Patrol units (including motorcycles)	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fire										
Fire stations	4	4	4	4	4	4	4	4	4	4
Fire trucks	13	12	12	12	11	11	11	10	10	10
Public works:										
Streets (miles)	132.62	132.62	132.62	132.62	132.62	132.62	132.62	131.78	125.86	125.86
Parks, recreation and cultural										
Parks (including athletic facilities)	10	10	10	10	10	10	10	10	10	10
Parks acreage ^a	869	869	869	869	869	869	829	1,010	988	988
Golf course acreage ^a	201	201	201	201	201	181	181	-	-	-
Water:										
Water lines (linear feet)	1,432,761	1,332,055	1,324,896	1,268,051	1,251,667	1,238,335	n/a	n/a	n/a	n/a
Storage capacity (millions of gallons) ^b	33.25	27.95	27.95	27.95	27.95	27.95	27.95	27.95	27.95	26.45
Sewer:										
Sewer lines (linear feet)	999,431	1,042,286	1,012,041	939,037	944,350	925,720	n/a	n/a	n/a	n/a
Public transportation:										
Transit buses	33	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sanitation										
Steam plant capacity (tons per day) ^c	200	200	200	100	100	100	100	100	100	100
Refuse collection trucks	6	6	6	6	6	6	6	6	6	6
Recycling collection trucks	4	4	4	4	4	4	4	4	4	4

Source: Various City of Harrisonburg departments.

Notes: Capital assets indicators are not available for the general government function and the planning and community development function. "n/a" means that the information is not available.

^aIn 2000, 181 acres from Hillandale Park were used to construct the City's golf course.

^bIn 2006, the City completed construction of a new 5.3 million gallon water tank at the water treatment plant.

^cIn 2004, the City completed a rebuild and subsequent expansion of the steam plant.

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COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Members of City Council
City of Harrisonburg, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 10, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Other matters involving internal control over financial reporting and its operation were communicated to management in a separate letter dated November 10, 2006.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as Item 06-1.

This report is intended solely for the information of management, state and federal awarding agencies, and pass-through entities and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 10, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Members of City Council
City of Harrisonburg, Virginia

Compliance

We have audited the compliance of the City of Harrisonburg, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Harrisonburg, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended for the information of management, federal awarding agencies and pass-through entities, and the Harrisonburg City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 10, 2006

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION
OF PRIOR YEAR AUDIT FINDINGS**

Honorable Members of City Council
City of Harrisonburg, Virginia

We reviewed the prior year report during the course of this audit to determine if the City of Harrisonburg, Virginia has implemented adequate corrective action with respect to previously reported audit findings. The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs, and no uncorrected or unresolved findings exist from the prior audit's Summary Schedule of Prior Audit Findings.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 10, 2006

CITY OF HARRISONBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **No reportable conditions** relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No reportable conditions** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings** relating to major programs.
7. The programs tested as major programs include:

Title I: Grants to Local Educational Agencies	84.010
Education Technology State Grants	84.318
8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

06-1. Commonwealth of Virginia: Public Depository Requirements

Condition:

We noted a certificate of deposit of the school cafeteria fund that was not deposited in a financial institution which qualified as a Virginia qualified public depository, as required by the Virginia Security for Public Deposits Act.

Recommendation:

These funds should be transferred to a qualified public depository.

Management's Response:

Management agrees with this finding and has transferred these funds to a qualified public depository.

