

FREDERICKSBURG, VIRGINIA

*Comprehensive
Annual
Financial
Report . . .*

*. . . for fiscal
year ended _____*

JUNE 30, 2014



CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

Prepared By:

Department of Fiscal Affairs
Clarence A. Robinson, Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

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Beverly R. Cameron
City Manager

D. Mark Whitley
Assistant City Manager



City of Fredericksburg
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Fredericksburg, VA 22404-7447
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November 25, 2014

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

The City of Fredericksburg, Virginia ("City") hereby issues the Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2014. This report complies with generally accepted accounting principles ("GAAP"), and has been audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report also complies with state law requirements that general-purpose governments, such as the City, publish within six months of the close of the fiscal year a complete set of financial statements that comply with GAAP.

This report consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework designed to both protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of these financial statements in conformity with GAAP. The cost of internal controls should not outweigh their benefits, and 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. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2014, are free from material misstatement. 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. The independent auditor concluded, based upon the audit, that there was a reasonable basis for an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing federal Single Audit engagements 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, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The City's Single Audit report is included in the Compliance Section of the CAFR.

Sections of the CAFR

The City's CAFR consists of eight clearly marked tabular sectional dividers intended to enhance the reader's efficient review of this report. The sectional dividers are as follows:

Introductory Section

The Introductory Section consists of this transmittal letter, an organizational chart, and a listing of principal officials of the City. Also included is the City's Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officer's Association ("GFOA") for the CAFR for the fiscal year ended June 30, 2013. The City will submit this report for evaluation for the Certificate by the GFOA.

Financial Section

The Financial Section consists of the Independent Auditor's Report from Robinson, Farmer, Cox Associates. In addition, the management has prepared a narrative introduction, overview, and analysis to accompany the basic financial statements. This narrative introduction is referred to as the Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to compliment the MD&A, which is found in the Financial Section immediately following the report of the independent auditors.

Basic Financial Statements

The City's Basic Financial Statements follow immediately after the Management's Discussion and Analysis, and consist of the government-wide (based on the City as a whole) and fund financial statements.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide essential information to understanding the City's financial statements. They provide information about City accounting policies, additional details on City financial statements, and details on the City's capital assets, compensated absences, and retirement and other post-employment benefits, among other information.

Required Supplementary Information

Required Supplementary Information includes required budgetary comparison schedules and a variety of additional financial schedules that are essential to understanding the City's financial position.

Other Supplementary Information

Other Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Statistical Section

The Statistical Section which follows the Other Supplementary Information contains historical data on the City's underlying financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information.

Sections of the CAFR (Continued)

Compliance Section

Finally, the Compliance Section includes the auditor's reports on the City's internal controls over financial reporting and compliance related to federal awards as well as other required information for the federal Single Audit.

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is approximately an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 28,132.

Legislative and policy-making authority are vested in the governing council, which consists of a mayor and a six-member council. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and the City Manager, the City Attorney and the Clerk of Council. The City Manager is responsible for carrying out the policies and ordinances of the governing council, and for appointing the heads of the City's departments. Council members are elected to four-year staggered terms with the mayor and two council members elected-at-large and the other four members elected by wards.

The City provides a full range of services including police and fire protection, the maintenance of streets, collection of residential refuse, court facilities, recreational activities and cultural events, and public education, among other services. The City is also a full partner in a variety of local government services that are provided on a regional basis, including the regional jail and the Central Rappahannock Regional Library. The City also operates water, sewer, and transit systems and a parking garage. The City has entered into an agreement with Spotsylvania County to purchase water from the County's Motts Run Treatment Plant. In addition, the City has an agreement with Spotsylvania County to share the responsibility for treatment of sanitary sewer.

Economic Condition and Outlook

The City's economy is based, to a large degree, on its strategic location along Interstate 95 approximately halfway between Richmond, Virginia and Washington, D.C. The City enjoys two major commercial development centers, Central Park and Celebrate Virginia South. Central Park is the primary retail and dining component of the City and houses more than 200 retailers including national big-box stores, restaurants, and smaller local businesses. Celebrate Virginia South is home to several hotels, the Fredericksburg Expo and Conference Center, and a Wegman's supermarket.

In addition to the major retail commercial development centers, the City is a center for the provision of health care services to the Fredericksburg region. The center piece of health care in the City is Mary Washington Hospital, a division of Mary Washington Healthcare. Mary Washington hospital is a 437-bed, full service hospital that provides over 45 different medical specialties. The emergency room facility at the hospital is the only Level II Trauma Center recognized by the Commonwealth of Virginia between Richmond and Fairfax County.

Economic Condition and Outlook (Continued)

The City's economy also benefits from the presence of a major higher-education institution, the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, coeducational residential university with an enrollment of approximately 4,000 undergraduate students. The university offers over 40 different majors and programs of study as well as several different Master's degree programs.

The City's nationally recognized 40-block Historic District continues to be a significant component of the local economy. The "Old Town" District, with its historical attractions, antique shops, a variety of charming restaurants, specialty retail shops and beautifully restored homes, is an attractive tourist destination. While tourism has been a mainstay of the City's economy, visionary downtown revitalization efforts in the form of various developments continue to reflect economic potential for the City. Recent investments in the historic district include the Amelia Square townhome project, currently under construction, and the recently-approved Parkview mixed-use development project. Amelia Square has 19 townhouses and 10,000 square feet of commercial space; the Parkview project has 4 apartments and 3,330 square feet designed for a bank.

The Eagle Village project, a development of the University of Mary Washington Foundation, continues to move forward. This project has transformed a 1950's era shopping center across Jefferson Davis Highway from the main University campus into a major mixed-use residential / commercial / office complex. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Another component of Phase II, a five-story Hyatt Place hotel, opened in January 2014. The hotel features 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel is located between Mary Washington Hospital and the University of Mary Washington and provides visitors a convenient lodging option to either institution.

Overall the City has experienced an economic turnaround the past few fiscal years, compared to the onset and immediate aftermath of the Great Recession. Current trends to reduce federal government spending through items such as the federal budget sequestration or reduced funding for federal contractors will bear monitoring, as they may negatively affect the overall economy of northern Virginia. However, the City's strategic location at the center of one of the fastest growing regions in the Commonwealth, coupled with strong commercial centers and stable institutional employers, provide optimism that the City's economic base can remain stable moving forward.

Major Capital Initiatives

During fiscal year 2014 the City continued to maintained its capacity to provide a high level of service to its residents in the form of major capital initiatives. The following narrative highlights the primary projects worked on during fiscal year 2014.

Major Capital Initiatives (Continued)

The most significant capital endeavor for the City is the construction of a new courthouse building and the renovation of various court facilities. The primary components of this project are the temporary relocation of the Juvenile and Domestic Relations Court to the Executive Plaza building, the construction of a new 78,000-square-foot courthouse building, which will house the Circuit Court, the General District Court and the Sheriff's Department, and the renovation of the existing General District Court building for the permanent use by the Juvenile and Domestic Relations Court. Renovation work for the Juvenile and Domestic Relations Court was completed at the Executive Plaza building during fiscal year 2012. Construction on the new courthouse has been completed and the facility was opened in August 2014. Renovation of the former General District Court building across Charlotte Street from the new courthouse is underway, and should be completed in the summer of 2015. The total cost of all three projects is approximately \$33,860,000.

Work was completed on a new state-of-the-art operations and maintenance facility for Fredericksburg Regional Transit. This project involved the construction of two new buildings, a fleet maintenance building and an operations building, as well as two bus canopies. The fleet maintenance building, designed for future expansion, if necessary, includes three interior service bays, lifts, and a separate wash bay. Natural day lighting and ventilation will allow for annual operational savings. The operations building will house operations staff including drivers, dispatchers, and supervisors. A large classroom/training room, staff lockers, and operational support spaces comprise the non-office spaces. The facility was opened in the fall of 2013 at a cost of approximately \$5,600,000.

There are two major transportation projects in various stages of completion in the Fall Hill Avenue corridor in the City. These projects will result in improved access to Mary Washington Hospital and the Central Park and Celebrate Virginia commercial centers.

The first project is the replacement of the Fall Hill Avenue bridge over the Rappahannock Canal. The new bridge replaces a bridge that was load-restricted due to its age and wear. The new bridge also adds a connection point under Fall Hill Avenue for pedestrians and cyclists between the Rappahannock Canal Path and the Heritage Trail, increasing the safety and traffic flow for both pedestrians and vehicles. The new bridge opened to traffic in October 2014 at an approximate cost of \$3,000,000.

The second project is a roadway project to widen Fall Hill Avenue between Carl D. Silver Parkway to an area just west of the new bridge over the Rappahannock Canal, including the replacement of the Fall Hill Avenue bridge over Interstate 95. A new roundabout will be constructed just west of the Rappahannock Canal, and from that area a connection will also be created between Fall Hill Avenue and Mary Washington Boulevard. The new bridge over the Interstate will include pedestrian facilities, which will greatly improve pedestrian safety in that area. The Virginia Department of Transportation will construct this project within the City, which is scheduled for completion in January 2017, and the total estimated cost is \$44,000,000.

The Fredericksburg City Public Schools completed an expansion of the Hugh Mercer Elementary School, which will provide space for increased enrollment at the K-3 Elementary School level. Six classrooms were added, at a cost of \$2,500,000. The expansion opened in September 2014.

Major Capital Initiatives (Continued)

Implementation of the City's comprehensive bicycle/foot trail plan, Fredericksburg Pathways, continued during fiscal year 2014. Fredericksburg Pathways is designed to improve the overall transportation system in and around the Fredericksburg area by developing a network of routes for bicycle and pedestrian traffic. These routes will reduce traffic congestion by providing non-motorized transportation and recreation connections between neighborhoods, shopping areas, and popular destinations. One phase of the project, the Rappahannock Heritage Trail, was completed during fiscal year 2013 at a cost of \$2,040,000 and extends 1.6 miles along the Rappahannock River past Old Mill Park.

Two sections of a second component of the trail plan, the Virginia Central Railway (VCR) Trail, were completed and opened to pedestrian and bicycle use in September 2014. The first two sections go from the trail head in the downtown area across the Blue & Gray Parkway to Jefferson Davis Highway. Phase III of the VCR trail is currently under construction, and will be completed during April 2015. Phase III will go west from Jefferson Davis Highway to a point east of I-95 near the Idlewild Subdivision. The total trail length will be 2.7 miles, and the total cost of this project is estimated at \$3,100,000.

Finally, work to replace and upgrade the City's water and sewer system continues. The City signed a comprehensive agreement for major utility line replacements and upgrades in the following areas: William Street (Sanitary Sewer); Charles Street (Sanitary Sewer); Fall Hill Avenue (Sanitary Sewer); and College Heights neighborhood (Water Line Replacements and Upgrades). The estimated cost of the work is \$4,800,000.

Key Financial Policies

Budgetary Control

The annual budget serves as the foundation for the City's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of the current fiscal year. The City's practice is that the City Manager will release a Recommended Budget to City Council at their first meeting in March. After a required public hearing on the budget is held, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable. City Council must approve all budget revisions once the appropriation ordinance has been adopted.

The annual budgets are prepared by fund and department (e.g., police). All appropriations lapse at year end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the New Court Construction Fund this comparison is presented in Exhibit 13 and Exhibit 15, respectively. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 25.

Key Financial Policies (Continued)

Fund Balance Policy

The City's adopted Financial Management Policy establishes guidelines aimed at maintaining the financial health of the City. The Financial Management Policy identifies the Unassigned General Fund balance as a source that will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The policy establishes a goal of maintaining a 12 percent Unassigned General Fund balance, but not less than 7 percent, of the actual General Fund revenues for the preceding fiscal year. The current level of Unassigned Fund Balance in the General Fund well exceeds the 12 percent target, at 24.8% of the fiscal year 2013 revenue level.

Long-Term Financial Planning

The City prepares a five-year Capital Improvement Plan annually. This plan is used as a tool to project future capital and financing needs over a five year period and seeks to maintain or enhance budgetary objectives of the City Council. The plan, adopted as part of the annual budget process, was reviewed extensively by Council at a recent policy retreat held in October 2014. The current Capital Improvements Plan calls for several major capital initiatives over the coming years. Future capital endeavors include the Fall Hill Avenue widening project, the development of a riverfront park, the construction of a new fire station, construction of a second downtown parking garage, and several water and sewer system infrastructure upgrades. Financing for these projects will be provided through a combination of bonds, grants, and local funding.

Cash Management Policies and Practices

The City and Component Unit School Board cash and cash equivalents consist of pooled cash and investments. The Component Unit Economic Development Authority maintains its own accounts which are separate from the City's pooled funds. Cash temporarily idled during the year was invested in PFM Funds and the Arbitrage and Investment Management Fund. Investment income includes appreciation in the fair value of investments. Increases in fair value, however, do not represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

The City has an adopted investment policy that establishes the investment and operation policies for the management of the public funds of the City. These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indicators.

The investment policy requires that the City's portfolio be managed to accomplish the following hierarchy of objectives: (1) preservation of principal, (2) maintenance of liquidity, and (3) maximize return. Accordingly, deposits were either insured by federal depository insurance or deposits were collateralized in accordance with the Virginia Security for Public Deposits Act.

The accomplishment of the noted investment policy objectives is entrusted to the City's Investment Committee that serves in an advisory capacity. The City Treasurer is the chairperson of the Investment Committee. An outside investment advisor meets with the Treasurer and the other committee members to assist the committee in performing its duties.

Pension and Other Post-Employment Benefits

The City and Component Unit School Board participate in the Virginia Retirement System pension plans. A description of the plans can be found in Note 11 in the Notes to Basic Financial Statements section of this report. The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. A description of the City's post-employment benefits program can be found in Note 18 in the Notes to Basic Financial Statements section of this report.

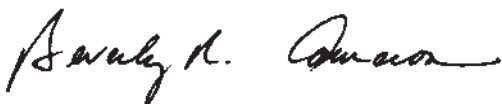
Awards and Acknowledgements

The Government Finance Officers Association (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, 2013. This was the twenty-fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

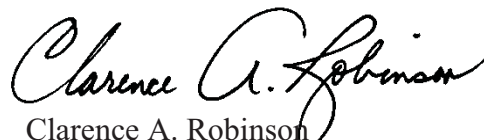
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Fiscal Affairs Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of City finances.

Sincerely,



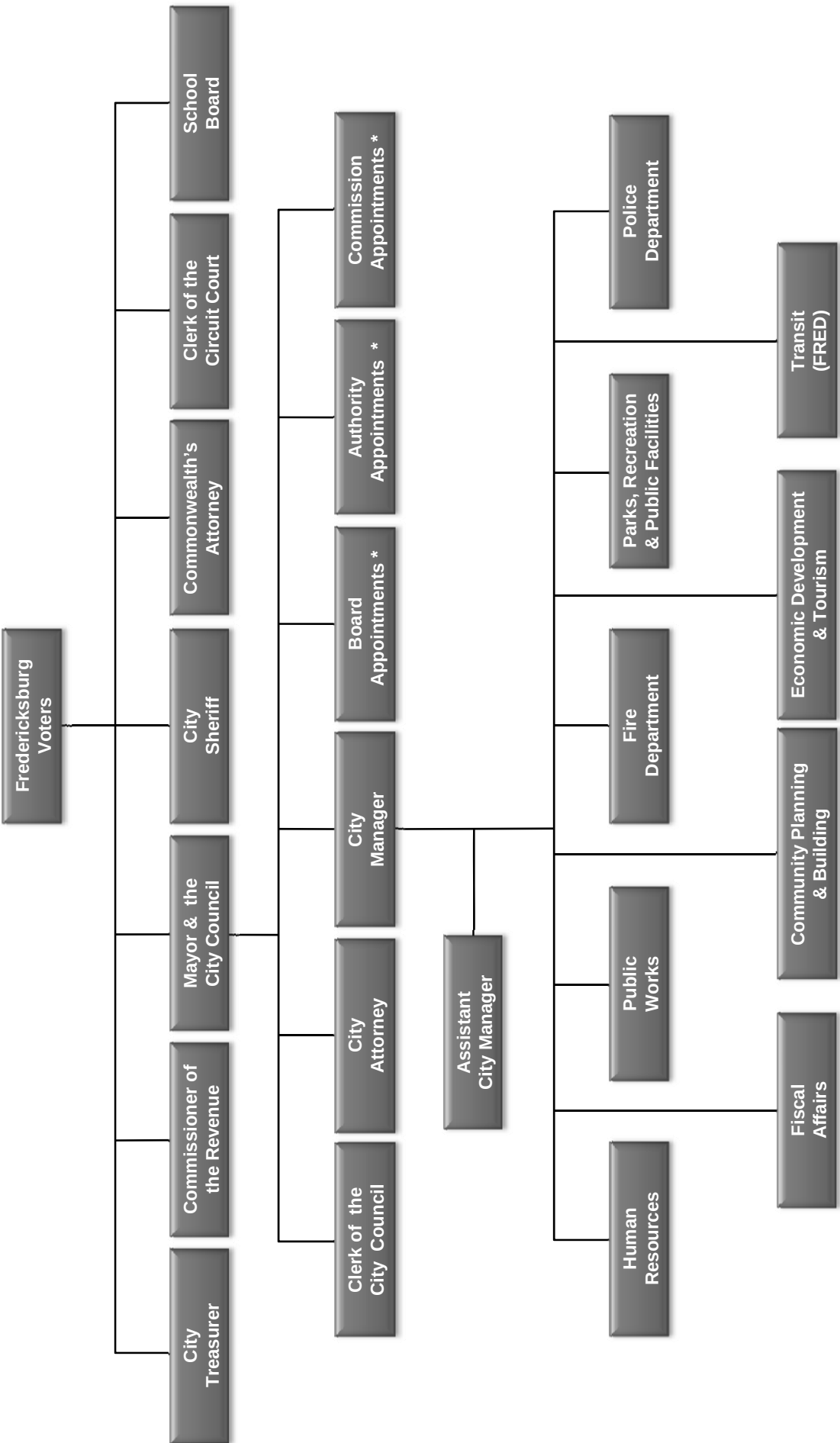
Beverly R. Cameron
City Manager



Clarence A. Robinson
Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



* The City Council appoints citizens to 37 authorities, boards and commissions

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2014

CITY COUNCIL

Mary Katherine Greenlaw Mayor, At-Large
Bradford C. Ellis..... Vice Mayor, Ward 1
Kerry P. Devine At-Large
Matthew J. Kelly At-Large
George C. Solley Ward 2
Frederic N. Howe, III Ward 3
Beatrice R. Paolucci Ward 4

CONSTITUTIONAL OFFICERS

Jeff Small Clerk of the Circuit Court
Lois B. Jacob Commissioner of the Revenue
LaBravia J. Jenkins Commonwealth Attorney
Paul W. Higgs Sheriff
Brenda A. Wood Treasurer

CITY ADMINISTRATIVE OFFICERS

Beverly R. Cameron City Manager
D. Mark Whitley Assistant City Manager
Kathleen A. Dooley City Attorney
Tonya B. Lacey Clerk of the City Council
Edwin L. Allen, Jr. Chief, Fire Department
David W. Nye Chief, Police Department
Clarence A. Robinson Director, Fiscal Affairs
Karen H. Hedelt Director, Economic Development and Tourism
Robert F. Bell, Jr. Director, Human Resources
Suzanne L. Tills Chief Information Officer, Information Technology
Robert K. Antozzi Director, Parks, Recreation and Public Facilities
Charles R. Johnston. Director, Planning and Community Development
P. Douglas Fawcett Director, Public Works
Christen C. Gallik Director, Social Services
Juanita D. Pitchford General Registrar
Wendy L. Kimball Director, Transit

SCHOOL BOARD

Malvina Rollins Kay Chairman, At-Large
Jannan W. Holmes Vice Chairperson, Ward 3
Patricia B. Green At-Large
Elizabeth Rehm Ward 1
Barbara A. Miller-Richards Ward 2
Jarvis E. Bailey At-Large

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dr. David G. Melton Superintendent

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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fredericksburg
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style with a prominent 'J' and 'E'.

Executive Director/CEO

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the City Council
City of Fredericksburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress on pages 5-17, 97-102, and 103, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fredericksburg, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters (continued)

Other Information (continued)

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of City of Fredericksburg, Virginia's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 25, 2014

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Management's Discussion and Analysis

As management of the City of Fredericksburg, Virginia (the "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, 2014. 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 i-viii of this report.

Financial Highlights

- Total net position for governmental activities was \$115,835,687 at the end of fiscal year 2014. This figure is based on assets totaling \$219,529,514 and liabilities and deferred inflows of resources of \$103,693,827. Of the total net position amount, \$30,874,128 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for business-type activities was \$65,467,573 at the end of fiscal year 2014. Of the total net position amount, \$17,779,917 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for the primary government totaled \$181,303,260. Current assets were \$84,185,975 as compared to total current liabilities of \$24,711,509. The resulting net working capital of \$59,474,466 represents a favorable liquidity position for the City.
- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was \$19,799,255, or 27.9% of total General Fund expenditures amount of \$70,924,826.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2014 unassigned General Fund balance was 24.8% of the fiscal year 2013 General Fund revenue total of \$79,804,415.
- General Fund revenues increased \$640,767 as property tax revenue increased \$595,963 or 1.7% compared to the preceding fiscal year.
- General Fund expenditures increased \$1,274,737 or 1.8% compared to fiscal year 2013. Much of the increase occurred in the services provided for public safety and public works.
- Governmental activities general obligation bond debt decreased \$3,588,507. The balance at the end of the fiscal year was \$79,781,108. Of this amount, \$37,210,000 is related to the construction of two schools and \$35,125,000 is associated with the construction and renovation of court facilities. Business-type activities associated with general obligation and revenue bonded debt decreased \$1,542,151 to a total outstanding balance of \$15,687,907.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Overview of the Financial Statements: (Continued)

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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events 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, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include a Water Fund, a Sewer Fund, a Transit Fund, and a Parking Fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate school district and a legally separate Economic Development Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 23-25 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 *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 the 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 the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Overview of the Financial Statements: (Continued)

The City maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund and the New Court Construction Fund, which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data 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 its General Fund and New Court Construction Fund. A budgetary comparison statement has been provided for each of these two funds to demonstrate budgetary compliance.

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

Proprietary funds. The City maintains two types of proprietary funds: enterprise and internal service. *Enterprise funds* are used to report the functions presented as *business-type activities* in government-wide financial statements. The City uses enterprise funds to account for its water, wastewater, transit, and parking operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its healthcare activities. These services have been included within *governmental activities* in the government-wide financial statements as they predominantly benefit governmental rather than business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail. The proprietary fund financial statements provide separate information for the water, wastewater, transit, parking, and health insurance activities.

The proprietary funds' financial statements can be found on pages 33-35 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 statement 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 pages 36 and 37 of this report.

Notes to the 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 the financial statements can be found on pages 41-93 of this report.

Government-wide Financial Analysis

Statement of Net Position:

Under GASB 34, governmental entities are required to report on their net position. The Statement of Net Position presents the value of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets exceeded liabilities by \$181,303,260 at the close of fiscal year 2014.

A large portion of the City's net position, \$132,649,215 or 73.2%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire these assets. 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from

Government-wide Financial Analysis: (Continued)

Statement of Net Position: (Continued)

other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The \$48,654,045 balance of *unrestricted net position* may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities and component units.

The following table presents the condensed Statement of Net Position:

TABLE 1 Summary of Net Position As of June 30, 2014 (in millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 14	FY 13	FY 14	FY 13	FY 14	FY 13	FY 14	FY 13
Assets:								
Current and other assets	\$ 60.75	\$ 76.39	\$ 23.43	\$ 22.14	\$ 84.18	\$ 98.53	\$ 9.54	\$ 12.54
Capital assets	158.78	140.63	63.63	62.32	222.41	202.95	23.49	19.42
Total assets	\$ 219.53	\$ 217.02	\$ 87.06	\$ 84.46	\$ 306.59	\$ 301.48	\$ 33.03	\$ 31.96
Liabilities:								
Current and other liabilities	\$ 18.50	\$ 13.65	\$ 6.21	\$ 6.54	\$ 24.71	\$ 20.19	\$ 5.11	\$ 5.00
Long-term liabilities	84.60	89.04	15.38	16.41	99.98	105.45	5.34	5.33
Total Liabilities	\$ 103.10	\$ 102.69	\$ 21.59	\$ 22.95	\$ 124.69	\$ 125.64	\$ 10.45	\$ 10.33
Deferred Inflows of Resources:								
Unavailable revenue - property taxes	\$ 0.60	\$ 1.83	\$ -	\$ -	\$ 0.60	\$ 1.83	\$ -	\$ -
Net assets:								
Net invested in capital assets	\$ 84.96	\$ 81.36	\$ 47.69	\$ 44.81	\$ 132.65	\$ 126.17	\$ 19.89	\$ 17.51
Unrestricted	30.87	31.14	17.78	16.70	48.65	47.84	2.69	4.12
Total net position	\$ 115.83	\$ 112.50	\$ 65.47	\$ 61.51	\$ 181.30	\$ 174.01	\$ 22.58	\$ 21.63

(1) Includes both the School Board and the Economic Development Authority (EDA). The discussion below relates only to the School Board operations. EDA amounts are minimal and shown in the financial statements (Exhibit 1).

Government-wide Financial Analysis: (Continued)

Changes in Net Position:

Governmental Activities

Generally, net position changes are the result of the difference between revenues and expenses. During fiscal year 2014 net position of the governmental activities increased to \$115,835,687 as total revenues outpaced total expenses by \$3,322,056. Governmental activities revenues increased \$4,006,085 or 4.5% during fiscal year 2014 with the largest increase occurring with grants and contributions where the City received additional funding of \$917,594 related to various infrastructure and trail projects and a \$1,703,739 debt service credit related to the refunding of 2004A General Obligation School Bonds. Another notable increase to revenue was a donation made to the City of three parcels of land totaling 28.12 acres, valued at \$703,100.

The total governmental expenses of the City increased \$2,124,559 or 2.4% during the fiscal year. Education continues to be the City's largest program, with education expenses totaling \$28,797,870. Increased capital and operational needs for the City's school system continues to grow as a direct result of the City's expanding population and the relative increase in student enrollment. City services provided for public safety and public works continue to be high priority areas for the City as expenses in these programs increased \$1,044,520 and \$1,097,276, respectively.

Business-type Activities

The net position of the business-type activities increased \$3,952,586 to a total net position of \$65,467,573. Much of this increase took place in the Transit Fund as the City received \$2,307,225 of federal and state capital grants for the construction of a new training and maintenance facility and the replacement of buses.

The water and wastewater operations experienced operating income of \$125,384 and \$542,797, respectively. In response to rising costs for operations and maintenance and the need for extensive capital improvements, the City increased water and sewer consumption rates 4.13% and 2.94%, respectively, for fiscal year 2014. These increases produced the anticipated results and water fees increased 5.2% while revenue from sewer fees increased 7.3%.

Operating expenses in the Water Fund decreased 8.1% as the City's share of operating costs associated with the Spotsylvania County-owned Motts Run regional water treatment plant decreased approximately \$231,000 during fiscal year 2014. The Sewer Fund's operating expenses showed a slight increase of \$47,488 as compared to fiscal year 2013.

Availability and connections fees increased during fiscal year 2014 as a result of the construction of several housing units. After experiencing a significant reduction in availability and connection fee revenues in the prior fiscal year, these fees increased \$118,647 in the Water Fund and \$227,558 in the Sewer Fund. The increase in these fees, coupled with the income from operations, resulted in the net position of the water and sewer operations increasing \$414,311 and \$456,313, respectively.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Component Units

The net position of the School Board was \$21,499,976. Capital assets, net of related debt, comprised the majority of this amount.

