

FREDERICKSBURG, VIRGINIA

Comprehensive

Annual

Financial

Report . . .

*. . . for fiscal
year ended _____*

JUNE 30, 2017



CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

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, 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTORY SECTION | |
| Letter of Transmittal | i-vii |
| Organizational Chart | ix |
| Directory of Principal Officials | xi |
| GFOA Certificate of Achievement | xiii |
| FINANCIAL SECTION | |
| Independent Auditors' Report | 1-3 |
| Management's Discussion and Analysis | 5-18 |
| <u>Basic Financial Statements:</u> | |
| Government-wide Financial Statements: | |
| Exhibit 1 Statement of Net Position | 23 |
| Exhibit 2 Statement of Activities | 24-25 |
| Fund Financial Statements: | |
| Exhibit 3 Balance Sheet—Governmental Funds | 29 |
| Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 30 |
| Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds | 31 |
| Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 32 |
| Exhibit 7 Statement of Net Position—Proprietary Funds | 33 |
| Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Position—Proprietary Funds | 34 |
| Exhibit 9 Statement of Cash Flows—Proprietary Funds | 35 |
| Exhibit 10 Statement of Fiduciary Net Position—Fiduciary Funds | 36 |
| Exhibit 11 Statement of Changes in Fiduciary Net Position—Fiduciary Funds | 37 |
| Exhibit 12 Statement of Activities—Component Units | 38-39 |
| Notes to Financial Statements | 41-114 |
| <u>Required Supplementary Information:</u> | |
| Exhibit 13 Budgetary Comparison Schedule—General Fund | 117-122 |
| Exhibit 14 Schedule of Employer's Proportionate Share of the Net Pension Liability | 123 |
| Exhibit 15 Schedule of Changes in Net Pension Liability and Related Ratios—Component Unit School Board (nonprofessional) | 124 |
| Exhibit 16 Schedule of Employer Contributions | 125 |
| Exhibit 17 Notes to Required Supplementary Information | 126 |

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2017
 TABLE OF CONTENTS: (CONTINUED)

| | <u>Page</u> |
|---|--|
| FINANCIAL SECTION: (CONTINUED) | |
| <u>Required Supplementary Information: (Continued)</u> | |
| Exhibit 18 | Schedule of OPEB Funding Progress 127 |
| Exhibit 19 | Schedule of Changes in the City's Net OPEB Liability and Related Ratios 128 |
| Exhibit 20 | Schedule of Employer Contributions—OPEB 129 |
| Exhibit 21 | Schedule of Investment Returns 130 |
| <u>Other Supplementary Information:</u> | |
| Exhibit 22 | Budgetary Comparison Schedule—School Bond Funded Capital Fund 133 |
| Exhibit 23 | Combining Balance Sheet—Nonmajor Governmental Funds 134 |
| Exhibit 24 | Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds 135 |
| Exhibit 25 | Combining Balance Sheet—Nonmajor Special Revenue Funds 136 |
| Exhibit 26 | Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds 137 |
| Exhibit 27 | Combining Balance Sheet—Nonmajor Capital Projects Funds 138 |
| Exhibit 28 | Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Capital Projects Funds 139 |
| Exhibit 29 | Combining Balance Sheet—Nonmajor Debt Service Funds 140 |
| Exhibit 30 | Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Debt Service Funds 141 |
| Exhibit 31 | Combining Statement of Fiduciary Net Position—Agency Funds 142 |
| Exhibit 32 | Combining Statement of Changes in Assets and Liabilities—Agency Funds 143-144 |
| Exhibit 33 | Revenues and Expenditures Budgetary Comparison Schedule for Nonmajor and Other Funds with Legally Adopted Budgets 145-149 |
| Exhibit 34 | Component Unit School Board—Combining Balance Sheet 150 |
| Exhibit 35 | Component Unit School Board—Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 151 |
| Exhibit 36 | Component Unit School Board—Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds 152 |
| Exhibit 37 | Component Unit School Board—Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 153 |
| Exhibit 38 | Component Unit School Board—School Operating Fund—Revenues and Expenditures Budgetary Comparison Schedule 154 |
| Exhibit 39 | Component Unit School Board—Special School Fund—Revenues and Expenditures Budgetary Comparison Schedule 155 |
| Exhibit 40 | Component Unit School Board—School Capital Projects Fund—Revenues and Expenditures Budgetary Comparison Schedule 156 |

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2017
 TABLE OF CONTENTS: (CONTINUED)

| | <u>Page</u> |
|---|-------------|
| STATISTICAL SECTION | |
| Table 1 Net Position by Component—Last Ten Fiscal Years | 159 |
| Table 2 Changes in Net Position—Last Ten Fiscal Years | 160-162 |
| Table 3 Fund Balances of Governmental Funds—Last Ten Fiscal Years | 163 |
| Table 4 Changes in Fund Balances of Governmental Funds—Last Ten Fiscal Years | 164 |
| Table 5 General Governmental Tax Revenues by Source—Last Ten Fiscal Years | 165 |
| Table 6 Assessed Value and Estimated Actual Value of Taxable Property—Last Ten Fiscal Years | 166 |
| Table 7 Property Tax Rates—Last Ten Fiscal Years | 167 |
| Table 8 Principal Property Taxpayers—Current Year and the Period Nine Years Prior | 168 |
| Table 9 Property Tax Levies and Collections—Last Ten Fiscal Years | 169 |
| Table 10 Ratios of Outstanding Debt by Type—Last Ten Fiscal Years | 170 |
| Table 11 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita—Last Ten Fiscal Years | 171 |
| Table 12 Legal Debt Margin Information—Last Ten Fiscal Years | 172 |
| Table 13 Pledged-Revenue Coverage—Last Ten Fiscal Years | 173 |
| Table 14 Direct and Overlapping Debt | 174 |
| Table 15 Demographic and Economic Statistics—Last Ten Fiscal Years | 175 |
| Table 16 Principal Employers—Current Year and the Period Nine Years Prior | 176 |
| Table 17 Full-time Equivalent City Government Employees by Function—Last Ten Fiscal Years | 177 |
| Table 18 Operating Indicators by Function—Last Ten Fiscal Years | 178-179 |
| Table 19 Capital Asset Statistics by Function—Last Ten Fiscal Years | 180-181 |
| COMPLIANCE SECTION | |
| 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 <i>Government Auditing Standards</i> | 183-184 |
| Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance | 185-186 |
| Schedule of Expenditures of Federal Awards | 187-189 |
| Notes to Schedule of Expenditures of Federal Awards | 190 |
| Schedule of Findings and Questioned Costs | 191 |
| Summary Schedule of Prior Audit Findings | 192 |

This page intentionally left blank

Timothy J. Baroody
City Manager

D. Mark Whitley
Assistant City Manager

P. Douglas Fawcett
Assistant City Manager



City of Fredericksburg
P.O. Box 7447
Fredericksburg, VA 22404-7447
Telephone: 540 372-1010
Fax: 540 372-1201

November 29, 2017

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

The City of Fredericksburg, Virginia (the “City”) hereby issues the Comprehensive Annual Financial Report (the “CAFR”) for the fiscal year ended June 30, 2017. This report complies with Generally Accepted Accounting Principles (“GAAP”), and has been audited in accordance with generally accepted auditing standards by Robinson, Farmer, Cox Associates, 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 goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2017, 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, 2017, 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 Officers Association (GFOA) for the CAFR for the fiscal year ended June 30, 2016.

Financial Section

The Financial Section consists of the Independent Auditor's Report from Robinson, Farmer, Cox Associates. In addition, 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 complement 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 is 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.

Compliance Section

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 28,297.

Legislative and policy-making authority are vested in the governing council, which consists of a mayor and a six-member council. 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 governing council is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. Other responsibilities of the governing council is the hiring of 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.

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 a primary retail and dining area 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 Wegmans supermarket.

In addition to the major retail commercial development centers, the City is a hub 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. As the region continues to grow, Mary Washington Hospital will continue to provide a majority of the increased hospital services.

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, co-educational university with an enrollment of approximately 4,000 undergraduate students. The university offers over 60 different majors and programs of study as well as several different master's

Economic Condition and Outlook (Continued)

degree programs. Over the past few years, the University has made significant investments in new, modern educational facilities, to include \$39.4 million for an information technology center and \$56 million for a campus center. Numerous renovations to dormitories and academic buildings have also been completed.

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, 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 developments continue to reflect economic potential for the City. Several projects that combine housing, retail and office uses have been recently completed or are in various stages of development. Some of the most notable projects include Amelia Square, Park View, Liberty Place and the planned re-development of The Free Lance-Star's former headquarters property. These projects include luxury residences combined with tens of thousands of square feet of retail, office, restaurant and potential hotel space. The expanding mixed-use development activity in and around the downtown area has the potential to produce significant growth in property tax as well as local tax revenue, particularly meals tax and sales tax, and will help to grow and solidify the City's stable economic base. As the downtown approaches buildout, additional re-development work is likely along the Princess Anne Street and Lafayette Boulevard corridors, which are already tied into downtown through a network of highly regarded trails. Riverfront Park and additional trails will also take better advantage of the City's location on the Rappahannock River, which will drive more revenue-producing events.

To keep up with this growth, the City is working diligently to bring more parking to the downtown core. The City has adopted a "Parking Action Plan" that better manages the existing inventory of parking spaces and proposes paid on-street parking. The City has also entered into a preliminary agreement that will help create a 303-space above-ground garage at Liberty Place that will be free and available to the public.

Outside of downtown, Fredericksburg's industrial park has experienced significant success in attracting a diverse group of businesses, and additional activity is likely in the year to come. A new development along U.S. 1 called Cowan Crossing has brought in an attractive mix of retail, office and restaurant space. Additional re-development along the U.S. 1 and State Route 3 corridors is likely in the years to come. The City continues to also aggressively pursue additional amenities that can facilitate more events and opportunities for local residents. As the region's population grows, Fredericksburg's status as the center of commerce for the entire region will continue to pay dividends and generate tax revenue for the City.

Major Capital Initiatives

During fiscal year 2017, the City continued to maintain its capacity to provide a high level of service to its residents. The following narrative highlights the City's major capital initiatives during fiscal year 2017.

Major Capital Initiatives (Continued)

The primary roadway project in the City involves Fall Hill Avenue, a primary feeder road for the City's two main commercial areas, Central Park and Celebrate Virginia. The two major components of the project are the widening of Fall Hill Avenue from two lanes to four between Carl D. Silver Parkway to an area just west of the recently constructed bridge over the Rappahannock Canal and the replacement of the Fall Hill Avenue bridge over Interstate 95. This project also extends Mary Washington Boulevard to intersect with a roundabout, which provides a new connection point between U.S. 1 and Fall Hill Avenue. Additional features of the project are a sidewalk, playground and ball field, and a path that runs along Fall Hill Avenue from Central Park to the canal bridge. The path links to the City's trail system at the Rappahannock Heritage Trail, thus providing a safe transportation alternative for residents who wish to walk or bicycle to restaurants and stores. The project, managed by the Virginia Department of Transportation, is primarily being funded by the state. Most of the project was completed and operational as of April 2017. The City will own and be responsible for maintaining the roadway; however, ownership and maintenance responsibility of the two bridges spanning Interstate 95 will remain with the state. It is anticipated that the City will assume ownership of the roadway during fiscal year 2018, once punch list items have been addressed. The total estimated cost of the project is \$44.4 million.

Several major capital initiatives designed to enhance the City's utility infrastructure within the City were worked on during the fiscal year. The replacement and upgrade of a major water line on Caroline Street, from Amelia Street to the southern end of Caroline Street, continued during the fiscal year. Completion of the water line will enhance the supply needs in this area of the City. The cost of the project to date is just over \$1.5 million with the total estimated cost of the project being \$2.25 million. In conjunction with the water line project the City is also replacing a section of sewer line along Caroline Street at a projected cost of \$527,000. The installation of both utility lines is scheduled for completion in May 2018.

To keep the City's Wastewater Treatment Plant working efficiently and in compliance with environmental standards, the City began a process of rehabilitating and replacing various components of the plant. One of the primary components in the process of treating wastewater was addressed through the replacement of the belt filter press. The installation of the press, estimated to cost \$1.25 million, was nearing completion at the end of the fiscal year and is expected to be fully operational in October 2017.

The renovation of the Walker-Grant Center was nearing completion at the end of the fiscal year. This project consists of the complete renovation of the building to include upgrades to the building envelope, a new roof, new windows and doors, and masonry repairs. Mechanical, electrical, and plumbing systems will also be replaced. Exterior site work includes parking upgrades, storm-water management, sidewalk improvements, and upgraded playground areas. These improvements will create an updated and modern environment for various special education programs while providing new and expanded office space for the School Board administrative offices. As of the end of the fiscal year, the City has spent approximately \$10.92 million of the project's total estimated cost of \$13.3 million.

Each year the City uses local and Virginia Department of Transportation grant funds to complete asphalt reconstruction and repaving projects as part of its Annual Pavement Rehabilitation Program (the program). Also included in the program is the installation of concrete work to include

Major Capital Initiatives (Continued)

stormwater drainage features and sidewalks. During the fiscal year the City spent \$1.55 million toward paving projects and has now spent a total of \$8.49 million during fiscal years 2011-2017 to improve the City's streets and roads.

Significant infrastructure improvements have also been made to Princess Anne Street, a primary corridor leading from U.S. 1 to the City's Historic District. The improvements included resurfacing of the roadway and the installation of curb and gutter and sidewalks. The project was managed and funded by the Virginia Department of Transportation at a total cost of \$1.136 million.

An additional infrastructure project, also managed by the Virginia Department of Transportation, was major repair work performed on the U.S. 1 bridge over Hazel Run. Based on preliminary engineering studies, it was determined that the performance of certain repairs to the bridge would considerably extend its useful life. The City contributed \$385,000 to the project with VDOT funding the remaining costs. The cost of the project totaled approximately \$1.1 million.

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). The budget 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 resolution has been adopted.

The annual budgets are prepared by fund and department. 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 School Bond Funded Capital Fund this comparison is presented in Exhibit 13 and Exhibit 22, respectively. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 33.

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 well exceeds the 12 percent target, at 18.2% of the fiscal year 2016 General Fund revenue total.

Key Financial Policies (Continued)

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 current Capital Improvements Plan calls for several major capital initiatives over the coming years. Future capital endeavors include development of a riverfront park, 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 that 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 plan and details of the actuarial report for both the City and Component Unit School Board can be found in Note 12 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. During fiscal year 2016, the City Council established an Other Post-Employment Benefits (OPEB) Trust (the Trust) and funded \$1 million towards the City's liability for OPEB. The City made an additional \$112,000 contribution to the Trust during fiscal year 2017.

Pension and Other Post-Employment Benefits (Continued)

Effective for fiscal year 2017 the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information for OPEB plans that are administered through trusts. A description of the City's post-employment benefits program and information about the impact of the OPEB Trust can be found in Note 19 and Note 20 in the Notes to Basic Financial Statements.


Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-seventh consecutive year that the City has received this prestigious award. This report satisfied both GAAP and applicable legal requirements.

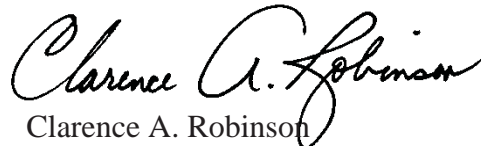
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report was made possible by the efficient and dedicated services of the staff of the Fiscal Affairs Department. In addition, this report could not have been completed without the assistance from individuals in various other departments. We would like to express our appreciation to everyone in the City who assisted with and contributed to the preparation of this report. Management thanks the Mayor and the City Council for their unwavering support for maintaining the highest standards of professionalism in the management of the City finances.

Sincerely,



Timothy J. Baroody
City Manager

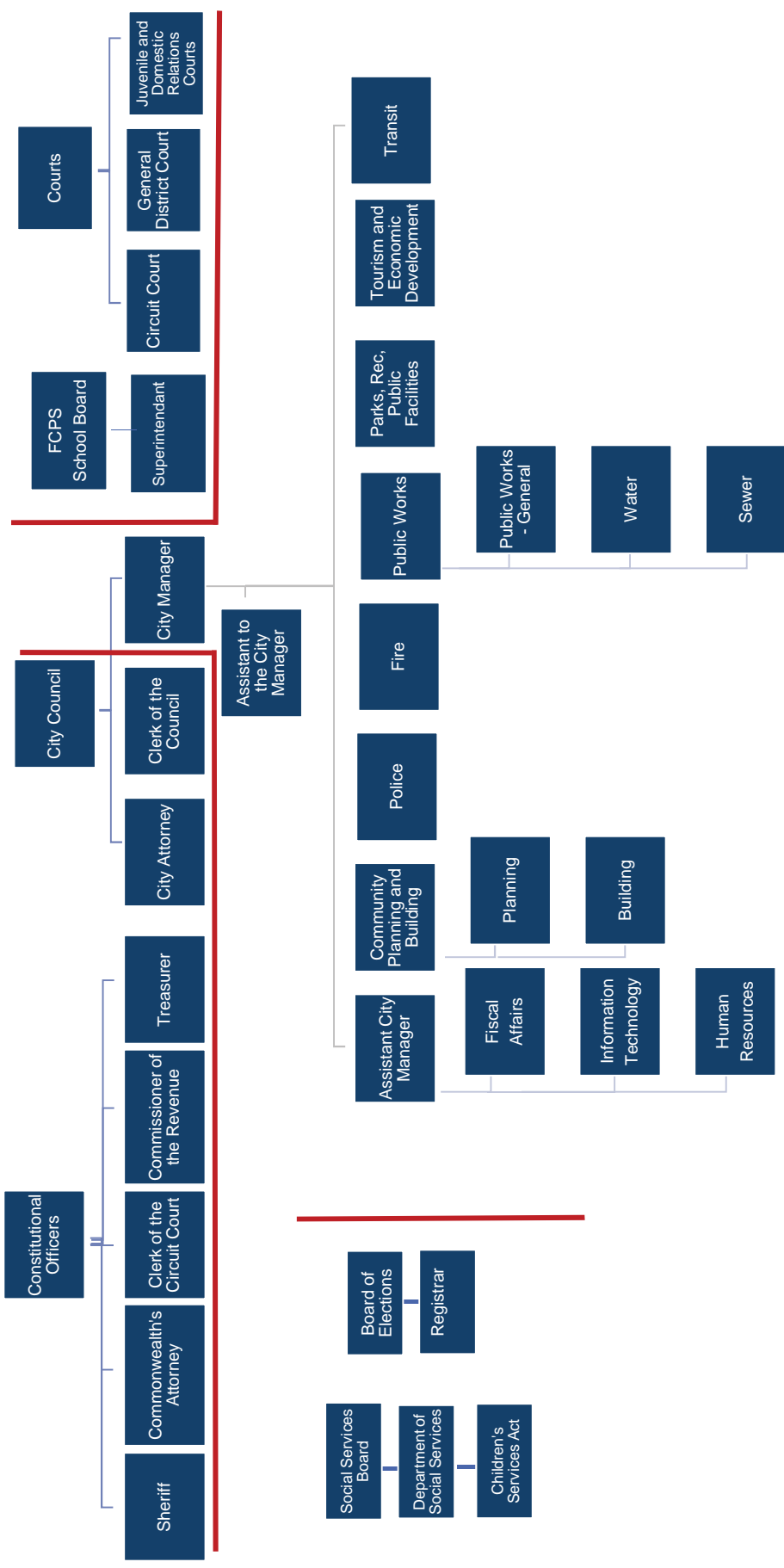


Clarence A. Robinson
Director of Fiscal Affairs



City of Fredericksburg, Virginia

Organizational Chart



This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2017

CITY COUNCIL

Mary Katherine Greenlaw Mayor, At-Large
William C. Withers, Jr. Vice Mayor, Ward 2
Kerry P. Devine At-Large
Matthew J. Kelly At-Large
Bradford C. Ellis..... Ward 1
Timothy P. Duffy, Ph.D. Ward 3
Charlie L. Frye, Jr. 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

Timothy J. Baroody City Manager
P. Douglas Fawcett Assistant 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
William G. Freehling Director, Economic Development and Tourism
Robert F. Bell, Jr. Director, Human Resources
Suzanne R. Tills Chief Information Officer, Information Technology
Jane C. Shelhorse Director, Parks, Recreation and Events
Charles R. Johnston. Director, Community Planning and Building
David J. King Director, Public Works
Christen C. Gallik Director, Social Services
Marc C. Hoffman General Registrar
Wendy L. Kimball Director, Transit

SCHOOL BOARD

Jarvis E. Bailey Chairperson, At-Large
Elizabeth R. Rehm Vice Chairperson, At-Large, Ward 1
Jannan W. Holmes At-Large
Barbara A. Miller-Richards Ward 2
Jennifer Boyd..... Ward 3
Malvina Rollins Kay Ward 4

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dr. David G. Melton Superintendent

This page intentionally left blank



Government Finance Officers Association

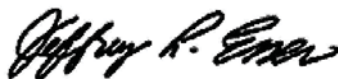
**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fredericksburg
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016



Executive Director/CEO

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of 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, 2017 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, 2017, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2017, the City adopted new accounting guidance, GASB Statement Nos. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and 77 *Tax Abatement Disclosures*.

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 related to pension and OPEB funding on pages 5-18, 117-122, and 123-130 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 the 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Information (continued)

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.

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 29, 2017 on our consideration of the 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 the City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Fredericksburg, Virginia
November 29, 2017

This page intentionally left blank

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, 2017. 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-vii of this report.

Financial Highlights

- Total net position for governmental activities was \$97,102,307 at the end of fiscal year 2017. This figure is based on assets and deferred outflows of resources totaling \$231,723,929 and liabilities and deferred inflows of resources of \$134,621,622. Of the total net position amount, \$8,241,949 (*unrestricted net position*) related to the governmental activities may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for business-type activities was \$68,603,278 at the end of fiscal year 2017. The largest portion of this total is related to the water, sewer, and transit enterprise operations valued at \$22,944,156, \$19,274,885, and \$21,931,178, respectively.
- Total net position for the primary government totaled \$165,705,585. Current assets were \$78,563,269 as compared to total current liabilities of \$23,438,612. The resulting net working capital of \$55,124,657 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 \$15,854,106, or 20.0% of total General Fund expenditures amount of \$79,244,401.
- The City has an established Financial Management Policy that 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 2017 unassigned General Fund balance was 18.2% of the fiscal year 2016 General Fund revenue total of \$87,023,914.
- General Fund revenues increased \$2,157,650 as revenue from general property taxes and other local taxes increased \$1,047,116 and \$997,225, respectively, as compared to the preceding fiscal year.
- General Fund expenditures increased \$884,179, or a modest 1.1%, compared to fiscal year 2016. The largest increases occurred in the areas of public safety, public works and education.
- Governmental activities general obligation bond debt decreased \$4,261,281 to a total outstanding balance of \$85,021,566. Of the total general obligation debt outstanding, \$43,545,000 is related to the construction of two new schools and \$30,350,000 is associated with the construction and renovation of court facilities.
- Business-type activities general obligation debt decreased \$1,983,719 to a total outstanding balance of \$23,566,434.

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 tourism, and culture and recreation. The business-type activities of the City include water, sewer, transit, and parking operations.

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*.

The City maintains 15 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 School Bond Funded Capital Fund, which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Overview of the Financial Statements: (Continued)

The City adopts an annual appropriated budget for its General Fund and School Bond Funded 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 41-114 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$165,705,585 at the close of fiscal year 2017.

A large portion of the City's net position, \$133,832,169 or 80.8%, 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 other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The \$31,873,416 balance of *unrestricted net position* is a combination of both governmental activities and business-type activities and 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 total net position in both the governmental and business-type activities.

Government-wide Financial Analysis: (Continued)

Statement of Net Position: (Continued)

The following table presents the condensed Statement of Net Position:

| TABLE 1 Summary of Net Position As of June 30, 2017 (in millions) | | | | | | | | |
|--|--------------------------------|------------------|---------------------------------|-----------------|---------------------------------|------------------|----------------------------|-------------------|
| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Component Units (1) | |
| | FY 17 | FY 16 | FY 17 | FY 16 | FY 17 | FY 16 | FY 17 | FY 16 |
| Assets: | | | | | | | | |
| Current and other assets | \$ 51.53 | \$ 60.45 | \$ 31.73 | \$ 31.55 | \$ 83.26 | \$ 92.00 | \$ 10.75 | \$ 10.39 |
| Capital assets | 174.04 | 166.60 | 67.69 | 66.33 | 241.73 | 232.93 | 24.45 | 24.30 |
| Total assets | \$ 225.57 | \$ 227.05 | \$ 99.42 | \$ 97.88 | \$ 324.99 | \$ 324.93 | \$ 35.20 | \$ 34.69 |
| Deferred Outflow of Resources: | | | | | | | | |
| Pension contributions subsequent to the measurement date | \$ 2.60 | \$ 3.23 | \$ 0.26 | \$ 0.32 | \$ 2.86 | \$ 3.55 | \$ 3.39 | \$ 3.19 |
| Items related to the measurement of the net pension liability | 3.15 | - | 0.30 | 0.03 | 3.45 | 0.03 | 2.43 | - |
| Change in proportionate share of net pension liability | 0.15 | 0.08 | 0.01 | - | 0.16 | 0.08 | 1.76 | 2.14 |
| Deferred charge on refunding | 0.26 | 0.28 | 0.53 | 0.58 | 0.79 | 0.86 | - | - |
| Total Deferred Outflows of Resources | \$ 6.16 | \$ 3.59 | \$ 1.10 | \$ 0.93 | \$ 7.26 | \$ 4.52 | \$ 7.58 | \$ 5.33 |
| Liabilities: | | | | | | | | |
| Current and other liabilities | \$ 16.23 | \$ 14.13 | \$ 7.21 | \$ 6.05 | \$ 23.44 | \$ 20.18 | \$ 5.51 | \$ 5.48 |
| Long-term liabilities | 116.25 | 116.38 | 24.51 | 26.09 | 140.76 | 142.47 | 46.20 | 41.97 |
| Total Liabilities | \$ 132.48 | \$ 130.51 | \$ 31.72 | \$ 32.14 | \$ 164.20 | \$ 162.65 | \$ 51.71 | \$ 47.45 |
| Deferred Inflows of Resources: | | | | | | | | |
| Unavailable revenue - property taxes | \$ 0.64 | \$ 0.58 | \$ - | \$ - | \$ 0.64 | \$ 0.58 | \$ - | \$ - |
| Change in proportionate share of net pension liability | - | - | 0.05 | 0.04 | 0.05 | 0.04 | - | - |
| Items related to the measurement of the net pension liability | 1.51 | 4.77 | 0.15 | 0.39 | 1.66 | 5.16 | 1.40 | 2.94 |
| Total Deferred Inflows of Resources | \$ 2.15 | \$ 5.35 | \$ 0.20 | \$ 0.43 | \$ 2.35 | \$ 5.78 | \$ 1.40 | \$ 2.94 |
| Net assets: | | | | | | | | |
| Net invested in capital assets | \$ 88.86 | \$ 85.33 | \$ 44.97 | \$ 44.28 | \$ 133.83 | \$ 129.61 | \$ 21.44 | \$ 21.10 |
| Unrestricted | 8.24 | 9.45 | 23.63 | 21.96 | 31.87 | 31.41 | (31.77) | (31.47) |
| Total net position | \$ 97.10 | \$ 94.78 | \$ 68.60 | \$ 66.24 | \$ 165.70 | \$ 161.02 | \$ (10.33) | \$ (10.37) |

(1) Includes both the School Board and the Economic Development Authority (EDA).

Changes in Net Position:

Governmental Activities

Generally, net position changes are the result of the difference between revenues and expenses. During fiscal year 2017 the net position of the governmental activities increased \$2,324,616 as total revenues of \$99,307,942 outpaced the total expense amount of \$96,983,326. Governmental Activities revenues were favorably impacted through the continued strong performance of general property taxes. Revenues from general property taxes rose \$1,038,907 or 2.7% in response to growth in the City's tax base and higher collection rates. Revenues from local tax sources exhibited a more moderate increase of \$203,135. The performance of sales tax, business license tax, and meals tax remained positive during the fiscal year as a combined \$866,734 in additional revenue was collected from these tax sources during the fiscal year. This increase was offset by an \$806,971 reduction in gas tax revenue as transportation-related projects were funded from other sources during the fiscal year compared to the previous year.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Governmental Activities: (Continued)

Other positive impacts to the governmental activities net position was the financial performance of the Rappahannock Regional Solid Waste Management Board (R-Board) and the contribution of capital assets the City received from the Virginia Department of Transportation (VDOT). The R-Board is a joint venture of the City of Fredericksburg and Stafford County for the disposal of waste (see Notes to the Financial Statements, Note 1). The City and Stafford County equally share the operating income or losses of the R-Board. Due to an increase in fees and the implementation of flow-control measures, the R-Board's financial performance has experienced a dramatic turnaround the past couple of years. Half of the R-Board's fiscal year 2017 increase in net position, or \$1,180,092, has been reflected in the City's government-wide financial statements as an increase to net position.

The Virginia Department of Transportation administered and provided most of the funding for two infrastructure improvement projects within the City. These projects resulted in significant upgrades to Princess Anne Street, one of the City's main corridors leading into the City's Historic District, and a City bridge located on U.S. Route 1, which was nearing the end of its useful life. The value of the projects contributed to the City from VDOT totaled \$1,741,281.

Education continues to be the City's largest program, with education expenses representing 32.0% of the total expenses for governmental activities in fiscal year 2017. City expenses recognized for school operations, to include depreciation, increased \$546,088 during the fiscal year as the City's school system continues to grow in response to City's expanding population and the relative increase in student enrollment.