CITY OF HARRISONBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2006

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Enhanced E-911 Service Taxes

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF HARRISONBURG, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture:		
Pass-through payments:		
Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 225,478
National School Lunch Program	10.555	788,234
Department of Agriculture and Consumer Services:		
National School Lunch Program (Commodities) (part of Child Nutrition Cluster)	10.555	83,335
Cooperative Forestry Assistance	10.664	<u>4,960</u>
Total Department of Agriculture		\$ <u>1,102,007</u>
Department of Commerce:		
Pass-through payments:		
Shenandoah Valley Pure Water 2000 Forum, Inc.:		
Habitat Conservation	11.463	<u>1,500</u>
Total Department of Commerce		\$ <u>1,500</u>
Department of Housing and Urban Development:		
Direct payments:		
Community Development Block Grants/Entitlement Grants	14.218	<u>282,718</u>
Total Department of Housing and Urban Development		\$ <u>282,718</u>
Department of Justice:		
Direct payments:		
Local Law Enforcement Block Grants Program	16.592	\$ 11,230
Community Capacity Development Office	16.595	1,411
Bulletproof Vest Partnership Program	16.607	8,698
Public Safety Partnership and Community Policing Grants	16.710	78,931
Edward Byrne Memorial Justice Assistance Grant Program	16.738	19,842
Pass-through payments:		
Department of Criminal Justice Service:		
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	<u>50,000</u>
Total Department of Justice		\$ <u>170,112</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Transportation:		
Direct payments:		
Federal Transit - Formula Grants	20.507	\$ 655,279
Pass-through payments:		
Harrisonburg-Rockingham Metropolitan Planning Organization:		
Federal Transit - Metropolitan Planning Grants	20.505	98,910
Department of Motor Vehicles:		
Highway Safety Cluster:		
Occupant Protection	20.602	15,943
Safety Incentive Grants for Use of Seatbelts	20.604	12,502
Alcohol Open Container Requirements	20.607	<u>8,699</u>
Total Department of Transportation		\$ <u>791,333</u>
Department of General Services Administration:		
Pass-through payments:		
Virginia State Board of Elections:		
Election Reform Payments	39.011	<u>25,500</u>
Total Department of General Services Administration		\$ <u>25,500</u>
Department of Education:		
Pass-through payments:		
Department of Education:		
Title I Grants to Local Educational Agencies	84.010	\$ 839,118
Vocational Education - Basic Grants to States	84.048	92,066
Safe and Drug-Free Schools and Communities - State Grants	84.186	25,669
State Grants for Innovative Programs	84.298	23,545
Education Technology State Grants	84.318	971,909
Advance Placement Program	84.330	1,300
Reading First State Grants	84.357	366,361
English Language Acquisition Grants	84.365	248,091
Improving Teacher Quality State Grants	84.367	158,421
Grants for State Assessments and Related Activities	84.369	3,465
Hurricane Education Recovery	84.938	7,920
Special Education Cluster:		
Grants to States	84.027	948,207
Preschool Grants	84.173	<u>31,791</u>
Total Department of Education		\$ <u>3,717,863</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services:		
Pass-through payments:		
Department of Education:		
Refugee and Entrant Assistance - Discretionary Grants	93.576	\$ 54,140
Virginia State Board of Elections:		
Voting Access for Individuals with Disabilities - Grants to States	93.617	<u>1,540</u>
Total Department of Health and Human Services		\$ <u>55,680</u>
Department of Homeland Security:		
Direct payments:		
State Domestic Preparedness Equipment Support Program	97.004	\$ 195,001
Assistance to Firefighters Grant	97.044	32,317
Interoperable Communications Equipment	97.055	50,000
Hurricane Katrina Assistance	HSFEEM-06-P-5441	<u>18,697</u>
Total Department of Homeland Security		\$ <u>296,015</u>
Department of Defense:		
Direct payments:		
JROTC Funds	12.VA 170853	<u>48,491</u>
Total Department of Defense		\$ <u>48,491</u>
Total expenditure of federal awards		\$ <u><u>6,491,219</u></u>

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF HARRISONBURG, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2006

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Harrisonburg, Virginia and its component unit, and is presented on the cash basis of accounting. The information contained in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

Note 2. Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed as determined by the U.S. Department of Agriculture. At June 30, 2006, the School Board, a component unit, had food commodities totaling \$28,020 in inventory.

Note 3. Subrecipients

The City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Expended</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 135,774

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