The following table shows the revenues and expenses of the governmental activities, the business-type activities, and the component units:

TABLE 2 Changes in Net Position For the Fiscal Year ended June 30, 2014 (in millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 14	FY 13	FY 14	FY 13	FY 14	FY 13	FY 14	FY 13
Revenues:								
Program Revenues:								
Charges for services	\$ 3.48	\$ 3.54	\$ 8.44	\$ 7.87	\$ 11.92	\$ 11.41	\$ 0.70	\$ 0.83
Operating grants and contributions	9.98	9.68	4.78	3.52	14.76	13.20	42.79	42.83
Capital grants and contributions	4.59	2.97	2.31	4.40	6.90	7.37	-	-
General Revenues:								
Property taxes	35.25	34.60	-	-	35.25	34.60	-	-
Other local taxes	32.89	32.41	0.96	0.90	33.85	33.31	-	-
Grants not restricted	5.56	4.70	-	-	5.56	4.70	-	-
Use of property	0.12	0.11	-	-	0.12	0.11	-	-
Investment earnings	0.34	0.24	0.07	0.03	0.41	0.27	0.02	0.02
Miscellaneous	0.29	0.24	0.52	0.44	0.81	0.68	0.21	0.42
Total Revenues	\$ 92.50	\$ 88.49	\$ 17.08	\$ 17.16	\$ 109.58	\$ 105.65	\$ 43.72	\$ 44.10
Expenses:								
General government	\$ 6.40	\$ 6.89	\$ -	\$ -	\$ 6.40	\$ 6.89	\$ -	\$ -
Judicial administration	4.39	4.34	-	-	4.39	4.34	-	-
Public safety	20.62	19.58	-	-	20.62	19.58	-	-
Public works	12.68	11.58	-	-	12.68	11.58	-	-
Health and welfare	6.59	6.43	-	-	6.59	6.43	-	-
Education	28.80	28.63	-	-	28.80	28.63	42.59	41.34
Parks, recreation, and cultural	4.77	4.55	-	-	4.77	4.55	-	-
Community development	2.19	2.17	-	-	2.19	2.17	0.18	0.27
Interest	3.34	3.49	-	-	3.34	3.49	-	-
Water	-	-	2.75	3.00	2.75	3.00	-	-
Sewer	-	-	4.87	4.87	4.87	4.87	-	-
Transit	-	-	4.44	4.16	4.44	4.16	-	-
Parking	-	-	0.47	0.46	0.47	0.46	-	-
Total Expenses	\$ 89.78	\$ 87.66	\$ 12.53	\$ 12.49	\$ 102.31	\$ 100.15	\$ 42.77	\$ 41.61
Excess (deficiency) of revenues over expenses before transfers	\$ 2.72	\$ 0.83	\$ 4.55	\$ 4.67	\$ 7.27	\$ 5.50	\$ 0.95	\$ 2.49
Transfers	0.60	0.62	(0.60)	(0.62)	-	-	-	-
Change in net position	\$ 3.32	\$ 1.45	\$ 3.95	\$ 4.05	\$ 7.27	\$ 5.50	\$ 0.95	\$ 2.49

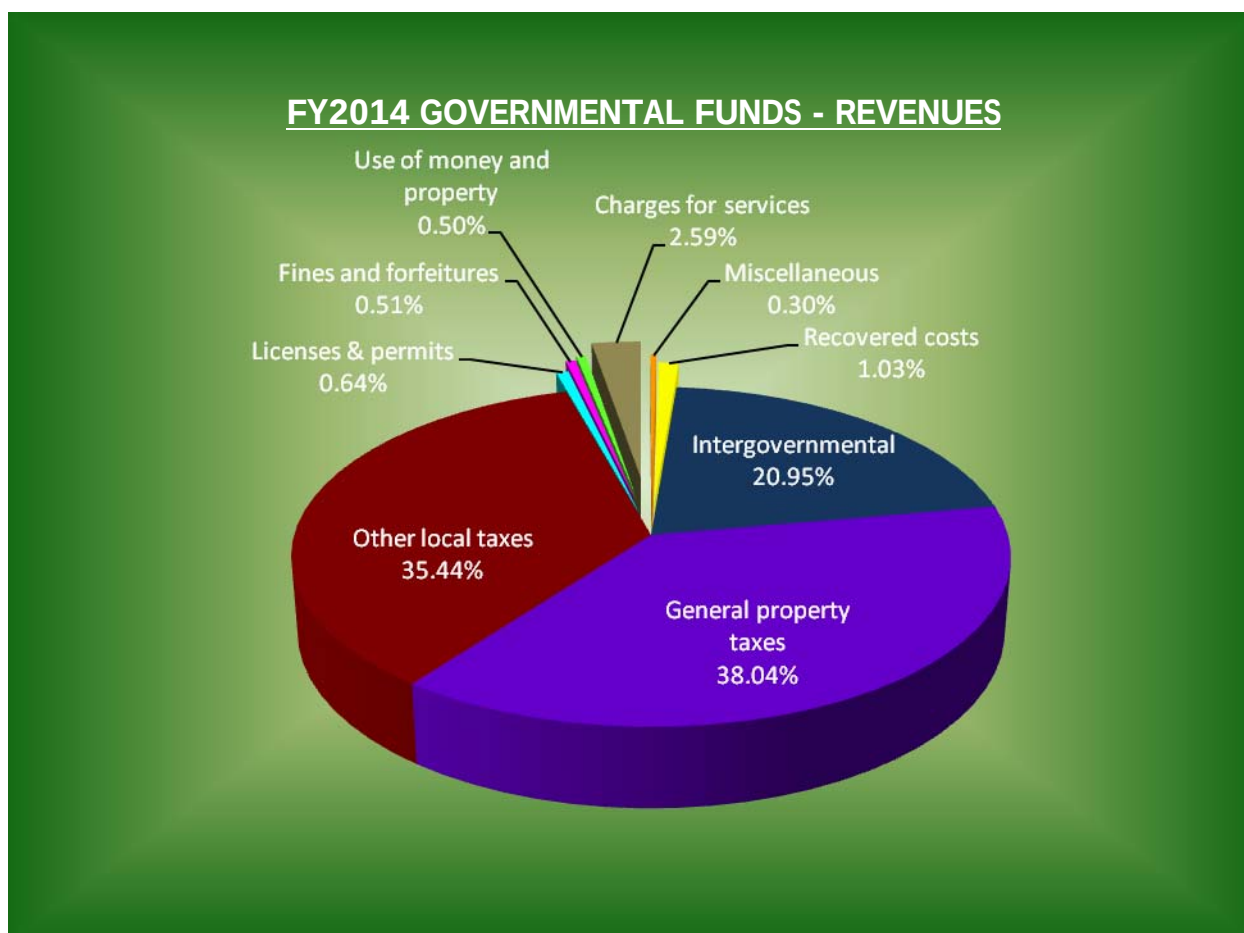
Financial Analysis of the City's Governmental Funds

The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2014 and 2013 is presented below:

TABLE 3				
<u>Governmental Funds - Revenues</u>				
	<u>FY 2014</u>	<u>FY 2013</u>	<u>Percentage of Total Revenues FY 2014</u>	<u>Increase (Decrease) from FY 2013</u>
General property taxes	\$ 35,293,983	\$ 34,698,020	38.04%	\$ 595,963
Other local taxes	32,888,698	32,407,959	35.44%	480,739
Licenses and permits	598,444	676,892	0.64%	(78,448)
Fines and forfeitures	477,161	603,398	0.51%	(126,237)
Use of money and property	462,109	348,295	0.50%	113,814
Charges for services	2,401,073	2,265,931	2.59%	135,142
Miscellaneous	274,258	214,655	0.30%	59,603
Recovered costs	959,739	1,087,070	1.03%	(127,331)
Intergovernmental	19,435,742	17,337,302	20.95%	2,098,440
Totals	\$ 92,791,207	\$ 89,639,522	100.00%	\$ 3,151,685



Financial Analysis of the City's Governmental Funds: (Continued)

Revenues: (Continued)

The City's total revenues from governmental activities were \$92,791,207 in fiscal year 2014, an increase of \$3,151,685 as compared to fiscal year 2013. Much of the increase was to intergovernmental revenue, particularly in the Public Works and Public Facilities capital funds and the Education Debt Service Fund. Intergovernmental revenue increased \$917,594 in the capital projects funds as significant work was completed on several Virginia Department of Transportation Revenue Sharing projects. During fiscal year 2014 the City received a one-time \$1,703,739 debt service credit related to the 2004A General Obligation School Bonds. The City elected to allocate this credit, over the remaining duration of the 2004A bond issue, to offset future debt service costs to be accounted for in the Education Debt Service Fund.

General property tax revenue increased \$595,963 during the fiscal year due to growth in the property tax base.

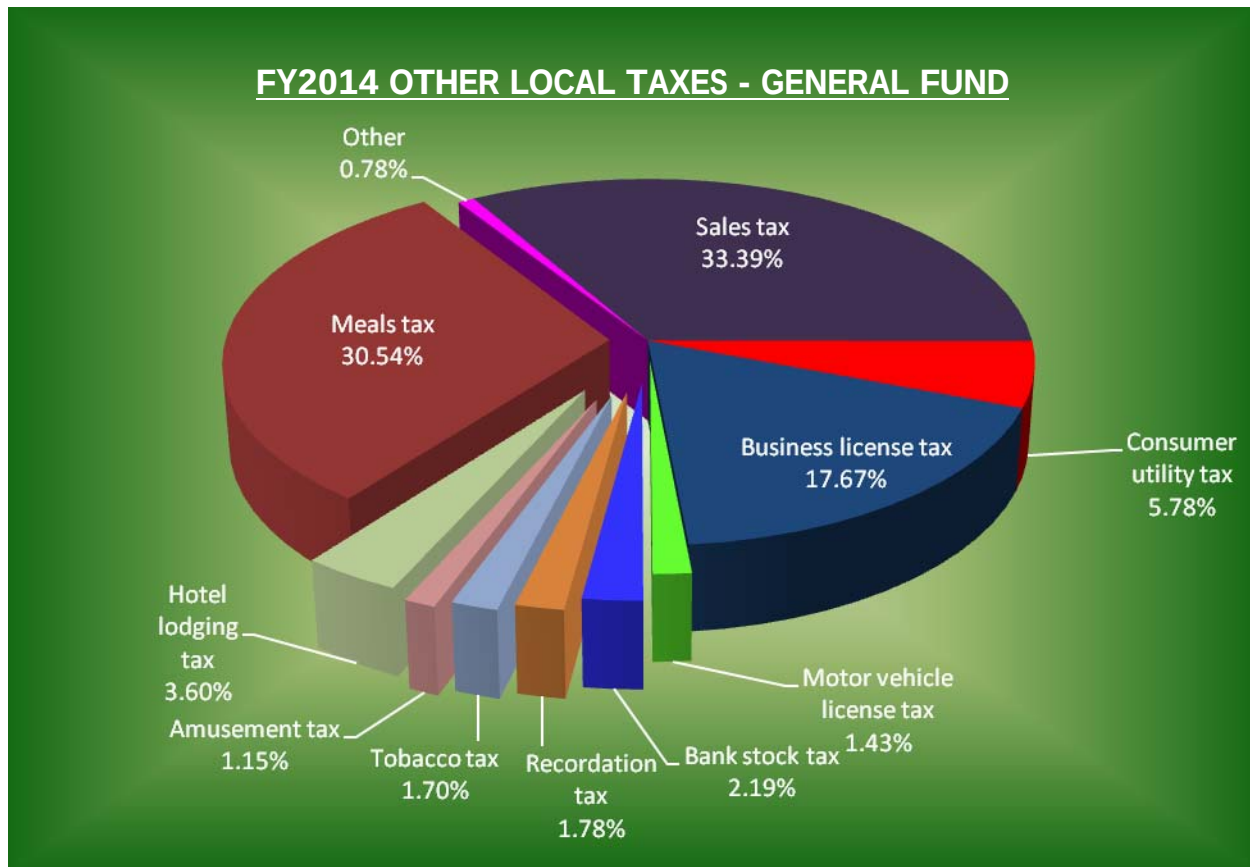
Other local tax revenue in the governmental funds experienced a slight increase of \$480,739 in fiscal year 2014. The majority of this increase took place in the Public Works Capital Fund as additional gas tax revenue was used to fund infrastructure improvement projects. Generally, most of the local tax revenue sources, primarily accounted for in the General Fund, remained relatively stable.

The following table reflects other local tax revenue for the General Fund for fiscal years 2014 and 2013:

TABLE 4 <u>Other Local Taxes - General Fund</u>				
	<u>FY 2014</u>	<u>FY 2013</u>	<u>Percentage of Total Revenues FY 2014</u>	<u>Increase (Decrease) from FY 2013</u>
Sales and use tax	\$ 10,663,183	\$ 10,840,598	33.39%	\$ (177,415)
Consumer utility tax	1,844,379	1,795,046	5.78%	49,333
Business license tax	5,641,614	5,994,920	17.67%	(353,306)
Motor vehicle license tax	455,246	450,126	1.43%	5,120
Bank stock tax	700,378	657,687	2.19%	42,691
Recordation tax	567,244	408,981	1.78%	158,263
Tobacco tax	543,916	442,569	1.70%	101,347
Amusement tax	367,554	349,301	1.15%	18,253
Hotel lodging tax	1,149,906	1,204,855	3.60%	(54,949)
Meals tax	9,752,120	9,657,796	30.54%	94,324
Other	248,158	242,983	0.77%	5,175
Totals	\$ 31,933,698	\$ 32,044,862	100.00%	\$ (111,164)

Financial Analysis of the City's Governmental Funds: (Continued)

Revenues: (Continued)



Sales tax, business license tax, and lodging tax are three major revenue sources which showed a slight decline during fiscal year 2014. The most significant decrease was in business license tax revenue which declined \$353,306. The growth in meals tax has trended to a more consistent rate after experiencing rapid growth in previous years.

Expenditures:

Expenditures for governmental funds in fiscal year 2014 totaled \$110,820,732, an increase of \$16,980,893 or 18.1% from the preceding fiscal year. This increase reflects the continuation of a trend to increase expenditures in response to revenue streams that are either growing or stabilizing from the national economic downturn experienced a few years ago. In recent years the City has been able to increase the investment in schools, pay increased debt service obligations, increase pay-as-you-go funding for capital projects, and meet other operating needs.

The most significant increase in expenditures was in capital projects and debt service, which increased \$14,884,240 and \$681,633, respectively. The increase in capital project spending took place primarily in the Public Works and New Court Construction capital funds, which experienced expenditure increases of \$1,768,100 and \$13,016,918, respectively. The City spent \$2,141,398 during the fiscal year dedicated to the completion of the Fall Hill Avenue bridge over the Rappahannock Canal and \$1,609,957 to repave or reconstruct various streets as part of a continued resurgence of the annual pavement rehabilitation program. During fiscal year 2014 \$18,137,768 was invested in the completion of the City's new courthouse building.

The expenditure activity in the Public Facilities Capital Fund remained generally unchanged as compared to the previous fiscal year; however, expenditure activity remained robust as \$2,222,661 was spent towards the completion of the Virginia Central Railway Trail.

Financial Analysis of the City's Governmental Funds: (Continued)

Expenditures: (Continued)

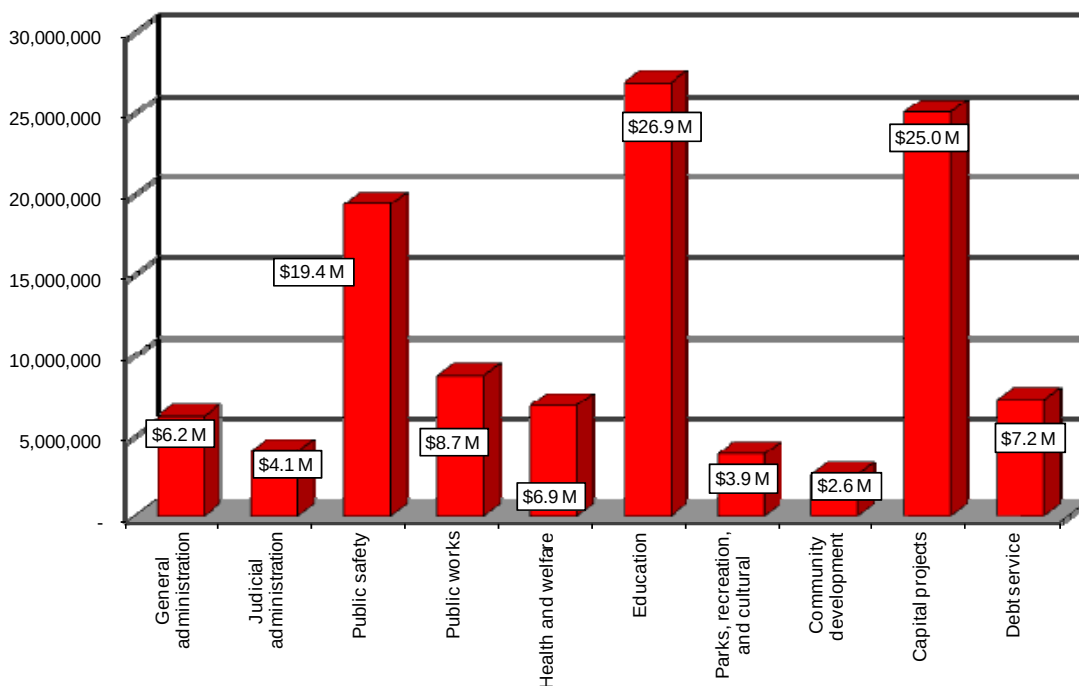
Debt Service expenditures increased \$681,633 for fiscal year 2014. Although the City enjoyed a decrease in debt service on most of its long-term obligations, fiscal year 2014 was the first year of both principal and interest payments related to the 2011A General Obligation Bonds, issued in December 2012. The total governmental portion of debt service on the 2011A bonds was \$2,782,767 in fiscal year 2014 as compared to \$1,481,881 for fiscal year 2013.

Excluding the increases in capital projects and debt service, the expenditure increases in the other functional areas, particularly in the General Fund, were related to greater personnel costs associated with a 2.0% cost-of-living salary increase and higher costs for retirement and health insurance benefits.

TABLE 5
Governmental Funds - Expenditures

	FY 2014	FY 2013	Percentage of Total Expenditures FY 2014	Increase (Decrease) from FY 2013
General administration	\$ 6,178,075	\$ 6,669,886	5.57%	\$ (491,811)
Judicial administration	4,058,896	3,872,721	3.66%	186,175
Public safety	19,354,308	18,838,158	17.46%	516,150
Public works	8,719,453	8,134,695	7.87%	584,758
Health and welfare	6,878,616	6,692,144	6.21%	186,472
Education	26,853,825	26,663,850	24.23%	189,975
Parks, recreation, and cultural	3,883,740	3,755,802	3.50%	127,938
Community development	2,602,400	2,487,037	2.35%	115,363
Capital projects	25,044,316	10,160,076	22.61%	14,884,240
Debt service	7,247,103	6,565,470	6.54%	681,633
Totals	\$ 110,820,732	\$ 93,839,839	100.00%	\$ 16,980,893

FY 2014 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2014, the City Council amended the City budget. These budget changes included various budget adjustments for:

- Amendments and appropriations approved after the beginning of the year to reflect prior year encumbrances that must be re-authorized for expenditure in the new budget year.
- Increases in appropriations for budget items occurring during the year that were not part of the original budget.

Total final General Fund budgeted expenditures increased \$640,431 for fiscal year 2014. Total final General Fund budgeted revenues increased \$3,575,780 for fiscal year 2014.

Actual General Fund expenditures were \$70,924,826 versus the final budgeted expenditures totaling \$71,823,121. This resulted in a favorable variance of \$898,295. All functional areas had a favorable variance, with general government administration and public safety experiencing the most significant variance of \$236,374 and \$200,187, respectively.

Actual General Fund revenues were \$80,445,182 compared to final budgeted revenues totaling \$79,094,004. This resulted in a favorable variance of \$1,351,178. General property taxes and other local taxes experienced the most significant favorable variances of \$421,253 and \$647,647, respectively.

Capital Asset and Debt Administration

Capital Assets. The following is a table that summarizes the City's change in governmental Capital Assets:

TABLE 6 <u>Change in Capital Assets</u> <u>City Governmental Funds</u>			
	Balance June 30, 2013	Net Additions/ Deletions	Balance June 30, 2014
Capital assets not being depreciated:			
Land	\$ 20,466,035	\$ 786,300	\$ 21,252,335
Construction in progress	9,748,352	22,417,330	32,165,682
Other capital assets:			
Land improvements	11,852,593	74,409	11,927,002
Buildings and building improvements	32,458,041	62,019	32,520,060
Joint tenancy assets	38,680,000	(1,470,000)	37,210,000
Machinery, equipment, and vehicles	16,593,329	629,055	17,222,384
Infrastructure	74,810,558	1,156,858	75,967,416
Accumulated depreciation	(63,983,119)	(5,506,719)	(69,489,838)
Totals	\$ 140,625,789	\$ 18,149,252	\$ 158,775,041

Capital Asset and Debt Administration: (Continued)

Capital Assets: (Continued)

The net increase in capital assets during the fiscal year was \$18,149,252. The increase in revenues in the General Fund and the capital projects funds during the past few fiscal years has provided the City an opportunity to address equipment replacements and improvements to infrastructure and buildings. Some of the more notable increases in capital assets were \$18,131,768 of construction costs related to the new courthouse building, \$2,222,661 associated with the completion of the Central Virginia Railway Trail, and \$1,397,703 dedicated to the annual pavement rehabilitation program.

Additional information regarding capital assets is presented in the Notes to Financial Statements section of this report (Note 7).

Long-term Debt

The City is authorized to issue general obligation bonds to finance general capital improvement projects. These bonds are secured by a pledge of the City's full faith and credit. The City is currently rated AA+ by Fitch Investors Services, Aa2 by Moody's Investors Services and AA by Standard and Poor's Investor Services. In September 2014 the City received notification from Standard and Poor's Rating Services that the City's credit rating had been upgraded from AA to AA+ with the affirmation of a stable outlook.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2014 the City's outstanding long-term indebtedness amount totaled \$96,194,015. After an adjustment to reflect the reserve of \$2,462,142 for the 2004A General Obligation School Bonds, the remaining long-term debt of \$93,731,873 is far below the legal debt limit of \$215,659,654.

The table below shows a summary of the City's long-term debt outstanding for fiscal years 2014 and 2013:

TABLE 7						
Long Term Debt						
As of June 30, 2014						
	Governmental Activities		Business-type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
General obligation bonds	\$ 42,571,108	\$ 44,689,615	\$ 15,687,907	\$ 16,684,399	\$ 58,259,015	\$ 61,374,014
General obligation school bonds	37,210,000	38,680,000	-	-	37,210,000	38,680,000
Revenue Bonds	-	-	-	545,659	-	545,659
Note Payable	725,000	725,000	-	-	725,000	725,000
Total long-term debt	\$ 80,506,108	\$ 84,094,615	\$ 15,687,907	\$ 17,230,058	\$ 96,194,015	\$ 101,324,673

Additional information regarding long-term debt is presented in the Notes to Financial Statements section of this report (Note 9).

Economic Factors

The City government continues to maintain a stable financial condition as reflected by the financial statements and schedules in this report. Through fiscally responsible budget oversight, cost containment monitoring, and a stable economic base, the City has continued to expand services to its citizens while accumulating healthy General Fund reserves. The City's economy has stabilized since the economic downturn in 2008 as reflected in the moderate upward trending of various local revenue sources. The City's strategic location at the center of one of the fastest growing regions in the Commonwealth, coupled with its established and expanding commercial centers, has provided the City stable economic traction moving forward.

The University of Mary Washington Foundation's Eagle Village development project is an example of a successful revitalization effort including the adaptive reuse of a 1950's era shopping center. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Another component of Phase II, a five-story Hyatt Place hotel, opened in January 2014. The hotel features 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel is located between Mary Washington Hospital and the University of Mary Washington and provides visitors a convenient lodging option within the Route One corridor.

The City's nationally recognized 40-block Historic District continues to provide significant contributions to the local economy. The "Old Town" District, with its historical attractions, antique shops, a variety of charming restaurants, specialty retail shops and beautifully restored homes, is an attractive tourist destination. While tourism has been a mainstay of the City's economy, visionary downtown revitalization efforts in the form of various mixed-use development projects will continue to provide the source for additional potential economic growth for the City.

Requests for Information

This financial report is designed to provide a general overview of the City of Fredericksburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Fiscal Affairs, P.O. Box 7447, Fredericksburg, Virginia, 22401 or visit our website at www.fredericksburgva.gov.

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BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Position

At June 30, 2014

	Component Units				
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority
Assets:					
Cash and cash equivalents	\$ 49,712,422	\$ 18,525,109	\$ 68,237,531	\$ 6,763,038	\$ 366,712
Receivables, net of allowance for uncollectibles	1,229,099	1,536,850	2,765,949	-	-
Notes receivable	-	-	-	-	725,000
Due from other governments	6,625,235	2,435,936	9,061,171	1,551,077	-
Inventory, at cost	26,444	279,262	305,706	-	-
Prepaid items	458,781	16,587	475,368	135,422	-
Investment in joint venture	2,702,492	-	2,702,492	-	-
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	637,758	637,758	-	-
Capital assets:					
Land, construction in progress and other	53,418,017	4,107,715	57,525,732	2,777,960	-
Other capital assets, net of accumulated depreciation	105,357,024	59,519,401	164,876,425	20,711,654	-
Capital assets, net	\$ 158,775,041	\$ 63,627,116	\$ 222,402,157	\$ 23,489,614	\$ -
Total assets	\$ 219,529,514	\$ 87,058,618	\$ 306,588,132	\$ 31,939,151	\$ 1,091,712
Liabilities:					
Accounts payable	\$ 5,121,489	\$ 2,157,729	\$ 7,279,218	\$ 737,365	\$ 8,233
Accrued liabilities	4,514,562	338,060	4,852,622	3,606,622	-
Unearned revenue	311,468	1,886,914	2,198,382	-	-
Claims payable	526,131	-	526,131	-	-
Amounts held for others	1,449,905	-	1,449,905	-	-
Liabilities payable from restricted assets	-	637,758	637,758	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,918,884	126,942	2,045,826	576,552	-
Note payable	725,000	-	725,000	-	-
General obligation bonds	3,937,757	1,058,910	4,996,667	-	-
Capital lease	-	-	-	181,000	-
Due in more than one year:					
Compensated absences	1,176,089	71,016	1,247,105	532,201	-
Net OPEB obligation	4,606,470	433,166	5,039,636	1,388,435	-
General obligation bonds	78,172,953	14,880,550	93,053,503	-	-
Capital lease	-	-	-	3,417,000	-
Accrued landfill post-closure costs	640,717	-	640,717	-	-
Total liabilities	\$ 103,101,425	\$ 21,591,045	\$ 124,692,470	\$ 10,439,175	\$ 8,233
Deferred Inflows of Resources:					
Deferred revenue - property taxes	\$ 592,402	\$ -	\$ 592,402	\$ -	\$ -
Net Position:					
Net investment in capital assets	\$ 84,961,559	\$ 47,687,656	\$ 132,649,215	\$ 19,891,614	\$ -
Unrestricted	30,874,128	17,779,917	48,654,045	1,608,362	1,083,479
Total net position	\$ 115,835,687	\$ 65,467,573	\$ 181,303,260	\$ 21,499,976	\$ 1,083,479

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	\$ 6,397,126	\$ 109,152	\$ 273,026	\$ -
Judicial administration	4,392,902	204,046	894,253	-
Public safety	20,623,797	1,862,973	1,900,733	222,082
Public works	12,681,384	828,049	2,536,983	3,464,120
Health and welfare	6,594,938	-	4,375,593	-
Education	28,797,870	-	-	-
Parks, recreation and cultural	4,765,119	471,289	5,000	703,100
Community development	2,186,948	1,169	-	206,021
Interest on long-term debt	3,343,630	-	-	-
Total governmental activities	\$ 89,783,714	\$ 3,476,678	\$ 9,985,588	\$ 4,595,323
Business-type activities				
Water	\$ 2,751,523	\$ 2,829,872	\$ 392,902	\$ -
Sewer	4,874,582	4,857,512	691,297	-
Transit	4,437,179	423,081	3,700,199	2,307,225
Parking	470,905	328,385	-	-
Total business-type activities	\$ 12,534,189	\$ 8,438,850	\$ 4,784,398	\$ 2,307,225
Total Primary Government	\$ 102,317,903	\$ 11,915,528	\$ 14,769,986	\$ 6,902,548
Component Units				
Fredericksburg City Public Schools	\$ 42,587,316	\$ 548,221	\$ 14,941,660	\$ -
Fredericksburg Economic Development Authority	181,402	148,982	-	-
Total Component Units	\$ 42,768,718	\$ 697,203	\$ 14,941,660	\$ -

General Revenues

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumer utility taxes

Business license taxes

Hotel/lodging taxes

Meals taxes

Other local taxes

Payment from City of Fredericksburg:

Education

Grants and contributions not restricted to specific programs

Use of property

Interest and investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as restated

Net position, end of year

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
\$ (6,014,948)	\$ -	\$ (6,014,948)	\$ -	
(3,294,603)	-	(3,294,603)	-	
(16,638,009)	-	(16,638,009)	-	
(5,852,232)	-	(5,852,232)	-	
(2,219,345)	-	(2,219,345)	-	
(28,797,870)	-	(28,797,870)	-	
(3,585,730)	-	(3,585,730)	-	
(1,979,758)	-	(1,979,758)	-	
(3,343,630)	-	(3,343,630)	-	
<u>\$ (71,726,125)</u>	<u>\$ -</u>	<u>\$ (71,726,125)</u>	<u>\$ -</u>	
\$ -	\$ 471,251	\$ 471,251	\$ -	
-	674,227	674,227	-	
-	1,993,326	1,993,326	-	
-	(142,520)	(142,520)	-	
<u>\$ -</u>	<u>\$ 2,996,284</u>	<u>\$ 2,996,284</u>	<u>\$ -</u>	
<u>\$ (71,726,125)</u>	<u>\$ 2,996,284</u>	<u>\$ (68,729,841)</u>	<u>\$ -</u>	
			\$ (27,097,435)	
			(32,420)	
			<u>\$ (27,129,855)</u>	
\$ 35,247,134	\$ -	\$ 35,247,134	\$ -	
10,663,183	-	10,663,183	-	
1,844,379	-	1,844,379	-	
5,641,614	-	5,641,614	-	
1,149,906	-	1,149,906	-	
9,752,120	-	9,752,120	-	
3,837,496	961,084	4,798,580	-	
-	-	-	27,844,039	
5,557,931	-	5,557,931	-	
122,764	-	122,764	-	
339,345	70,392	409,737	22,869	
287,916	529,219	817,135	216,072	
604,393	(604,393)	-	-	
<u>\$ 75,048,181</u>	<u>\$ 956,302</u>	<u>\$ 76,004,483</u>	<u>\$ 28,082,980</u>	
\$ 3,322,056	\$ 3,952,586	\$ 7,274,642	\$ 953,125	
112,513,631	61,514,987	174,028,618	21,630,330	
<u>\$ 115,835,687</u>	<u>\$ 65,467,573</u>	<u>\$ 181,303,260</u>	<u>\$ 22,583,455</u>	