The most significant increase to governmental expenses was \$937,442 for health and welfare services. An increase in the number of children adopted out of foster care and a higher volume of participants and increased costs related to special education day placements were two key contributors to the increase.

A driving force to the overall increase in governmental expenses related to personnel costs. Besides an increase to health insurance premiums and a 2% cost-of-living adjustment for full-time and regular part-time City employees, the City expanded its work force through the hiring of two full-time public safety positions and a part-time public works position.

Business-type Activities

During the fiscal year, all four of the City's enterprise operations experienced an increase in net position. The largest increase was \$1,542,806 for the Transit operation, which was bolstered by state and federal capital grants totaling \$1,682,639, the majority of which was used for the replacement of several buses.

The positive growth in the net position in the Water Fund of \$532,846 and Sewer Fund of \$263,584 continue the reversal of a trend of sub-par operating results and a corresponding erosion of net position experienced in past years. A primary factor in reversing the trend was the implementation of a series of rate increases beginning in fiscal year 2013. The improved financial stability of these two funds in recent years has afforded the City the opportunity to more effectively meet operational costs and to fund needed improvements to an aged infrastructure system.

In direct correlation with the rate increases, charges for services in the Water Fund and Sewer Fund have shown a steady increase the past several years. Since the City started implementing rate increases, service fee revenue has increased 35.7% in the Water Fund and 35.2% in the Sewer Fund. During that same time period, the operating expenses in the Water Fund and Sewer Fund showed a much smaller increase of 4.3% and 8.2%, respectively. For fiscal year 2017, revenue from service fees outpaced operating expenses by \$394,943 in the Water Fund and \$465,018 in the Sewer Fund.

Revenue from availability and connection fees in both the Water Fund and Sewer Fund dropped off from the previous fiscal year; however, the amounts for those fees were significant enough to help absorb non-operating expenses and contribute to the net income totals of \$813,490 in the Water Fund and \$602,295 in the Sewer Fund.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Component Units

During the fiscal year, the School Board's net position increased \$207,640. The overall deficit net position of \$11,784,388 is related to the School Board's net pension liability totaling \$40,555,000.

The net position of the Economic Development Authority decreased \$173,140 as economic development grants and other expenses were greater than interest revenue and bond issuance fees.

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, 2017 (in millions) | | | | | | | | |
|--|--------------------------------|------------------|---------------------------------|-----------------|---------------------------------|------------------|------------------------|-------------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total Primary Government</u> | | <u>Component Units</u> | |
| | <u>FY 17</u> | <u>FY 16</u> | <u>FY 17</u> | <u>FY 16</u> | <u>FY 17</u> | <u>FY 16</u> | <u>FY 17</u> | <u>FY 16</u> |
| Revenues: | | | | | | | | |
| Program Revenues: | | | | | | | | |
| Charges for services | \$ 3.69 | \$ 3.69 | \$ 9.31 | \$ 9.45 | \$ 13.00 | \$ 13.14 | \$ 0.57 | \$ 1.21 |
| Operating grants and contributions | 11.60 | 10.65 | 3.99 | 4.34 | 15.59 | 14.99 | 19.38 | 18.20 |
| Capital grants and contributions | 3.19 | 1.46 | 1.68 | 0.41 | 4.87 | 1.87 | - | - |
| General Revenues: | | | | | | | | |
| Property taxes | 40.02 | 38.98 | - | - | 40.02 | 38.98 | - | - |
| Other local taxes | 35.33 | 35.13 | 1.15 | 0.69 | 36.48 | 35.82 | - | - |
| Grants and contributions not restricted | 3.72 | 3.81 | - | - | 3.72 | 3.81 | 29.47 | 29.15 |
| Use of property | 0.10 | 0.09 | - | - | 0.10 | 0.09 | - | - |
| Investment earnings | 0.37 | 0.47 | 0.06 | 0.10 | 0.43 | 0.57 | 0.02 | 0.02 |
| Miscellaneous | 0.66 | 0.33 | 0.57 | 0.59 | 1.23 | 0.92 | 0.41 | 0.32 |
| Total Revenues | \$ 98.68 | \$ 94.61 | \$ 16.76 | \$ 15.58 | \$ 115.44 | \$ 110.19 | \$ 49.85 | \$ 48.90 |
| Expenses: | | | | | | | | |
| General government | \$ 7.07 | \$ 6.87 | \$ - | \$ - | \$ 7.07 | \$ 6.87 | \$ - | \$ - |
| Judicial administration | 5.70 | 5.57 | - | - | 5.70 | 5.57 | - | - |
| Public safety | 22.47 | 21.63 | - | - | 22.47 | 21.63 | - | - |
| Public works | 12.32 | 12.84 | - | - | 12.32 | 12.84 | - | - |
| Health and welfare | 7.95 | 7.01 | - | - | 7.95 | 7.01 | - | - |
| Education | 30.43 | 29.86 | - | - | 30.43 | 29.86 | 49.18 | 47.85 |
| Parks, recreation, and cultural | 5.03 | 4.75 | - | - | 5.03 | 4.75 | - | - |
| Community development | 2.65 | 2.88 | - | - | 2.65 | 2.88 | 0.63 | 0.46 |
| Interest | 3.36 | 3.42 | - | - | 3.36 | 3.42 | - | - |
| Water | - | - | 3.13 | 2.97 | 3.13 | 2.97 | - | - |
| Sewer | - | - | 5.49 | 5.10 | 5.49 | 5.10 | - | - |
| Transit | - | - | 4.67 | 4.41 | 4.67 | 4.41 | - | - |
| Parking | - | - | 0.49 | 0.44 | 0.49 | 0.44 | - | - |
| Total Expenses | \$ 96.98 | \$ 94.83 | \$ 13.78 | \$ 12.92 | \$ 110.76 | \$ 107.75 | \$ 49.81 | \$ 48.31 |
| Excess (deficiency) of revenues over expenses before transfers | \$ 1.70 | \$ (0.22) | \$ 2.98 | \$ 2.66 | \$ 4.68 | \$ 2.44 | \$ 0.04 | \$ 0.59 |
| Transfers | 0.62 | 0.62 | (0.62) | (0.62) | - | - | - | - |
| Change in net position | \$ 2.32 | \$ 0.40 | \$ 2.36 | \$ 2.04 | \$ 4.68 | \$ 2.44 | \$ 0.04 | \$ 0.59 |
| Net Position, beginning of year | 94.78 | 94.38 | 66.24 | 64.20 | 161.02 | 158.58 | (10.37) | (10.96) |
| Net Position, end of year | \$ 97.10 | \$ 94.78 | \$ 68.60 | \$ 66.24 | \$ 165.70 | \$ 161.02 | \$ (10.33) | \$ (10.37) |

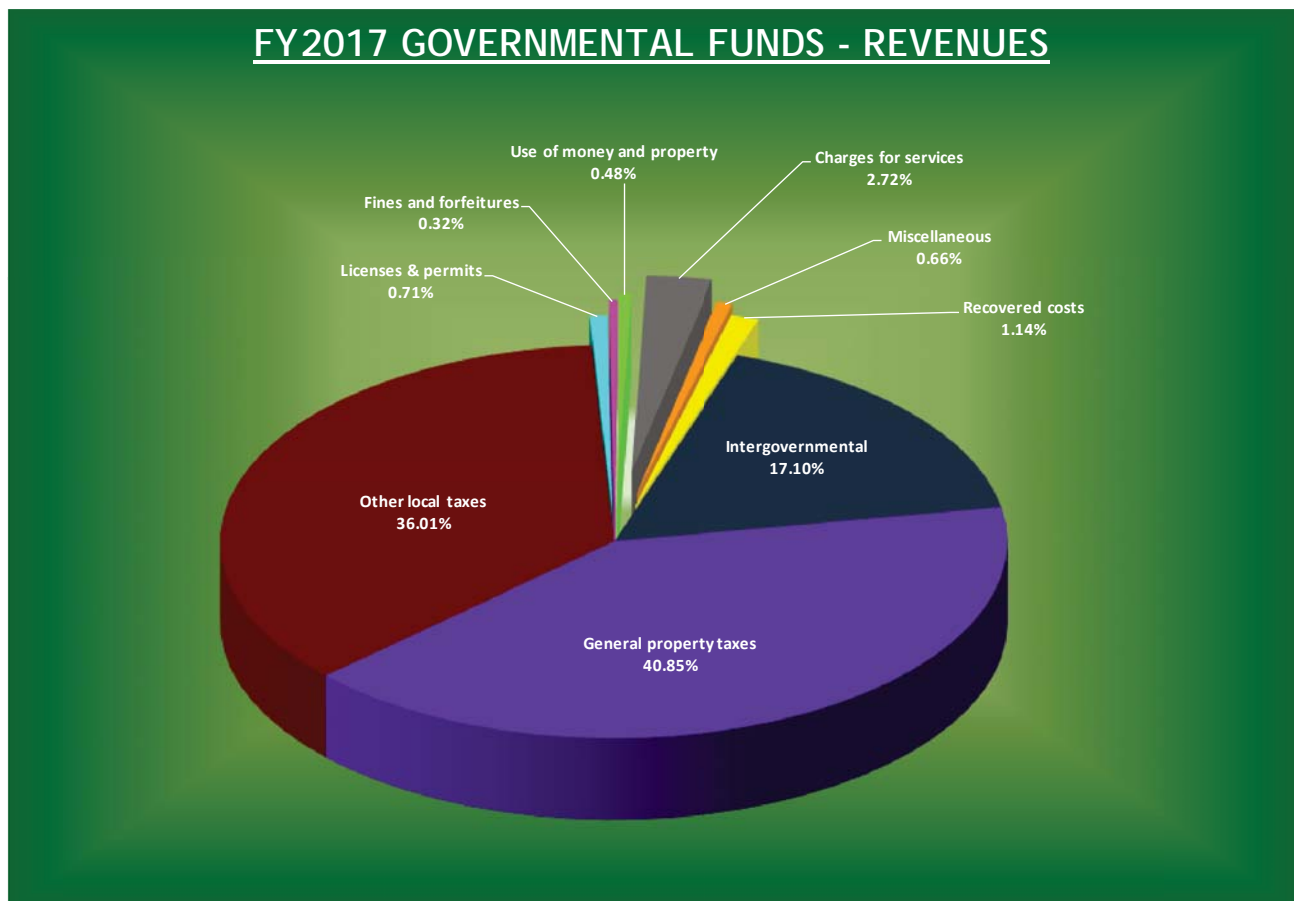
Financial Analysis of the City's Governmental Funds

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 2017 and 2016 is presented below:

| | FY 2017 | FY 2016 | Percentage of Total Revenues FY 2017 | Increase (Decrease) from FY 2016 |
|---------------------------|----------------------|----------------------|---|---|
| General property taxes | \$ 40,074,290 | \$ 39,027,174 | 40.86% | \$ 1,047,116 |
| Other local taxes | 35,329,244 | 35,126,109 | 36.01% | 203,135 |
| Licenses and permits | 700,197 | 691,636 | 0.71% | 8,561 |
| Fines and forfeitures | 312,851 | 350,564 | 0.32% | (37,713) |
| Use of money and property | 468,252 | 554,699 | 0.48% | (86,447) |
| Charges for services | 2,673,100 | 2,644,355 | 2.72% | 28,745 |
| Miscellaneous | 644,920 | 248,557 | 0.66% | 396,363 |
| Recovered costs | 1,119,710 | 1,038,569 | 1.14% | 81,141 |
| Intergovernmental | 16,776,523 | 15,512,711 | 17.10% | 1,263,812 |
| Totals | \$ 98,099,087 | \$ 95,194,374 | 100.00% | \$ 2,904,713 |



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

Revenues: (Continued)

The City's total revenues in the governmental funds were \$98,099,087 in fiscal year 2017, an increase of \$2,904,713 compared to fiscal year 2016. Much of the increase can be attributed to general property taxes, which grew \$1,047,116 during the fiscal year. The City's real estate tax, comprising 33.7% of the total General Fund revenue, increased to \$30,044,759, which was \$870,496 more than the \$29,174,263 collected in fiscal year 2016. The growth in revenue is largely due to a rising tax base and a higher rate of collection.

Revenue from other local taxes grew a modest \$203,135; however, the increase in the General Fund was significant as the City's diverse and well-established retail centers and restaurants led to increases in such revenues as sales, meals, lodging, amusement and business license taxes. Sales tax continued its recent pattern of growth over the last several years. The sales taxes collected during fiscal year 2017 grew \$199,901, or 1.79%, compared to the previous fiscal year. Sales tax revenue accounts for 12.8% of total General Fund revenues.

Meals tax revenue, which accounts for 12.5% of General Fund revenues, continues to grow at a significant pace. Meals tax revenue for the first time exceeded \$11 million, at \$11,141,603. This represents a growth of \$448,228, or 4.2%, from the previous fiscal year total of \$10,693,375. Since the meals tax rate was increased to 6% starting in fiscal year 2010, meals tax revenues in the City have grown 26%.

Business license tax exceeded \$6 million for the first time in fiscal year 2017, totaling \$6,320,104 in collections. The increase is an indication of the City's strong business community.

Other local tax revenue decreased \$794,090 in the Capital Projects Funds. The Public Works Capital Fund and the Public Safety Capital Fund reflect a local source tax decrease of \$232,500 and \$561,590, respectively, as less gas tax revenue was used to fund transportation-related projects in those funds during the 2017 fiscal year.

The following table reflects other local tax revenue for the General Fund for fiscal years 2017 and 2016:

| TABLE 4 <u>Other Local Taxes - General Fund</u> | | | | |
|--|----------------------|----------------------|---|---|
| | FY 2017 | FY 2016 | Percentage of Total Revenues FY 2017 | Increase (Decrease) from FY 2016 |
| Sales and use tax | \$ 11,376,302 | \$ 11,176,401 | 32.25% | \$ 199,901 |
| Consumer utility tax | 1,808,256 | 1,810,911 | 5.13% | (2,655) |
| Business license tax | 6,320,104 | 6,101,499 | 17.91% | 218,605 |
| Motor vehicle license tax | 486,096 | 472,014 | 1.38% | 14,082 |
| Bank stock tax | 862,442 | 775,230 | 2.44% | 87,212 |
| Recordation tax | 567,144 | 711,445 | 1.61% | (144,301) |
| Tobacco tax | 509,819 | 513,669 | 1.45% | (3,850) |
| Amusement tax | 462,665 | 387,529 | 1.31% | 75,136 |
| Hotel lodging tax | 1,524,371 | 1,432,190 | 4.32% | 92,181 |
| Meals tax | 11,141,603 | 10,693,375 | 31.58% | 448,228 |
| Other | 220,442 | 207,756 | 0.62% | 12,686 |
| Totals | \$ 35,279,244 | \$ 34,282,019 | 100.00% | \$ 997,225 |

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

Revenues: (Continued)



Expenditures:

The expenditure of governmental funds in fiscal year 2017 totaled \$110,788,353, an increase of \$4,886,807, or 4.6%, from the preceding fiscal year. Increased personnel costs associated with a 2% cost-of-living adjustment and rising health insurance premiums for employees and retirees helped to contribute to this increase.

Two new Public Safety positions within the General Fund impacted the total increase to Public Safety expenditures. An E911 Communications Officer was added in the Police Department to address ongoing staffing requirements at the E911 call center. Also added was an Advanced Life Support (ALS) Medic to Emergency Medical Services to bring the City another step closer to achieving the goal of 24/7 ALS service.

During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced \$1,175,534 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of a major piece of equipment. The R-Board is expected to repay the City the amount of the advance over seven years, commencing in fiscal year 2018. This advance has been reflected as a public works expenditure in the General Fund.

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

Expenditures: (Continued)

The City's school system is a critical service provided to its citizens. In fiscal year 2017, the City continued to demonstrate a continued commitment to ensuring high-quality public education. In response to high growth in pupil enrollment and the related increase to the cost of operations, the City's financial commitment to its school system has seen a steady growth over the past several years. In fiscal year 2017, total appropriations to the school system for operating and capital totaled \$28,282,210, or 31.0% of the General Fund's total expenditures, to include interfund transfers. This represents a \$388,000 increase over the amount transferred to the school system in fiscal year 2016. The primary expenditure increases to the school system are due to salary adjustments, higher benefit costs, and hiring additional teachers.

Expenditures for Health and Welfare in the Special Revenue Funds increased significantly during the fiscal year. The expenditure total in the Virginia Public Assistance Fund increased \$234,997, as an additional \$185,000 was needed to fund the Federal Adoption Assistance Program. An even bigger increase occurred in the Children's Services Act Fund, with expenditures increasing \$569,300. Two major components of that increase were \$187,000 additional needed for services provided to children and families to prevent the more costly alternatives of home and/or residential placements and \$240,000 for an increase in both the number of children and cost per placement for special education day placements. The cost of the additional expenditures in these two funds was funded primarily with state and federal revenue.

The expenditures related to capital project activity remained robust during the fiscal year. The most significant capital project, accounted for in the School Bond Funded Capital Fund, involves the renovation of the Walker-Grant Center. Started in fiscal year 2016, expenditures totaled \$9,142,565 during the fiscal year. This project is scheduled to be completed during fiscal year 2018 at an estimated cost of \$13.3 million.

Other substantial capital project investments made during the fiscal year were from the Public Works Capital Fund and the Public Safety Capital Fund. The public works projects included \$1,550,443 for the Pavement Rehabilitation Program, \$386,892 for pedestrian signals at five intersections within the downtown area, and \$413,859 associated with a Traffic Operations Center. In the Public Safety Capital Fund, \$932,682 was spent to complete the installation of a public safety radio system, for a total cost of \$2,386,906.

The City's higher debt service expenditures are mostly due to fiscal year 2017 being the first year principal and interest payments were made for the 2016A General Obligation Bonds. The \$216,322 debt service paid for those bonds was for the public safety radio system portion of the debt. Debt service payments for the larger portion of the 2016A General Obligation debt, which is being used as the primary funding source for the renovation of the Walker-Grant Center, will begin in fiscal year 2018.

In response to the City's long-term financial commitment related to Other Post-Employment Benefits (OPEB), an irrevocable OPEB Trust was established in fiscal year 2016 in the amount of \$1,000,000. In fiscal year 2017 the City elected to make an additional contribution to the OPEB trust for \$112,000. A majority of the contribution, \$75,000, was funded with General Fund resources, with the balance coming from enterprise funds.

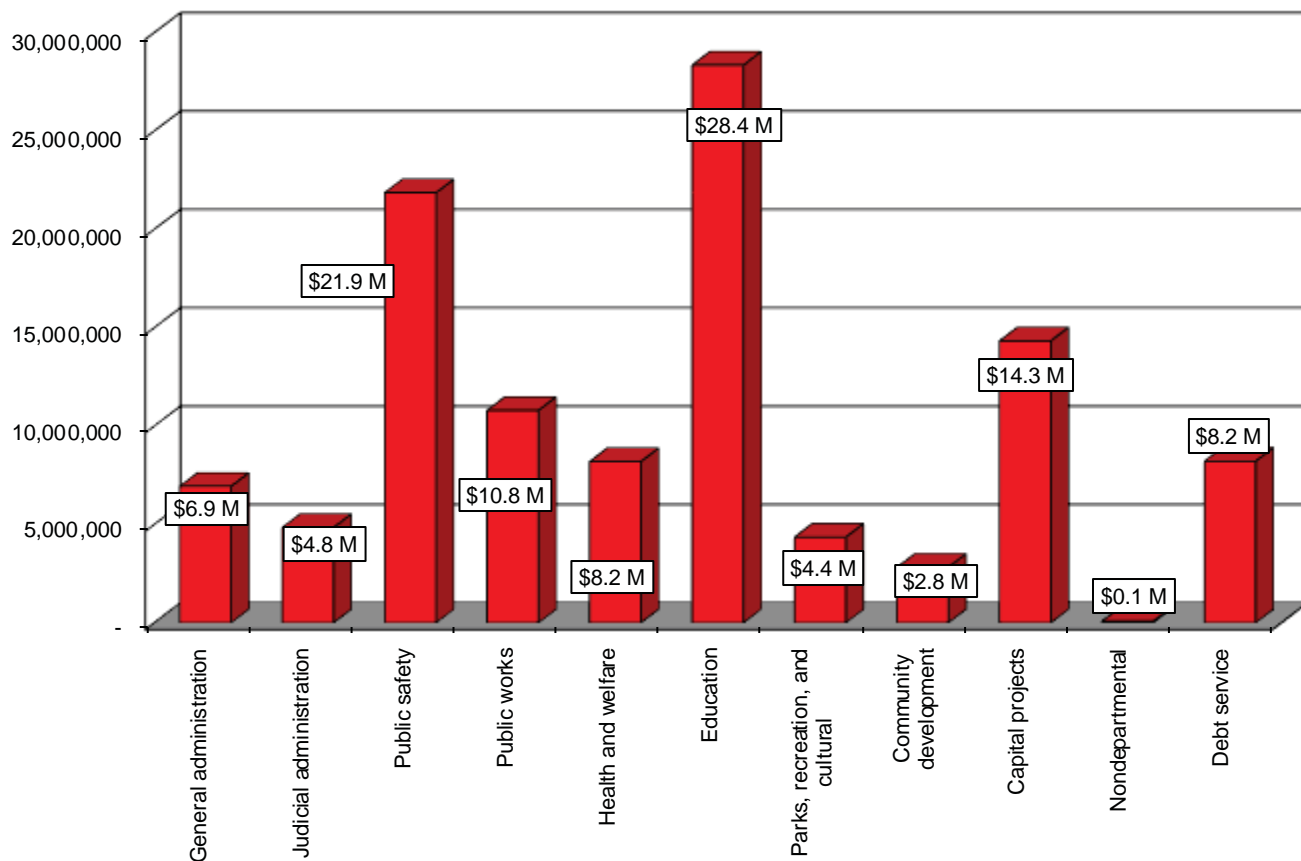
Financial Analysis of the City's Governmental Funds: (Continued)

Expenditures: (Continued)

TABLE 5
Governmental Funds - Expenditures

| | | FY 2017 | FY 2016 | Percentage of Total Expenditures FY 2017 | Increase (Decrease) from FY 2016 |
|---------------------------------|-----------|--------------------|-----------------------|---|---|
| General administration | \$ | 6,941,265 | \$ 6,937,325 | 6.27% | \$ 3,940 |
| Judicial administration | | 4,842,421 | 4,757,907 | 4.37% | 84,514 |
| Public safety | | 21,862,258 | 21,014,424 | 19.73% | 847,834 |
| Public works | | 10,799,421 | 9,938,991 | 9.75% | 860,430 |
| Health and welfare | | 8,193,779 | 7,343,391 | 7.40% | 850,388 |
| Education | | 28,350,929 | 27,937,535 | 25.59% | 413,394 |
| Parks, recreation, and cultural | | 4,354,413 | 4,134,366 | 3.93% | 220,047 |
| Community development | | 2,817,023 | 3,102,783 | 2.54% | (285,760) |
| Capital projects | | 14,332,314 | 12,206,160 | 12.93% | 2,126,154 |
| Nondepartmental | | 75,000 | 968,579 | 0.07% | (893,579) |
| Debt service | | 8,219,530 | 7,560,085 | 7.42% | 659,445 |
| Totals | \$ | 110,788,353 | \$ 105,901,546 | 100.00% | \$ 4,886,807 |

FY 2017 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2017, 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.

For fiscal year 2017, total final General Fund budgeted expenditures increased \$489,538 and total final General Fund budgeted revenues increased \$1,435,267.

Actual General Fund expenditures were \$80,709,354 compared to the final budgeted expenditures totaling \$79,244,401. This resulted in a favorable budget variance of \$1,464,953. General Government Administration, Public Safety and Public Works experienced the most significant favorable variance of \$337,744, \$383,402 and \$548,559, respectively.

Actual General Fund revenues were \$89,181,564 compared to the final budgeted revenues totaling \$86,343,822. This resulted in a favorable budget variance of \$2,837,742. There were two major categories, general property taxes and other local taxes, which experienced the most significant favorable variance of \$838,290 and \$1,893,794, respectively.

The General Fund budget for fiscal year 2017 included a use of fund balance totaling \$5,740,004. Due to favorable financial results, the City's use of fund balance was \$1,429,062.

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, 2016 | Net Additions/ Deletions | Balance June 30, 2017 |
| Capital assets not being depreciated: | | | |
| Land | \$ 21,666,651 | \$ - | \$ 21,666,651 |
| Construction in progress | 4,379,158 | 7,605,828 | 11,984,986 |
| Other capital assets: | | | |
| Land improvements | 16,243,833 | 21,138 | 16,264,971 |
| Buildings and building improvements | 63,023,575 | 177,155 | 63,200,730 |
| Joint tenancy assets | 34,035,000 | (1,715,000) | 32,320,000 |
| Machinery, equipment, and vehicles | 23,863,890 | 1,805,908 | 25,669,798 |
| Infrastructure | 81,550,488 | 4,375,582 | 85,926,070 |
| Accumulated depreciation | (78,160,143) | (4,837,280) | (82,997,423) |
| Totals | \$ 166,602,452 | \$ 7,433,331 | \$ 174,035,783 |

Capital Asset and Debt Administration: (Continued)

The net increase in capital assets during the fiscal year was \$7,433,331. The increase in revenues in the General Fund combined with debt issuances and a strategic use of fund balance has provided the City an opportunity to address a variety of capital needs. Increases to capital assets totaled \$16,096,910 and include \$9,547,543 for building improvements, \$3,573,003 for infrastructure improvements, and \$2,922,517 for furniture, equipment and vehicle purchases. The decrease to capital assets was \$8,663,579, of which \$7,576,862 was for depreciation expense recognized in fiscal year 2017.

Additional information regarding capital assets is presented in the Notes to Financial Statements section of this report (Note 8).

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.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2017, the City's outstanding long-term indebtedness amount totaled \$110,248,000. After an adjustment to reflect the reserve of \$2,000,490 for education debt service and \$1,660,000 of revenue bonded debt, the remaining net debt applicable to the debt limit of \$106,587,510 is far below the legal debt limit of \$252,766,739.

The table below reflects a summary of the City's long-term debt outstanding for fiscal years 2017 and 2016:

| TABLE 7 Long Term Debt As of June 30, 2017 | | | | | | |
|---|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | FY 2017 | FY 2016 | FY 2017 | FY 2016 | FY 2017 | FY 2016 |
| General obligation bonds | \$ 41,476,566 | \$ 44,022,847 | \$ 23,566,434 | \$ 25,550,153 | \$ 65,043,000 | \$ 69,573,000 |
| General obligation school bonds | 43,545,000 | 45,260,000 | - | - | 43,545,000 | 45,260,000 |
| Revenue Bonds | 1,660,000 | 1,855,000 | - | - | 1,660,000 | 1,855,000 |
| Total long-term debt | \$ 86,681,566 | \$ 91,137,847 | \$ 23,566,434 | \$ 25,550,153 | \$ 110,248,000 | \$ 116,688,000 |

Additional information regarding long-term debt is presented in the Notes to Financial Statements section of this report (Note 10).

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 maintaining appropriate 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.

While tourism has been a mainstay of the City's economy, visionary downtown revitalization efforts in the form of various mixed-use developments continue to reflect economic potential for the City. Several projects that combine housing, retail, hotel, restaurant, office and public-parking uses have been recently completed or are in various stages of development. The most notable projects include Amelia Square, Park View, Liberty Place and the planned re-development of The Free Lance-Star's former headquarters property. These projects include luxury residences combined with tens of thousands of square feet of retail, office, restaurant and potentially hotel space. These developments will produce significantly higher property values and help support the vitality of the downtown business climate, as will the many new restaurants that are in the pipeline. In addition, the University of Mary Washington and Mary Washington Healthcare provide stabilizing forces to the local economy. There are several remaining tracts available just off Interstate 95 for large new developments in the City, and many redevelopment opportunities exist as well along State Route 3, U.S. 1 and other key corridors. The gateway corridors into the downtown, including Lafayette Boulevard and Princess Anne Street, are poised to see new investment in the years to come, thereby becoming more integrated into the greater downtown. The City's Economic Development and

Tourism Office and City Manager's Office are committed to more aggressive outreach efforts in the years to come, providing promise for additional gains in the City's commercial tax revenue base.