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Fund Financial Statements

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Balance Sheet
Governmental Funds
At June 30, 2014

	<u>General</u>	<u>New Court Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 27,525,713	\$ 12,593,005	\$ 9,453,322	\$ 49,572,040
Receivables (net of allowances for uncollectibles):				
Property taxes	685,215	-	-	685,215
Accounts	104,491	-	-	104,491
Accrued revenue	347,928	138	91,327	439,393
Inventory, at cost	26,444	-	-	26,444
Prepaid items	454,212	-	4,569	458,781
Due from other governments	2,957,451	-	3,667,784	6,625,235
Total assets	\$ 32,101,454	\$ 12,593,143	\$ 13,217,002	\$ 57,911,599
Liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 35,736	\$ 35,736
Accounts payable	800,263	2,384,757	1,936,469	5,121,489
Accrued liabilities	1,469,216	1,096,407	336,880	2,902,503
Amounts held for others	1,449,905	-	-	1,449,905
Unearned revenue	92,477	-	218,991	311,468
Total liabilities	\$ 3,811,861	\$ 3,481,164	\$ 2,528,076	\$ 9,821,101
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	\$ 1,004,488	\$ -	\$ -	\$ 1,004,488
Fund Balances:				
Nonspendable	\$ 480,656	\$ -	\$ 4,569	\$ 485,225
Restricted	-	-	336,280	336,280
Committed	6,236,045	7,580,482	6,095,493	19,912,020
Assigned	769,149	1,531,497	4,252,584	6,553,230
Unassigned	19,799,255	-	-	19,799,255
Total fund balances	\$ 27,285,105	\$ 9,111,979	\$ 10,688,926	\$ 47,086,010
Total liabilities, deferred inflows of resources and fund balances	\$ 32,101,454	\$ 12,593,143	\$ 13,217,002	\$ 57,911,599

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2014

Total fund balances for governmental funds (Exhibit 3)	\$ 47,086,010
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$ 21,252,335	
Construction in progress	32,165,682	
Land improvements, net of accumulated depreciation	9,197,531	
Buildings and improvements, net of accumulated depreciation	19,892,531	
Joint tenancy assets, net of accumulated depreciation	31,393,897	
Infrastructure, net of accumulated depreciation	38,188,383	
Machinery, vehicles, and equipment, net of accumulated depreciation	<u>6,684,682</u>	
 Total capital assets		 158,775,041

Internal service funds are used by the City to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.	(350,013)
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Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Investment in joint venture	2,702,492
-----------------------------	-----------

Some of the City's property and other taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures and, therefore, are reported as deferred revenue in the funds.	412,086
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:

Accrued interest on debt	\$ (1,612,059)	
Bonds and notes payable	(80,506,108)	
Premium on long-term debt, net of accumulated amortization	(2,329,602)	
Landfill post-closure costs	<u>(640,717)</u>	(85,088,486)

Compensated absences not reported as fund liabilities	(3,094,973)
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Net OPEB obligation not reported as fund liabilities	<u>(4,606,470)</u>
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Total net position of governmental activities (Exhibits 1 and 2)	\$ <u>115,835,687</u>
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The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2014

	General Fund	New Court Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 35,293,983	\$ -	\$ -	\$ 35,293,983
Other local taxes	31,933,698	-	955,000	32,888,698
Permits, privilege fees and regulatory licenses	587,042	-	11,402	598,444
Fines and forfeitures	456,150	-	21,011	477,161
Use of money and property	135,595	32,459	294,055	462,109
Charges for services	2,295,715	56,570	48,788	2,401,073
Miscellaneous	166,882	-	107,376	274,258
Recovered costs	538,730	-	421,009	959,739
Intergovernmental:				
Revenue from the Commonwealth	8,999,813	-	6,072,046	15,071,859
Revenue from the Federal Government	37,574	-	4,326,309	4,363,883
Total revenues	\$ 80,445,182	\$ 89,029	\$ 12,256,996	\$ 92,791,207
Expenditures				
Current:				
General government administration	\$ 6,178,075	\$ -	\$ -	\$ 6,178,075
Judicial administration	3,877,680	-	181,216	4,058,896
Public safety	18,975,599	-	378,709	19,354,308
Public works	8,501,510	-	217,943	8,719,453
Health and welfare	977,247	-	5,901,369	6,878,616
Education - local community college and other	43,325	-	-	43,325
Education - public school system	26,810,500	-	-	26,810,500
Parks, recreation and cultural	3,818,817	-	64,923	3,883,740
Community development	1,742,073	-	860,327	2,602,400
Capital projects	-	18,137,768	6,906,548	25,044,316
Debt service:				
Principal payments	-	-	3,588,507	3,588,507
Interest and fiscal charges	-	-	3,658,596	3,658,596
Total expenditures	\$ 70,924,826	\$ 18,137,768	\$ 21,758,138	\$ 110,820,732
Excess (deficiency) of revenues over (under) expenditures	\$ 9,520,356	\$ (18,048,739)	\$ (9,501,142)	\$ (18,029,525)
Other financing sources (uses)				
Proceeds from the sale of capital assets	\$ 13,658	\$ -	\$ -	\$ 13,658
Transfers in	585,000	-	10,339,477	10,924,477
Transfers out	(10,320,084)	-	-	(10,320,084)
Total other financing sources (uses)	\$ (9,721,426)	\$ -	\$ 10,339,477	\$ 618,051
Net change in fund balance	\$ (201,070)	\$ (18,048,739)	\$ 838,335	\$ (17,411,474)
Fund balances, beginning of year, as restated	27,486,175	27,160,718	9,850,591	64,497,484
Fund balances, end of year	\$ 27,285,105	\$ 9,111,979	\$ 10,688,926	\$ 47,086,010

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

Net change in fund balances - total governmental funds (Exhibit 5) \$ (17,411,474)

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.

Capital outlays	\$ 24,929,298	
Depreciation	<u>(6,469,351)</u>	18,459,947

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (1,013,795)

Donations of capital assets received during the current period 703,100

Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net position revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis. (46,849)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in joint venture investment (673,826)

Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Amortization of premium on long-term debt	\$ 246,785	
Repayments of long-term debt:		
General obligation bonds	<u>3,588,507</u>	3,835,292

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:

Compensated absences	\$ (47,239)	
Net OPEB obligation	(377,014)	
Accrued interest on bonds and loans	68,181	
Accrued landfill post-closure costs	<u>175,746</u>	
Net adjustment		(180,326)

Internal service funds are used by the City to charge the cost of health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities. (350,013)

Change in net position of governmental activities (Exhibit 2) \$ 3,322,056

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

Statement of Net Position
 Proprietary Funds
 At June 30, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 7,677,073	\$ 4,192,587	\$ 5,953,605	\$ 701,844	\$ 18,525,109	\$ 176,118
Accounts receivable, net of allowance for uncollectibles	559,058	929,030	-	-	1,488,088	-
Accrued revenue	7,735	9,910	11,936	19,181	48,762	-
Inventory, at cost	103,912	175,350	-	-	279,262	-
Prepaid items	35	35	16,442	75	16,587	-
Due from other governments	-	116,376	2,319,560	-	2,435,936	-
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents	637,758	-	-	-	637,758	-
Total current assets	\$ 8,985,571	\$ 5,423,288	\$ 8,301,543	\$ 721,100	\$ 23,431,502	\$ 176,118
Capital Assets:						
Land	\$ 701,345	\$ 114,880	\$ 550,686	\$ 782,125	\$ 2,149,036	\$ -
Construction in progress	1,346,240	485,222	127,217	-	1,958,679	-
Land improvements	-	-	976,403	-	976,403	-
Dams and reservoirs	663,536	-	-	-	663,536	-
Buildings and systems	16,209,553	39,138,732	9,867,983	6,631,862	71,848,130	-
Furniture, machinery and equipment	401,543	2,814,892	4,077,909	223,789	7,518,133	-
Intangible assets	5,348,420	1,556,496	-	-	6,904,916	-
Total property, plant and equipment	\$ 24,670,637	\$ 44,110,222	\$ 15,600,198	\$ 7,637,776	\$ 92,018,833	\$ -
Accumulated depreciation	(8,430,326)	(16,562,385)	(2,237,821)	(1,161,185)	(28,391,717)	-
Capital assets, net	\$ 16,240,311	\$ 27,547,837	\$ 13,362,377	\$ 6,476,591	\$ 63,627,116	\$ -
Total assets	\$ 25,225,882	\$ 32,971,125	\$ 21,663,920	\$ 7,197,691	\$ 87,058,618	\$ 176,118
Liabilities:						
Current liabilities:						
Accounts payable	\$ 1,559,549	\$ 367,528	\$ 220,383	\$ 10,269	\$ 2,157,729	\$ -
Accrued liabilities	15,672	47,461	45,157	1,495	109,785	-
Interest payable	9,518	218,757	-	-	228,275	-
Compensated absences, current portion	35,836	63,254	27,108	744	126,942	-
Claims payable	-	-	-	-	-	526,131
Unearned revenue, current portion	22,989	55,912	25,000	-	103,901	-
General obligation bonds, current portion	229,495	633,717	-	195,698	1,058,910	-
Current liabilities payable from restricted assets:						
Customer deposits	637,758	-	-	-	637,758	-
Total current liabilities	\$ 2,510,817	\$ 1,386,629	\$ 317,648	\$ 208,206	\$ 4,423,300	\$ 526,131
Noncurrent liabilities:						
Unearned revenue, noncurrent portion	\$ -	\$ 1,783,013	\$ -	\$ -	\$ 1,783,013	\$ -
Compensated absences, noncurrent portion	21,964	11,163	37,434	455	71,016	-
Net OPEB obligation	110,976	195,544	117,025	9,621	433,166	-
General obligation bonds, noncurrent portion	937,192	11,160,106	-	2,783,252	14,880,550	-
Total noncurrent liabilities	\$ 1,070,132	\$ 13,149,826	\$ 154,459	\$ 2,793,328	\$ 17,167,745	\$ -
Total liabilities	\$ 3,580,949	\$ 14,536,455	\$ 472,107	\$ 3,001,534	\$ 21,591,045	\$ 526,131
Net Position:						
Net investment in capital assets	\$ 15,073,624	\$ 15,754,014	\$ 13,362,377	\$ 3,497,641	\$ 47,687,656	\$ -
Unrestricted	6,571,309	2,680,656	7,829,436	698,516	17,779,917	(350,013)
Total net position	\$ 21,644,933	\$ 18,434,670	\$ 21,191,813	\$ 4,196,157	\$ 65,467,573	\$ (350,013)

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

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Operating revenues:						
Charges for services	\$ 2,829,872	\$ 4,857,512	\$ 423,081	\$ 328,385	\$ 8,438,850	\$ 5,096,937
Operating expenses:						
Personal services	\$ 373,226	\$ 813,409	\$ 1,933,773	\$ 97,959	\$ 3,218,367	\$ -
Fringe benefits	222,259	434,168	466,737	21,981	1,145,145	4,522,346
Contractual services	1,385,033	995,768	289,546	29,165	2,699,512	-
Other operating expenses	215,393	565,443	1,081,122	38,388	1,900,346	924,604
Depreciation expense	508,577	1,505,927	666,001	152,037	2,832,542	-
Total operating expenses	\$ 2,704,488	\$ 4,314,715	\$ 4,437,179	\$ 339,530	\$ 11,795,912	\$ 5,446,950
Total operating income (loss)	\$ 125,384	\$ 542,797	\$ (4,014,098)	\$ (11,145)	\$ (3,357,062)	\$ (350,013)
Nonoperating revenues (expenses):						
Interest income	\$ 17,598	\$ 17,598	\$ 17,598	\$ 17,598	\$ 70,392	\$ -
Gasoline tax receipts	-	-	640,000	321,084	961,084	-
Availability/connection fees	392,902	634,191	-	-	1,027,093	-
Miscellaneous	195,080	99,263	234,616	260	529,219	-
State and local grant funds	-	-	1,720,629	-	1,720,629	-
Federal grant funds	-	57,106	1,979,570	-	2,036,676	-
Interest expense	(47,035)	(559,867)	-	(131,375)	(738,277)	-
Total nonoperating revenues (expenses)	\$ 558,545	\$ 248,291	\$ 4,592,413	\$ 207,567	\$ 5,606,816	\$ -
Income (loss) before contributions and transfers	\$ 683,929	\$ 791,088	\$ 578,315	\$ 196,422	\$ 2,249,754	\$ (350,013)
Capital grants and contributions:						
State and local grant funds	\$ -	\$ -	\$ 684,876	\$ -	\$ 684,876	\$ -
Federal grant funds	-	-	1,622,349	-	1,622,349	-
Total capital grants and contributions	\$ -	\$ -	\$ 2,307,225	\$ -	\$ 2,307,225	\$ -
Transfers:						
Transfers out	\$ (269,618)	\$ (334,775)	\$ -	\$ -	\$ (604,393)	\$ -
Change in net position	\$ 414,311	\$ 456,313	\$ 2,885,540	\$ 196,422	\$ 3,952,586	\$ (350,013)
Net position, beginning of year	21,230,622	17,978,357	18,306,273	3,999,735	61,514,987	-
Net position, end of year	\$ 21,644,933	\$ 18,434,670	\$ 21,191,813	\$ 4,196,157	\$ 65,467,573	\$ (350,013)

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

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers and users	\$ 2,793,752	\$ 4,740,994	\$ 573,694	\$ 759,143	\$ 8,867,583	\$ 5,096,937
Other miscellaneous receipts	195,080	99,263	874,616	321,344	1,490,303	-
Payments to suppliers	(845,226)	(1,487,946)	(2,115,318)	(61,966)	(4,510,456)	(924,604)
Payments to and for employees	(586,992)	(1,230,435)	(2,388,708)	(118,386)	(4,324,521)	(3,996,215)
Net cash provided by (used for) operating activities	\$ 1,556,614	\$ 2,121,876	\$ (3,055,716)	\$ 900,135	\$ 1,522,909	\$ 176,118
Cash flows from noncapital financing activities:						
Availability and connection fees	\$ 392,902	\$ 634,191	\$ -	\$ -	\$ 1,027,093	\$ -
State, federal and local grant funds	-	57,106	3,700,199	-	3,757,305	-
Transfers	(269,618)	(334,775)	-	-	(604,393)	-
Net cash provided by (used for) noncapital financing activities	\$ 123,284	\$ 356,522	\$ 3,700,199	\$ -	\$ 4,180,005	\$ -
Cash flows from investing activities:						
Interest income	\$ 17,598	\$ 17,598	\$ 17,598	\$ 17,598	\$ 70,392	\$ -
Cash flows from capital and related financing activities:						
Purchase of capital assets	\$ (1,504,231)	\$ (580,249)	\$ (2,160,518)	\$ (15,459)	\$ (4,260,457)	\$ -
Disposal of capital assets	-	10,831	109,245	-	120,076	-
State, federal and local grant funds	-	-	2,307,225	-	2,307,225	-
Principal payment on debt	(224,457)	(1,156,114)	-	(189,769)	(1,570,340)	-
Interest paid on debt	(48,289)	(575,394)	-	(131,374)	(755,057)	-
Net cash provided by (used for) capital and related financing activities	\$ (1,776,977)	\$ (2,300,926)	\$ 255,952	\$ (336,602)	\$ (4,158,553)	\$ -
Increase (decrease) in cash and cash equivalents for the year	\$ (79,481)	\$ 195,070	\$ 918,033	\$ 581,131	\$ 1,614,753	\$ 176,118
Cash and cash equivalents (including restricted), beginning of year	8,394,312	3,997,517	5,035,572	120,713	17,548,114	-
Cash and cash equivalents (including restricted), end of year	\$ 8,314,831	\$ 4,192,587	\$ 5,953,605	\$ 701,844	\$ 19,162,867	\$ 176,118
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 125,384	\$ 542,797	\$ (4,014,098)	\$ (11,145)	\$ (3,357,062)	\$ (350,013)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	508,577	1,505,927	666,001	152,037	2,832,542	-
Other miscellaneous receipts	195,080	99,263	874,616	321,344	1,490,303	-
Changes in assets and liabilities:						
Accounts receivable	(33,306)	(40,366)	-	-	(73,672)	-
Inventory	11,858	(141,617)	-	-	(129,759)	-
Accrued revenue	(2,791)	(5,142)	888	(4,852)	(11,897)	-
Prepaid items	127	127	(3,669)	(75)	(3,490)	-
Due from other governments	-	(15,098)	124,725	435,610	545,237	-
Accounts payable	734,016	182,196	(622,892)	5,662	298,982	-
Accrued liabilities	9,199	32,559	(118,089)	777	(75,554)	-
Net OPEB obligation	8,311	15,866	9,822	756	34,755	-
Unearned revenue	4,054	(55,912)	25,000	-	(26,858)	-
Claims payable	-	-	-	-	-	526,131
Compensated absences	182	1,276	1,980	21	3,459	-
Deposits payable from restricted assets	(4,077)	-	-	-	(4,077)	-
Net cash provided by (used for) operating activities	\$ 1,556,614	\$ 2,121,876	\$ (3,055,716)	\$ 900,135	\$ 1,522,909	\$ 176,118

There were no non-cash investing and financing activities during the year.

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

Statement of Fiduciary Net Position - Fiduciary Funds
At June 30, 2014

	Agency Funds	Private Purpose Trust Funds
Assets:		
Cash and cash equivalents	\$ 736,383	\$ 1,686,670
Accounts receivable	80,201	22,037
Prepaid items	20,132	-
Capital assets:		
Machinery and equipment, net of accumulated depreciation	-	12,946
Total assets	\$ 836,716	\$ 1,721,653
Liabilities:		
Accounts payable	\$ 52,796	\$ 676
Accrued liabilities	28,527	10,678
Unearned revenue	10,000	-
Net OPEB obligation	-	1,570
Amounts held for others	745,393	-
Total liabilities	\$ 836,716	\$ 12,924
Net Position:		
Held in trust for land conservation (see Note 1)	\$ -	\$ 1,708,729

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

Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
Year Ended June 30, 2014

Additions:

Contributions:

Contributions	\$	27,400
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Investment income:

Interest earned on investments		<u>30,200</u>
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Total additions	\$	<u>57,600</u>
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Deductions:

Payments for property management	\$	<u>78,722</u>
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Net decrease in plan assets	\$	(21,122)
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Net position held in trust for land conservation:

Balance, beginning of year		<u>1,729,851</u>
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Balance, end of year	\$	<u><u>1,708,729</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities

Component Units

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
School Board				
Education	\$ 42,543,610	\$ 548,221	\$ 14,941,660	\$ -
Interest on long-term debt	43,706	-	-	-
Total School Board	\$ 42,587,316	\$ 548,221	\$ 14,941,660	\$ -
Economic Development Authority				
Community development	181,402	148,982	-	-
Total component units	<u>\$ 42,768,718</u>	<u>\$ 697,203</u>	<u>\$ 14,941,660</u>	<u>\$ -</u>

General revenues

Payment from/(to) City of Fredericksburg

Interest and investment income

Miscellaneous

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Position		
School Board	Economic Development Authority	Totals
\$ (27,053,729)	\$ -	\$ (27,053,729)
(43,706)	-	(43,706)
\$ (27,097,435)	\$ -	\$ (27,097,435)
-	(32,420)	(32,420)
\$ (27,097,435)	\$ (32,420)	\$ (27,129,855)
\$ 27,824,295	\$ 19,744	\$ 27,844,039
440	22,429	22,869
216,072	-	216,072
\$ 28,040,807	\$ 42,173	\$ 28,082,980
\$ 943,372	\$ 9,753	\$ 953,125
20,556,604	1,073,726	21,630,330
\$ 21,499,976	\$ 1,083,479	\$ 22,583,455

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CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2014

Note 1—Summary of Significant Accounting Policies:

Narrative Profile

The City of Fredericksburg, Virginia (the “City”) was incorporated in 1782 and its current Charter was granted in 1942. The City operates under a Council/Manager form of government. The Council consists of a Mayor and six (6) council members. The Mayor and two (2) council members are elected at large and four (4) council members are elected by wards. The Council is responsible for appointing the City Manager. The City provides a full range of services as authorized by its Charter. These services include police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities; cultural events; education; social services and water and sewer. The City is located in Northeastern Virginia and is bordered by the Counties of Spotsylvania and Stafford.

The financial statements of the City of Fredericksburg, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB), and specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the government’s accounting policies are described below.

A. Financial Reporting Entity

Management’s Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, effects of interfund activity have 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.

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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.

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports. This information includes presenting the government’s original budget as well as a comparison of final budget and actual results for its major funds.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

The Fredericksburg City School Board is elected to four year terms by the City voters. The School Board may hold property and issue debt subject to approval by the City Council. However, the City is responsible for the repayment of the debt. The School Board provides public primary and secondary education services to the City residents. The primary funding sources of the School Board are state and federal grants, and appropriations from the City, which are significant since the School Board does not have separate taxing authority. The City also approves the School Board budget. The School Board does not issue separate financial statements.

b. Fredericksburg Economic Development Authority:

The Fredericksburg Economic Development Authority was created by council resolution pursuant to state statute and it is legally separate from the City. The Council appoints seven (7) board members; however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Authority is fiscally independent and there is no financial benefit or burden relationship with the City. However, the Authority performs economic development services exclusively to the City as an administrative entity for the City through the authorization of industrial development revenue bonds and recruitment of potential businesses for location in the City, and City Council must approve the issuance of all revenue bonds. However, the Authority does not provide specific benefits for other governments or others that are not part of the reporting entity. Accordingly, the Authority is reported as a discretely presented component unit of the City.

A copy of the Authority's financial statements may be obtained from the City of Fredericksburg, Virginia Department of Fiscal Affairs, 715 Princess Anne Street, Fredericksburg, Virginia 22401.

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

The financial activities of the following organizations are excluded from the accompanying financial statements for the reasons indicated:

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$3,381,710 in operating and other funds to the Center in 2014.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1,258,485 in operating funds to the Library in 2014.

c. Rappahannock Regional Solid Waste Management Board

The Rappahannock Regional Solid Waste Management Board (the Board) is a joint venture of the County of Stafford and the City of Fredericksburg (the City). The Board was formed under an agreement dated December 9, 1987, for the purpose of operating and maintaining the Regional Landfill for the use and benefit of the citizens of the County and the City. The Board is administered by a six-member board currently comprised of three members from the County and three members from the City made up as follows:

- The County Administrator of the County of Stafford
- Two members of the County of Stafford, Board of Supervisors, to be appointed by the Board of Supervisors
- The City Manager of Fredericksburg
- Two members of the City Council of Fredericksburg, to be appointed by the City Council

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

c. Rappahannock Regional Solid Waste Management Board: (Continued)

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The City's equity interest as of June 30, 2014 was \$2,702,492.

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$6.8 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2014 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One-hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and post-closure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

Complete financial statements for the Board can be obtained from the Director of Solid Waste Management, Rappahannock Regional Solid Waste Management Board, P.O. Box 339, Stafford, Virginia 22555-0339.

d. Rappahannock Area Community Services Board

The Board was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of \$197,065 to the Board in 2014.

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

e. Rappahannock Area Agency on Aging

The Agency was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$7,880 in operating grants to the Agency in 2014.

f. George Washington Regional Commission

The Commission was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$19,526 in operating grants to the Commission in 2014.

g. Rappahannock Juvenile Detention Center

The Center was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$327,211 to the Center in 2014.

h. Spotsylvania - Stafford - Fredericksburg (Regional) Group Home

The Home was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$39,446 in operating funds to the Home in 2014.

Note 1—Summary of Significant Accounting Policies: (Continued)

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

i. Stafford Regional Airport Commission

The Commission was created by Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$21,430 in operating funds to the Commission in 2014.

Obtaining of Financial Statements for Jointly Governed Organizations

Complete financial statements of the jointly governed organizations may be obtained by contacting the City of Fredericksburg, Virginia Department of Fiscal Affairs, 715 Princess Anne Street, Fredericksburg, Virginia 22401.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements: (Continued)

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. If applicable, internal service charges are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2014.

1. Governmental Funds:

Governmental Funds are those through which most governmental functions typically are financed. The government reports the following governmental funds:

- a. General Fund - The General Fund is the primary operating fund of the City and accounts for and reports all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements: (Continued)

1. Governmental Funds: (Continued)

- b. Special Revenue Funds - Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds include the following funds:

Virginia Public Assistance Fund - This fund accounts for the operations of the City's Department of Social Services. Funding is primarily from state and federal grants and local match appropriations.

State, Federal and Local Grants Fund - This fund accounts for revenues and expenditures of state, federal, and local grants which function on a reimbursement basis.

Central Park Special Tax District Fund - This fund accounts for the revenues, expenditures, and other financing resources of the Central Park Special Service District.

Comprehensive Services Act Fund - This fund accounts for the Comprehensive Services Act grant funds which provide assistance primarily for foster care and related services and the prevention of foster care. Services provided include education, housing, health and food. Funding is primarily from state grants and local match appropriations.

Courthouse Maintenance Fund - This fund accounts for the revenues, expenditures, and other financing resources for courthouse maintenance.

Forfeited Asset Sharing Program Fund - This fund accounts for the revenues, expenditures, and other financing resources of the forfeited asset sharing program.

Blight Abatement Fund - This fund accounts for the revenues, expenditures and other financing resources of the blight abatement program.

- c. Debt Service Funds - The Debt Service Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should also be used to report financial resources being accumulated for future debt service. The Debt Service Funds consist of the following:

General Obligation Bond Debt Service Fund - This fund accounts for the accumulation of resources for, and the payment of, general long-term obligation debt principal, interest, and related charges.

Education Debt Service Fund - This fund accounts for the accumulation of resources for, and the payment of, general long-term obligation debt principal, interest, and related charges for school debt.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements: (Continued)

1. Governmental Funds: (Continued)

- d. Capital Projects Funds - The Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by Proprietary Funds or for assets held in trust for individuals, private organizations, or other governments. Capital Projects Funds include the following funds:

Public Works Construction Fund - This fund accounts for resources and expenditures for the construction of and reconstruction of City streets, sidewalks, and bridges. Primary revenues consist of taxes, grants, and transfers from the General Fund.

Public Facilities Construction Fund - This fund accounts for the construction, renovation, and improvements of the City's buildings and facilities. Financing is provided primarily by investment earnings and transfers from the General Fund.

Public Safety Construction Fund - This fund accounts for the police and fire department projects. Financing is provided primarily by investment earnings and transfers from the General Fund.

New Court Construction Fund - This fund accounts for resources and expenditures for the construction of a new court complex. Financing is provided by bond proceeds. The New Court Construction Fund is considered a major fund for financial reporting purposes.

2. Proprietary Funds:

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise and Internal Service Funds.

Operating revenues and expenses are defined as those items that result from providing services, and include all transactions and events which are not capital and related financing, noncapital financing or investing activities. Nonoperating revenues are defined as grants, investment and other income. Nonoperating expenses are defined as noncapital related financing and other expenses.

Enterprise Funds - Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. The Enterprise Funds consist of the following:

Water Fund - This fund accounts for income and expenses of the City-owned water utility.

Wastewater Fund - This fund accounts for income and expenses of the City-owned wastewater utility.

Transit Fund - This fund accounts for income and expenses of the City-owned transit system.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements: (Continued)

2. Proprietary Funds: (Continued)

Parking Fund - This fund accounts for income and expenses of the City-owned parking garage and the City-leased parking lot.

Internal Service Funds - The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City government. The Internal Service Funds consist of the following funds:

Health Insurance Fund - This fund accounts for the health insurance program activities of the City.

3. Fiduciary Funds (Trust and Agency Funds):

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The funds include Private Purpose Trust and Agency Funds. Private Purpose Trust Funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation. Agency Funds also utilize the accrual basis of accounting. Fiduciary Funds consist of the following:

Criminal Justice Academy Fund - This fund accounts for the revenue and expenditures of the Regional Criminal Justice Training Academy.

Special Welfare Fund - This fund accounts for the principal and income of the Special Welfare bequests and contributions.

Court Service Unit Fund - This fund accounts for the revenue and expenditures of the Court Service Unit.

Rappahannock Area Youth Commission Fund - This fund accounts for revenue and expenditures of the Rappahannock Area Youth Commission delinquency prevention program.

Revenue Maximization Fund - This fund accounts for revenue and expenditures of the Revenue Maximization Program.

Community Development Authority Fund - This fund accounts for the real estate tax collections made on behalf of the Community Development Authority.

Private Purpose Trust Fund - This fund accounts for increases and decreases in net position held for land conservation.

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements: (Continued)

4. Component Units:

a. Fredericksburg City School Board:

The Discretely Presented Component Unit-School Board is used to account for the school related activities and to emphasize that they are legally separate from the primary government. School Board Funds consist of the following:

Governmental Funds:

School Operating Fund - This fund is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the City of Fredericksburg and state and federal grants.

Special Revenue Fund: Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Special School Fund - This fund accounts for the revenues, expenditures, and other financial resources of the school regional programs, school cafeteria and state and federal programs. Revenues are derived primarily from charges for services and state and federal grants.

Capital Projects Fund: Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

School Capital Projects Fund - This fund accounts for school construction and related expenditures of the public school system. Funding is primarily from state grants and appropriations from the City of Fredericksburg.

b. Economic Development Authority:

The Economic Development Authority operates on an enterprise fund basis where revenues and expenses are recognized on the accrual basis of accounting as more fully described in Note 1, B. 2.

Note 1—Summary of Significant Accounting Policies: (Continued)

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statement of Net Position and Statement of Activities, all Proprietary Funds, and Private Purpose Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the Statement of Net Position or on the Statement of Fiduciary Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Position, Statement of Activities, financial statements of the Proprietary Funds and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects Funds (for the primary government and component unit School Board) are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

The City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of each fiscal year.

A public hearing on the budget is held after a synopsis of the budget is published in a local newspaper of general circulation. After a public hearing, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable.

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Budgets and Budgetary Accounting: (Continued)

Annual budgets, prepared on a basis consistent with generally accepted accounting principles, are approved by the City Council for all Governmental Funds except for the Courthouse Maintenance Fund and Central Park Special Tax District Fund. All appropriations lapse at year-end; however, the unexpended funds may be reappropriated in the following fiscal year.

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2014. Budgetary and appropriation control is maintained at the department level. Encumbrances outstanding at year-end are reappropriated in the following fiscal year.

There were no additional appropriations that would have a material effect on the financial statements at June 30, 2014.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

F. Investments

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

Investments are stated at fair value.

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2014, the allowance totaled \$2,114,745 with \$1,688,136 in the General Fund and \$426,609 in the Enterprise Funds.

H. Inventory

Inventory consists of expendable supplies which are valued at cost using the consumption method.

I. Prepaid Items

Prepaid expenses are reported on the consumption method.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 1—Summary of Significant Accounting Policies: (Continued)

J. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the primary government and component unit School Board, and as assets in the government-wide financial statements to the extent the City's and School Board's capitalization threshold of \$5,000 is met. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Land improvements	20 to 50 years
Buildings and improvements	20 to 40 years
Furniture and other equipment	5 to 20 years
Infrastructure	20 to 50 years
Joint tenancy assets	40 years

To the extent the City's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis using the following estimated useful lives:

Land improvements	20 to 50 years
Buildings	10 to 50 years
Furniture, machinery, and equipment	4 to 10 years
Water and wastewater systems	30 to 50 years
Intangible Assets	30 to 50 years

All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2014.

K. Compensated Absences

The City and School Board accrue compensated absences (annual and sick leave benefits) when vested. The amounts include all balances earned by employees which would be paid upon employee terminations, resignations or retirements.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources as of June 30, 2014.

Note 1—Summary of Significant Accounting Policies: (Continued)

L. Deferred Outflows/Inflows of Resources: (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item of this type, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue from property taxes, is reported as deferred inflow of resources. This amount is deferred and will be recognized as an inflow of resources in the period that the amount becomes available.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 20-year period. The City's policy is to fund pension cost as it accrues.

O. Unbilled Revenue

The City bills service charges to customers on a bi-monthly basis. Service charges earned but unbilled are accrued based on the last billing and reported in the financial statements as billed receivables and revenues.

P. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Bond premium amortization for fiscal year ended June 30, 2014 was \$246,785 and \$28,188 for the governmental and business-type activities, respectively.

Q. Long-term Obligations

The City reports long-term obligations at face value. The face value of the debt is believed to approximate fair value.

R. Net Position

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Note 1—Summary of Significant Accounting Policies: (Continued)

S. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

T. Fund Equity

The City reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives or contractual obligations). Assigned fund balance is established by City Council or the City Manager as amounts intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). Amounts are recorded in the accounting system to reflect assignment.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 1—Summary of Significant Accounting Policies: (Continued)

T. Fund Equity: (Continued)

The details of governmental fund balances, as presented in aggregate on Exhibit 3, are as follows:

	General Fund	New Court Construction Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ 26,444	\$ -	\$ -	\$ 26,444
Prepays	454,212	-	4,569	458,781
Total Nonspendable Fund Balance	\$ 480,656	\$ -	\$ 4,569	\$ 485,225
Restricted:				
Courthouse maintenance	\$ -	\$ -	\$ 336,280	\$ 336,280
Committed:				
Social services	\$ -	\$ -	\$ 266,322	\$ 266,322
Comprehensive services	-	-	502,944	502,944
Cowan Boulevard debt service	-	-	262,519	262,519
Public facilities construction projects	-	-	427,607	427,607
Public works construction projects	-	-	1,239,317	1,239,317
Blight abatement	-	-	182,275	182,275
Grant related projects	-	-	714,240	714,240
Forfeited asset sharing program	-	-	38,127	38,127
VPSA debt service	-	-	2,462,142	2,462,142
New court construction project	-	7,580,482	-	7,580,482
Information systems	37,222	-	-	37,222
Future capital projects	5,724,255	-	-	5,724,255
Health insurance claims	386,962	-	-	386,962
Other purposes	87,606	-	-	87,606
Total Committed Fund Balance	\$ 6,236,045	\$ 7,580,482	\$ 6,095,493	\$ 19,912,020
Assigned:				
Public works construction projects	\$ -	\$ -	\$ 2,096,404	\$ 2,096,404
Public facilities construction projects	-	-	883,240	883,240
Public safety construction projects	-	-	1,272,940	1,272,940
Riverfront Park debt service	725,000	-	-	725,000
New court construction project	-	1,531,497	-	1,531,497
Other purposes	44,149	-	-	44,149
Total Assigned Fund Balance	\$ 769,149	\$ 1,531,497	\$ 4,252,584	\$ 6,553,230
Unassigned Fund Balance	\$ 19,799,255	\$ -	\$ -	\$ 19,799,255
Total Fund Balances	\$ 27,285,105	\$ 9,111,979	\$ 10,688,926	\$ 47,086,010

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 2—Deposits and Investments:

Deposits - Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments - Statutes authorize the City 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, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments) - The City’s investments at June 30, 2014 were held by the City or in the City’s name by the City’s custodial banks; except for U.S. Agency investments, U.S. Treasuries, Corporate Debt investments, municipal public bonds, and commercial paper, where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

The City’s investment policies authorize the City to invest in U.S. Government Obligations, Commercial Paper with a rating of at least A-1 by at least two of the following: Moody’s Investor’s Service, Standard and Poor’s and Fitch Investor’s Service; Corporate Debt with a minimum Aa long term debt rating by Moody’s Investors Service and a minimum of AA long term debt rating by Standard and Poor’s; State Pool; mutual funds with a rating of AAm or better by Standard and Poor’s or an equivalent rating by other rating agencies; and Virginia municipal bonds rated in either of the two highest categories by a nationally recognized rating agency.

The City’s rated debt investments as of June 30, 2014 were rated by Standard and Poor’s or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings						
	AAAm	AAA	AA+	AA	AA-	A-1	A-1+
U.S. Agencies	\$ -	\$ -	\$ 16,745,220	\$ -	\$ -	\$ -	\$ -
U.S. Treasuries	-	-	13,116,674	-	-	-	-
Corporate Debt	-	530,555	2,243,095	3,148,890	2,000,588	-	-
Commercial Paper	-	-	-	-	-	2,497,867	1,249,188
Municipal/Public Bonds	-	-	854,250	-	-	-	-
Virginia State Non-Arbitrage Program	11,580,354	-	-	-	-	-	-
Money Market Mutual Fund	16,626,347	-	-	-	-	-	-
Total	\$ 28,206,701	\$ 530,555	\$ 32,959,239	\$ 3,148,890	\$ 2,000,588	\$ 2,497,867	\$ 1,249,188

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 2—Deposits and Investments: (Continued)

Interest Rate Risk

The City's investment policies authorize the City to invest in Commercial Paper with a maturity no greater than two hundred-seventy (270) days, Corporate Debt with a maturity no greater than five (5) years at the time of purchase, Municipal Bonds with a maturity no greater than five (5) years, and U.S. Government Obligations with a maximum maturity of five (5) years at the time of purchase.

Investment Maturities (in years)			
Investment Type	Fair Value	Less Than	
		1 Year	1-5 Years
U.S. Agencies	\$ 16,745,220	\$ -	\$ 16,745,220
U.S. Treasuries	13,116,674	-	13,116,674
Commercial Paper	3,747,055	3,747,055	-
Municipal/Public Bonds	854,250	854,250	-
Corporate Debt	7,923,128	1,856,851	6,066,277
Total	\$ 42,386,327	\$ 6,458,156	\$ 35,928,171

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission.

The fair value of the positions in the external investment pool (State Non-Arbitrage Pool) are the same as the value of the pool shares.

Note 3—Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below:

	Real Property	Personal Property
Levy	July 1	January 1
Due Date	May 15/November 15 (50% each date)	May 15/November 15 (50% each date)
Lien Date	May 16/November 16	May 16/November 16

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2014 consist of the following:

Primary Government:

	Governmental Activities					Business- Type Activities
	General	New Court Construction	Special Revenue	Capital Projects	Total	
Property taxes	\$ 2,348,670	\$ -	\$ -	\$ -	\$ 2,348,670	\$ -
Circuit court	59,908	-	-	-	59,908	-
Water charges	-	-	-	-	-	753,100
Wastewater charges	-	-	-	-	-	1,161,597
EMS fees	101,588	-	-	-	101,588	-
Refuse disposal fees	128,851	-	-	-	128,851	-
Investment earnings	28,256	-	-	84,768	113,024	28,256
Other	158,497	138	6,559	-	165,194	20,506
Total	\$ 2,825,770	\$ 138	\$ 6,559	\$ 84,768	\$ 2,917,235	\$ 1,963,459
Allowance for uncollectibles	(1,688,136)	-	-	-	(1,688,136)	(426,609)
Net receivables	<u>\$ 1,137,634</u>	<u>\$ 138</u>	<u>\$ 6,559</u>	<u>\$ 84,768</u>	<u>\$ 1,229,099</u>	<u>\$ 1,536,850</u>

Component Units and Fiduciary Activities:

	Fiduciary Activities
Other	\$ 102,238
Total	\$ 102,238
Allowance for uncollectibles	-
Net receivables	<u>\$ 102,238</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 5—Due From Other Governmental Units:

	Governmental Activities				Business- Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	\$ 1,847,322	\$ -	\$ -	\$ 1,847,322	\$ -	\$ -
Telecommunication sales tax	150,137	-	-	150,137	-	-
PPTRA	676,647	-	-	676,647	-	-
Comprehensive Services Act	-	355,181	-	355,181	-	-
Shared expenses and grants	130,358	-	-	130,358	-	-
Virginia Department of Rail and Public Transportation	-	-	-	-	204,980	-
Virginia Department of Transportation	-	-	2,102,375	2,102,375	-	-
Virginia Department of Motor Vehicles	-	3,740	-	3,740	-	-
Virginia Department of Emergency Management	3,941	-	-	3,941	-	-
Prisoner extradition	3,525	-	-	3,525	-	-
Virginia Department of Criminal Justice Services	4,210	11,099	-	15,309	-	-
Recordation taxes	40,515	-	-	40,515	-	-
PSAP 911	6,057	-	-	6,057	-	-
Noncategorical aid	17,406	-	-	17,406	-	-
Department of Health	16,816	-	-	16,816	-	-
Department of Fire Programs	-	11,532	-	11,532	-	-
Social services grants	-	381,267	-	381,267	-	-
Other	7,471	-	-	7,471	175	-
Federal government:						
Community Development Block Grant	-	34,365	-	34,365	-	-
Environmental Protection Agency	-	57,387	-	57,387	-	-
Transit grants	-	-	-	-	2,114,580	-
Criminal justice grants	-	10,838	-	10,838	-	-
Marine Corps Community Services	10,000	-	-	10,000	-	-
Interest subsidy	-	-	-	-	21,458	-
Others:						
Potomac and Rappahannock Transportation Commission	40,216	-	700,000	740,216	-	-
University of Mary Washington	2,830	-	-	2,830	-	-
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	94,743	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	560,145
State school funds	-	-	-	-	-	246,469
Federal pass-through:						
School funds	-	-	-	-	-	603,346
Federal government:						
Head Start	-	-	-	-	-	141,117
Total	\$ 2,957,451	\$ 865,409	\$ 2,802,375	\$ 6,625,235	\$ 2,435,936	\$ 1,551,077

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2014:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	\$ 1,011,670
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	360,785
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	792,320
Transfer to the Blight Abatement Fund for the improvement of qualified property	100,000
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	3,772,005
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,427,697
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	596,000
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	279,000
Total transfers in - other governmental funds	\$ 10,339,477
Transfers to the General Fund for various programs	\$ 585,000
Total transfers	\$ 10,924,477
Reconciliation of transfers:	
Transfers in from governmental funds	\$ 10,320,084
Transfers from enterprise funds to governmental funds	604,393
Total transfers	\$ 10,924,477

Component Unit School Board:

There were no interfund obligations in the component unit School Board.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 7—Capital Assets:

The following is a summary of the changes in capital assets for the year:

Primary Government:

Governmental Activities:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 20,466,035	\$ 786,300	\$ -	\$ 21,252,335
Construction in progress:				
Infrastructure	\$ 2,470,106	\$ 2,062,901	\$ -	\$ 4,533,007
Land improvements	773,301	2,222,661	-	2,995,962
Buildings	6,504,945	18,131,768	-	24,636,713
Total construction in progress	\$ 9,748,352	\$ 22,417,330	\$ -	\$ 32,165,682
Total capital assets not being depreciated	\$ 30,214,387	\$ 23,203,630	\$ -	\$ 53,418,017
Other capital assets:				
Land improvements	\$ 11,852,593	\$ 74,409	\$ -	\$ 11,927,002
Buildings and improvements	32,458,041	62,019	-	32,520,060
Joint tenancy assets	38,680,000	-	1,470,000	37,210,000
Infrastructure	74,810,558	1,398,745	241,887	75,967,416
Machinery, equipment and vehicles	16,593,329	893,595	264,540	17,222,384
Total other capital assets	\$ 174,394,521	\$ 2,428,768	\$ 1,976,427	\$ 174,846,862
Accumulated depreciation:				
Land improvements	\$ 2,282,611	\$ 446,860	\$ -	\$ 2,729,471
Buildings and improvements	11,643,452	984,077	-	12,627,529
Joint tenancy assets	5,342,058	930,250	456,205	5,816,103
Infrastructure	35,004,506	3,016,414	241,887	37,779,033
Machinery, equipment and vehicles	9,710,492	1,091,750	264,540	10,537,702
Total accumulated depreciation	\$ 63,983,119	\$ 6,469,351	\$ 962,632	\$ 69,489,838
Other capital assets, net	\$ 110,411,402	\$ (4,040,583)	\$ 1,013,795	\$ 105,357,024
Net capital assets	\$ 140,625,789	\$ 19,163,047	\$ 1,013,795	\$ 158,775,041
Depreciation is allocated to:				
General government administration		\$ 137,019		
Judicial administration		227,743		
Public safety		1,074,216		
Health and welfare		81,884		
Education		930,250		
Public works		3,345,685		
Parks and recreation		661,864		
Community development		10,690		
Total		\$ 6,469,351		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 7—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 2,149,036	\$ -	\$ -	\$ 2,149,036
Construction in progress	3,537,844	3,445,351	5,024,516	1,958,679
Total capital assets not being depreciated	\$ 5,686,880	\$ 3,445,351	\$ 5,024,516	\$ 4,107,715
Other capital assets:				
Land improvements	\$ -	\$ 976,403	\$ -	\$ 976,403
Buildings and systems	67,844,814	4,122,484	119,168	71,848,130
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	6,710,112	194,804	-	6,904,916
Furniture, machinery and equipment	7,199,570	545,931	227,368	7,518,133
Total other capital assets	\$ 82,418,032	\$ 5,839,622	\$ 346,536	\$ 87,911,118
Accumulated depreciation:				
Buildings and systems	\$ 21,388,651	\$ 1,854,518	\$ 35,751	\$ 23,207,418
Dams and reservoirs	129,588	13,271	-	142,859
Intangible assets	1,389,424	186,998	-	1,576,422
Furniture, machinery and equipment	2,877,975	777,755	190,712	3,465,018
Total accumulated depreciation	\$ 25,785,638	\$ 2,832,542	\$ 226,463	\$ 28,391,717
Other capital assets, net	\$ 56,632,394	\$ 3,007,080	\$ 120,073	\$ 59,519,401
Net capital assets	\$ 62,319,274	\$ 6,452,431	\$ 5,144,589	\$ 63,627,116
Depreciation is allocated to:				
Water operations		\$ 508,577		
Wastewater operations		1,505,927		
Parking garage operations		152,037		
Transit operations		666,001		
Total		\$ 2,832,542		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 472,679	\$ -	\$ -	\$ 472,679
Construction in progress	2,507,177	3,598,926	3,800,822	2,305,281
Total capital assets not being depreciated	\$ 2,979,856	\$ 3,598,926	\$ 3,800,822	\$ 2,777,960
Other capital assets:				
Land improvements	\$ 123,253	\$ 22,880	\$ -	\$ 146,133
Buildings and improvements	26,542,485	5,335,759	-	31,878,244
Machinery, equipment and vehicles	4,337,989	416,467	47,400	4,707,056
Total other capital assets	\$ 31,003,727	\$ 5,775,106	\$ 47,400	\$ 36,731,433
Accumulated depreciation:				
Land improvements	\$ 67,573	\$ 6,163	\$ -	\$ 73,736
Buildings and improvements	11,888,570	1,146,975	-	13,035,545
Machinery, equipment and vehicles	2,611,926	345,972	47,400	2,910,498
Total accumulated depreciation	\$ 14,568,069	\$ 1,499,110	\$ 47,400	\$ 16,019,779
Other capital assets, net	\$ 16,435,658	\$ 4,275,996	\$ -	\$ 20,711,654
Net capital assets	\$ 19,415,514	\$ 7,874,922	\$ 3,800,822	\$ 23,489,614
Depreciation allocated to education		\$ 1,499,110		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 8—Deferred/Unearned Revenue:

Deferred/unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred/unearned revenue is comprised of the following:

		Unearned Revenue	
		Government-wide	
		Statements	
		Governmental	Business-Type
		Activities	Activities
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.		\$ -	\$ 1,838,925
Other		311,468	47,989
Total unearned revenue		\$ 311,468	\$ 1,886,914
		Deferred/Unavailable Revenue	
		Balance	Government-wide
		Sheet	Statements
		Governmental	Governmental
		Funds	Activities
Deferred property tax revenue:			
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.		\$ 592,402	\$ 592,402
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.		412,086	-
Total deferred/unavailable revenue		\$ 1,004,488	\$ 592,402

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 9—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2014	Current Portion
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	\$ 44,689,615	\$ -	\$ 2,118,507	\$ 42,571,108	\$ 2,167,365
General obligation school bonds	38,680,000	-	1,470,000	37,210,000	1,545,000
Add: Unamortized bond premium	2,576,387	-	246,785	2,329,602	225,392
Notes payable	725,000	-	-	725,000	725,000
Landfill post-closure costs	816,463	-	175,746	640,717	-
Compensated absences	3,047,734	1,936,835	1,889,596	3,094,973	1,918,884
Net OPEB obligation	4,229,456	1,197,962	820,948	4,606,470	-
Total	\$ 94,764,655	\$ 3,134,797	\$ 6,721,582	\$ 91,177,870	\$ 6,581,641
Long-term obligations payable from business-type activities:					
General obligation bonds	\$ 16,684,399	\$ -	\$ 996,492	\$ 15,687,907	\$ 1,031,635
Add: Unamortized bond premium	279,741	-	28,188	251,553	27,275
Virginia Resources Authority revenue bonds	545,659	-	545,659	-	-
Compensated absences	194,499	128,630	125,171	197,958	126,942
Net OPEB obligation	398,411	110,460	75,705	433,166	-
Total	\$ 18,102,709	\$ 239,090	\$ 1,771,215	\$ 16,570,584	\$ 1,185,852
Total primary government	\$ 112,867,364	\$ 3,373,887	\$ 8,492,797	\$ 107,748,454	\$ 7,767,493
Component Unit School Board:					
Long-term obligations payable from component unit School Board activities:					
Capital lease	\$ 3,800,000	\$ -	\$ 202,000	\$ 3,598,000	\$ 181,000
Compensated absences	1,062,167	598,913	552,327	1,108,753	576,552
Net OPEB obligation	1,220,718	369,617	201,900	1,388,435	-
Total component unit School Board	\$ 6,082,885	\$ 968,530	\$ 956,227	\$ 6,095,188	\$ 757,552

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 9—Long-term Obligations: (Continued)

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2014:

Year Ending June 30,	General Obligation Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 4,744,000	\$ 4,183,535	\$ 725,000	\$ 10,875	\$ 181,000	\$ 72,320
2016	4,417,000	3,990,152	-	-	200,000	68,682
2017	4,605,000	3,800,195	-	-	212,000	64,662
2018	4,803,000	3,598,835	-	-	225,000	60,401
2019	4,495,000	3,386,692	-	-	238,000	55,878
2020	4,690,000	3,174,438	-	-	251,000	51,094
2021	4,910,000	2,946,570	-	-	266,000	46,049
2022	5,140,000	2,707,412	-	-	272,000	40,703
2023	5,175,000	2,470,388	-	-	278,000	35,235
2024	5,415,000	2,235,557	-	-	283,000	29,648
2025	5,655,000	1,983,733	-	-	289,000	23,959
2026	5,910,000	1,722,219	-	-	295,000	18,150
2027	5,355,000	1,467,842	-	-	301,000	12,221
2028	5,595,000	1,219,415	-	-	307,000	6,170
2029	4,990,000	979,887	-	-	-	-
2030	5,215,000	748,477	-	-	-	-
2031	1,550,000	588,350	-	-	-	-
2032	1,610,000	530,069	-	-	-	-
2033	1,670,000	468,569	-	-	-	-
2034	1,735,000	403,641	-	-	-	-
2035	1,810,000	327,037	-	-	-	-
2036	1,900,000	238,925	-	-	-	-
2037	1,990,000	146,538	-	-	-	-
2038	2,090,015	49,638	-	-	-	-
	<u>\$ 95,469,015</u>	<u>\$ 43,368,114</u>	<u>\$ 725,000</u>	<u>\$ 10,875</u>	<u>\$ 3,598,000</u>	<u>\$ 585,172</u>

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 9—Long-term Obligations: (Continued)

At June 30, 2014, the City's long-term obligations consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
Primary Government:					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	\$ 37,210,000	\$ 1,545,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	7,535,000	495,000
2007E General Obligation Bonds	2008	2028	3.5-5.0%	8,435,015	445,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	1,869,000	444,000
2010A General Obligation Bonds	2010	2030	6.07%	970,000	-
2010B General Obligation Bonds	2010	2028	5.6-5.9%	1,735,000	-
2010C General Obligation Bonds	2010	2023	2.0-4.0%	2,590,000	250,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	35,125,000	1,565,000
Total general obligation bonds				<u>\$ 95,469,015</u>	<u>\$ 4,744,000</u>
Unamortized bond premium:					
2004A General Obligation School Bonds				\$ 842,800	\$ 92,001
2007E General Obligation Bonds				153,215	18,474
2010 General Obligation Bonds				133,578	13,050
2011 General Obligation Bonds				1,451,562	129,142
Total unamortized bond premium				<u>\$ 2,581,155</u>	<u>\$ 252,667</u>
Note payable	2012	2015	3.0%	\$ 725,000	\$ 725,000
Compensated absences				<u>\$ 3,292,931</u>	<u>\$ 2,045,826</u>
Net OPEB obligation				<u>\$ 5,039,636</u>	<u>\$ -</u>
Landfill post-closure costs				<u>\$ 640,717</u>	<u>\$ -</u>
Total primary government				<u><u>\$ 107,748,454</u></u>	<u><u>\$ 7,767,493</u></u>
Component Unit School Board:					
Capital lease	2013	2028	2.0%	\$ 3,598,000	\$ 181,000
Compensated absences				<u>\$ 1,108,753</u>	<u>\$ 576,552</u>
Net OPEB obligation				<u>\$ 1,388,435</u>	<u>\$ -</u>
Total component unit School Board				<u><u>\$ 6,095,188</u></u>	<u><u>\$ 757,552</u></u>

The City's general long-term obligations are guaranteed by the full faith and credit of the City.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant bond covenants.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 9—Long-term Obligations: (Continued)

Conduit Debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2014 totaled approximately \$231,206,200. The City has no responsibility for the repayment of these debt obligations.

Federal Arbitrage Regulations. The City is in compliance with federal arbitrage regulations. Any arbitrage amounts that may be required to be paid are not material to the financial statements.

Note 10—Compensated Absences:

In accordance with GASB Statement 16, Accounting for Compensated Absences, the City and School Board record liabilities for accrued vacation pay and other compensated absences. The following describes the City and School Board policies.

Full-time permanent employees of the City and administrative employees of the School Board are granted vacation benefits in varying amounts to specified maximums depending on tenure.

Sick leave is accrued for each permanent full-time employee of the City and administrative employees of the School Board at the rate of one day for each month of employment in the calendar year.

	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014	Current Portion
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 3,047,734	\$ 1,936,835	\$ 1,889,596	\$ 3,094,973	\$ 1,918,884
Business-type activities	194,499	128,630	125,171	197,958	126,942
Total primary government	\$ 3,242,233	\$ 2,065,465	\$ 2,014,767	\$ 3,292,931	\$ 2,045,826
Component Unit School Board	1,062,167	598,913	552,327	1,108,753	576,552
Total	\$ 4,304,400	\$ 2,664,378	\$ 2,567,094	\$ 4,401,684	\$ 2,622,378

The General Fund is used to liquidate compensated absences and net OPEB obligation for the City's governmental activities and the School Fund is used to liquidate the School Board's compensated absences and net OPEB obligation. The enterprise funds are used to liquidate the compensated absences and net OPEB obligation arising from those operations.

Note 11—Pension Plan:

The City and School Board participate in the Virginia Retirement System defined benefit pension plan.

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees - Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

4. **Retirement Contributions** - Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 1: (CONTINUED)

5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. **Normal Retirement Age** - Age 65.

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 1: (CONTINUED)

- 13. Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.
- 14. Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year following the unreduced retirement eligibility date.

- 15. Exceptions to COLA Effective Dates** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- 16. Disability Coverage** - For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 1: (CONTINUED)

- 17. Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

- 1. Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

- 4. Retirement Contributions** - Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- 5. Creditable Service** - Same as VRS Plan 1—Refer to Section 5.
- 6. Vesting** - Same as VRS Plan 1—Refer to Section 6.
- 7. Calculating the Benefit** - Same as VRS Plan 1—Refer to Section 7.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 2: (CONTINUED)

8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013 and 1.7% on service earned, purchased or granted before January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.
14. **Eligibility** - Same as VRS Plan 1—Refer to Section 14.
15. **Exceptions to COLA Effective Dates** - Same as VRS Plan 1—Refer to Section 15.
16. **Disability Coverage** - For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** - Same as VRS Plan 1—Refer to Section 17.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
 - The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014
3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
 - Members of the State Police Officers’ Retirement System (SPORS)
 - Members of the Virginia Law Officers’ Retirement System (VaLORS)
 - Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN: (CONTINUED)
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3. *Non-Eligible Members: (Continued)

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

- 4. Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. Creditable Service

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN: (CONTINUED)
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6. Vesting: (Continued)

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1—Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 11—Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN: (CONTINUED)

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 17.

Defined Contribution Component - Not Applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 11—Pension Plan: (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for the fiscal year ended 2014 were 14.65% and 7.23% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$2,327,347, \$2,238,832, and \$1,163,375, to the teacher cost-sharing pool for the fiscal years ended June 30, 2014, 2013, and 2012, respectively, and these contributions represented 11.66%, 11.66%, and 6.33% for 2014, 2013, and 2012, respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal year 2014, the City's annual pension cost of \$3,138,165 for VRS was equal to the City's required and actual contributions.