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 Director of Fiscal Affairs, P.O. Box 7447, Fredericksburg, Virginia, 22404; or visit our website at *Fredericksburgva.gov*.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank

Government-wide Financial Statements

This page intentionally left blank

Statement of Net Position
At June 30, 2017

| | | | | | | Component Units | |
|---|----------------------------|-----------------------------|----------------|-----------------|--------------------------------------|-----------------|--|
| | Governmental Activities | Business-type Activities | Total | School Board | Economic Development Authority | | |
| Assets: | | | | | | | |
| Cash and cash equivalents | \$ 39,839,433 | \$ 24,582,956 | \$ 64,422,389 | \$ 7,391,606 | \$ 1,462,226 | | |
| Receivables, net of allowance for uncollectibles | 1,166,666 | 1,725,237 | 2,891,903 | 22,581 | 17,847 | | |
| Due from other governments | 4,944,810 | 4,412,977 | 9,357,787 | 1,401,382 | - | | |
| Inventory, at cost | 16,969 | 317,427 | 334,396 | - | - | | |
| Prepaid items | 863,872 | 14,570 | 878,442 | 362,825 | - | | |
| Investment in joint venture | 4,696,790 | - | 4,696,790 | - | - | | |
| Net pension asset | - | - | - | 88,702 | - | | |
| Restricted: | | | | | | | |
| Cash and cash equivalents | - | 678,352 | 678,352 | - | - | | |
| Capital assets: | | | | | | | |
| Land, construction in progress and other | 33,651,637 | 7,493,551 | 41,145,188 | 497,679 | - | | |
| Other capital assets, net of accumulated depreciation | 140,384,146 | 60,199,207 | 200,583,353 | 23,949,323 | - | | |
| Capital assets, net | \$ 174,035,783 | \$ 67,692,758 | \$ 241,728,541 | \$ 24,447,002 | \$ - | | |
| Total assets | \$ 225,564,323 | \$ 99,424,277 | \$ 324,988,600 | \$ 33,714,098 | \$ 1,480,073 | | |
| Deferred Outflows of Resources: | | | | | | | |
| Pension contributions subsequent to the measurement date | \$ 2,602,453 | \$ 254,770 | \$ 2,857,223 | \$ 3,387,454 | \$ - | | |
| Items related to the measurement of the net pension liability | 3,148,744 | 304,678 | 3,453,422 | 2,432,448 | - | | |
| Change in proportionate share of net pension liability | 153,465 | 13,899 | 167,364 | 1,757,000 | - | | |
| Deferred charge on refunding | 254,944 | 526,196 | 781,140 | - | - | | |
| Total deferred outflows of resources | \$ 6,159,606 | \$ 1,099,543 | \$ 7,259,149 | \$ 7,576,902 | \$ - | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 2,690,173 | \$ 2,117,600 | \$ 4,807,773 | \$ 748,229 | \$ 30,607 | | |
| Accrued liabilities | 3,726,905 | 504,709 | 4,231,614 | 3,906,186 | - | | |
| Unearned revenue | 452,277 | 1,696,195 | 2,148,472 | - | - | | |
| Claims payable | 871,860 | - | 871,860 | - | - | | |
| Amounts held for others | 1,116,061 | - | 1,116,061 | - | - | | |
| Liabilities payable from restricted assets | - | 678,352 | 678,352 | - | - | | |
| Long-term liabilities: | | | | | | | |
| Due within one year: | | | | | | | |
| Compensated absences | 1,886,182 | 155,425 | 2,041,607 | 597,828 | - | | |
| Revenue bonds | 205,000 | - | 205,000 | - | - | | |
| General obligation bonds | 5,204,082 | 2,053,791 | 7,257,873 | - | - | | |
| Accrued landfill post-closure costs | 80,000 | - | 80,000 | - | - | | |
| Capital lease | - | - | - | 225,000 | - | | |
| Due in more than one year: | | | | | | | |
| Compensated absences | 1,156,047 | 86,858 | 1,242,905 | 551,841 | - | | |
| Net OPEB obligation | 4,524,851 | 422,861 | 4,947,712 | 2,309,796 | - | | |
| Revenue bonds | 1,455,000 | - | 1,455,000 | - | - | | |
| General obligation bonds | 83,714,103 | 21,608,219 | 105,322,322 | - | - | | |
| Capital lease | - | - | - | 2,780,000 | - | | |
| Net pension liability | 23,976,917 | 2,390,374 | 26,367,291 | 40,555,000 | - | | |
| Accrued landfill post-closure costs | 1,419,514 | - | 1,419,514 | - | - | | |
| Total liabilities | \$ 132,478,972 | \$ 31,714,384 | \$ 164,193,356 | \$ 51,673,880 | \$ 30,607 | | |
| Deferred Inflows of Resources: | | | | | | | |
| Deferred revenue - property taxes | \$ 636,656 | \$ - | \$ 636,656 | \$ - | \$ - | | |
| Change in proportionate share of net pension liability | - | 53,914 | 53,914 | - | - | | |
| Items related to the measurement of the net pension liability | 1,505,994 | 152,244 | 1,658,238 | 1,401,508 | - | | |
| Total deferred inflows of resources | \$ 2,142,650 | \$ 206,158 | \$ 2,348,808 | \$ 1,401,508 | \$ - | | |
| Net Position: | | | | | | | |
| Net investment in capital assets | \$ 88,860,358 | \$ 44,971,811 | \$ 133,832,169 | \$ 21,442,002 | \$ - | | |
| Unrestricted | 8,241,949 | 23,631,467 | 31,873,416 | (33,226,390) | 1,449,466 | | |
| Total net position | \$ 97,102,307 | \$ 68,603,278 | \$ 165,705,585 | \$ (11,784,388) | \$ 1,449,466 | | |

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
Year Ended June 30, 2017

| Functions/Programs | Expenses | Program Revenues | | |
|--|----------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government administration | \$ 7,065,308 | \$ 149,415 | \$ 275,738 | \$ - |
| Judicial administration | 5,700,242 | 191,999 | 953,124 | - |
| Public safety | 22,472,125 | 1,872,937 | 2,006,353 | 150,000 |
| Public works | 12,324,625 | 998,126 | 2,799,781 | 2,924,565 |
| Health and welfare | 7,951,696 | - | 5,492,744 | - |
| Education | 30,433,939 | - | - | - |
| Parks, recreation and cultural | 5,025,061 | 473,643 | 73,473 | - |
| Community development | 2,652,990 | 28 | - | 117,851 |
| Interest on long-term debt | 3,357,340 | - | - | - |
| Total governmental activities | \$ 96,983,326 | \$ 3,686,148 | \$ 11,601,213 | \$ 3,192,416 |
| Business-type activities | | | | |
| Water | \$ 3,125,748 | \$ 3,322,933 | \$ 337,549 | \$ - |
| Sewer | 5,485,742 | 5,426,986 | 569,414 | - |
| Transit | 4,671,545 | 307,579 | 3,072,602 | 1,682,639 |
| Parking | 493,395 | 247,274 | - | - |
| Total business-type activities | \$ 13,776,430 | \$ 9,304,772 | \$ 3,979,565 | \$ 1,682,639 |
| Total Primary Government | \$ 110,759,756 | \$ 12,990,920 | \$ 15,580,778 | \$ 4,875,055 |
| Component Units | | | | |
| Fredericksburg City Public Schools | \$ 49,184,682 | \$ 429,283 | \$ 19,172,845 | \$ - |
| Fredericksburg Economic Development Authority | 625,565 | 138,058 | 211,637 | - |
| Total Component Units | \$ 49,810,247 | \$ 567,341 | \$ 19,384,482 | \$ - |
| 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 | | | | |
| Net position, end of year | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | | | | |
|---|-----------------------------|------------------------|------------------------|--|
| Primary Government | | | | |
| Governmental Activities | Business-type Activities | Total | Component Units | |
| \$ (6,640,155) | \$ - | \$ (6,640,155) | \$ - | |
| (4,555,119) | - | (4,555,119) | - | |
| (18,442,835) | - | (18,442,835) | - | |
| (5,602,153) | - | (5,602,153) | - | |
| (2,458,952) | - | (2,458,952) | - | |
| (30,433,939) | - | (30,433,939) | - | |
| (4,477,945) | - | (4,477,945) | - | |
| (2,535,111) | - | (2,535,111) | - | |
| (3,357,340) | - | (3,357,340) | - | |
| <u>\$ (78,503,549)</u> | <u>\$ -</u> | <u>\$ (78,503,549)</u> | <u>\$ -</u> | |
| \$ - | \$ 534,734 | \$ 534,734 | \$ - | |
| - | 510,658 | 510,658 | - | |
| - | 391,275 | 391,275 | - | |
| - | (246,121) | (246,121) | - | |
| <u>\$ -</u> | <u>\$ 1,190,546</u> | <u>\$ 1,190,546</u> | <u>\$ -</u> | |
| <u>\$ (78,503,549)</u> | <u>\$ 1,190,546</u> | <u>\$ (77,313,003)</u> | <u>\$ -</u> | |
| | | | \$ (29,582,554) | |
| | | | (275,870) | |
| | | | <u>\$ (29,858,424)</u> | |
| \$ 40,022,650 | \$ - | \$ 40,022,650 | \$ - | |
| 11,376,302 | - | 11,376,302 | - | |
| 1,808,256 | - | 1,808,256 | - | |
| 6,320,104 | - | 6,320,104 | - | |
| 1,524,371 | - | 1,524,371 | - | |
| 11,141,603 | - | 11,141,603 | - | |
| 3,158,608 | 1,154,538 | 4,313,146 | - | |
| - | - | - | 29,467,768 | |
| 3,724,175 | - | 3,724,175 | - | |
| 99,017 | - | 99,017 | - | |
| 369,235 | 62,519 | 431,754 | 15,751 | |
| 664,489 | 571,373 | 1,235,862 | 409,405 | |
| 619,355 | (619,355) | - | - | |
| <u>\$ 80,828,165</u> | <u>\$ 1,169,075</u> | <u>\$ 81,997,240</u> | <u>\$ 29,892,924</u> | |
| \$ 2,324,616 | \$ 2,359,621 | \$ 4,684,237 | \$ 34,500 | |
| 94,777,691 | 66,243,657 | 161,021,348 | (10,369,422) | |
| <u>\$ 97,102,307</u> | <u>\$ 68,603,278</u> | <u>\$ 165,705,585</u> | <u>\$ (10,334,922)</u> | |

This page intentionally left blank

Fund Financial Statements

This page intentionally left blank

Balance Sheet
Governmental Funds
At June 30, 2017

| | General | School Bond Funded Capital Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--|--------------------------------|--------------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 23,713,398 | \$ 3,813,351 | \$ 11,773,568 | \$ 39,300,317 |
| Receivables (net of allowances for uncollectibles): | | | | |
| Property taxes | 635,098 | - | - | 635,098 |
| Accounts | 104,407 | - | - | 104,407 |
| Accrued revenue | 342,876 | - | 84,285 | 427,161 |
| Inventory, at cost | 16,969 | - | - | 16,969 |
| Prepaid items | 410,378 | - | 9,710 | 420,088 |
| Due from other governments | 3,096,658 | - | 1,848,152 | 4,944,810 |
| Total assets | \$ 28,319,784 | \$ 3,813,351 | \$ 13,715,715 | \$ 45,848,850 |
| Liabilities: | | | | |
| Accounts payable | \$ 526,710 | \$ 1,605,988 | \$ 555,818 | \$ 2,688,516 |
| Accrued liabilities | 1,321,886 | 496,319 | 371,438 | 2,189,643 |
| Amounts held for others | 1,116,061 | - | - | 1,116,061 |
| Unearned revenue | 75,652 | - | 376,625 | 452,277 |
| Total liabilities | \$ 3,040,309 | \$ 2,102,307 | \$ 1,303,881 | \$ 6,446,497 |
| Deferred Inflows of Resources: | | | | |
| Unavailable revenue - property taxes | \$ 1,004,082 | \$ - | \$ - | \$ 1,004,082 |
| Fund Balances: | | | | |
| Nonspendable | \$ 427,347 | \$ - | \$ 9,710 | \$ 437,057 |
| Restricted | 100,466 | - | 100,000 | 200,466 |
| Committed | 6,897,202 | 1,711,044 | 5,621,683 | 14,229,929 |
| Assigned | 996,272 | - | 6,680,441 | 7,676,713 |
| Unassigned | 15,854,106 | - | - | 15,854,106 |
| Total fund balances | \$ 24,275,393 | \$ 1,711,044 | \$ 12,411,834 | \$ 38,398,271 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 28,319,784 | \$ 3,813,351 | \$ 13,715,715 | \$ 45,848,850 |

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, 2017

| | | |
|--|----|------------|
| Total fund balances for governmental funds (Exhibit 3) | \$ | 38,398,271 |
|--|----|------------|

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 | \$ | 21,666,651 | |
| Construction in progress | | 11,984,986 | |
| Land improvements, net of accumulated depreciation | | 12,204,724 | |
| Buildings and improvements, net of accumulated depreciation | | 46,717,332 | |
| Joint tenancy assets, net of accumulated depreciation | | 25,672,059 | |
| Infrastructure, net of accumulated depreciation | | 43,029,953 | |
| Machinery, vehicles, and equipment, net of accumulated depreciation | | <u>12,760,078</u> | |
| Total capital assets | | | 174,035,783 |

| | |
|---|---------|
| 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. | 109,383 |
|---|---------|

Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

| | | | |
|--|----|--------------------|-----------|
| Investment in joint venture | \$ | 4,696,790 | |
| Change in proportionate share of net pension liability | | 153,465 | |
| Deferred inflows related to measurement of net pension liability | | <u>(1,505,994)</u> | 3,344,261 |

| | |
|--|-----------|
| Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds. | 2,602,453 |
|--|-----------|

| | |
|---|---------|
| 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. | 367,426 |
|---|---------|

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 | \$ | (1,537,262) | |
| Bonds and notes payable | | (86,681,566) | |
| Premium on long-term debt, net of accumulated amortization | | (3,896,619) | |
| Deferred charge on refunding | | 254,944 | |
| Net pension liability | | (23,976,917) | |
| Deferred outflows related to measurement of net pension liability | | 3,148,744 | |
| Landfill post-closure costs | | <u>(1,499,514)</u> | (114,188,190) |

| | |
|---|-------------|
| Compensated absences not reported as fund liabilities | (3,042,229) |
|---|-------------|

| | |
|--|--------------------|
| Net OPEB obligation not reported as fund liabilities | <u>(4,524,851)</u> |
|--|--------------------|

| | | |
|--|----|--------------------------|
| Total net position of governmental activities (Exhibits 1 and 2) | \$ | <u><u>97,102,307</u></u> |
|--|----|--------------------------|

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, 2017

| | General Fund | School Bond Funded Capital Fund | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|--|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 40,074,290 | \$ - | \$ - | \$ 40,074,290 |
| Other local taxes | 35,279,244 | - | 50,000 | 35,329,244 |
| Permits, privilege fees and regulatory licenses | 677,059 | - | 23,138 | 700,197 |
| Fines and forfeitures | 310,008 | - | 2,843 | 312,851 |
| Use of money and property | 164,144 | 64,047 | 240,061 | 468,252 |
| Charges for services | 2,595,981 | - | 77,119 | 2,673,100 |
| Miscellaneous | 176,570 | - | 468,350 | 644,920 |
| Recovered costs | 570,307 | - | 549,403 | 1,119,710 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth | 9,244,624 | - | 4,370,583 | 13,615,207 |
| Revenue from the Federal Government | 89,337 | - | 3,071,979 | 3,161,316 |
| Total revenues | \$ 89,181,564 | \$ 64,047 | \$ 8,853,476 | \$ 98,099,087 |
| Expenditures | | | | |
| Current: | | | | |
| General government administration | \$ 6,941,265 | \$ - | \$ - | \$ 6,941,265 |
| Judicial administration | 4,588,768 | - | 253,653 | 4,842,421 |
| Public safety | 21,429,270 | - | 432,988 | 21,862,258 |
| Public works | 10,584,534 | - | 214,887 | 10,799,421 |
| Health and welfare | 1,013,418 | - | 7,180,361 | 8,193,779 |
| Education - local community college and other | 68,719 | - | - | 68,719 |
| Education - public school system | 28,282,210 | - | - | 28,282,210 |
| Parks, recreation and cultural | 4,243,469 | - | 110,944 | 4,354,413 |
| Community development | 2,017,748 | - | 799,275 | 2,817,023 |
| Capital projects | - | 9,279,165 | 5,053,149 | 14,332,314 |
| Nondepartmental | 75,000 | - | - | 75,000 |
| Debt service: | | | | |
| Principal payments | - | - | 4,456,281 | 4,456,281 |
| Interest and fiscal charges | - | - | 3,763,249 | 3,763,249 |
| Total expenditures | \$ 79,244,401 | \$ 9,279,165 | \$ 22,264,787 | \$ 110,788,353 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 9,937,163 | \$ (9,215,118) | \$ (13,411,311) | \$ (12,689,266) |
| Other financing sources (uses) | | | | |
| Proceeds from the sale of capital assets | \$ 15,786 | \$ - | \$ 3,783 | \$ 19,569 |
| Transfers in | 613,500 | 250,000 | 11,751,366 | 12,614,866 |
| Transfers out | (11,995,511) | - | - | (11,995,511) |
| Total other financing sources (uses) | \$ (11,366,225) | \$ 250,000 | \$ 11,755,149 | \$ 638,924 |
| Net change in fund balance | \$ (1,429,062) | \$ (8,965,118) | \$ (1,656,162) | \$ (12,050,342) |
| Fund balances, beginning of year | 25,704,455 | 10,676,162 | 14,067,996 | 50,448,613 |
| Fund balances, end of year | \$ 24,275,393 | \$ 1,711,044 | \$ 12,411,834 | \$ 38,398,271 |

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, 2017

Net change in fund balances - total governmental funds (Exhibit 5) \$ (12,050,342)

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 | \$ 14,355,629 | |
| Depreciation | <u>(7,576,862)</u> | 6,778,767 |

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (1,086,717)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. 1,741,281

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. (51,640)

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 | \$ 1,180,092 | |
| Change in deferred inflows related to the measurement of the net pension liability | <u>3,265,879</u> | 4,445,971 |

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.

| | | |
|---|------------------|-----------|
| Debt issued: | | |
| Amortization of premium on long-term debt | \$ 436,285 | |
| Repayments of long-term debt: | | |
| General obligation bonds | <u>4,456,281</u> | |
| Net adjustment | | 4,892,566 |

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 | \$ 58,751 | |
| Net OPEB obligation | (165,760) | |
| Accrued interest on bonds and loans | (1,844) | |
| Net pension liability | (5,159,970) | |
| Deferred outflows related to pension payments subsequent to the measurement date | (629,381) | |
| Deferred outflows related to the measurement of the net pension liability | 3,148,744 | |
| Deferred outflows - change in proportionate share of net pension liability | 69,812 | |
| Amortization of deferred charge on refunding | (28,532) | |
| Accrued landfill post-closure costs | <u>39,161</u> | |
| Net adjustment | | (2,669,019) |

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. 323,749

Change in net position of governmental activities (Exhibit 2) \$ 2,324,616

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

Statement of Net Position
Proprietary Funds
At June 30, 2017

| | 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 | \$ 9,641,785 | \$ 7,309,347 | \$ 7,083,903 | \$ 547,921 | \$ 24,582,956 | \$ 539,116 |
| Accounts receivable, net of allowance for uncollectibles | 640,785 | 1,044,747 | - | - | 1,685,532 | - |
| Accrued revenue | 6,477 | 5,774 | 11,038 | 16,416 | 39,705 | - |
| Inventory, at cost | 137,459 | 179,968 | - | - | 317,427 | - |
| Prepaid items | 1,182 | 2,557 | 9,531 | 1,300 | 14,570 | 443,784 |
| Due from other governments | 50,000 | 159,998 | 3,962,979 | 240,000 | 4,412,977 | - |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 678,352 | - | - | - | 678,352 | - |
| Total current assets | \$ 11,156,040 | \$ 8,702,391 | \$ 11,067,451 | \$ 805,637 | \$ 31,731,519 | \$ 982,900 |
| Capital Assets: | | | | | | |
| Land | \$ 701,345 | \$ 114,880 | \$ 550,686 | \$ 782,125 | \$ 2,149,036 | \$ - |
| Construction in progress | 3,440,619 | 1,670,395 | 233,501 | - | 5,344,515 | - |
| Land improvements | - | - | 976,403 | - | 976,403 | - |
| Dams and reservoirs | 663,536 | - | - | - | 663,536 | - |
| Buildings and systems | 18,305,808 | 41,553,949 | 9,867,983 | 6,682,205 | 76,409,945 | - |
| Furniture, machinery and equipment | 478,262 | 2,900,535 | 5,178,312 | 223,789 | 8,780,898 | - |
| Intangible assets | 6,976,115 | 1,556,496 | - | - | 8,532,611 | - |
| Total property, plant and equipment | \$ 30,565,685 | \$ 47,796,255 | \$ 16,806,885 | \$ 7,688,119 | \$ 102,856,944 | \$ - |
| Accumulated depreciation | (9,112,630) | (20,021,262) | (4,409,906) | (1,620,388) | (35,164,186) | - |
| Capital assets, net | \$ 21,453,055 | \$ 27,774,993 | \$ 12,396,979 | \$ 6,067,731 | \$ 67,692,758 | \$ - |
| Total assets | \$ 32,609,095 | \$ 36,477,384 | \$ 23,464,430 | \$ 6,873,368 | \$ 99,424,277 | \$ 982,900 |
| Deferred Outflows of Resources: | | | | | | |
| Pension contributions subsequent to the measurement date | \$ 53,098 | \$ 111,001 | \$ 85,816 | \$ 4,855 | \$ 254,770 | \$ - |
| Change in proportionate share of net pension liability | 10,852 | - | - | 3,047 | 13,899 | - |
| Items related to the measurement of the net pension liability | 73,577 | 117,504 | 107,149 | 6,448 | 304,678 | - |
| Deferred charge on refunding | 23,208 | 423,546 | - | 79,442 | 526,196 | - |
| Total deferred outflows of resources | \$ 160,735 | \$ 652,051 | \$ 192,965 | \$ 93,792 | \$ 1,099,543 | \$ - |
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 498,100 | \$ 1,020,438 | \$ 573,229 | \$ 25,833 | \$ 2,117,600 | \$ 1,657 |
| Accrued liabilities | 111,171 | 125,398 | 48,499 | 2,129 | 287,197 | - |
| Interest payable | 46,467 | 171,045 | - | - | 217,512 | - |
| Compensated absences, current portion | 38,028 | 81,278 | 35,245 | 874 | 155,425 | - |
| Claims payable | - | - | - | - | - | 871,860 |
| Unearned revenue, current portion | 25,007 | 55,912 | - | - | 80,919 | - |
| General obligation bonds, current portion | 646,438 | 1,162,236 | - | 245,117 | 2,053,791 | - |
| Current liabilities payable from restricted assets: | | | | | | |
| Customer deposits | 678,352 | - | - | - | 678,352 | - |
| Total current liabilities | \$ 2,043,563 | \$ 2,616,307 | \$ 656,973 | \$ 273,953 | \$ 5,590,796 | \$ 873,517 |
| Noncurrent liabilities: | | | | | | |
| Unearned revenue, noncurrent portion | \$ - | \$ 1,615,276 | \$ - | \$ - | \$ 1,615,276 | \$ - |
| Compensated absences, noncurrent portion | 23,308 | 14,343 | 48,671 | 536 | 86,858 | - |
| Net OPEB obligation | 104,150 | 183,170 | 125,084 | 10,457 | 422,861 | - |
| Net pension liability | 552,876 | 956,692 | 834,734 | 46,072 | 2,390,374 | - |
| General obligation bonds, noncurrent portion | 7,067,526 | 12,360,350 | - | 2,180,343 | 21,608,219 | - |
| Total noncurrent liabilities | \$ 7,747,860 | \$ 15,129,831 | \$ 1,008,489 | \$ 2,237,408 | \$ 26,123,588 | \$ - |
| Total liabilities | \$ 9,791,423 | \$ 17,746,138 | \$ 1,665,462 | \$ 2,511,361 | \$ 31,714,384 | \$ 873,517 |
| Deferred Inflows of Resources: | | | | | | |
| Change in proportionate share of net pension liability | \$ - | \$ 45,905 | \$ 8,009 | \$ - | \$ 53,914 | \$ - |
| Items related to the measurement of the net pension liability | 34,251 | 62,507 | 52,746 | 2,740 | 152,244 | - |
| Total deferred inflows of resources | \$ 34,251 | \$ 108,412 | \$ 60,755 | \$ 2,740 | \$ 206,158 | \$ - |
| Net Position: | | | | | | |
| Net investment in capital assets | \$ 14,170,275 | \$ 14,682,844 | \$ 12,396,979 | \$ 3,721,713 | \$ 44,971,811 | \$ - |
| Unrestricted | 8,773,881 | 4,592,041 | 9,534,199 | 731,346 | 23,631,467 | 109,383 |
| Total net position | \$ 22,944,156 | \$ 19,274,885 | \$ 21,931,178 | \$ 4,453,059 | \$ 68,603,278 | \$ 109,383 |

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, 2017

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities |
|--|---|-----------------|----------------|--------------|----------------|-------------------------|
| | Water Fund | Wastewater Fund | Transit Fund | Parking Fund | Total | Internal Service Fund |
| Operating revenues: | | | | | | |
| Charges for services | \$ 3,322,933 | \$ 5,426,986 | \$ 307,579 | \$ 247,274 | \$ 9,304,772 | \$ 7,581,841 |
| Operating expenses: | | | | | | |
| Personal services | \$ 464,105 | \$ 929,458 | \$ 2,059,741 | \$ 101,561 | \$ 3,554,865 | \$ - |
| Fringe benefits | 332,860 | 528,191 | 467,920 | 21,182 | 1,350,153 | 5,897,554 |
| Contractual services | 1,246,362 | 1,319,162 | 433,370 | 90,200 | 3,089,094 | - |
| Other operating expenses | 237,525 | 628,758 | 945,451 | 58,144 | 1,869,878 | 1,360,538 |
| Depreciation expense | 647,138 | 1,556,399 | 765,063 | 152,037 | 3,120,637 | - |
| Total operating expenses | \$ 2,927,990 | \$ 4,961,968 | \$ 4,671,545 | \$ 423,124 | \$ 12,984,627 | \$ 7,258,092 |
| Total operating income (loss) | \$ 394,943 | \$ 465,018 | \$ (4,363,966) | \$ (175,850) | \$ (3,679,855) | \$ 323,749 |
| Nonoperating revenues (expenses): | | | | | | |
| Interest income | \$ 19,309 | \$ 20,182 | \$ 11,514 | \$ 11,514 | \$ 62,519 | \$ - |
| Gasoline tax receipts | - | - | 924,538 | 230,000 | 1,154,538 | - |
| Availability/connection fees | 337,549 | 512,000 | - | - | 849,549 | - |
| Miscellaneous | 259,447 | 71,455 | 215,479 | 24,992 | 571,373 | - |
| State and local grant funds | - | - | 1,699,179 | - | 1,699,179 | - |
| Federal grant funds | - | 57,414 | 1,373,423 | - | 1,430,837 | - |
| Interest expense | (197,758) | (523,774) | - | (70,271) | (791,803) | - |
| Total nonoperating revenues (expenses) | \$ 418,547 | \$ 137,277 | \$ 4,224,133 | \$ 196,235 | \$ 4,976,192 | \$ - |
| Income (loss) before contributions and transfers | \$ 813,490 | \$ 602,295 | \$ (139,833) | \$ 20,385 | \$ 1,296,337 | \$ 323,749 |
| Capital grants and contributions: | | | | | | |
| State and local grant funds | \$ - | \$ - | \$ 170,457 | \$ - | \$ 170,457 | \$ - |
| Federal grant funds | - | - | 1,512,182 | - | 1,512,182 | - |
| Total capital grants and contributions | \$ - | \$ - | \$ 1,682,639 | \$ - | \$ 1,682,639 | \$ - |
| Transfers: | | | | | | |
| Transfers out | \$ (280,644) | \$ (338,711) | \$ - | \$ - | \$ (619,355) | \$ - |
| Change in net position | \$ 532,846 | \$ 263,584 | \$ 1,542,806 | \$ 20,385 | \$ 2,359,621 | \$ 323,749 |
| Net position, beginning of year | 22,411,310 | 19,011,301 | 20,388,372 | 4,432,674 | 66,243,657 | (214,366) |
| Net position, end of year | \$ 22,944,156 | \$ 19,274,885 | \$ 21,931,178 | \$ 4,453,059 | \$ 68,603,278 | \$ 109,383 |