For fiscal year 2014, the School Board's annual pension cost for the Board's non-professional employees was \$86,152, which was equal to the Board's required and actual contributions.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2014	\$ 3,138,165	100%	\$ -
June 30, 2013	3,070,138	100%	-
June 30, 2012	2,193,413	100%	-
School Board Non-Professional:			
June 30, 2014	\$ 86,152	100%	\$ -
June 30, 2013	82,409	100%	-
June 30, 2012	45,854	100%	-

(1) Employer portion only

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 11—Pension Plan: (Continued)

C. Annual Pension Cost: (Continued)

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and the School Board'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 and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the City's plan was 69.35% funded. The actuarial accrued liability for benefits was \$112,975,502, and the actuarial value of assets was \$78,348,536, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,626,966. The covered payroll (annual payroll of active employees covered by the plan) was \$20,780,693, and ratio of the UAAL to the covered payroll was 166.63%.

As of June 30, 2013, the most recent actuarial valuation date, the School Board's plan was 91.79% funded. The actuarial accrued liability for benefits was \$3,717,322, and the actuarial value of assets was \$3,412,235, resulting in an unfunded actuarial accrued liability (UAAL) of \$305,087. The covered payroll (annual payroll of active employees covered by the plan) was \$1,175,699, and ratio of the UAAL to the covered payroll was 25.95%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12—Deferred Compensation Plan:

The City and School Board offer their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City and School employees, permits them to defer the payment of a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred, including the investments and earnings thereon, vest with the employee and are not subject to the claims of the City's general creditors.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 13—Commitments and Contingencies:

State and Federal Programs

Federal programs in which the City and all discretely presented component units participate are audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs are tested for compliance with applicable grant requirements.

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.

Environmental Matters

The City has been named as a potentially responsible party for a portion of the cost of possible remediation of the site of the old City gas plant. The plant was sold in 1959 and has since been sold by the purchaser to another party. In August 1995, a settlement was reached between the City and the current owner which relieved both parties from past actions, and did not involve compensation to either party. However, the agreement did hold open the possibility that either party could pursue future claims against the other if third parties should seek further investigation or remediation of the site.

Counsel believes that it could face material potential liability for this site in the foreseeable future due to the continuing evolution of state and federal laws and policies regarding the remediation of Superfund sites and the liability of third parties.

Construction Commitments

At June 30, 2014, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$12,787,754 at June 30, 2014 including \$7,796,175 for new court construction.

The School Board has outstanding construction contracts and commitments at June 30, 2014 in the amount of \$164,188.

Note 14—Litigation:

The City has been named as defendant in matters involving law enforcement actions and other matters. It is not known what liability, if any, the City faces.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 15—Landfill Post-closure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to post-closure monitoring. The estimated post-closure care cost for the next eleven years is \$640,717 and has been recorded as a long-term liability at June 30, 2014. These amounts are based on what it would cost to perform all post-closure care based on 2014 costs. These costs may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

A summary of the change in this liability is as follows:

Balance at July 1, 2013	\$	816,463
Decrease in estimate		(175,746)
Balance at June 30, 2014	\$	<u>640,717</u>

The City demonstrated financial assurance requirements for closure and post-closure care through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

Note 16—Surety Bonds:

	<u>Amount</u>
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Commonwealth of Virginia, Division of Risk Management:

Public Officials and Law Enforcement, Excess General Liability/Legal Liability	\$ 1,000,000
City Employees - Blanket Bond	300,000
Brenda Wood, Treasurer - Blanket Bond:	
Cash and Securities	750,000
Department of Social Services - Blanket Bond	400,000
Department of Social Services - Public Officials, General Liability	1,000,000
Faithful Performance of Duty Bond:	
Treasurer (Does not include loss of City funds)	500,000
Commissioner of the Revenue	3,000
Clerk of the Circuit Court	3,000,000
Sheriff	30,000
Fredericksburg City School Board:	
Clerk of the School Board	10,000
Deputy Clerk of the School Board	10,000

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 17—Self Insurance/Risk Management:

The City and School Board administer employee health and unemployment insurance programs. The health insurance programs are accounted for in the City's Health Insurance Fund and the School Fund. The unemployment programs are accounted for in the City's General Fund and School Fund.

There were no reductions in insurance coverages from the prior year, and there were no settlements in excess of insurance coverages for the last three years.

Employee Health Insurance

The City and School Board have contracted with private carriers to administer this activity. The City's Health Insurance Fund recognizes revenue from other fund charges and from agencies which participate in the City program. The interfund charges are reported as fund expenditures in the funds that have employees participating in the program. The Health Insurance Fund expenses represent claim payments to the private carrier as well as administrative and reinsurance fees.

The School Board expenditures reflect premium payments to the private carrier. The premium payments are based on the number insured and benefits. The City School Board changed its policy from a self-insured plan to a fully insured plan during fiscal year 1997.

The insurance carrier informed the City of the estimated benefits incurred but not reported. The City has recorded a liability in the Health Insurance Fund for these estimated benefits incurred but not reported for mature claims. In addition, the City has committed fund balance to cover the additional estimated reserves, as detailed in the following:

Internal Service Fund: Liability for estimated claims incurred but not reported	\$	468,802
City General Fund: Committed Fund Balance for estimated reserves		<u>386,962</u>
Total	\$	<u><u>855,764</u></u>

The change in aggregate liabilities for the past three fiscal years is as follows:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims and Payments	End of Fiscal Year Liability
2012	\$ 333,964	\$ 3,636,584	\$ 3,601,464	\$ 369,084
2013	369,084	4,184,066	3,940,112	613,038
2014	613,038	4,522,346	4,666,582	468,802

Unemployment Insurance

The City and School Board are fully self-insured for unemployment claims. The Virginia Employment Commission bills the City and School Board for all unemployment claims. The liability for billed but unpaid claims has been accrued in the respective City and School Board funds. No liability has been recorded for estimated unreported claims. The amount of estimated unreported claims is not expected to be significant.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 17—Self Insurance/Risk Management: (Continued)

Property and Casualty Insurance

The City and School Board contract with private insurance carriers to provide coverages for property damage, employee crime and dishonesty, and general liability. The property coverages are for specific amounts based on values assigned to the insured properties. Liability coverages range from \$1,000,000 to \$10,000,000 depending on the type of coverage.

The City and School Board also contract with the Virginia Municipal League Pool and the School Systems of Virginia Self Insurance Pool, respectively, for its workers compensation coverages. In the event of a loss deficit and depletion of all assets and available insurance of a pool, members may be assessed in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

Note 18—Other Post-employment Benefits—Health Insurance:

City:

A. Plan Description

In addition to the pension benefits described in Note 11, the City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (e.g. 50 years of age and 30 years of continuous service) and complete 10 years of service at the City will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the City will provide 100% supplemental insurance benefits. Individuals employed on or after July 1, 1996, and who retire from City service with full VRS benefits (e.g. 50 years of age and 30 years of continuous service) and complete 15 years of service at the City, will receive \$1.50 per month per year of service (up to a maximum of 30 years of service) towards the individual's cost of coverage. Disabled individuals must complete 5 years of service and be eligible for both VRS and Social Security disability to be eligible for these benefits. The Plan is a single-employer plan. There is not a separate, audited GAAP basis postemployment plan report.

B. Funding Policy

The City establishes employer contribution rates for plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. For participating retirees hired before July 1, 1996 the City pays 100% of the monthly premium. For participating retirees hired on or after July 1, 1996 the City pays \$1.50 per month per year of service (up to a maximum of 30 years of service) towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses can stay in the plan, but must pay the entire premium.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 18—Other Post-employment Benefits—Health Insurance: (Continued)

City: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$	1,289,432
Interest on net OPEB obligation		184,808
Adjustment to annual required contribution		(165,818)
Annual OPEB cost (expense)	\$	1,308,422
Contributions made		(896,653)
Increase in net OPEB obligation	\$	411,769
Net OPEB obligation-beginning of year		4,627,867
Net OPEB obligation-end of year	\$	5,039,636

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 1,308,422	68.53%	\$ 5,039,636
June 30, 2013	1,270,297	65.08%	4,627,867
June 30, 2012	1,355,438	59.44%	4,184,284

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012 is as follows:

Actuarial accrued liability (AAL)	\$	20,305,900
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		20,305,900
Funded ratio (actuarial value of plan assets / AAL)		-
Covered payroll (active plan members)		20,443,300
UAAL as a percentage of covered payroll		99.33%

Note 18—Other Post-employment Benefits—Health Insurance: (Continued)**City: (Continued)****E. Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Cost Method

The projected unit credit (PUC) cost method was used for this valuation. The objective of this method is to fund each participant's benefits under the plan as they would accrue. Under this method the total value of the benefit to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

Interest Assumptions

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.20% initially, reduced by decrements to an ultimate rate of 4.80% after seventy-one years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2012, was thirty years.

	<u>Unfunded</u>
Discount rate	4.00%
Payroll growth	3.75%

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 18—Other Post-employment Benefits—Health Insurance: (Continued)

School Board:

A. Plan Description

The School Board provides post-retirement health care insurance benefits for employees who are eligible. The plan is administered by the School Board. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 50, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan. The plan has no separate financial report.

B. Funding Policy

The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. The School Board also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Again, this is determined annually as part of the budgetary process. For participating retirees the School Board pays 75% of the premium for retirees with 26-29 years of service at the School Board and 100% of the premium for retirees with 30 or more years of service. For retirees with 26-29 years of service the retiree contributes remaining funds towards the monthly premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses can stay in the plan but must pay the full premium.

C. Annual OPEB Cost and Net OPEB Obligation

The School Board's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School Board's net OPEB obligation:

Annual required contribution	\$	364,600
Interest on net OPEB obligation		48,828
Adjustment to annual required contribution		(43,811)
Annual OPEB cost (expense)	\$	<u>369,617</u>
Contributions made		(201,900)
Increase in net OPEB obligation	\$	<u>167,717</u>
Net OPEB obligation-beginning of year		<u>1,220,718</u>
Net OPEB obligation-end of year	\$	<u><u>1,388,435</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 18—Other Post-employment Benefits—Health Insurance: (Continued)

School Board: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 369,617	54.62%	\$ 1,388,435
June 30, 2013	354,180	56.24%	1,220,718
June 30, 2012	458,603	64.04%	1,065,738

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 3,206,600
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	3,206,600
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	19,647,600
UAAL as a percentage of covered payroll	16.32%

E. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 18—Other Post-employment Benefits—Health Insurance: (Continued)

School Board: (Continued)**E. Actuarial Methods and Assumptions: (Continued)****Cost Method**

The projected unit credit (PUC) cost method was used for this valuation. The objective of this method is to fund each participant's benefits under the plan as they would accrue. Under this method the total value of the benefit to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

Interest Assumptions

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.20% initially, reduced by decrements to an ultimate rate of 4.80% after seventy-one years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2012, was thirty years.

	<u>Unfunded</u>
Discount rate	4.00%
Payroll growth	3.75%

Note 19—Health Insurance Credit Program—Other Post-employment Benefit:

A. Plan Description

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 19—Health Insurance Credit Program-Other Post-employment Benefit: (Continued)**A. Plan Description: (Continued)**

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 11.

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2014, 2013, and 2012 were \$119,761, \$114,925, and \$110,030, respectively, and equaled the required contributions for each year.

Note 20—Restatement:

Certain amounts in the beginning net position/fund balance have been restated in fiscal year 2014 as follows:

	Governmental Activities	
Beginning net position, as previously reported	\$	112,496,767
Restatement to reclassify Forfeited Asset Sharing Program Fund		16,864
Beginning net position, as restated	\$	112,513,631

	General Fund	Special Revenue Funds
Beginning fund balance, as previously reported	\$ 27,575,410	\$ 1,778,564
Restatement to reclassify Blight Abatement Fund	(89,235)	89,235
Restatement to reclassify Forfeited Asset Sharing Program Fund	-	16,864
Beginning fund balance, as restated	\$ 27,486,175	\$ 1,884,663

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2014

Note 21—Upcoming GASB Pronouncements:

At June 30, 2014, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the City. The statements which might impact the City are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

The City has not yet determined the effect these GASB Statements will have on its financial statements.

Note 22—Subsequent Event:

On August 1, 2014 the City issued \$6,820,000 of General Obligation Bonds, Series 2014A, with a fixed rate of 2.37% to advance refund \$6,525,000 of General Obligation Bonds, Series 2005B. The City also issued \$6,915,000 of General Obligation Bonds, Series 2014B, with a fixed rate of 2.55% to advance refund \$6,025,000 of General Obligation Bonds, Series 2007E.

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REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 25,906,345	\$ 25,906,345	\$ 26,007,690	\$ 101,345
Public service corporations	840,000	840,000	716,973	(123,027)
Personal property	7,585,000	7,585,000	7,993,852	408,852
Mobile homes	885	885	861	(24)
Machinery and tools	230,500	230,500	205,654	(24,846)
Penalties	225,000	225,000	228,146	3,146
Interest	85,000	85,000	140,807	55,807
Total general property taxes	\$ 34,872,730	\$ 34,872,730	\$ 35,293,983	\$ 421,253
Other local taxes:				
Local sales and use taxes	\$ 10,550,000	\$ 10,550,000	\$ 10,663,183	\$ 113,183
Utility taxes	1,680,000	1,680,000	1,844,379	164,379
Business licenses and rental tax	5,434,170	5,434,170	5,641,614	207,444
Motor vehicle licenses	420,000	420,000	455,246	35,246
Bank stock taxes	750,000	750,000	700,378	(49,622)
Recordation taxes	400,000	400,000	567,244	167,244
Tobacco tax	600,000	600,000	543,916	(56,084)
Amusement tax	350,000	350,000	367,554	17,554
Hotel/lodging taxes	1,200,000	1,200,000	1,149,906	(50,094)
Meals taxes	9,600,000	9,600,000	9,752,120	152,120
Gasoline taxes	171,430	171,430	161,530	(9,900)
Other	130,450	130,450	86,628	(43,822)
Total other local taxes	\$ 31,286,050	\$ 31,286,050	\$ 31,933,698	\$ 647,648
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 694,125	\$ 694,125	\$ 576,437	\$ (117,688)
Animal licenses	11,000	11,000	10,605	(395)
Total permits, privilege fees and licenses	\$ 705,125	\$ 705,125	\$ 587,042	\$ (118,083)
Fines and forfeitures	\$ 450,115	\$ 450,115	\$ 456,150	\$ 6,035
Revenue from use of money and property:				
Revenue from use of money	\$ 100,000	\$ 100,000	\$ 95,375	\$ (4,625)
Revenue from use of property	40,000	40,000	40,220	220
Total revenue from use of money and property	\$ 140,000	\$ 140,000	\$ 135,595	\$ (4,405)
Charges for services:				
Court costs	\$ 101,300	\$ 101,300	\$ 92,025	\$ (9,275)
Commonwealth's Attorney	5,000	5,000	9,513	4,513
Sanitation and waste removal	785,000	785,000	828,049	43,049
Parks and recreation	441,500	441,500	468,439	26,939
Planning and community development	600	600	1,169	569
Fire and rescue services	700,000	700,000	787,368	87,368
Administrative charges	80,000	80,000	109,152	29,152
Total charges for services	\$ 2,113,400	\$ 2,113,400	\$ 2,295,715	\$ 182,315

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 23,000	\$ 23,000	\$ 25,915	\$ 2,915
Souvenir sales	19,000	19,000	27,279	8,279
Donations - parks and recreation	60,000	60,000	50,715	(9,285)
Other	32,500	66,504	62,973	(3,531)
Total miscellaneous revenue	\$ 134,500	\$ 168,504	\$ 166,882	\$ (1,622)
Recovered costs:				
Circuit Court secretaries	\$ 15,000	\$ 15,000	\$ -	\$ (15,000)
Health department	225,000	225,000	254,937	29,937
Social services	115,000	115,000	113,660	(1,340)
Transit	80,000	80,000	85,165	5,165
Other	47,250	68,170	84,968	16,798
Total recovered costs	\$ 482,250	\$ 503,170	\$ 538,730	\$ 35,560
Total revenue from local sources	\$ 70,184,170	\$ 70,239,094	\$ 71,407,795	\$ 1,168,701
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	\$ 125,000	\$ 125,000	\$ 191,091	\$ 66,091
Motor vehicle rental tax	90,000	90,000	126,510	36,510
Communication sales tax	1,825,000	1,825,000	1,787,261	(37,739)
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	11,500	11,500	20,497	8,997
Total noncategorical aid	\$ 3,776,500	\$ 3,776,500	\$ 3,854,192	\$ 77,692
Categorical aid - shared expenses:				
Commonwealth's Attorney	\$ 578,725	\$ 578,725	\$ 603,939	\$ 25,214
Sheriff	479,000	479,000	488,516	9,516
Commissioner of Revenue	131,140	131,140	134,155	3,015
Treasurer	103,215	103,215	97,588	(5,627)
Registrar	38,000	38,000	41,283	3,283
Clerk of the Circuit Court	297,000	297,000	290,314	(6,686)
Total categorical aid - shared expenses	\$ 1,627,080	\$ 1,627,080	\$ 1,655,795	\$ 28,715
Categorical aid - other:				
Street and highway maintenance	\$ 2,440,000	\$ 2,440,000	\$ 2,536,983	\$ 96,983
Law enforcement assistance	814,730	814,730	778,544	(36,186)
Wireless E-911 grants	150,000	150,000	164,857	14,857
Other	6,600	6,600	9,442	2,842
Total categorical aid - other	\$ 3,411,330	\$ 3,411,330	\$ 3,489,826	\$ 78,496
Total revenue from the Commonwealth	\$ 8,814,910	\$ 8,814,910	\$ 8,999,813	\$ 184,903

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Intergovernmental: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public assistance - cost allocation	\$ 40,000	\$ 40,000	\$ 37,574	\$ (2,426)
Total revenue from the Federal Government	\$ 40,000	\$ 40,000	\$ 37,574	\$ (2,426)
Total revenues	\$ 79,039,080	\$ 79,094,004	\$ 80,445,182	\$ 1,351,178
Expenditures				
General government administration:				
Legislative:				
City Council	\$ 203,850	\$ 202,500	\$ 199,417	\$ 3,083
Clerk of Council	105,155	106,505	106,496	9
Total legislative	\$ 309,005	\$ 309,005	\$ 305,913	\$ 3,092
General and financial administration:				
City manager	\$ 674,785	\$ 689,532	\$ 664,426	\$ 25,106
Insurance program	795,100	769,100	707,523	61,577
Human resources	336,700	336,700	318,021	18,679
Independent auditor	68,100	79,100	78,818	282
Commissioner of the revenue	929,615	930,615	907,347	23,268
Board of Real Estate Assessors	7,000	6,000	-	6,000
Equalization Board	5,100	5,100	-	5,100
Treasurer	802,980	786,980	768,967	18,013
Fiscal affairs	651,375	651,375	643,640	7,735
Information technology	1,103,490	1,120,362	1,073,189	47,173
Copying and postage	27,850	27,850	16,243	11,607
Safety program	99,440	99,440	90,864	8,576
Legal services	344,895	379,945	379,876	69
Total general and financial administration	\$ 5,846,430	\$ 5,882,099	\$ 5,648,914	\$ 233,185
Board of elections:				
Registrar and electoral board	\$ 215,145	\$ 223,345	\$ 223,248	\$ 97
Total general government administration	\$ 6,370,580	\$ 6,414,449	\$ 6,178,075	\$ 236,374
Judicial administration:				
Courts:				
Circuit Court	\$ 104,550	\$ 104,550	\$ 78,534	\$ 26,016
General District Court	30,450	30,450	23,481	6,969
Special magistrates	13,000	13,000	7,665	5,335
Juvenile and Domestic Relations Court	17,800	17,800	13,259	4,541
Clerk of the Circuit Court	775,225	738,880	657,800	81,080
Sheriff	1,856,090	1,863,456	1,842,219	21,237
JDR services	74,605	74,605	74,605	-
Juries	29,000	29,000	25,990	3,010
Court appointed attorney	13,000	13,000	6,913	6,087
Total courts	\$ 2,913,720	\$ 2,884,741	\$ 2,730,466	\$ 154,275

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	\$ 1,165,370	\$ 1,165,370	\$ 1,147,214	\$ 18,156
Total judicial administration	\$ 4,079,090	\$ 4,050,111	\$ 3,877,680	\$ 172,431
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 7,571,315	\$ 7,482,950	\$ 7,402,810	\$ 80,140
Auxiliary police	8,300	8,300	7,715	585
Total law enforcement and traffic control	\$ 7,579,615	\$ 7,491,250	\$ 7,410,525	\$ 80,725
Fire and rescue:				
Fire department	\$ 4,630,020	\$ 4,612,920	\$ 4,580,224	\$ 32,696
Rescue services	257,040	257,040	257,040	-
Emergency medical services	893,275	910,375	905,746	4,629
Hazardous materials	29,680	36,680	36,389	291
E-911 communications	1,143,430	1,188,680	1,179,675	9,005
Total fire and rescue	\$ 6,953,445	\$ 7,005,695	\$ 6,959,074	\$ 46,621
Correction and detention:				
Juvenile Detention Center	\$ 307,000	\$ 327,396	\$ 327,211	\$ 185
Rappahannock Security Center	3,384,045	3,384,045	3,381,710	2,335
Prisoner extradition	-	13,920	13,917	3
Total correction and detention	\$ 3,691,045	\$ 3,725,361	\$ 3,722,838	\$ 2,523
Inspections:				
Building and development services	\$ 922,950	\$ 847,950	\$ 784,890	\$ 63,060
Other protection:				
Animal control	\$ 104,330	\$ 104,330	\$ 98,012	\$ 6,318
Medical Examiner	1,200	1,200	260	940
Total other protection	\$ 105,530	\$ 105,530	\$ 98,272	\$ 7,258
Total public safety	\$ 19,252,585	\$ 19,175,786	\$ 18,975,599	\$ 200,187
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 776,645	\$ 775,149	\$ 775,128	\$ 21
Street maintenance	1,190,000	1,172,862	1,155,090	17,772
Drainage	249,120	246,420	230,377	16,043
Street lights	365,000	391,480	391,478	2
Snow removal	119,195	185,433	185,376	57
Industrial park rail spur	15,500	15,500	14,884	616
Traffic engineering	744,915	759,915	745,103	14,812
Shop and garage	1,306,780	1,252,955	1,234,869	18,086
Graphics	87,395	87,795	83,684	4,111
Total maintenance of streets, highways, bridges and sidewalks	\$ 4,854,550	\$ 4,887,509	\$ 4,815,989	\$ 71,520

Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 779,140	\$ 732,410	\$ 706,354	\$ 26,056
Tree purchase program	65,000	80,166	73,901	6,265
Refuse collection	633,280	686,665	684,742	1,923
Refuse disposal	197,950	146,950	142,556	4,394
Recycling collection	115,575	147,690	146,906	784
Total sanitation and waste removal	\$ 1,790,945	\$ 1,793,881	\$ 1,754,459	\$ 39,422
Maintenance of buildings and grounds:				
General properties	\$ 1,986,600	\$ 1,940,459	\$ 1,931,062	\$ 9,397
Total public works	\$ 8,632,095	\$ 8,621,849	\$ 8,501,510	\$ 120,339
Health and welfare:				
Health:				
Supplement to local health department	\$ 414,280	\$ 414,280	\$ 414,280	\$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	\$ 197,065	\$ 197,065	\$ 197,065	\$ -
Social services:				
Other contributions	\$ 340,170	\$ 385,424	\$ 365,902	\$ 19,522
Total health and welfare	\$ 951,515	\$ 996,769	\$ 977,247	\$ 19,522
Education:				
Community colleges	\$ 43,325	\$ 43,325	\$ 43,325	\$ -
Appropriations to public school system	26,810,500	26,810,500	26,810,500	-
Total education	\$ 26,853,825	\$ 26,853,825	\$ 26,853,825	\$ -
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 575,430	\$ 610,430	\$ 609,185	\$ 1,245
Supervision	611,065	661,065	661,063	2
Maintenance	1,076,845	1,077,345	1,057,303	20,042
Dixon Park swimming pool	140,960	130,960	116,806	14,154
Total parks and recreation	\$ 2,404,300	\$ 2,479,800	\$ 2,444,357	\$ 35,443
Library:				
Regional library	\$ 1,258,485	\$ 1,258,485	\$ 1,258,485	\$ -
Cultural:				
Museums	\$ 115,975	\$ 115,975	\$ 115,975	\$ -
Total parks, recreation and cultural	\$ 3,778,760	\$ 3,854,260	\$ 3,818,817	\$ 35,443

Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures: (continued)				
Community development:				
Planning and community development:				
Planning	\$ 558,250	\$ 651,657	\$ 629,778	\$ 21,879
Zoning Appeals Board	1,400	1,400	-	1,400
Community development	138,070	138,070	134,656	3,414
Architectural Review Board	2,000	2,000	-	2,000
Clean and Green Commission	3,000	3,000	954	2,046
Commuter rail	50,000	50,000	40,916	9,084
Economic development and tourism	1,014,350	1,009,945	935,769	74,176
Total planning and community development	\$ 1,767,070	\$ 1,856,072	\$ 1,742,073	\$ 113,999
Total community development	\$ 1,767,070	\$ 1,856,072	\$ 1,742,073	\$ 113,999
Total expenditures	\$ 71,685,520	\$ 71,823,121	\$ 70,924,826	\$ 898,295
Excess (deficiency) of revenues over expenditures	\$ 7,353,560	\$ 7,270,883	\$ 9,520,356	\$ 2,249,473
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	\$ 12,500	\$ 12,500	\$ 13,658	\$ 1,158
Transfers in	585,000	585,000	585,000	-
Transfers out	(8,859,660)	(10,322,660)	(10,320,084)	2,576
Total other financing sources (uses)	\$ (8,262,160)	\$ (9,725,160)	\$ (9,721,426)	\$ 3,734
Net change in fund balance	\$ (908,600)	\$ (2,454,277)	\$ (201,070)	\$ 2,253,207
Fund balance, beginning of year, as restated	908,600	2,454,277	27,486,175	25,031,898
Fund balance, end of year	\$ -	\$ -	\$ 27,285,105	\$ 27,285,105

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Schedule of Pension and OPEB Funding Progress

Virginia Retirement System

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2013	\$ 78,348,536	\$ 112,975,502	\$ 34,626,966	69.35%	\$ 20,780,693	166.63%
June 30, 2012	75,920,725	107,119,698	31,198,973	70.87%	20,272,385	153.90%
June 30, 2011	75,980,646	102,954,904	26,974,258	73.80%	20,202,383	133.52%

School Board Non-Professional:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2013	\$ 3,412,235	\$ 3,717,322	\$ 305,087	91.79%	\$ 1,175,699	25.95%
June 30, 2012	3,207,338	3,519,427	312,089	91.13%	1,125,076	27.74%
June 30, 2011	3,100,730	3,352,248	251,518	92.50%	1,087,209	23.13%

Other Postemployment Benefits

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 20,305,900	\$ 20,305,900	0.00%	\$ 20,443,300	99.33%
January 1, 2010	-	19,834,600	19,834,600	0.00%	20,997,500	94.46%
July 1, 2008	-	24,752,000	24,752,000	0.00%	21,014,941	117.78%

School Board:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 3,206,600	\$ 3,206,600	0.00%	\$ 19,647,600	16.32%
January 1, 2010	-	4,218,700	4,218,700	0.00%	21,140,600	19.96%
July 1, 2008	-	5,244,000	5,244,000	0.00%	18,267,204	28.71%