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

| | 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 | \$ 3,390,867 | \$ 5,398,298 | \$ 332,602 | \$ 1,072 | \$ 9,122,839 | \$ 7,581,841 |
| Other miscellaneous receipts | 259,447 | 71,455 | 1,140,017 | 254,992 | 1,725,911 | - |
| Payments to suppliers | (1,519,422) | (1,349,218) | (916,090) | (126,944) | (3,911,674) | (1,417,782) |
| Payments to and for employees | (724,137) | (1,458,357) | (2,557,976) | (125,123) | (4,865,593) | (5,864,751) |
| Net cash provided by (used for) operating activities | \$ 1,406,755 | \$ 2,662,178 | \$ (2,001,447) | \$ 3,997 | \$ 2,071,483 | \$ 299,308 |
| Cash flows from noncapital financing activities: | | | | | | |
| Availability and connection fees | \$ 337,549 | \$ 512,000 | \$ - | \$ - | \$ 849,549 | \$ - |
| State, federal and local grant funds | - | 57,414 | 1,800,986 | - | 1,858,400 | - |
| Transfers | (280,644) | (338,711) | - | - | (619,355) | - |
| Net cash provided by (used for) noncapital financing activities | \$ 56,905 | \$ 230,703 | \$ 1,800,986 | \$ - | \$ 2,088,594 | \$ - |
| Cash flows from investing activities: | | | | | | |
| Interest income | \$ 19,309 | \$ 20,182 | \$ 11,514 | \$ 11,514 | \$ 62,519 | \$ - |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase of capital assets | \$ (1,413,951) | \$ (1,768,223) | \$ (1,250,827) | \$ (50,343) | \$ (4,483,344) | \$ - |
| State, federal and local grant funds | - | - | 1,226,237 | - | 1,226,237 | - |
| Principal payment on debt | (629,715) | (1,112,839) | - | (241,163) | (1,983,717) | - |
| Interest paid on debt | (198,479) | (506,158) | - | (60,341) | (764,978) | - |
| Net cash provided by (used for) capital and related financing activities | \$ (2,242,145) | \$ (3,387,220) | \$ (24,590) | \$ (351,847) | \$ (6,005,802) | \$ - |
| Increase (decrease) in cash and cash equivalents for the year | \$ (759,176) | \$ (474,157) | \$ (213,537) | \$ (336,336) | \$ (1,783,206) | \$ 299,308 |
| Cash and cash equivalents (including restricted), beginning of year | 11,079,313 | 7,783,504 | 7,297,440 | 884,257 | 27,044,514 | 239,808 |
| Cash and cash equivalents (including restricted), end of year | \$ 10,320,137 | \$ 7,309,347 | \$ 7,083,903 | \$ 547,921 | \$ 25,261,308 | \$ 539,116 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Operating income (loss) | \$ 394,943 | \$ 465,018 | \$ (4,363,966) | \$ (175,850) | \$ (3,679,855) | \$ 323,749 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation | 647,138 | 1,556,399 | 765,063 | 152,037 | 3,120,637 | - |
| Other miscellaneous receipts | 259,447 | 71,455 | 1,140,017 | 254,992 | 1,725,911 | - |
| Changes in assets and liabilities: | | | | | | |
| Accounts receivable | 23,795 | 42,472 | - | - | 66,267 | - |
| Inventory | 6,265 | (64,239) | - | - | (57,974) | - |
| Accrued revenue | (745) | (695) | 25,023 | (6,202) | 17,381 | - |
| Prepaid items | (1,147) | (2,301) | 608 | 55 | (2,785) | (443,784) |
| Due from other governments | - | (14,553) | - | (240,000) | (254,553) | - |
| Deferred outflows of resources - pension contributions subsequent to measurement date | 13,811 | 22,889 | 23,840 | 182 | 60,722 | - |
| Deferred outflows of resources - change in proportionate share of net pension liability | (5,512) | - | - | (1,266) | (6,778) | - |
| Deferred outflows of resources - items related to measurement of net pension liability | (39,746) | (117,504) | (107,149) | (6,448) | (270,847) | - |
| Accounts payable | (103,640) | 585,399 | 470,450 | 21,345 | 973,554 | (57,244) |
| Accrued liabilities | 62,987 | 79,843 | (8,327) | 80 | 134,583 | - |
| Net OPEB obligation | (9,428) | (20,935) | 1,142 | - | (29,221) | - |
| Net pension liability | 124,927 | 175,685 | 175,692 | 11,836 | 488,140 | - |
| Unearned revenue | 6,342 | (55,912) | - | - | (49,570) | - |
| Claims payable | - | - | - | - | - | 476,587 |
| Compensated absences | 10,731 | 6,389 | 7,707 | 282 | 25,109 | - |
| Deferred inflows of resources - change in proportionate share of net pension liability | - | 12,087 | (2,670) | - | 9,417 | - |
| Deferred inflows of resources - items related to measurement of net pension liability | (21,955) | (79,319) | (128,877) | (7,046) | (237,197) | - |
| Deposits payable from restricted assets | 38,542 | - | - | - | 38,542 | - |
| Net cash provided by (used for) operating activities | \$ 1,406,755 | \$ 2,662,178 | \$ (2,001,447) | \$ 3,997 | \$ 2,071,483 | \$ 299,308 |

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, 2017

| | Agency Funds | Other Post-employment Benefit Plan Fund | Private Purpose Trust Fund |
|---|---------------------|--|----------------------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 1,158,959 | \$ - | \$ 1,630,552 |
| Accounts receivable | 121,425 | 2 | 8,210 |
| Investments at fair value: | | | |
| Investment in pooled funds | - | 1,235,518 | - |
| Capital assets: | | | |
| Machinery and equipment, net of accumulated depreciation | - | - | 19,911 |
| Total assets | \$ 1,280,384 | \$ 1,235,520 | \$ 1,658,673 |
| Deferred Outflows of Resources: | | | |
| Pension contributions subsequent to the measurement date | \$ - | \$ - | \$ 3,259 |
| Items related to the measurement of the net pension liability | - | - | 7,625 |
| Total deferred outflows of resources | \$ - | \$ - | \$ 10,884 |
| Liabilities: | | | |
| Accounts payable | \$ 44,558 | \$ - | \$ 509 |
| Accrued liabilities | 87,979 | - | 10,612 |
| Net OPEB obligation | - | - | 2,282 |
| Net pension liability | - | - | 59,625 |
| Amounts held for others | 1,147,847 | - | - |
| Total liabilities | \$ 1,280,384 | \$ - | \$ 73,028 |
| Deferred Inflows of Resources: | | | |
| Items related to the measurement of the net pension liability | \$ - | \$ - | \$ 3,939 |
| Change in proportionate share of net pension liability | - | - | 1,711 |
| Total deferred inflows of resources | \$ - | \$ - | \$ 5,650 |
| Net Position: | | | |
| Held in trust for OPEB benefits and other purposes | \$ - | \$ 1,235,520 | \$ 1,590,879 |

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

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 Year Ended June 30, 2017

| | Other Post-employment Benefit Plan Fund | Private Purpose Trust Fund |
|--|--|----------------------------------|
| Additions: | | |
| Contributions: | | |
| Contributions | \$ 112,000 | \$ 27,400 |
| Investment income: | | |
| Interest earned on investments | 128,316 | 9,334 |
| Miscellaneous | - | 500 |
| Total additions | \$ 240,316 | \$ 37,234 |
| Deductions: | | |
| Payments for property management | \$ - | \$ 56,936 |
| Other charges | 1,348 | - |
| Total deductions | \$ 1,348 | \$ 56,936 |
| Net increase (decrease) in plan assets | \$ 238,968 | \$ (19,702) |
| Net position held in trust for OPEB benefits and other purposes: | | |
| Balance, beginning of year | 996,552 | 1,610,581 |
| Balance, end of year | \$ 1,235,520 | \$ 1,590,879 |

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, 2017

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| School Board | | | | |
| Education | \$ 49,120,020 | \$ 429,283 | \$ 19,172,845 | \$ - |
| Interest on long-term debt | 64,662 | - | - | - |
| Total School Board | \$ 49,184,682 | \$ 429,283 | \$ 19,172,845 | \$ - |
| Economic Development Authority | | | | |
| Community development | \$ 625,565 | \$ 138,058 | \$ 211,637 | \$ - |
| Total Component Units | <u>\$ 49,810,247</u> | <u>\$ 567,341</u> | <u>\$ 19,384,482</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 |
| \$ (29,517,892) | \$ - | \$ (29,517,892) |
| <u>(64,662)</u> | <u>-</u> | <u>(64,662)</u> |
| \$ <u>(29,582,554)</u> | \$ <u>-</u> | \$ <u>(29,582,554)</u> |
| | | |
| \$ - | \$ (275,870) | \$ (275,870) |
| \$ <u>(29,582,554)</u> | \$ <u>(275,870)</u> | \$ <u>(29,858,424)</u> |
| | | |
| \$ 29,368,927 | \$ 98,841 | \$ 29,467,768 |
| 12,000 | 3,751 | 15,751 |
| <u>409,267</u> | <u>138</u> | <u>409,405</u> |
| \$ <u>29,790,194</u> | \$ <u>102,730</u> | \$ <u>29,892,924</u> |
| | | |
| \$ 207,640 | \$ (173,140) | \$ 34,500 |
| <u>(11,992,028)</u> | <u>1,622,606</u> | <u>(10,369,422)</u> |
| \$ <u><u>(11,784,388)</u></u> | \$ <u><u>1,449,466</u></u> | \$ <u><u>(10,334,922)</u></u> |

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2017

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; however, interfund services provided and used are not eliminated in the process of consolidation. 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 (governmental 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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:

Fredericksburg City School Board members are 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 a City Council resolution pursuant to state statute and 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 \$3,853,904 in operating and other funds to the Center in 2017.

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 \$1,336,914 in operating funds to the Library in 2017.

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. 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 Board of Supervisors of the County of Stafford, to be appointed by the Board of Supervisors
- The City Manager of the City 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, 2017 was \$4,696,790.

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 \$8.3 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2017 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 2017. 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 City 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 \$246,876 to the Board in 2017.

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 City 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 2017.

f. George Washington Regional Commission

The Commission was created by City 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 \$23,149 in operating grants to the Commission in 2017.

g. Rappahannock Juvenile Detention Center

The Center was created by City 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 \$714,265 to the Center in 2017.

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

The Home was created by City 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 \$55,672 in operating funds to the Home in 2017.

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 City 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 2017.

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 2017.

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.

Children's Services Act Fund - This fund accounts for the Children's 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.

Environmental Section Fund - This fund accounts for the revenues, expenditures, and other financing resources for stormwater and other environmental purposes.

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 Capital 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 Capital 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 Capital 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 Capital Fund - This fund accounts for resources and expenditures for the renovation and improvements of the City's court facilities. Financing is provided by bond proceeds and transfers from the General Fund.

School Bond Funded Capital Fund - This fund accounts for resources and expenditures for school construction. Financing is provided by bond proceeds. The 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.

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

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

2. Proprietary Funds: (Continued)

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

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

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 consists of the following fund:

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 Services Fund - This fund accounts for revenue and expenditures of the Rappahannock Area Youth Services and Group Home 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.

Other Postemployment Benefit Plan Fund - This fund accounts for increases and decreases in net position held for other postemployment benefits.

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:

Governmental Funds are those through which most governmental functions typically are financed. The government reports 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 and all other grant requirements have been satisfied. 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 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, 2017. 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, 2017.

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.

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit) and external investment pools are measured at amortized cost. All other investments are reported 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, 2017, the allowance totaled \$2,124,470 with \$1,585,903 in the General Fund and \$538,567 in the Enterprise Funds.

H. Inventory

Inventory consists of expendable supplies which are valued at cost (specific identification) using the consumption method.

I. Prepaid Items

Prepaid expenses are reported on the consumption method.

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 | 10 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 fund 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 | 2 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 acquisition 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 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, 2017.

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.

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

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 has items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Another item is comprised of certain items related to the measurement of the net pension asset or liability. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. Lastly, the City reports contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on these items, reference Note 12-Pension Plan.

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 two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30th, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference Note 12-Pension Plan.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City Retirement Plan and the additions to/deductions from the City Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

N. 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.

O. Unbilled Revenue

The City bills service charges to utility 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, 2017 was \$436,285 and \$12,283 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 No. 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. A fund balance commitment is 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.

The City has a policy to have an unassigned fund balance goal of 12% but not less than 7% of the actual General Fund revenues for the preceding fiscal year.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

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 | School Bond Funded Capital Fund | Other Governmental Funds | Total |
|---|----------------------|--|--------------------------------|----------------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventory | \$ 16,969 | \$ - | \$ - | \$ 16,969 |
| Prepays | 410,378 | - | 9,710 | 420,088 |
| Total Nonspendable Fund Balance | \$ 427,347 | \$ - | \$ 9,710 | \$ 437,057 |
| Restricted: | | | | |
| Courthouse maintenance | \$ 100,466 | \$ - | \$ - | \$ 100,466 |
| Housing initiatives | - | - | 100,000 | 100,000 |
| Total Restricted Fund Balance | \$ 100,466 | \$ - | \$ 100,000 | \$ 200,466 |
| Committed: | | | | |
| Social services | \$ - | \$ - | \$ 570,337 | \$ 570,337 |
| Comprehensive services | - | - | 313,969 | 313,969 |
| Cowan Boulevard debt service | - | - | 262,519 | 262,519 |
| Public safety construction projects | - | - | 346,449 | 346,449 |
| Public facilities construction projects | - | - | 135,674 | 135,674 |
| Public works construction projects | - | - | 1,055,933 | 1,055,933 |
| Blight abatement | - | - | 189,734 | 189,734 |
| Grant related expenditures | - | - | 609,912 | 609,912 |
| Forfeited asset sharing program | - | - | 109,846 | 109,846 |
| Environmental purposes | - | - | 26,820 | 26,820 |
| Education debt service | - | - | 2,000,490 | 2,000,490 |
| Walker-Grant Center renovation project | - | 1,711,044 | - | 1,711,044 |
| Future capital projects | 6,198,550 | - | - | 6,198,550 |
| Health insurance claims | 386,962 | - | - | 386,962 |
| Other purposes | 311,690 | - | - | 311,690 |
| Total Committed Fund Balance | \$ 6,897,202 | \$ 1,711,044 | \$ 5,621,683 | \$ 14,229,929 |
| Assigned: | | | | |
| Public works construction projects | \$ - | \$ - | \$ 2,571,367 | \$ 2,571,367 |
| Public facilities construction projects | - | - | 1,820,576 | 1,820,576 |
| Public safety construction projects | - | - | 1,321,823 | 1,321,823 |
| Court facilities construction projects | - | - | 966,675 | 966,675 |
| Detention stabilization | 976,619 | - | - | 976,619 |
| Other purposes | 19,653 | - | - | 19,653 |
| Total Assigned Fund Balance | \$ 996,272 | \$ - | \$ 6,680,441 | \$ 7,676,713 |
| Unassigned | \$ 15,854,106 | \$ - | \$ - | \$ 15,854,106 |
| Total Fund Balances | \$ 24,275,393 | \$ 1,711,044 | \$ 12,411,834 | \$ 38,398,271 |

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

U. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2017. The Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. All required disclosures are located in Note 20.

Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*,

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2017. The Statement will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. All required disclosures are located in Note 23.