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OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule
 New Court Construction Fund
 Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 32,459	\$ 32,459
Charges for services:				
Courthouse construction fees	\$ 50,000	\$ 50,000	\$ 56,570	\$ 6,570
Total revenues	\$ 50,000	\$ 50,000	\$ 89,029	\$ 39,029
Expenditures				
Capital projects:				
New court construction	\$ 16,342,125	\$ 23,690,316	\$ 18,137,768	\$ 5,552,548
Total expenditures	\$ 16,342,125	\$ 23,690,316	\$ 18,137,768	\$ 5,552,548
Excess (deficiency) of revenues over (under) expenditures	\$ (16,292,125)	\$ (23,640,316)	\$ (18,048,739)	\$ 5,591,577
Other Financing Sources (Uses)				
Issuance of long-term debt	\$ 16,292,125	\$ 16,292,125	\$ -	\$ (16,292,125)
Net change in fund balance	\$ -	\$ (7,348,191)	\$ (18,048,739)	\$ (10,700,548)
Fund balance, beginning of year	-	7,348,191	27,160,718	19,812,527
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,111,979</u>	<u>\$ 9,111,979</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 2,039,933	\$ 4,951,247	\$ 2,462,142	\$ 9,453,322
Accrued revenue	6,559	84,768	-	91,327
Prepaid items	4,569	-	-	4,569
Due from other governments	865,409	2,802,375	-	3,667,784
Total assets	<u>\$ 2,916,470</u>	<u>\$ 7,838,390</u>	<u>\$ 2,462,142</u>	<u>\$ 13,217,002</u>
Liabilities:				
Reconciled overdraft	\$ 35,736	\$ -	\$ -	\$ 35,736
Accounts payable	243,156	1,693,313	-	1,936,469
Accrued liabilities	111,311	225,569	-	336,880
Unearned revenue	218,991	-	-	218,991
Total liabilities	<u>\$ 609,194</u>	<u>\$ 1,918,882</u>	<u>\$ -</u>	<u>\$ 2,528,076</u>
Fund Balances:				
Nonspendable	\$ 4,569	\$ -	\$ -	\$ 4,569
Restricted	336,280	-	-	336,280
Committed	1,966,427	1,666,924	2,462,142	6,095,493
Assigned	-	4,252,584	-	4,252,584
Total fund balances	<u>\$ 2,307,276</u>	<u>\$ 5,919,508</u>	<u>\$ 2,462,142</u>	<u>\$ 10,688,926</u>
Total liabilities and fund balances	<u>\$ 2,916,470</u>	<u>\$ 7,838,390</u>	<u>\$ 2,462,142</u>	<u>\$ 13,217,002</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Other local taxes	\$ -	\$ 955,000	\$ -	\$ 955,000
Permits, privilege fees and regulatory licenses	11,402	-	-	11,402
Fines and forfeitures	-	21,011	-	21,011
Use of money and property	246	293,809	-	294,055
Charges for services	48,788	-	-	48,788
Miscellaneous	86,704	20,672	-	107,376
Recovered costs	406,559	14,450	-	421,009
Intergovernmental:				
Revenue from the Commonwealth	2,550,117	1,818,190	1,703,739	6,072,046
Revenue from the Federal Government	2,658,509	1,667,800	-	4,326,309
Total revenues	\$ 5,762,325	\$ 4,790,932	\$ 1,703,739	\$ 12,256,996
Expenditures				
Current:				
Judicial administration	\$ 181,216	\$ -	\$ -	\$ 181,216
Public safety	378,709	-	-	378,709
Public works	217,943	-	-	217,943
Health and welfare	5,901,369	-	-	5,901,369
Parks, recreation and cultural	64,923	-	-	64,923
Community development	860,327	-	-	860,327
Capital projects	-	6,906,548	-	6,906,548
Debt service:				
Principal payments	-	-	3,588,507	3,588,507
Interest and fiscal charges	-	-	3,658,596	3,658,596
Total expenditures	\$ 7,604,487	\$ 6,906,548	\$ 7,247,103	\$ 21,758,138
Excess (deficiency) of revenues over (under) expenditures	\$ (1,842,162)	\$ (2,115,616)	\$ (5,543,364)	\$ (9,501,142)
Other financing sources (uses)				
Transfers in	\$ 2,264,775	\$ 875,000	\$ 7,199,702	\$ 10,339,477
Net change in fund balance	\$ 422,613	\$ (1,240,616)	\$ 1,656,338	\$ 838,335
Fund balances, beginning of year, as restated	1,884,663	7,160,124	805,804	9,850,591
Fund balances, end of year	\$ 2,307,276	\$ 5,919,508	\$ 2,462,142	\$ 10,688,926

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2014

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
Assets:								
Cash and cash equivalents	\$ -	\$ 707,690	\$ 279,318	\$ 262,519	\$ 336,027	\$ 272,538	\$ 181,841	\$ 2,039,933
Accrued revenue	1,750	4,037	-	-	253	-	519	6,559
Prepaid items	3,470	1,099	-	-	-	-	-	4,569
Due from other governments	376,493	128,961	359,955	-	-	-	-	865,409
Total assets	<u>\$ 381,713</u>	<u>\$ 841,787</u>	<u>\$ 639,273</u>	<u>\$ 262,519</u>	<u>\$ 336,280</u>	<u>\$ 272,538</u>	<u>\$ 182,360</u>	<u>\$ 2,916,470</u>
Liabilities:								
Reconciled overdraft	\$ 35,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,736
Accounts payable	11,221	97,452	134,398	-	-	-	85	243,156
Accrued liabilities	64,964	8,996	1,931	-	-	35,420	-	111,311
Unearned revenue	-	20,000	-	-	-	198,991	-	218,991
Total liabilities	<u>\$ 111,921</u>	<u>\$ 126,448</u>	<u>\$ 136,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,411</u>	<u>\$ 85</u>	<u>\$ 609,194</u>
Fund Balances:								
Nonspendable	\$ 3,470	\$ 1,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,569
Restricted	-	-	-	-	336,280	-	-	336,280
Committed	266,322	714,240	502,944	262,519	-	38,127	182,275	1,966,427
Total fund balances	<u>\$ 269,792</u>	<u>\$ 715,339</u>	<u>\$ 502,944</u>	<u>\$ 262,519</u>	<u>\$ 336,280</u>	<u>\$ 38,127</u>	<u>\$ 182,275</u>	<u>\$ 2,307,276</u>
Total liabilities and fund balances	<u>\$ 381,713</u>	<u>\$ 841,787</u>	<u>\$ 639,273</u>	<u>\$ 262,519</u>	<u>\$ 336,280</u>	<u>\$ 272,538</u>	<u>\$ 182,360</u>	<u>\$ 2,916,470</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2014

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
Revenues								
Permits, privilege fees and regulatory licenses	\$ -	\$ 11,402	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,402
Use of money and property	-	112	-	-	-	134	-	246
Charges for services	-	2,850	-	-	45,938	-	-	48,788
Miscellaneous	-	86,704	-	-	-	-	-	86,704
Recovered costs	56,265	345,583	-	-	-	4,711	-	406,559
Intergovernmental:								
Revenue from the Commonwealth	1,383,528	216,071	923,630	-	-	26,888	-	2,550,117
Revenue from the Federal Government	1,977,171	555,479	53,690	-	-	72,169	-	2,658,509
Total revenues	\$ 3,416,964	\$ 1,218,201	\$ 977,320	\$ -	\$ 45,938	\$ 103,902	\$ -	\$ 5,762,325
Expenditures								
Judicial administration	\$ -	\$ 181,216	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181,216
Public safety	-	296,070	-	-	-	82,639	-	378,709
Public works	-	210,983	-	-	-	-	6,960	217,943
Health and welfare	4,346,445	-	1,554,924	-	-	-	-	5,901,369
Parks, recreation and cultural	-	64,923	-	-	-	-	-	64,923
Community development	-	860,327	-	-	-	-	-	860,327
Total expenditures	\$ 4,346,445	\$ 1,613,519	\$ 1,554,924	\$ -	\$ -	\$ 82,639	\$ 6,960	\$ 7,604,487
Excess (deficiency) of revenues over (under) expenditures	\$ (929,481)	\$ (395,318)	\$ (577,604)	\$ -	\$ 45,938	\$ 21,263	\$ (6,960)	\$ (1,842,162)
Other financing sources (uses)								
Transfers in	\$ 1,011,670	\$ 360,785	\$ 792,320	\$ -	\$ -	\$ -	\$ 100,000	\$ 2,264,775
Net change in fund balance	\$ 82,189	\$ (34,533)	\$ 214,716	\$ -	\$ 45,938	\$ 21,263	\$ 93,040	\$ 422,613
Fund balances, beginning of year, as restated	187,603	749,872	288,228	262,519	290,342	16,864	89,235	1,884,663
Fund balances, end of year	\$ 269,792	\$ 715,339	\$ 502,944	\$ 262,519	\$ 336,280	\$ 38,127	\$ 182,275	\$ 2,307,276

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2014

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Assets:				
Cash and cash equivalents	\$ 2,847,773	\$ 858,790	\$ 1,244,684	\$ 4,951,247
Accrued revenue	28,256	28,256	28,256	84,768
Due from other governments	<u>1,721,739</u>	<u>1,080,636</u>	<u>-</u>	<u>2,802,375</u>
Total assets	<u>\$ 4,597,768</u>	<u>\$ 1,967,682</u>	<u>\$ 1,272,940</u>	<u>\$ 7,838,390</u>
Liabilities:				
Accounts payable	\$ 1,148,367	\$ 544,946	\$ -	\$ 1,693,313
Accrued liabilities	<u>113,680</u>	<u>111,889</u>	<u>-</u>	<u>225,569</u>
Total liabilities	<u>\$ 1,262,047</u>	<u>\$ 656,835</u>	<u>\$ -</u>	<u>\$ 1,918,882</u>
Fund Balances:				
Committed	\$ 1,239,317	\$ 427,607	\$ -	\$ 1,666,924
Assigned	<u>2,096,404</u>	<u>883,240</u>	<u>1,272,940</u>	<u>4,252,584</u>
Total fund balances	<u>\$ 3,335,721</u>	<u>\$ 1,310,847</u>	<u>\$ 1,272,940</u>	<u>\$ 5,919,508</u>
Total liabilities and fund balances	<u>\$ 4,597,768</u>	<u>\$ 1,967,682</u>	<u>\$ 1,272,940</u>	<u>\$ 7,838,390</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2014

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Revenues				
Other local taxes	\$ 955,000	\$ -	\$ -	\$ 955,000
Fines and forfeitures	21,011	-	-	21,011
Use of money and property	70,479	152,937	70,393	293,809
Miscellaneous	20,672	-	-	20,672
Recovered costs	-	14,450	-	14,450
Intergovernmental:				
Revenue from the Commonwealth	1,469,457	326,863	21,870	1,818,190
Revenue from the Federal Government	45,560	1,622,240	-	1,667,800
Total revenues	<u>\$ 2,582,179</u>	<u>\$ 2,116,490</u>	<u>\$ 92,263</u>	<u>\$ 4,790,932</u>
Expenditures				
Capital projects	<u>\$ 3,966,225</u>	<u>\$ 2,605,997</u>	<u>\$ 334,326</u>	<u>\$ 6,906,548</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,384,046)</u>	<u>\$ (489,507)</u>	<u>\$ (242,063)</u>	<u>\$ (2,115,616)</u>
Other financing sources (uses)				
Transfers in	<u>\$ 596,000</u>	<u>\$ 279,000</u>	<u>\$ -</u>	<u>\$ 875,000</u>
Net change in fund balance	<u>\$ (788,046)</u>	<u>\$ (210,507)</u>	<u>\$ (242,063)</u>	<u>\$ (1,240,616)</u>
Fund balances, beginning of year	<u>4,123,767</u>	<u>1,521,354</u>	<u>1,515,003</u>	<u>7,160,124</u>
Fund balances, end of year	<u><u>\$ 3,335,721</u></u>	<u><u>\$ 1,310,847</u></u>	<u><u>\$ 1,272,940</u></u>	<u><u>\$ 5,919,508</u></u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2014

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Revenues			
Intergovernmental:			
Revenue from the Commonwealth	\$ -	\$ 1,703,739	\$ 1,703,739
Total revenues	\$ -	\$ 1,703,739	\$ 1,703,739
Expenditures			
Debt service:			
Principal	\$ 2,025,465	\$ 1,563,042	\$ 3,588,507
Interest and fiscal charges	1,746,540	1,912,056	3,658,596
Total expenditures	\$ 3,772,005	\$ 3,475,098	\$ 7,247,103
Excess (deficiency) of revenues over (under) expenditures	\$ (3,772,005)	\$ (1,771,359)	\$ (5,543,364)
Other financing sources (uses)			
Transfers in	\$ 3,772,005	\$ 3,427,697	\$ 7,199,702
Net change in fund balance	\$ -	\$ 1,656,338	\$ 1,656,338
Fund balances, beginning of year	-	805,804	805,804
Fund balances, end of year	\$ -	\$ 2,462,142	\$ 2,462,142

CITY OF FREDERICKSBURG, VIRGINIA

Combining Statement of Fiduciary Net Position - Fiduciary Funds
At June 30, 2014

	Criminal Justice Academy	Special Welfare	Court Service Unit	Rappahannock Area Youth Commission	Revenue Maximization
Assets:					
Cash and cash equivalents	\$ 49,109	\$ 26,655	\$ 148,578	\$ 145,643	\$ 20,451
Accounts receivable	5,594	-	-	74,607	-
Prepaid items	12,625	-	-	7,507	-
Total assets	<u>\$ 67,328</u>	<u>\$ 26,655</u>	<u>\$ 148,578</u>	<u>\$ 227,757</u>	<u>\$ 20,451</u>
Liabilities:					
Accounts payable	\$ 7,044	\$ -	\$ 17,102	\$ 28,650	\$ -
Accrued liabilities	27,800	-	727	-	-
Unearned revenue	10,000	-	-	-	-
Amounts held for others	22,484	26,655	130,749	199,107	20,451
Total liabilities	<u>\$ 67,328</u>	<u>\$ 26,655</u>	<u>\$ 148,578</u>	<u>\$ 227,757</u>	<u>\$ 20,451</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Exhibit 23

Community Development Authority	Total
\$ 345,947	\$ 736,383
-	80,201
-	20,132
\$ 345,947	\$ 836,716
\$ -	\$ 52,796
-	28,527
-	10,000
345,947	745,393
\$ 345,947	\$ 836,716
\$ -	\$ -

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Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2014

	Balance July 1, 2013 As Restated	Additions	Deductions	Balance June 30, 2014
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	\$ 88,203	\$ 49,109	\$ 88,203	\$ 49,109
Accounts receivable	18,217	5,594	18,217	5,594
Prepaid items	13,098	12,625	13,098	12,625
Total assets	<u>\$ 119,518</u>	<u>\$ 67,328</u>	<u>\$ 119,518</u>	<u>\$ 67,328</u>
Liabilities:				
Accounts payable	\$ 9,948	\$ 7,044	\$ 9,948	\$ 7,044
Accrued liabilities	13,064	27,800	13,064	27,800
Unearned revenue	-	10,000	-	10,000
Amounts held for others	96,506	22,484	96,506	22,484
Total liabilities	<u>\$ 119,518</u>	<u>\$ 67,328</u>	<u>\$ 119,518</u>	<u>\$ 67,328</u>
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	\$ 26,432	\$ 22,488	\$ 22,265	\$ 26,655
Liabilities:				
Amounts held for others	\$ 26,432	\$ 22,488	\$ 22,265	\$ 26,655
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	\$ 143,942	\$ 211,214	\$ 206,578	\$ 148,578
Liabilities:				
Accounts payable	\$ 4,455	\$ 17,102	\$ 4,455	\$ 17,102
Accrued liabilities	-	727	-	727
Amounts held for others	139,487	193,385	202,123	130,749
Total liabilities	<u>\$ 143,942</u>	<u>\$ 211,214</u>	<u>\$ 206,578</u>	<u>\$ 148,578</u>

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2014

	Balance July 1, 2013 As Restated	Additions	Deductions	Balance June 30, 2014
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	\$ 104,625	\$ 687,676	\$ 646,658	\$ 145,643
Accounts receivable	43,250	74,607	43,250	74,607
Prepaid items	7,231	7,507	7,231	7,507
Total assets	<u>\$ 155,106</u>	<u>\$ 769,790</u>	<u>\$ 697,139</u>	<u>\$ 227,757</u>
Liabilities:				
Accounts payable	\$ 29,549	\$ 28,650	\$ 29,549	\$ 28,650
Amounts held for others	125,557	741,140	667,590	199,107
Total liabilities	<u>\$ 155,106</u>	<u>\$ 769,790</u>	<u>\$ 697,139</u>	<u>\$ 227,757</u>
REVENUE MAXIMIZATION				
Assets:				
Cash and cash equivalents	<u>\$ 20,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,451</u>
Liabilities:				
Amounts held for others	<u>\$ 20,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,451</u>
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	<u>\$ 280,421</u>	<u>\$ 690,771</u>	<u>\$ 625,245</u>	<u>\$ 345,947</u>
Liabilities:				
Amounts held for others	<u>\$ 280,421</u>	<u>\$ 690,771</u>	<u>\$ 625,245</u>	<u>\$ 345,947</u>
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 664,074	\$ 1,661,258	\$ 1,588,949	\$ 736,383
Accounts receivable	61,467	80,201	61,467	80,201
Prepaid items	20,329	20,132	20,329	20,132
Total assets	<u>\$ 745,870</u>	<u>\$ 1,761,591</u>	<u>\$ 1,670,745</u>	<u>\$ 836,716</u>
Liabilities:				
Accounts payable	\$ 43,952	\$ 52,796	\$ 43,952	\$ 52,796
Accrued liabilities	13,064	28,527	13,064	28,527
Unearned revenue	-	10,000	-	10,000
Amounts held for others	688,854	1,670,268	1,613,729	745,393
Total liabilities	<u>\$ 745,870</u>	<u>\$ 1,761,591</u>	<u>\$ 1,670,745</u>	<u>\$ 836,716</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Recovered costs	\$ 32,475	\$ 32,475	\$ 56,265	\$ 23,790
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	\$ 1,419,252	\$ 1,609,252	\$ 1,383,528	\$ (225,724)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 1,650,313	\$ 1,794,313	\$ 1,977,171	\$ 182,858
Total revenues	\$ 3,102,040	\$ 3,436,040	\$ 3,416,964	\$ (19,076)
Expenditures				
Health and welfare	\$ 4,150,050	\$ 4,484,050	\$ 4,346,445	\$ 137,605
State, Federal and Local Grants Fund				
Revenues				
Permits & other licenses	\$ 21,500	\$ 21,500	\$ 11,402	\$ (10,098)
Revenue from use of money and property:				
Use of money and property	\$ -	\$ -	\$ 112	\$ 112
Miscellaneous	\$ 151,000	\$ 151,000	\$ 86,704	\$ (64,296)
Charges for services:				
Parks and recreation fees	\$ -	\$ -	\$ 2,850	\$ 2,850
Recovered costs:				
Stafford and Spotsylvania Counties	\$ 342,000	\$ 342,000	\$ 342,000	\$ -
Other	-	-	3,583	3,583
Total recovered costs	\$ 342,000	\$ 342,000	\$ 345,583	\$ 3,583
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Hazardous materials grant	25,000	25,000	30,000	5,000
Fire services program	64,925	64,925	72,938	8,013
VA domestic violence victim fund	40,000	40,000	30,000	(10,000)
Victim-witness program	15,325	15,325	30,500	15,175
Four-for-life grant	25,000	25,000	28,049	3,049
Other	23,110	51,126	19,584	(31,542)
Total revenue from the Commonwealth	\$ 198,360	\$ 226,376	\$ 216,071	\$ (10,305)
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 197,190	\$ 197,190	\$ 149,246	\$ (47,944)
Brownfields EPA grant	-	151,900	200,212	48,312
Community development block grants	116,610	116,610	206,021	89,411
Total revenue from the Federal Government	\$ 313,800	\$ 465,700	\$ 555,479	\$ 89,779
Total revenues	\$ 1,026,660	\$ 1,206,576	\$ 1,218,201	\$ 11,625

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures				
Judicial administration:				
Victim-witness	\$ 128,465	\$ 128,465	\$ 126,171	\$ 2,294
Domestic violence victim fund grant	67,540	67,540	53,120	14,420
Library of Virginia grant	-	-	1,925	(1,925)
Total judicial administration	\$ 196,005	\$ 196,005	\$ 181,216	\$ 14,789
Public safety:				
Hazardous materials response program	\$ 25,000	\$ 25,000	\$ 13,401	\$ 11,599
Fire services program	64,925	76,725	76,141	584
Rescue Four for Life	25,000	25,000	28,049	(3,049)
VDH OEMS grant	-	10,127	10,127	-
LEMPG	10,860	-	-	-
Crime prevention	-	3,835	750	3,085
Domestic violence	-	761	343	418
ICAC grant	-	6,000	8,413	(2,413)
Community projects	-	7,948	3,543	4,405
JAG formula grant	14,995	35,395	23,256	12,139
AFIS grant	86,050	86,050	84,700	1,350
Local emergency performance grant	-	10,860	10,369	491
COPS grant	67,550	67,550	26,554	40,996
DMV grants	12,250	16,100	10,424	5,676
Total public safety	\$ 306,630	\$ 371,351	\$ 296,070	\$ 75,281
Public works:				
Brownfields EPA grant	\$ -	\$ 151,900	\$ 210,983	\$ (59,083)
Parks, recreation and cultural:				
Soap Box Derby	\$ 28,000	\$ 28,000	\$ 23,390	\$ 4,610
Starfire drill team	25,000	25,000	6,968	18,032
Farmers' market	26,500	26,500	18,694	7,806
Fredericksburg Arts Commission	25,000	25,000	12,540	12,460
Other	25,000	25,000	3,331	21,669
Total parks, recreation and cultural	\$ 129,500	\$ 129,500	\$ 64,923	\$ 64,577
Community development:				
Community development block grant	\$ 179,310	\$ 179,310	\$ 230,870	\$ (51,560)
First Night celebration	63,000	63,000	66,609	(3,609)
Regional consumer marketing	363,000	467,457	426,494	40,963
Regional group tourism	150,000	164,857	132,908	31,949
Other	40,000	40,000	3,446	36,554
Total community development	\$ 795,310	\$ 914,624	\$ 860,327	\$ 54,297
Total expenditures	\$ 1,427,445	\$ 1,763,380	\$ 1,613,519	\$ 149,861

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
Comprehensive Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	\$ 1,158,840	\$ 1,158,840	\$ 923,630	\$ (235,210)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 22,000	\$ 22,000	\$ 53,690	\$ 31,690
Total revenues	\$ 1,180,840	\$ 1,180,840	\$ 977,320	\$ (203,520)
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	\$ 1,973,160	\$ 1,973,160	\$ 1,554,924	\$ 418,236
Courthouse Maintenance Fund				
Revenues				
Charges for services:				
Courthouse maintenance fees	\$ -	\$ -	\$ 45,938	\$ 45,938
Blight Abatement Fund				
Expenditures				
Public works:				
Blight abatement	\$ 100,000	\$ 100,000	\$ 6,960	\$ 93,040
Forfeited Asset Sharing Program Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 134	\$ 134
Recovered costs	\$ -	\$ -	\$ 4,711	\$ 4,711
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Forfeited asset sharing program	\$ -	\$ -	\$ 26,888	\$ 26,888
Revenue from the Federal Government:				
Categorical aid:				
Forfeited asset sharing program	\$ -	\$ 267,025	\$ 72,169	\$ (194,856)
Total revenues	\$ -	\$ 267,025	\$ 103,902	\$ (163,123)
Expenditures				
Public safety:				
Forfeited asset sharing program	\$ -	\$ 286,704	\$ 82,639	\$ (204,065)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 255,000	\$ 1,440,000	\$ 955,000	\$ (485,000)
Fines and forfeitures	\$ 25,000	\$ 25,000	\$ 21,011	\$ (3,989)
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 70,479	\$ 70,479
Miscellaneous	\$ -	\$ -	\$ 20,672	\$ 20,672
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	\$ -	\$ 1,855,299	\$ 1,469,457	\$ (385,842)
Revenue from the Federal Government:				
Categorical aid:				
VDOT grants	\$ -	\$ 1,051,690	\$ 3,763	\$ (1,047,927)
FEMA grant	-	-	41,797	41,797
Total revenue from the Federal Government	\$ -	\$ 1,051,690	\$ 45,560	\$ (1,006,130)
Total revenues	\$ 280,000	\$ 4,371,989	\$ 2,582,179	\$ (1,789,810)
Expenditures				
Capital projects:				
Annual pavement rehabilitation	\$ 800,000	\$ 2,003,350	\$ 1,609,957	\$ 393,393
Culvert repair	100,000	100,000	48,212	51,788
Salt storage facility	-	482,314	24,089	458,225
Signalization	-	46,650	-	46,650
Sophia & William Street intersection	-	130,483	-	130,483
Traffic signal improvement - pedestrian sign	-	96,360	-	96,360
Riverfront Park	-	194,185	133,888	60,297
Martingale subdivision bond forfeiture	-	-	3,838	(3,838)
2003 Lafayette Boulevard bond forfeiture	-	-	140	(140)
Lafayette at Kenmore roundabout	-	75,000	-	75,000
Fall Hill Avenue bridge over I-95	-	1,090,378	4,703	1,085,675
Fall Hill Avenue canal bridge	-	2,258,350	2,141,398	116,952
Total capital projects	\$ 900,000	\$ 6,477,070	\$ 3,966,225	\$ 2,510,845
Public Facilities Construction Fund				
Revenues				
Other local taxes:				
Gasoline tax	\$ -	\$ 460,400	\$ -	\$ (460,400)
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 70,393	\$ 70,393
Use of property	-	-	82,544	82,544
Total revenue from use of money and property	\$ -	\$ -	\$ 152,937	\$ 152,937
Recovered costs	\$ -	\$ -	\$ 14,450	\$ 14,450
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	\$ 500,000	\$ 768,857	\$ 326,863	\$ (441,994)
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	\$ -	\$ 2,029,025	\$ 1,622,240	\$ (406,785)
Total revenues	\$ 500,000	\$ 3,258,282	\$ 2,116,490	\$ (1,141,792)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Construction Fund: (continued)				
Expenditures				
Capital projects:				
General parks maintenance improvements	\$ 100,000	\$ 100,000	\$ 58,126	\$ 41,874
Roof replacements	50,000	50,000	33,683	16,317
Computer equipment replacement	189,000	234,644	170,982	63,662
Public facilities general improvements	100,000	113,510	107,257	6,253
Pathways - VCR Trail	500,000	3,258,282	1,798,216	1,460,066
VCR Trail phase III	-	-	424,445	(424,445)
Rappahannock River Heritage Trail	-	-	13,288	(13,288)
Total capital projects	<u>\$ 939,000</u>	<u>\$ 3,756,436</u>	<u>\$ 2,605,997</u>	<u>\$ 1,150,439</u>
Public Safety Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 70,393	\$ 70,393
Intergovernmental:				
Revenue from the Commonwealth:				
Public safety grant	\$ -	\$ -	\$ 21,870	\$ 21,870
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,263</u>	<u>\$ 92,263</u>
Expenditures				
Capital projects:				
SCBA replacement	\$ 90,000	\$ 90,000	\$ 34,296	\$ 55,704
Emergency medical vehicles	220,000	220,000	220,794	(794)
VA commonwealth attorney's info system	-	97,100	-	97,100
Police camera system	180,000	180,000	79,236	100,764
Total capital projects	<u>\$ 490,000</u>	<u>\$ 587,100</u>	<u>\$ 334,326</u>	<u>\$ 252,774</u>
Debt Service Funds				
General Obligation Bond Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 3,755,238</u>	<u>\$ 3,774,633</u>	<u>\$ 3,772,005</u>	<u>\$ 2,628</u>
Education Debt Service Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
VPSA interest credit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,703,739</u>	<u>\$ 1,703,739</u>
Expenditures				
Principal and interest	<u>\$ 3,427,647</u>	<u>\$ 3,475,047</u>	<u>\$ 3,475,098</u>	<u>\$ (51)</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Component Unit School Board
Combining Balance Sheet
At June 30, 2014

	<u>School Operating Fund</u>	<u>Special School Fund</u>	<u>School Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 5,440,282	\$ 403,670	\$ 919,086	\$ 6,763,038
Accrued revenue	-	-	-	-
Due from other governments	560,145	990,932	-	1,551,077
Prepaid items	135,422	-	-	135,422
Total assets	<u>\$ 6,135,849</u>	<u>\$ 1,394,602</u>	<u>\$ 919,086</u>	<u>\$ 8,449,537</u>
Liabilities:				
Accounts payable	\$ 263,934	\$ 54,748	\$ 418,683	\$ 737,365
Accrued liabilities	3,080,131	426,282	100,209	3,606,622
Total liabilities	<u>\$ 3,344,065</u>	<u>\$ 481,030</u>	<u>\$ 518,892</u>	<u>\$ 4,343,987</u>
Fund Balances:				
Nonspendable:				
Prepaid items	\$ 135,422	\$ -	\$ -	\$ 135,422
Committed:				
Grant related expenditures	-	913,572	-	913,572
Capital projects	-	-	324,686	324,686
Assigned:				
Capital projects	-	-	75,508	75,508
Unassigned	2,656,362	-	-	2,656,362
Total fund balances	<u>\$ 2,791,784</u>	<u>\$ 913,572</u>	<u>\$ 400,194</u>	<u>\$ 4,105,550</u>
Total liabilities and fund balances	<u>\$ 6,135,849</u>	<u>\$ 1,394,602</u>	<u>\$ 919,086</u>	<u>\$ 8,449,537</u>

Component Unit School Board

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

At June 30, 2014

Total fund balances for governmental funds (Exhibit 26)	\$	4,105,550
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$	472,679	
Construction in progress		2,305,281	
Land improvements, net of accumulated depreciation		72,397	
Buildings and improvements, net of accumulated depreciation		18,842,699	
Machinery, equipment, and vehicles, net of accumulated depreciation		<u>1,796,558</u>	
 Total capital assets			 23,489,614

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:

Capital lease		(3,598,000)	
Net OPEB obligation not reported as fund liabilities		(1,388,435)	
Compensated absences not reported as fund liabilities		<u>(1,108,753)</u>	

Total net position of governmental activities (Exhibits 1 and 12)	\$	<u><u>21,499,976</u></u>
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Component Unit School Board

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2014

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Use of money and property	\$ 230	\$ -	\$ 210	\$ 440
Charges for services	175,725	372,496	-	548,221
Miscellaneous	33,632	182,440	-	216,072
Recovered costs	-	114,891	-	114,891
Intergovernmental:				
Appropriation from primary government	26,220,500	-	590,000	26,810,500
Revenue from the Commonwealth	10,704,479	489,424	-	11,193,903
Revenue from the Federal Government	315	3,747,442	-	3,747,757
Total revenues	\$ 37,134,881	\$ 4,906,693	\$ 590,210	\$ 42,631,784
Expenditures				
Current:				
Education:				
Instruction	\$ 27,373,400	\$ 3,242,909	\$ -	\$ 30,616,309
Administration, attendance and health	2,525,237	-	-	2,525,237
Transportation	1,567,223	-	-	1,567,223
Facilities operations	3,813,804	-	-	3,813,804
Technology	1,088,802	-	-	1,088,802
School food service operations	30,569	1,685,690	-	1,716,259
Capital projects	-	-	4,176,869	4,176,869
Debt service:				
Principal	202,000	-	-	202,000
Interest	43,706	-	-	43,706
Total expenditures	\$ 36,644,741	\$ 4,928,599	\$ 4,176,869	\$ 45,750,209
Excess (deficiency) of revenues over (under) expenditures	\$ 490,140	\$ (21,906)	\$ (3,586,659)	\$ (3,118,425)
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ 184,937	\$ 184,937
Transfers out	(184,937)	-	-	(184,937)
Total other financing sources (uses)	\$ (184,937)	\$ -	\$ 184,937	\$ -
Net change in fund balance	\$ 305,203	\$ (21,906)	\$ (3,401,722)	\$ (3,118,425)
Fund balances, beginning of year	2,486,581	935,478	3,801,916	7,223,975
Fund balances, end of year	\$ 2,791,784	\$ 913,572	\$ 400,194	\$ 4,105,550

Component Unit School Board

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

Net change in fund balances - total governmental funds (Exhibit 28)	\$ (3,118,425)
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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 outlays exceeded depreciation in the current period.	3,060,305
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Transfer of joint tenancy assets from Primary Government to the Component Unit School Board	1,013,795
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Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments of long-term debt:

Capital lease	202,000
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:

Net OPEB obligation	(167,717)
Compensated absences	(46,586)
Change in net position of governmental activities (Exhibit 12)	\$ <u>943,372</u>

Component Unit School Board
School Operating Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	\$ 3,000	\$ 3,000	\$ 230	\$ (2,770)
Charges for services:				
Charges for education	\$ 219,650	\$ 219,650	\$ 175,725	\$ (43,925)
Miscellaneous	\$ 27,655	\$ 27,655	\$ 33,632	\$ 5,977
Intergovernmental:				
Appropriation from primary government	\$ 26,220,500	\$ 26,220,500	\$ 26,220,500	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 3,227,186	\$ 3,227,186	\$ 3,130,287	\$ (96,899)
Basic aid	4,497,739	4,497,739	4,515,184	17,445
Other	3,036,171	3,036,171	3,059,008	22,837
Total revenue from the Commonwealth	\$ 10,761,096	\$ 10,761,096	\$ 10,704,479	\$ (56,617)
Revenue from the Federal Government:				
Categorical aid:				
Other	\$ -	\$ -	\$ 315	\$ 315
Total revenues	\$ 37,231,901	\$ 37,231,901	\$ 37,134,881	\$ (97,020)
Expenditures				
Current:				
Education:				
Instruction	\$ 27,540,508	\$ 28,380,508	\$ 27,373,400	\$ 1,007,108
Administration, attendance and health	2,852,764	2,852,764	2,525,237	327,527
Transportation	1,464,251	1,464,251	1,567,223	(102,972)
School food service operations	100,000	100,000	30,569	69,431
Facilities operations	4,147,690	4,247,690	3,813,804	433,886
Technology	1,081,688	1,351,688	1,088,802	262,886
Debt service:				
Principal	195,000	195,000	202,000	(7,000)
Interest and fiscal charges	-	-	43,706	(43,706)
Total expenditures	\$ 37,381,901	\$ 38,591,901	\$ 36,644,741	\$ 1,947,160
Excess (deficiency) of revenues over (under) expenditures	\$ (150,000)	\$ (1,360,000)	\$ 490,140	\$ 1,850,140
Other financing sources (uses)				
Transfers out	\$ -	\$ (184,937)	\$ (184,937)	\$ -
Net change in fund balance	\$ (150,000)	\$ (1,544,937)	\$ 305,203	\$ 1,850,140
Fund balance, beginning of year	150,000	1,544,937	2,486,581	941,644
Fund balance, end of year	\$ -	\$ -	\$ 2,791,784	\$ 2,791,784

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Component Unit School Board
Special School Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	\$ 460,000	\$ 460,000	\$ 372,496	\$ (87,504)
Miscellaneous	\$ -	\$ 75,000	\$ 182,440	\$ 107,440
Recovered costs:				
Education	\$ 137,000	\$ 137,000	\$ 114,891	\$ (22,109)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 26,000	\$ 26,000	\$ 26,727	\$ 727
VPSA technology grant	154,000	308,000	228,254	(79,746)
CDC and detention center	85,000	85,000	28,819	(56,181)
Preschool initiative grant	219,000	219,000	162,000	(57,000)
Other	26,000	26,000	43,624	17,624
Total revenue from the Commonwealth	\$ 510,000	\$ 664,000	\$ 489,424	\$ (174,576)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 925,000	\$ 925,000	\$ 779,576	\$ (145,424)
School food	1,026,000	1,201,000	1,114,813	(86,187)
Head Start	855,000	855,000	902,817	47,817
Special education IDEA	525,000	525,000	575,333	50,333
Other	391,500	391,500	374,903	(16,597)
Total revenue from the Federal Government	\$ 3,722,500	\$ 3,897,500	\$ 3,747,442	\$ (150,058)
Total revenues	\$ 4,829,500	\$ 5,233,500	\$ 4,906,693	\$ (326,807)
Expenditures				
Current:				
Education:				
Instruction	\$ 3,214,500	\$ 3,618,500	\$ 3,242,909	\$ 375,591
School food service operations	1,615,000	1,865,000	1,685,690	179,310
Total expenditures	\$ 4,829,500	\$ 5,483,500	\$ 4,928,599	\$ 554,901
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (250,000)	\$ (21,906)	\$ 228,094
Net change in fund balance	\$ -	\$ (250,000)	\$ (21,906)	\$ 228,094
Fund balance, beginning of year	-	250,000	935,478	685,478
Fund balance, end of year	\$ -	\$ -	\$ 913,572	\$ 913,572

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Component Unit School Board
School Capital Projects Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Capital Projects Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 210	\$ 210
Intergovernmental:				
Appropriation from primary government	\$ 590,000	\$ 590,000	\$ 590,000	\$ -
Total revenues	<u>\$ 590,000</u>	<u>\$ 590,000</u>	<u>\$ 590,210</u>	<u>\$ 210</u>
Expenditures				
Capital projects:				
School buses	\$ 270,000	\$ 270,000	\$ 236,384	\$ 33,616
School computer technology	250,000	320,000	297,040	22,960
Hugh Mercer improvements	-	2,336,380	2,073,680	262,700
Maintenance equipment	30,000	40,000	23,381	16,619
Energy efficiency improvements	-	1,525,035	1,525,245	(210)
Other	40,000	75,000	21,139	53,861
Total capital projects	<u>\$ 590,000</u>	<u>\$ 4,566,415</u>	<u>\$ 4,176,869</u>	<u>\$ 389,546</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (3,976,415)</u>	<u>\$ (3,586,659)</u>	<u>\$ 389,756</u>
Other financing sources (uses)				
Transfers in	\$ -	\$ 184,937	\$ 184,937	\$ -
Net change in fund balance	<u>\$ -</u>	<u>\$ (3,791,478)</u>	<u>\$ (3,401,722)</u>	<u>\$ 389,756</u>
Fund balance, beginning of year	<u>-</u>	<u>3,791,478</u>	<u>3,801,916</u>	<u>10,438</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,194</u>	<u>\$ 400,194</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Statistical Section

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.

1 - 5

Revenue Capacity

These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.

6 - 9

Debt Capacity

These tables 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 debt in the future.

10 - 13

Demographic and Economic Information

These tables 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 and with other governments.

14, 15

Operating Information

These tables 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.

16 - 18

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF FREDERICKSBURG, VIRGINIA

Table 1

Net Position by Component
Last Ten Fiscal Years
(*accrual basis of accounting*)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Invested in capital assets, net of related debt	\$ 27,167,134	\$ 68,520,864	\$ 80,789,888	\$ 81,234,288	\$ 80,177,661	\$ 81,665,145	\$ 80,513,796	\$ 80,274,520	\$ 81,353,678	\$ 84,961,559
Unrestricted	59,025,733	42,907,819	31,075,783	28,429,225	24,379,848	22,042,434	23,055,185	27,061,221	31,143,089	30,874,128
Total governmental activities net position	\$ 86,192,867	\$ 111,428,683	\$ 111,865,671	\$ 109,663,513	\$ 104,557,509	\$ 103,707,579	\$ 103,568,981	\$ 107,335,741	\$ 112,496,767	\$ 115,835,687
Business-type activities:										
Invested in capital assets, net of related debt	\$ 28,763,172	\$ 27,183,315	\$ 32,215,508	\$ 29,319,742	\$ 38,744,975	\$ 39,780,366	\$ 39,550,414	\$ 40,307,710	\$ 44,809,475	\$ 47,687,656
Unrestricted	11,123,212	17,550,170	15,618,080	21,584,625	12,503,966	13,022,965	16,473,376	17,161,279	16,705,512	17,779,917
Total business-type activities net position	\$ 39,886,384	\$ 44,733,485	\$ 47,833,588	\$ 50,904,367	\$ 51,248,941	\$ 52,803,331	\$ 56,023,790	\$ 57,468,989	\$ 61,514,987	\$ 65,467,573
Primary government:										
Invested in capital assets, net of related debt	\$ 55,930,306	\$ 95,704,179	\$ 113,005,396	\$ 110,554,030	\$ 118,922,636	\$ 121,445,511	\$ 120,064,210	\$ 120,582,230	\$ 126,163,153	\$ 132,649,215
Unrestricted	70,148,945	60,457,989	46,693,863	50,013,850	36,883,814	35,065,399	39,528,561	44,222,500	47,848,601	48,654,045
Total primary government net position	\$ 126,079,251	\$ 156,162,168	\$ 159,699,259	\$ 160,567,880	\$ 155,806,450	\$ 156,510,910	\$ 159,592,771	\$ 164,804,730	\$ 174,011,754	\$ 181,303,260

Note: The City did not record its infrastructure capital assets acquired prior to July 1, 2003, until fiscal year 2005.

CITY OF FREDERICKSBURG, VIRGINIA

Table 2
Page 1 of 3

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 4,105,737	\$ 3,688,618	\$ 5,546,499	\$ 5,254,913	\$ 5,760,023	\$ 5,171,028	\$ 5,407,587	\$ 5,833,003	\$ 6,889,501	\$ 6,397,126
Judicial administration	2,434,259	2,853,064	3,131,169	3,559,936	3,701,857	3,854,380	3,609,180	3,879,790	4,341,611	4,392,902
Public safety	14,424,379	15,922,143	18,155,708	19,073,783	20,056,605	20,200,427	19,937,181	19,316,975	19,579,277	20,623,797
Public works	6,689,270	8,278,001	9,099,097	9,882,486	10,194,381	10,964,359	10,707,212	10,898,437	11,584,108	12,681,384
Health and welfare	5,357,236	6,130,391	6,745,573	6,465,395	6,661,643	6,721,050	6,797,908	6,790,459	6,426,311	6,594,938
Education	15,942,171	18,961,723	24,108,406	28,328,165	27,341,339	26,228,250	26,383,137	27,249,752	28,633,110	28,797,870
Parks, recreation and cultural	3,648,639	4,029,638	4,485,451	4,588,059	4,400,464	3,936,068	4,031,435	4,340,912	4,554,212	4,765,119
Community development	1,972,940	2,186,347	2,619,455	2,344,557	1,965,407	1,819,607	1,930,369	2,154,832	2,165,794	2,186,948
Interest on long-term debt	2,951,161	3,110,420	2,991,013	2,948,621	2,859,774	2,674,176	2,542,424	3,186,127	3,485,231	3,343,630
Total governmental activities expenses	\$ 57,525,792	\$ 65,160,345	\$ 76,882,371	\$ 82,445,915	\$ 82,941,493	\$ 81,569,345	\$ 81,346,433	\$ 83,650,287	\$ 87,659,155	\$ 89,783,714
Business-type activities:										
Water	\$ 2,561,096	\$ 2,381,713	\$ 2,873,240	\$ 3,148,696	\$ 2,748,400	\$ 2,882,295	\$ 2,523,517	\$ 2,884,071	\$ 2,999,771	\$ 2,751,523
Sewer	2,708,274	3,077,612	3,538,756	4,172,099	4,476,638	4,156,245	4,975,289	5,256,052	4,875,587	4,874,582
Transit	1,464,268	2,124,171	2,491,330	3,345,639	3,893,458	3,600,428	3,887,158	4,097,929	4,157,157	4,437,179
Parking	19,575	297,067	441,343	495,917	493,920	528,819	460,950	476,315	456,999	470,905
Total business-type activities expenses	\$ 6,753,213	\$ 7,880,563	\$ 9,344,669	\$ 11,162,351	\$ 11,612,416	\$ 11,167,787	\$ 11,846,914	\$ 12,714,367	\$ 12,489,514	\$ 12,534,189
Total primary government expenses	\$ 64,279,005	\$ 73,040,908	\$ 86,227,040	\$ 93,608,266	\$ 94,553,909	\$ 92,737,132	\$ 93,193,347	\$ 96,364,654	\$ 100,148,669	\$ 102,317,903

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Program Revenues											
Governmental activities:											
Charges for services:											
General government	\$ 36,160	\$ 41,889	\$ 49,059	\$ 50,515	\$ 93,045	\$ 79,215	\$ 85,191	\$ 82,624	\$ 94,773	\$ 109,152	
Judicial administration	66,795	230,864	122,520	112,162	106,210	196,474	219,127	214,894	209,917	204,046	
Public safety	1,438,302	363,782	1,036,746	1,361,978	1,834,819	1,848,719	2,111,221	1,943,884	2,042,868	1,862,973	
Public works	598,081	1,695,616	698,875	689,151	727,253	725,710	733,070	743,145	757,997	828,049	
Parks, recreation and cultural	562,119	579,514	637,446	550,465	518,630	469,802	487,368	459,848	440,392	471,289	
Community development	1,675	15,185	2,795	2,470	1,685	691	476	145	274	1,169	
Operating grants and contributions	8,113,818	8,625,114	9,343,428	10,656,874	10,522,749	10,073,459	10,159,077	11,758,221	9,685,095	9,985,588	
Capital grants and contributions	-	-	766,972	453,402	202,849	1,750,758	841,870	1,725,467	2,967,105	4,595,323	
Total governmental activities program revenues	\$ 10,816,950	\$ 11,551,964	\$ 12,657,841	\$ 13,877,017	\$ 14,007,240	\$ 15,144,828	\$ 14,637,400	\$ 16,928,228	\$ 16,198,421	\$ 18,057,589	
Business-type activities:											
Charges for services:											
Water	\$ 1,938,886	\$ 2,056,764	\$ 2,067,579	\$ 2,150,126	\$ 2,180,347	\$ 2,261,200	\$ 2,344,438	\$ 2,448,425	\$ 2,689,470	\$ 2,829,872	
Sewer	3,103,723	3,073,788	3,168,327	3,264,915	3,457,792	3,742,221	3,821,281	4,013,111	4,526,072	4,857,512	
Transit	45,830	50,416	54,952	116,661	159,741	271,610	274,395	368,072	344,624	423,081	
Parking	-	28,563	83,520	106,916	130,281	192,461	238,240	261,991	304,003	328,385	
Operating grants and contributions	4,350,268	5,887,681	4,427,535	4,560,490	4,342,760	5,270,270	6,621,263	5,493,221	3,521,961	4,784,398	
Capital grants and contributions	2,328,265	739,857	2,391,013	2,301,859	566,957	931,897	870,726	763,564	4,397,886	2,307,225	
Total business-type activities program revenues	\$ 11,766,972	\$ 11,837,069	\$ 12,192,926	\$ 12,500,967	\$ 10,837,878	\$ 12,669,659	\$ 14,170,343	\$ 13,348,384	\$ 15,784,016	\$ 15,530,473	
Total primary government program revenues	\$ 22,583,922	\$ 23,389,033	\$ 24,850,767	\$ 26,377,984	\$ 24,845,118	\$ 27,814,487	\$ 28,807,743	\$ 30,276,612	\$ 31,982,437	\$ 33,588,062	
Net (expense) / revenue											
Governmental activities	\$ (46,708,842)	\$ (53,608,381)	\$ (64,224,530)	\$ (68,568,898)	\$ (68,934,253)	\$ (66,424,517)	\$ (66,709,033)	\$ (66,722,059)	\$ (71,460,734)	\$ (71,726,125)	
Business-type activities	5,013,759	3,956,506	2,848,257	1,338,616	(774,538)	1,501,872	2,323,429	634,017	3,294,502	2,996,284	
Total primary government net expense	\$ (41,695,083)	\$ (49,651,875)	\$ (61,376,273)	\$ (67,230,282)	\$ (69,708,791)	\$ (64,922,645)	\$ (64,385,604)	\$ (66,088,042)	\$ (68,166,232)	\$ (68,729,841)	

CITY OF FREDERICKSBURG, VIRGINIA

Table 2
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Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	\$ 22,552,006	\$ 24,818,965	\$ 27,037,526	\$ 27,791,803	\$ 29,632,428	\$ 29,951,918	\$ 31,254,682	\$ 33,896,976	\$ 34,601,092	\$ 35,247,134
Local sales and use taxes	11,994,065	12,856,512	12,892,369	12,746,040	11,929,648	10,043,091	10,191,895	10,311,633	10,840,598	10,663,183
Consumer utility taxes	2,882,555	2,910,053	2,036,988	1,527,028	1,517,109	1,677,699	1,644,628	1,831,083	1,795,046	1,844,379
Business license taxes	4,974,756	5,893,564	5,777,346	5,436,366	5,847,174	5,893,072	5,538,312	5,735,557	5,994,920	5,641,614
Hotel/Lodging taxes	718,473	808,010	860,935	918,952	1,050,586	1,084,542	1,175,244	1,182,500	1,204,855	1,149,906
Meals taxes	5,987,400	6,402,076	6,418,546	7,042,409	7,080,021	8,132,542	8,842,347	9,373,302	9,657,796	9,752,120
Other local taxes	2,890,578	3,126,960	3,408,233	3,406,556	2,707,109	3,147,579	2,892,598	2,877,503	2,914,744	3,837,495
Unrestricted grants and contributions	1,989,643	2,145,364	1,992,420	2,027,309	1,967,696	3,810,995	3,909,817	3,741,002	4,696,323	5,557,931
Unrestricted revenues from use of money and property	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109
Gain / (loss) on disposal of assets:	-	-	298,472	1,073,425	(846,807)	-	-	-	-	-
Miscellaneous	431,637	18,207,446	683,108	1,837,386	733,896	391,890	294,113	512,888	243,201	287,916
Transfers	-	-	764,695	834,798	856,580	904,224	385,020	600,000	620,436	604,393
Total governmental activities	\$ 56,601,992	\$ 79,174,644	\$ 64,661,518	\$ 66,366,740	\$ 63,828,249	\$ 65,574,587	\$ 66,570,435	\$ 70,488,819	\$ 72,917,306	\$ 75,048,180
Business-type activities:										
Taxes:										
Other local taxes	\$ -	\$ -	\$ 393,707	\$ 536,846	\$ 1,355,225	\$ 321,058	\$ 765,756	\$ 726,653	\$ 897,209	\$ 961,084
Unrestricted revenues from use of money and property	31,997	315,856	418,168	448,499	275,621	123,522	71,152	85,668	31,694	70,392
Miscellaneous	169,744	244,292	204,666	1,581,616	344,846	512,162	445,142	598,861	443,029	529,219
Transfers	24,547	-	(764,695)	(834,798)	(856,580)	(904,224)	(385,020)	(600,000)	(620,436)	(604,393)
Total business-type activities	\$ 226,288	\$ 560,148	\$ 251,846	\$ 1,732,163	\$ 1,119,112	\$ 52,518	\$ 897,030	\$ 811,182	\$ 751,496	\$ 956,302
Total primary government	\$ 56,828,280	\$ 79,734,792	\$ 64,913,364	\$ 68,098,903	\$ 64,947,361	\$ 65,627,105	\$ 67,467,465	\$ 71,300,001	\$ 73,668,802	\$ 76,004,482
Change in Net Position										
Governmental activities	\$ 9,893,150	\$ 25,566,263	\$ 436,988	\$ (2,202,158)	\$ (5,106,004)	\$ (849,930)	\$ (138,598)	\$ 3,766,760	\$ 1,456,572	\$ 3,322,056
Business-type activities	5,240,047	4,516,654	3,100,103	3,070,779	344,574	1,554,390	3,220,459	1,445,199	4,045,998	3,952,586
Total primary government	\$ 15,133,197	\$ 30,082,917	\$ 3,537,091	\$ 868,621	\$ (4,761,430)	\$ 704,460	\$ 3,081,861	\$ 5,211,959	\$ 5,502,570	\$ 7,274,642

CITY OF FREDERICKSBURG, VIRGINIA

Table 3

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund										
Reserved	\$ 422,747	\$ 248,573	\$ 747,450	\$ 225,153	\$ 189,721	\$ 445,308	\$ -	\$ -	\$ -	\$ -
Unreserved	26,847,192	23,232,843	20,924,343	17,750,689	15,924,951	17,272,991	-	-	-	-
Nonspendable	-	-	-	-	-	-	44,611	348,945	359,240	480,656
Committed	-	-	-	-	-	-	5,257,805	5,004,661	7,786,761	6,236,045
Assigned	-	-	-	-	-	-	373,829	292,876	858,372	769,149
Unassigned	-	-	-	-	-	-	13,662,911	20,225,801	18,571,037	19,799,255
Total general fund	\$ 27,269,939	\$ 23,481,416	\$ 21,671,793	\$ 17,975,842	\$ 16,114,672	\$ 17,718,299	\$ 19,339,156	\$ 25,872,283	\$ 27,575,410	\$ 27,285,105
All other governmental funds										
Reserved	\$ 2,551,352	\$ 421,979	\$ 500,819	\$ 870,711	\$ 1,232,229	\$ 250,474	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	3,392,644	3,634,866	3,606,488	2,730,594	3,255,921	3,346,494	-	-	-	-
Capital projects funds	30,128,715	19,040,047	9,716,246	11,504,973	9,629,901	7,938,299	-	-	-	-
Nonspendable, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	1,190	4,569
Restricted, reported in:										
Special revenue funds	-	-	-	-	-	-	193,070	243,980	290,342	336,280
Committed, reported in:										
Special revenue funds	-	-	-	-	-	-	2,480,555	1,821,770	1,487,032	1,966,427
Capital projects funds	-	-	-	-	-	-	1,981,075	31,832,728	24,819,754	9,247,406
Debt Service Funds	-	-	-	-	-	-	-	-	805,804	2,462,142
Assigned, reported in:										
Capital projects funds	-	-	-	-	-	-	7,653,041	8,261,194	9,501,088	5,784,081
Total all other governmental funds	\$ 36,072,711	\$ 23,096,892	\$ 13,823,553	\$ 15,106,278	\$ 14,118,051	\$ 11,535,267	\$ 12,307,741	\$ 42,159,672	\$ 36,905,210	\$ 19,800,905

Note: The City implemented GASB Statement 54 beginning with fiscal year 2011 - see Note 1 in the Notes to Basic Financial Statements section of the report .

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
General property taxes	\$ 22,575,809	\$ 24,052,400	\$ 27,608,258	\$ 27,840,128	\$ 29,410,334	\$ 29,903,318	\$ 31,240,415	\$ 33,961,795	\$ 34,698,020	\$ 35,293,983
Other local taxes	29,447,827	31,997,175	31,394,417	31,077,351	30,131,647	29,978,525	30,285,024	31,311,578	32,407,959	32,888,697
Permits, privilege fees and regulatory licenses	988,302	1,117,018	753,661	653,453	717,349	822,476	945,035	748,371	676,892	598,444
Fines and forfeitures	450,000	339,338	283,035	408,580	466,213	344,897	586,421	479,355	603,398	477,161
Revenue from use of money and property	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109
Charges for services	1,264,830	1,470,494	1,510,745	1,704,708	2,098,080	2,153,238	2,104,997	2,216,814	2,265,931	2,401,073
Miscellaneous	468,884	1,026,316	683,108	563,376	392,910	391,890	257,448	485,647	214,655	274,259
Recovered costs	1,425,432	1,180,093	1,917,637	1,694,312	1,364,758	1,256,605	1,004,106	1,491,448	1,087,070	959,739
Intergovernmental:										
Commonwealth	7,615,919	8,141,771	8,703,743	10,169,012	9,936,350	11,239,010	11,490,604	13,345,182	12,561,997	15,071,859
Federal	2,487,542	2,628,707	2,949,077	2,968,573	2,756,944	3,337,402	3,221,610	3,879,508	4,775,305	4,363,883
Total revenues	\$ 68,905,424	\$ 73,959,006	\$ 78,294,561	\$ 78,804,161	\$ 78,627,394	\$ 79,964,396	\$ 81,577,439	\$ 88,346,073	\$ 89,639,522	\$ 92,791,207
Expenditures										
General government administration	\$ 3,956,701	\$ 4,094,919	\$ 4,720,227	\$ 5,047,982	\$ 5,402,264	\$ 4,785,487	\$ 5,034,113	\$ 5,785,583	\$ 6,669,886	\$ 6,178,075
Judicial administration	2,494,022	2,946,064	3,233,832	3,575,964	3,324,483	3,326,241	3,347,017	3,707,295	3,872,721	4,058,896
Public safety	14,051,770	15,361,207	17,375,049	18,603,995	18,220,229	18,666,202	18,154,890	18,006,243	18,838,158	19,354,308
Public works	5,767,195	6,452,638	6,785,769	7,273,319	7,206,095	7,648,942	7,430,631	7,932,048	8,134,695	8,719,453
Health and welfare	5,814,011	6,245,485	7,119,818	6,859,859	6,976,070	7,004,337	7,136,173	7,181,433	6,692,144	6,878,616
Education	15,942,171	18,961,723	21,631,305	24,441,360	25,202,840	24,143,850	24,343,841	25,243,849	26,663,850	26,853,825
Parks, recreation and cultural	3,432,702	3,811,195	3,928,293	4,053,007	4,090,417	3,441,368	3,389,943	3,733,260	3,755,802	3,883,740
Community development	2,030,189	2,174,694	2,975,019	2,732,018	2,380,204	2,168,755	2,255,173	2,416,979	2,487,037	2,602,400
Capital projects	27,965,223	30,809,180	16,439,420	6,735,321	3,456,377	4,792,112	2,675,390	9,269,823	10,160,076	25,044,316
Debt service										
Principal	1,933,645	2,897,462	3,040,925	3,296,107	3,126,779	3,026,695	3,127,831	2,857,891	2,704,885	3,588,507
Interest and other fiscal charges	2,329,960	3,147,613	3,191,033	3,064,543	3,046,535	2,843,788	2,710,791	2,675,680	3,860,585	3,658,596
Total expenditures	\$ 85,717,589	\$ 96,902,180	\$ 90,440,690	\$ 85,683,475	\$ 82,432,293	\$ 81,847,777	\$ 79,605,793	\$ 88,810,084	\$ 93,839,839	\$ 110,820,732
Excess (deficiency) of revenues over expenditures	\$ (16,812,165)	\$ (22,943,174)	\$ (12,146,129)	\$ (6,879,314)	\$ (3,804,899)	\$ (1,883,381)	\$ 1,971,646	\$ (464,011)	\$ (4,200,317)	\$ (18,029,525)
Other financing sources (uses)										
Transfers in	\$ 210,862	\$ 228,217	\$ 764,695	\$ 834,798	\$ 10,133,320	\$ 9,732,457	\$ 11,913,628	\$ 9,615,156	\$ 10,600,181	\$ 10,924,477
Transfers out	(235,409)	(558,664)	-	-	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)	(9,979,745)	(10,320,084)
Refunding bonds issued	-	-	-	-	2,672,836	-	-	2,469,101	-	-
Bonds issued	-	6,509,279	-	2,462,150	-	-	-	33,860,000	-	-
Premium on bonds issued	-	-	-	64,015	-	-	-	1,760,063	-	-
Payments to refunded bond escrow agent	-	-	-	-	(2,650,207)	-	-	(2,592,336)	-	-
Long-term notes payable issued	-	-	-	-	-	-	-	725,000	-	-
Sale of capital assets	-	-	298,472	1,105,125	76,293	-	36,665	-	28,546	13,658
Total other financing sources (uses)	\$ (24,547)	\$ 6,178,832	\$ 1,063,167	\$ 4,466,088	\$ 955,502	\$ 904,224	\$ 421,685	\$ 36,849,069	\$ 648,982	\$ 618,051
Net change in fund balances	\$ (16,836,712)	\$ (16,764,342)	\$ (11,082,962)	\$ (2,413,226)	\$ (2,849,397)	\$ (979,157)	\$ 2,393,331	\$ 36,385,058	\$ (3,551,335)	\$ (17,411,474)
Debt service as a percentage of noncapital expenditures	7.44%	9.04%	8.19%	8.03%	7.84%	7.59%	7.53%	6.93%	7.86%	8.44%

CITY OF FREDERICKSBURG, VIRGINIA

Table 5

General Governmental Tax Revenues by Source

Last Ten Fiscal Years

(modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Business License Tax	Motor		Bank Stock Tax	Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
					Vehicle License Tax							
2005	\$ 22,575,809	\$ 11,994,065	\$ 2,882,555	\$ 4,974,756	\$ 165,647	\$ 501,213	\$ 708,156	\$ 898,413	\$ 718,473	\$ 5,987,400	\$ 51,406,487	
2006	24,052,400	12,856,512	2,910,053	5,893,564	298,240	546,953	985,477	613,471	808,010	6,402,076	55,366,756	
2007	27,608,258	12,892,369	2,036,988	5,777,346	310,039	567,273	818,353	612,462	860,935	6,418,546	57,902,569	
2008	27,840,128	12,746,040	1,527,028	5,436,366	300,786	459,020	715,884	593,940	918,952	7,042,409	57,580,553	
2009	29,410,334	11,929,648	1,517,109	5,847,174	377,547	469,094	460,085	530,216	1,050,586	7,080,021	58,671,814	
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	758,805	406,123	503,322	1,084,542	8,132,542	75,939,346	
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	777,521	468,241	554,701	1,175,244	8,842,347	60,862,930	
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	696,511	402,018	578,303	1,182,500	9,373,302	64,494,095	
2013	34,698,020	10,840,598	1,795,046	5,994,920	450,126	657,687	408,981	442,569	1,204,855	9,657,796	66,150,598	
2014	35,293,983	10,663,183	1,844,379	5,641,614	455,246	700,378	567,244	543,916	1,149,906	9,752,120	66,611,969	

CITY OF FREDERICKSBURG, VIRGINIA

Table 6

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Direct		Personal Property	Direct		Machinery and Tools	Direct		Public		Service		Total Taxable		Total		Estimated		Assessed Value as a Percentage of Actual Value
		Tax Rate	Tax Rate		Tax Rate	Tax Rate		Tax Rate	Tax Rate	Service	Service	Charges	Value	Assessed Value	Rate	Direct Tax Rate	Value	Actual Taxable Value	Value	
2005	\$ 1,931,966,200	\$ 0.89	\$ 0.89	\$ 182,889,067	\$ 2.99	\$ 2.99	\$ 12,921,115	\$ 0.80	\$ 0.80	\$ 81,650,555	\$ 1,856,400	\$ 1,856,400	\$ 2,211,283,337	\$ 2,211,283,337	\$ 1.07	\$ 1.07	\$ 2,211,283,337	\$ 2,211,283,337	\$ 2,211,283,337	100.00%
2006	2,074,818,500	0.89	0.89	219,561,613	2.99	2.99	11,754,265	0.80	0.80	49,453,104	1,856,400	1,856,400	2,357,443,882	2,357,443,882	1.09	1.09	2,357,443,882	2,357,443,882	2,357,443,882	100.00%
2007	2,241,072,600	0.89	0.89	238,522,432	2.99	2.99	10,016,867	0.80	0.80	41,254,287	1,856,400	1,856,400	2,532,722,586	2,532,722,586	1.09	1.09	2,532,722,586	2,532,722,586	2,532,722,586	100.00%
2008	4,045,740,800	0.53	0.53	247,570,187	2.99	2.99	8,972,280	0.80	0.80	45,382,045	4,023,600	4,023,600	4,351,688,912	4,351,688,912	0.67	0.67	4,351,688,912	4,351,688,912	4,351,688,912	100.00%
2009	4,106,387,300	0.56	0.56	244,149,967	2.99	2.99	9,064,237	0.80	0.80	87,776,155	4,060,300	4,060,300	4,451,437,959	4,451,437,959	0.70	0.70	4,451,437,959	4,451,437,959	4,451,437,959	100.00%
2010	3,501,342,300	0.68	0.68	237,860,715	3.40	3.40	20,065,271	0.80	0.80	92,224,942	3,464,100	3,464,100	3,854,957,328	3,854,957,328	0.85	0.85	3,854,957,328	3,854,957,328	3,854,957,328	100.00%
2011	3,542,088,600	0.68	0.68	252,413,838	3.40	3.40	33,658,145	0.80	0.80	106,522,343	3,464,100	3,464,100	3,938,147,026	3,938,147,026	0.86	0.86	3,938,147,026	3,938,147,026	3,938,147,026	100.00%
2012	3,606,739,500	0.72	0.72	266,300,640	3.40	3.40	34,817,018	0.80	0.80	121,621,449	3,464,100	3,464,100	4,032,942,707	4,032,942,707	0.90	0.90	4,032,942,707	4,032,942,707	4,032,942,707	100.00%
2013	3,519,520,600	0.74	0.74	289,788,976	3.40	3.40	29,433,766	0.80	0.80	112,250,088	3,427,400	3,427,400	3,954,420,830	3,954,420,830	0.94	0.94	3,954,420,830	3,954,420,830	3,954,420,830	100.00%
2014	3,596,021,600	0.74	0.74	296,590,842	3.40	3.40	25,812,744	0.80	0.80	98,288,766	3,927,400	3,927,400	4,020,641,352	4,020,641,352	0.94	0.94	4,020,641,352	4,020,641,352	4,020,641,352	100.00%

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 7

Property Tax Rates (1) (2)
Last Ten Fiscal Years

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Total Direct Tax Rate
2005	\$ 0.89	2.99	0.89	0.80	1.07
2006	0.89	2.99	0.89	0.80	1.09
2007	0.89	2.99	0.89	0.80	1.09
2008	0.53	2.99	0.53	0.80	0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90
2013	0.74	3.40	0.74	0.80	0.94
2014	0.74	3.40	0.74	0.80	0.94

(1) Source: Commissioner of Revenue.

(2) Property tax rates are based on \$100 of assessed value.

CITY OF FREDERICKSBURG, VIRGINIA

Table 8

Principal Property Taxpayers

Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2014			Fiscal Year 2015			Fiscal Year 2005		
		Assessed Valuation	Rank	% of Total Assessed Valuation (1)	Assessed Valuation	Rank	% of Total Assessed Valuation (1)	Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Fredericksburg 35 LLC	Central Park property	\$ 98,982,100	1	2.68 %	\$ 82,608,200	1	4.10 %			
Home Properties Cobblestone LLC	New Home Sales	51,349,200	2	1.39	-	-	-			
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	50,943,100	3	1.38	39,440,900	2	1.96			
Virginia Electric & Power Co.	Public utility	45,179,058	4	1.22	22,572,176	4	1.12			
Haven At Celebrate Virginia II, LLC	Apartment complex	42,987,400	5	1.16	-	-	-			
Central Park Marketplace Holdings LLC	Central Park property	37,635,200	6	1.02	-	-	-			
Mid-America Apartments LP	Apartment complex	35,989,600	7	0.97	-	-	-			
2520 Belmont Terrace Holdings	Apartment complex	32,893,600	8	0.89	-	-	-			
Verizon Virginia, Inc.	Public utility	28,219,751	9	0.76	28,981,030	3	1.44			
Carl D. Silver Holdings, Co.	Various commercial	26,996,100	10	0.73	-	-	-			
Riverside Manor	Apartment complex	-	-	-	17,288,600	5	0.86			
Summit/Belmont, LP	Apartment complex	-	-	-	17,134,000	6	0.85			
Town Center - Central Park	Restaurants, ice park, office building	-	-	-	16,310,100	7	0.81			
CRIT VA II Inc	Apartment complex	-	-	-	15,889,500	8	0.79			
Carl D. Silver, Co.	Hotels	-	-	-	15,002,700	9	0.74			
Fredericksburg Park & Shop LP	Shopping center	-	-	-	14,417,200	10	0.72			
Total		\$ 451,175,109		12.20 %	\$ 269,644,406		13.38 %			

Source: Commissioner of Revenue.

(1) Percentage of total assessed valuation is based on the combined total assessed value of real estate, public service, and service charges listed in Table 6.

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year (1)	Collected within the Fiscal Year of the Levy			Collections in Subsequent Years (1) (3)	Total Collections to Date	
		Percentage of Levy (2)		Amount (1) (3)		Percentage of Levy (2)	
		Amount (1) (3)					
2005	\$ 24,116,517	\$ 23,928,589	99.22%	\$ 175,961	\$ 24,104,550	99.95%	
2006	26,936,577	26,561,519	98.61%	356,311	26,917,830	99.93%	
2007	28,552,323	28,097,519	98.41%	425,462	28,522,981	99.90%	
2008	29,330,707	28,961,391	98.74%	312,679	29,274,070	99.81%	
2009	30,902,557	30,222,352	97.80%	562,303	30,784,655	99.62%	
2010	32,129,525	31,050,501	96.64%	941,484	31,991,985	99.57%	
2011	33,269,826	32,103,892	96.50%	891,383	32,995,275	99.17%	
2012	35,663,960	34,417,182	96.50%	720,712	35,137,894	98.52%	
2013	36,540,252	35,453,742	97.03%	529,011	35,982,753	98.47%	
2014	37,507,994	35,982,391	95.93%	-	35,982,391	95.93%	

(1) Exclusive of penalties and interest.

(2) Percentages are calculated using levy for fiscal year.

(3) The Commonwealth reimbursement under the Personal Property Tax Relief Act is included in total collections.

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Years	Governmental Activities			Business-Type Activities						Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)			
	General		Notes	General		Revenue		Notes	Bonds						
	Obligation	Bonds		Obligation	Bonds	Bonds									
2005	\$	66,551,078	\$	-	\$	3,778,501	\$	4,035,000	\$	8,133,591	\$	82,498,170	11.05%	\$	3,798
2006		70,032,833		-		7,670,963		-		7,293,180		84,996,976	10.63%		3,856
2007		66,873,708		-		7,226,888		-		6,423,952		80,524,548	9.31%		3,555
2008		65,988,291		-		15,160,159		-		5,524,919		86,673,369	9.75%		3,785
2009		62,766,729		-		14,445,225		-		4,595,059		81,807,013	9.17%		3,503
2010		59,625,306		-		20,068,845		-		3,633,315		83,327,466	8.73%		3,431
2011		56,386,080		-		19,035,185		-		2,638,594		78,059,859	7.43%		3,038
2012		88,917,128		725,000		17,984,434		-		1,609,765		109,236,327	10.26%		4,198
2013		85,946,002		725,000		16,964,140		-		545,659		104,180,801	9.33%		3,815
2014		82,110,710		725,000		15,939,460		-		-		98,775,170	8.12%		3,511

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics - Table 14.

CITY OF FREDERICKSBURG, VIRGINIA

Table 11

Ratio of Net General Bonded Debt to Assessed
Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Gross Bonded Debt		Less: Amounts Reserved for Debt Service		Net Bonded Debt (1)		Ratio of Net General Obligation Debt to Assessed Value (2)		Net Bonded Debt per Capita (3)	
2005	\$	72,540,147	\$	-	\$	72,540,147	3.28%	\$	3,339	
2006		76,000,147		-		76,000,147	3.22%		3,448	
2007		72,515,147		-		72,515,147	2.86%		3,201	
2008		79,400,147		-		79,400,147	1.82%		3,467	
2009		75,597,147		-		75,597,147	1.70%		3,237	
2010		78,024,146		-		78,024,146	2.02%		3,213	
2011		73,892,147		-		73,892,147	1.88%		2,876	
2012		104,475,147		-		104,475,147	2.59%		4,015	
2013		100,779,014		805,804		99,973,210	2.53%		3,661	
2014		96,194,015		2,462,142		93,731,873	2.33%		3,332	

(1) Excludes revenue bonds, capital leases, compensated absences, landfill post-closure costs, net OPEB obligation payable, and unamortized bond premium.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 6.

(3) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 14.

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 119,047,390	\$ 124,498,301	\$ 132,869,049	\$ 231,895,610	\$ 237,514,942	\$ 207,207,276	\$ 211,856,637	\$ 216,056,402	\$ 212,771,995	\$ 215,659,654
Total net debt applicable to limit	72,540,147	76,000,147	72,515,147	79,400,147	75,597,147	78,024,146	73,892,147	104,475,147	99,973,210	93,731,873
Legal debt margin	\$ 46,507,243	\$ 48,498,154	\$ 60,353,902	\$ 152,495,463	\$ 161,917,795	\$ 129,183,130	\$ 137,964,490	\$ 111,581,255	\$ 112,798,785	\$ 121,927,781
Total net debt applicable to the limit as a percentage of debt limit	60.93%	61.05%	54.58%	34.24%	31.83%	37.66%	34.88%	48.36%	46.99%	43.46%

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	\$ 3,694,310,366
Add back: exempt real property	798,599,100
Total assessed value	\$ 4,492,909,466
Debt limit (4.8% of total assessed value)	\$ 215,659,654
Net debt applicable to limit	93,731,873
Legal debt margin	\$ 121,927,781

CITY OF FREDERICKSBURG, VIRGINIA

Table 13

Pledged-Revenue Coverage
Last Ten Fiscal Years

Water and Sewer Bonds											
Fiscal Year	Water & Sewer Charges and Other		Less: Operating Expenses		Net Available Revenue		Debt Service		Coverage		
							Principal	Interest			
2005	\$	7,885,646	\$	5,102,334	\$	2,783,312	\$	1,168,757	\$	167,036	2.08
2006		9,346,467		5,049,094		4,297,373		1,197,949		410,231	2.67
2007		7,517,175		6,045,570		1,471,605		1,224,349		366,426	0.93
2008		7,142,159		6,799,902		342,257		1,272,693		520,893	0.19
2009		7,361,317		6,559,626		801,691		1,514,393		665,412	0.37
2010		7,693,179		6,388,224		1,304,955		1,583,149		650,316	0.58
2011		10,049,028		6,710,195		3,338,833		1,860,357		788,611	1.26
2012		9,218,671		7,394,400		1,824,271		1,905,625		745,723	0.69
2013		8,241,838		7,211,193		1,030,645		1,902,540		664,165	0.40
2014		9,101,122		7,019,203		2,081,919		1,380,571		606,902	1.05

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita		School Enrollment (3)	Unemploy- ment Rate (4)
		Personal Income	Personal Income (2)		
2005	21,724 \$	746,914,568 \$	34,382	2,418	4.8%
2006	22,044	799,337,484	36,261	2,447	4.0%
2007	22,651	865,154,945	38,195	2,511	4.1%
2008	22,899	889,030,776	38,824	2,540	5.7%
2009	23,353	892,131,306	38,202	2,655	9.2%
2010	24,286 *	954,391,228	39,298	2,793	9.6%
2011	25,691 *	1,050,582,063	40,893	3,037	10.3%
2012	26,024 *	1,064,199,432	40,893	3,072	8.8%
2013	27,307 *	1,116,665,151	40,893	3,139	8.2%
2014	28,132 *	1,215,808,776	43,218	3,214	5.9%

(1) Source: Weldon Cooper Center for Public Service (* US Census Bureau).

(2) Source: Bureau of Economic Analysis. Per capita income includes the City of Fredericksburg combined with Spotsylvania County.

(3) Source: Fredericksburg School Board office.

(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers

Current Year and the Period Nine Years Prior

Employer	Fiscal Year 2014			Fiscal Year 2005		
	Number of Employees (1)	Rank	Percentage of Total Employment	Number of Employees (2)	Rank	
Mary Washington Healthcare	4,335	1	32.64%	1000 and Over	1	
University of Mary Washington	840	2	6.33%	500 to 999	2	
City of Fredericksburg School Board	675	3	5.08%	500 to 999	3	
City of Fredericksburg	522	4	3.93%	500 to 999	4	
Wal-Mart	521	5	3.92%	250 to 499	9	
Wegmans	514	6	3.87%	-	-	
Free Lance Star Publishing, Inc.	402	7	3.03%	250 to 499	5	
RACSB	300	8	2.26%	250 to 499	8	
Rappahannock Goodwill Industries	211	9	1.59%	-	-	
OS Restaurant Services	197	10	1.48%	100 to 249	10	
MSI Construction	-	-	-	250 to 499	6	
VDOT	-	-	-	250 to 499	7	

(1) Source: Department of Economic Development and Tourism.

(2) For fiscal year 2005 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA

Table 16

Full-time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	37	37	41	43	40	38	41	41	43	44
Judicial administration	30	35	42	41	39	38	39	39	40	42
Public safety	162	169	166	162	162	164	162	166	162	156
Public works	73	69	87	86	81	75	73	74	73	78
Health and welfare	32	34	33	35	35	35	34	33	32	34
Parks and recreation	13	16	16	19	17	17	17	16	17	32
Community development	11	11	12	13	12	12	12	11	13	14
Water	4	7	9	9	10.5	10.5	10	10	9	6
Wastewater	16	16	18	21	18.5	16.5	19	19	17	12
Transit	5	6	11	12	13	13	13	13	14	15
Parking garage	-	-	1	1	1	1	1	1	1	1
Totals	383	400	436	442	429	420	421	423	421	434

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety:										
Police department: (1)										
Physical arrests	3,656	3,805	2,839	2,850	3,168	3,477	3,772	3,621	3,722	3,660
Traffic violations	10,644	9,500	6,167	7,290	7,335	6,546	7,937	7,914	7,824	5,981
Parking violations	10,431	10,449	10,055	10,671	8,397	7,467	7,223	6,965	6,528	7,513
Sheriffs department: (2)										
Civil papers	40,314	40,502	42,279	44,088	41,379	48,074	48,918	50,764	63,886	58,338
Fire and rescue:										
Number of calls answered	5,159	5,450	5,728	6,145	5,885	5,882	5,825	5,471	5,407	5,311
Inspections	1,434	1,542	1,651	2,030	1,478	1,624	1,596	1,548	1,650	1,673
Building inspections:										
Permits issued	3,528	3,820	2,395	1,781	1,541	1,486	1,633	1,558	1,554	1,618
Animal control:										
Number of calls answered	901	992	1,163	1,010	811	1,015	897	864	1,022	926
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	518	483	483	311	277	327	517	400	309	212
Waste removal:										
Refuse collected										
(thousands of pounds/day)	30.3	28.8	24.3	24.7	20.6	21.4	20.7	19.3	19.0	20.6
Recycling collected:										
Leaves (cubic yards)	5,049	5,577	5,379	6,292	5,604	5,604	5,038	4,510	5,421	5,336
General services:										
Buildings maintained										
(thousands of square feet)	375.5	486.6	572.1	496.9	501.9	500.5	500.5	480.5	462.3	551.2
Culture and recreation:										
Parks and recreation: (3)										
Number of programs	370	385	403	518	510	464	471	514	495	414
Number of participants	14,260	15,300	17,055	20,964	18,563	16,193	19,082	20,425	19,525	14,177
Community development:										
Planning:										
Zoning permits issued (4) (5)	327	309	289	237	291	260	283	390	338	309

CITY OF FREDERICKSBURG, VIRGINIA

Table 17
Page 2 of 2

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water:										
Number of connections	6,696	7,062	7,245	7,274	7,351	7,453	7,614	7,718	7,801	7,861
Average daily consumption (thousands of gallons)	2,394	2,718	2,529	2,639	2,492	2,334	2,557	2,584	2,649	2,537
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,389	2,181	2,454	2,700	2,794	3,210	2,700	3,010	2,493	2,833
Transit:										
Ridership per service area: (6) (7)										
City of Fredericksburg	185,663	177,833	184,670	208,410	273,685	261,238	274,540	278,657	279,363	259,790
UMW - Eagle Express	18,667	15,996	17,723	16,444	15,014	12,030	15,323	12,284	13,685	11,679
Spotsylvania County	40,514	40,730	44,659	81,315	113,669	97,343	96,248	116,623	117,633	114,162
South Stafford County	25,043	30,900	34,808	32,112	39,234	40,830	45,288	44,341	68,614	65,033
North Stafford County	9,908	44,445	53,957	62,895	77,303	74,369	70,397	72,366	39,446	33,751
Caroline County	5,701	5,647	5,855	6,189	8,160	7,155	5,882	7,352	10,425	11,094
King George County	1,020	7,803	10,727	15,867	21,550	16,792	16,993	17,033	-	-
Component Unit - School Board:										
Education:										
Number of students	2,418	2,447	2,511	2,540	2,655	2,793	3,037	3,072	3,139	3,214
Number of teachers	238	248	251	256	257	256	258	258	264	267
Cost per pupil	\$ 11,867	\$ 13,131	\$ 13,403	\$ 14,416	\$ 13,911	\$ 13,276	\$ 11,882	\$ 12,546	\$ 13,853	\$ 14,235

Source: Individual city departments.

- (1) FY14 reduction in traffic violations issued is due to Police Department staffing shortage.
- (2) Beginning in FY13, increase in civil papers served is due to increased jury summons for Circuit Court.
- (3) FY14 Program and participant decrease is due to elimination of unprofitable programs and change in tracking methods of new software.
- (4) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.
- (5) Data presented on a calendar year basis (FY2005 - FY2008).
- (6) Beginning in FY13, north and south Stafford transit routes have shifted due to new census data.
- (7) FY14 City of Fredericksburg ridership decrease is due to temporary re-routing of Fall Hill Avenue bus routes.

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	22	25	30	35	33	31	31	31	35	34
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	6	7	7	7	8	8	9	10	11	12
Sheriffs department:										
Patrol units	15	16	18	14	15	15	15	15	16	16
Building inspections:										
Vehicles	4	5	7	7	7	7	7	7	7	6
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	22	22	22	22	22	21	20	20	20	20
Streets (moving lane miles)	174	183	189	189	189	189	189	189	189	189
Traffic signals	52	57	61	61	61	61	61	61	61	60
Waste removal:										
Trucks/vehicles	7	7	7	7	7	8	10	10	7	7
Building maintenance:										
Trucks/vehicles	8	10	9	10	8	10	10	10	10	13
Health and welfare:										
Department of Social Services:										
Vehicles	6	6	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	13	13	14	13	15	13	13	14	14	13
Parks	12	12	13	13	13	17	18	18	18	18
Park acreage	1,003	1,003	1,009	1,015	1,015	1,051	1,055	1,055	1,055	1,057
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	4	5	5	5	5	5	5	5	5	5
School buses	35	33	36	36	36	37	38	37	41	41

Source: Individual city departments.

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' 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*

**To the Honorable Members of the City Council
City of Fredericksburg, Virginia**

We have audited, in accordance with the 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Fredericksburg, Virginia's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Fredericksburg, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fredericksburg, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fredericksburg, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fredericksburg, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Fredericksburg, Virginia
November 25, 2014

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Honorable Members of the City Council
City of Fredericksburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2014. City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Fredericksburg, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. 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 City of Fredericksburg, Virginia'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Fredericksburg, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Fredericksburg, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the City of Fredericksburg, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Fredericksburg, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Fredericksburg, Virginia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 25, 2014

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government:			
Department of Agriculture:			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010113/0010114 0040113/0040114	\$ 382,418
Total Department of Agriculture			\$ 382,418
U.S. Department of the Treasury:			
Direct Payments:			
Asset Forfeiture	21.000	N/A	\$ 70,980
Total Department of the Treasury			\$ 70,980
Department of Housing and Urban Development:			
Direct Payments:			
Continuum of Care Program	14.267	N/A	\$ 3,214
Community Development Block Grants - Entitlement Grants	14.218	N/A	202,807
Total Department of Housing and Urban Development			\$ 206,021
Department of Justice:			
Direct Payments:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	\$ 26,554
Pass-through Payments:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	39001-51000/71100	78,858
Crime Victim Assistance	16.575	39001-56000/66000	30,500
Total Department of Justice			\$ 135,912
Department of Transportation:			
Direct Payments:			
Highway Planning and Construction	20.205	N/A	\$ 1,626,003
Pass-through Payments:			
Virginia Department of Rail and Public Transportation:			
Federal Transit - Formula Grants	20.507	VA-95-X086-00/ VA-95-X042-00/ VA-90-X412-00/ VA-95-X078-00/ VA-18-X033-00/ VA-95-X021-00/ VA-18-X034-00	3,563,999
ARRA - Federal Transit Formula Grants	20.507	VA-96-X009-00	37,920
Total Federal Transit Formula Grants			\$ 3,601,919
Virginia Department of Motor Vehicles:			
State and Community Highway Safety	20.600	60507-54333/53391	\$ 13,334
Total Department of Transportation			\$ 5,241,256

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2014 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government: (continued)			
Department of Health and Human Services:			
Pass-through Payments:			
Department of Social Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760113/0760114	\$ 41,168
Promoting Safe and Stable Families	93.556	950113	13,825
Temporary Assistance for Needy Families	93.558	0400113/0400114	300,105
Refugee and Entrant Assistance State Administered Programs	93.566	0500113/0500114	14,279
Low-Income Home Energy Assistance	93.568	0600413/0600414	27,743
Chafee Education and Training Vouchers Program	93.599	9160113	3,801
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900113/0900114	2,140
Foster Care - Title IV-E	93.658	1100113/1100114	319,939
Adoption Assistance	93.659	1120113/1120114	323,971
Social Services Block Grant	93.667	1000113/1000114	233,327
Chafee Foster Care Independence Program	93.674	9150113/9150114	6,133
Children's Health Insurance Program	93.767	0540113/0540114	15,109
Medical Assistance Program	93.778	1200113/1200114	384,477
Total Department of Health and Human Services			\$ 1,686,017
Department of Homeland Security:			
Pass-through Payments:			
Department of Emergency Services:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	77602-00158	\$ 41,797
Total Department of Homeland Security			\$ 41,797
Environmental Protection Agency:			
Direct Payments:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	\$ 200,212
Total Environmental Protection Agency			\$ 200,212
Total Expenditures of Federal Awards - Primary Government			\$ 7,964,613
Component Unit - School Board:			
Department of Agriculture:			
Pass-through Payments:			
Child Nutrition Cluster:			
Food Distribution Service	10.555	10.555/2013/2014	\$ 95,211
Virginia Department of Education:			
National School Lunch Program (SL-4) (SL-11)	10.555	10.555/2013/2014	838,421
Total 10.555			\$ 933,632
School Breakfast Program	10.553	10.553/2013/2014	\$ 276,392
Total Department of Agriculture			\$ 1,210,024
Department of Health and Human Services:			
Direct Payments:			
Head Start	93.600	N/A	\$ 902,817
Total Department of Health and Human Services			\$ 902,817

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2014 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Component Unit - School Board: (continued)			
Department of Education:			
Pass-through Payments:			
Virginia Department of Education:			
Title I Grants to Local Educational Agencies	84.010	S010A120046/	\$ 779,575
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A130107	\$ 575,333
Special Education - Preschool Grants	84.173	H173A110112/ H173A120112	21,139
Total Special Education Cluster (IDEA)			\$ 596,472
Advanced Placement Program	84.330	S330B130008	315
English Language Acquisition State Grants	84.365	S365A120046/ T365A130046	69,197
Career and Technical Education - Basic Grants to States	84.048	V048A130046	48,747
Improving Teacher Quality State Grants	84.367	S367A120044/ S367A130044	140,610
Total Department of Education			\$ 1,634,916
Total Expenditures of Federal Awards - Component Unit School Board			\$ 3,747,757
Total Expenditures of Federal Awards - Reporting Entity			\$ 11,712,370

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Fredericksburg, Virginia under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3 - Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of \$23,175 were received on behalf of subrecipients for the CDBG - Entitlement Grants for the year ended June 30, 2014.

Note 4 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary Government:

General Fund	\$	37,574
Special Revenue Funds:		
Virginia Public Assistance Fund		1,977,171
Comprehensive Services Act Fund		53,690
State, Federal, and Local Grants Fund		555,479
Forfeited Asset Sharing Program Fund		72,169
Capital Projects Funds:		
Public Works Construction Fund		45,560
Public Facilities Construction Fund		1,622,240
Proprietary Funds:		
Transit Fund		3,601,919
Wastewater Fund		57,106
Total Primary Government	\$	<u>8,022,908</u>

Component Unit School Board:

School Operating Fund	\$	315
Special School Fund		<u>3,747,442</u>
Total Component Unit School Board	\$	<u>3,747,757</u>

Less:

Build America Bonds Interest Subsidy	\$	<u>(57,106)</u>
USPS Inspection Service	\$	<u>(1,189)</u>

Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	\$	<u><u>11,712,370</u></u>
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CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	

CFDA #	Name of Federal Program or Cluster
93.778	Medical Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
84.010	Title I Grants to Local Educational Agencies
20.205	Highway Planning and Construction
10.555/10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$351,371
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings
Year Ended June 30, 2014

There were no prior year findings.