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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 2—Deposits and Investments: (Continued)

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, 2017 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 Investor's 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, 2017 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 |
| U.S. Agencies | \$ - | \$ - | \$ 15,167,099 | \$ - | \$ - | \$ - |
| U.S. Treasuries | - | - | 2,804,665 | - | - | - |
| Corporate Debt | - | 1,369,168 | 2,510,577 | 220,523 | 3,481,376 | - |
| Commercial Paper | - | - | - | - | - | 6,976,047 |
| Virginia State Non-Arbitrage Program | 6,666,500 | - | - | - | - | - |
| Money Market Mutual Fund | 28,980,691 | - | - | - | - | - |
| Total | \$ 35,647,191 | \$ 1,369,168 | \$ 20,482,341 | \$ 220,523 | \$ 3,481,376 | \$ 6,976,047 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

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 | Within 1 Year | 1-5 Years |
| U.S. Agencies | \$ 15,167,099 | \$ 1,404,808 | \$ 13,762,291 |
| U.S. Treasuries | 2,804,665 | - | 2,804,665 |
| Commercial Paper | 6,976,047 | 6,976,047 | - |
| Virginia State Non-Arbitrage Program | 6,666,500 | 6,666,500 | - |
| Corporate Debt | 7,581,645 | - | 7,581,645 |
| Total | \$ 39,195,956 | \$ 15,047,355 | \$ 24,148,601 |

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB Statement No. 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 3—Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The City has the following recurring fair value measurements as of June 30, 2017:

| <u>Investment</u> | <u>June 30, 2017</u> | <u>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u> |
|--------------------------|----------------------|--|
| U.S. Agencies | \$ 15,167,099 | \$ 15,167,099 |
| U.S. Treasuries | 2,804,665 | 2,804,665 |
| Commercial Paper | 6,976,047 | 6,976,047 |
| Money Market Mutual Fund | 28,980,691 | 28,980,691 |
| Corporate Debt | 7,581,645 | 7,581,645 |
| Total | <u>\$ 61,510,147</u> | <u>\$ 61,510,147</u> |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 4—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 |

Note 5—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2017 consist of the following:

Primary Government:

| | Governmental Activities | | | | Business-Type Activities |
|------------------------------|--------------------------------|------------------------|-------------------------|--------------|---------------------------------|
| | General | Special Revenue | Capital Projects | Total | |
| Property taxes | \$ 2,186,850 | \$ - | \$ - | \$ 2,186,850 | \$ - |
| Water charges | - | - | - | - | 887,115 |
| Wastewater charges | - | - | - | - | 1,336,984 |
| EMS fees | 123,759 | - | - | 123,759 | - |
| Refuse disposal fees | 146,769 | - | - | 146,769 | - |
| Investment earnings | 23,097 | - | 69,290 | 92,387 | 23,096 |
| Other | 187,809 | 14,995 | - | 202,804 | 16,609 |
| Total | \$ 2,668,284 | \$ 14,995 | \$ 69,290 | \$ 2,752,569 | \$ 2,263,804 |
| Allowance for uncollectibles | (1,585,903) | - | - | (1,585,903) | (538,567) |
| Net receivables | \$ 1,082,381 | \$ 14,995 | \$ 69,290 | \$ 1,166,666 | \$ 1,725,237 |

Component Units and Fiduciary Activities:

| | School Board | Economic Development Authority | Fiduciary Activities |
|------------------------------|---------------------|---------------------------------------|-----------------------------|
| Other | \$ 22,581 | \$ 17,847 | \$ 129,637 |
| Total | \$ 22,581 | \$ 17,847 | \$ 129,637 |
| Allowance for uncollectibles | - | - | - |
| Net receivables | \$ 22,581 | \$ 17,847 | \$ 129,637 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 6—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 | \$ 1,945,651 | \$ - | \$ - | \$ 1,945,651 | \$ - | \$ - |
| Telecommunication sales tax | 139,851 | - | - | 139,851 | - | - |
| PPTRA | 676,647 | - | - | 676,647 | - | - |
| Library of Virginia | - | 2,417 | - | 2,417 | - | - |
| Children's Services Act | - | 429,537 | - | 429,537 | - | - |
| Shared expenses | | | | | | |
| and grants | 146,824 | - | - | 146,824 | - | - |
| Virginia Department of Transportation | - | - | 628,691 | 628,691 | - | - |
| Virginia Department of Motor Vehicles | - | 4,334 | - | 4,334 | - | - |
| Virginia Department of Emergency Management | - | 224,153 | - | 224,153 | - | - |
| Virginia Department of Criminal Justice Services | 261 | 11,250 | - | 11,511 | - | - |
| Noncategorical aid | 64,919 | - | - | 64,919 | - | - |
| Department of Health | - | 31,789 | - | 31,789 | - | - |
| Social services grants | - | 454,646 | - | 454,646 | - | - |
| Federal government: | | | | | | |
| Community Development Block Grant | - | 11,335 | - | 11,335 | - | - |
| Transit grants | - | - | - | - | 3,492,665 | - |
| Interest subsidy | - | - | - | - | 21,527 | - |
| Others: | | | | | | |
| Potomac and Rappahannock Transportation Commission | 119,529 | - | 50,000 | 169,529 | 750,314 | - |
| University of Mary Washington | 2,976 | - | - | 2,976 | 10,000 | - |
| Local government reimbursements: | | | | | | |
| County of Spotsylvania | - | - | - | - | 138,471 | - |
| Component Unit School Board: | | | | | | |
| Commonwealth of Virginia: | | | | | | |
| State sales taxes | - | - | - | - | - | 635,443 |
| Federal pass-through: | | | | | | |
| School funds | - | - | - | - | - | 450,293 |
| Federal government: | | | | | | |
| Head Start | - | - | - | - | - | 315,646 |
| Total | \$ 3,096,658 | \$ 1,169,461 | \$ 678,691 | \$ 4,944,810 | \$ 4,412,977 | \$ 1,401,382 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 7—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2017:

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 | \$ 1,067,430 |
| Transfers to the State, Federal and Local Grants Fund for the local share of grant programs | 381,810 |
| Transfer to the Children's Services Act Fund for the local share of the program costs | 675,275 |
| Transfers to the Environmental Section Fund to pay environmental related costs | 125,500 |
| Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs | 4,052,131 |
| Transfers to the Education Debt Service Fund to pay school debt service and related costs | 3,273,570 |
| Transfers to the Public Works Capital Fund to fund infrastructure and related capital projects | 980,000 |
| Transfers to the Public Safety Capital Fund to fund infrastructure and related capital projects | 731,250 |
| Transfers to the School Bond Funded Capital Fund to fund capital project | 250,000 |
| Transfers to the Public Facilities Capital Fund to fund building improvements and related costs | <u>464,400</u> |
| Total transfers in - other governmental funds | \$ <u>12,001,366</u> |
| Transfers to the General Fund for various programs | \$ <u>613,500</u> |
| Total transfers | \$ <u><u>12,614,866</u></u> |
| Reconciliation of transfers: | |
| Transfers out from governmental funds | \$ 11,995,511 |
| Transfers from enterprise funds to governmental funds | <u>619,355</u> |
| Total transfers | \$ <u><u>12,614,866</u></u> |

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, 2017

Note 8—Capital Assets:

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

Primary Government:

Governmental Activities:

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
|--|----------------------------|---------------|--------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 21,666,651 | \$ - | \$ - | \$ 21,666,651 |
| Construction in progress: | | | | |
| Infrastructure | \$ 2,188,652 | \$ 2,173,173 | \$ 3,839,206 | \$ 522,619 |
| Land improvements | 140,349 | 32,709 | - | 173,058 |
| Joint tenancy assets | 1,846,473 | 9,211,108 | - | 11,057,581 |
| Buildings | 203,684 | 28,044 | - | 231,728 |
| Total construction in progress | \$ 4,379,158 | \$ 11,445,034 | \$ 3,839,206 | \$ 11,984,986 |
| Total capital assets not being depreciated | \$ 26,045,809 | \$ 11,445,034 | \$ 3,839,206 | \$ 33,651,637 |
| Other capital assets: | | | | |
| Land improvements | \$ 16,243,833 | \$ 21,138 | \$ - | \$ 16,264,971 |
| Buildings and improvements | 63,023,575 | 308,391 | 131,236 | 63,200,730 |
| Joint tenancy assets | 34,035,000 | - | 1,715,000 | 32,320,000 |
| Infrastructure | 81,550,488 | 5,239,036 | 863,454 | 85,926,070 |
| Machinery, equipment and vehicles | 23,863,890 | 2,922,517 | 1,116,609 | 25,669,798 |
| Total other capital assets | \$ 218,716,786 | \$ 8,491,082 | \$ 3,826,299 | \$ 223,381,569 |
| Accumulated depreciation: | | | | |
| Land improvements | \$ 3,565,391 | \$ 494,856 | \$ - | \$ 4,060,247 |
| Buildings and improvements | 14,813,612 | 1,801,022 | 131,236 | 16,483,398 |
| Joint tenancy assets | 6,468,224 | 808,000 | 628,283 | 6,647,941 |
| Infrastructure | 40,728,076 | 3,031,495 | 863,454 | 42,896,117 |
| Machinery, equipment and vehicles | 12,584,840 | 1,441,489 | 1,116,609 | 12,909,720 |
| Total accumulated depreciation | \$ 78,160,143 | \$ 7,576,862 | \$ 2,739,582 | \$ 82,997,423 |
| Other capital assets, net | \$ 140,556,643 | \$ 914,220 | \$ 1,086,717 | \$ 140,384,146 |
| Net capital assets | \$ 166,602,452 | \$ 12,359,254 | \$ 4,925,923 | \$ 174,035,783 |
| Depreciation is allocated to: | | | | |
| General government administration | | \$ 203,441 | | |
| Judicial administration | | 983,646 | | |
| Public safety | | 1,231,071 | | |
| Public works | | 3,401,963 | | |
| Health and welfare | | 114,806 | | |
| Education | | 934,265 | | |
| Parks and recreation | | 700,691 | | |
| Community development | | 6,979 | | |
| Total | | \$ 7,576,862 | | |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 8—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities:

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
|---|----------------------------|----------------|--------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,149,036 | \$ - | \$ - | \$ 2,149,036 |
| Construction in progress | 2,699,955 | 2,740,996 | 96,436 | 5,344,515 |
| Total capital assets not being depreciated | \$ 4,848,991 | \$ 2,740,996 | \$ 96,436 | \$ 7,493,551 |
| Other capital assets: | | | | |
| Land improvements | \$ 976,403 | \$ - | \$ - | \$ 976,403 |
| Buildings and systems | 77,845,006 | 431,009 | 1,866,070 | 76,409,945 |
| Dams and reservoirs | 663,536 | - | - | 663,536 |
| Intangible assets | 8,532,611 | - | - | 8,532,611 |
| Furniture, machinery and equipment | 7,414,323 | 1,407,776 | 41,201 | 8,780,898 |
| Total other capital assets | \$ 95,431,879 | \$ 1,838,785 | \$ 1,907,271 | \$ 95,363,393 |
| Accumulated depreciation: | | | | |
| Land improvements | \$ 71,974 | \$ 35,987 | \$ - | \$ 107,961 |
| Buildings and systems | 27,192,869 | 2,075,453 | 1,866,070 | 27,402,252 |
| Dams and reservoirs | 169,401 | 13,271 | - | 182,672 |
| Intangible assets | 1,956,198 | 270,376 | - | 2,226,574 |
| Furniture, machinery and equipment | 4,560,378 | 725,550 | 41,201 | 5,244,727 |
| Total accumulated depreciation | \$ 33,950,820 | \$ 3,120,637 | \$ 1,907,271 | \$ 35,164,186 |
| Other capital assets, net | \$ 61,481,059 | \$ (1,281,852) | \$ - | \$ 60,199,207 |
| Net capital assets | \$ 66,330,050 | \$ 1,459,144 | \$ 96,436 | \$ 67,692,758 |
| Depreciation is allocated to: | | | | |
| Water operations | | \$ 647,138 | | |
| Wastewater operations | | 1,556,399 | | |
| Parking garage operations | | 152,037 | | |
| Transit operations | | 765,063 | | |
| Total | | \$ 3,120,637 | | |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 8—Capital Assets: (Continued)

Component Unit School Board:

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
|---|----------------------------|---------------------|-------------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 472,679 | \$ - | \$ - | \$ 472,679 |
| Construction in progress | 25,000 | - | - | 25,000 |
| Total capital assets not being depreciated | <u>\$ 497,679</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 497,679</u> |
| Other capital assets: | | | | |
| Land improvements | \$ 175,633 | \$ 42,020 | \$ - | \$ 217,653 |
| Buildings and improvements | 37,405,406 | 1,849,019 | - | 39,254,425 |
| Machinery, equipment and vehicles | <u>5,793,277</u> | <u>464,986</u> | <u>763,468</u> | <u>5,494,795</u> |
| Total other capital assets | <u>\$ 43,374,316</u> | <u>\$ 2,356,025</u> | <u>\$ 763,468</u> | <u>\$ 44,966,873</u> |
| Accumulated depreciation: | | | | |
| Land improvements | \$ 88,348 | \$ 8,782 | \$ - | \$ 97,130 |
| Buildings and improvements | 15,904,643 | 1,749,550 | - | 17,654,193 |
| Machinery, equipment and vehicles | <u>3,574,644</u> | <u>455,051</u> | <u>763,468</u> | <u>3,266,227</u> |
| Total accumulated depreciation | <u>\$ 19,567,635</u> | <u>\$ 2,213,383</u> | <u>\$ 763,468</u> | <u>\$ 21,017,550</u> |
| Other capital assets, net | <u>\$ 23,806,681</u> | <u>\$ 142,642</u> | <u>\$ -</u> | <u>\$ 23,949,323</u> |
| Net capital assets | <u>\$ 24,304,360</u> | <u>\$ 142,642</u> | <u>\$ -</u> | <u>\$ 24,447,002</u> |
| Depreciation allocated to education | | <u>\$ 2,213,383</u> | | |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 9—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 Activities | Business-Type Activities |
| County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity. | \$ - | \$ 1,671,188 |
| Other | 452,277 | 25,007 |
| Total unearned revenue | \$ 452,277 | \$ 1,696,195 |

| | Deferred/Unavailable Revenue | |
|---|------------------------------|----------------------------|
| | Balance Sheet | Government-wide Statements |
| | Governmental Funds | Governmental Activities |
| Deferred property tax revenue: | | |
| Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year. | \$ 636,656 | \$ 636,656 |
| 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. | 367,426 | - |
| Total deferred/unavailable revenue | \$ 1,004,082 | \$ 636,656 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 10—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2017 is as follows:

| | Balance July 1, 2016 | Issuances/ Increases | Retirements/ Decreases | Balance June 30, 2017 | Current Portion |
|--|-------------------------|-------------------------|---------------------------|--------------------------|--------------------|
| Primary Government: | | | | | |
| Long-term obligations payable from governmental activities: | | | | | |
| General obligation bonds | \$ 44,022,847 | \$ - | \$ 2,546,281 | \$ 41,476,566 | \$ 2,625,957 |
| General obligation school bonds | 45,260,000 | - | 1,715,000 | 43,545,000 | 2,150,000 |
| Revenue bonds | 1,855,000 | - | 195,000 | 1,660,000 | 205,000 |
| Add: Unamortized bond premium | 4,332,904 | - | 436,285 | 3,896,619 | 428,125 |
| Landfill post-closure costs | 1,538,675 | - | 39,161 | 1,499,514 | 80,000 |
| Compensated absences | 3,100,980 | 1,863,857 | 1,922,608 | 3,042,229 | 1,886,182 |
| Net pension liability | 18,816,947 | 10,906,729 | 5,746,759 | 23,976,917 | - |
| Net OPEB obligation | 4,359,091 | 1,205,298 | 1,039,538 | 4,524,851 | - |
| Total | \$ 123,286,444 | \$ 13,975,884 | \$ 13,640,632 | \$ 123,621,696 | \$ 7,375,264 |
| Long-term obligations payable from business-type activities: | | | | | |
| General obligation bonds | \$ 25,550,153 | \$ - | \$ 1,983,719 | \$ 23,566,434 | \$ 2,042,043 |
| Add: Unamortized bond premium | 107,857 | - | 12,281 | 95,576 | 11,748 |
| Compensated absences | 217,174 | 165,039 | 139,930 | 242,283 | 155,425 |
| Net pension liability | 1,902,234 | 1,086,739 | 598,599 | 2,390,374 | - |
| Net OPEB obligation | 452,082 | 38,941 | 68,162 | 422,861 | - |
| Total | \$ 28,229,500 | \$ 1,290,719 | \$ 2,802,691 | \$ 26,717,528 | \$ 2,209,216 |
| Total primary government | \$ 151,515,944 | \$ 15,266,603 | \$ 16,443,323 | \$ 150,339,224 | \$ 9,584,480 |
| Component Unit School Board: | | | | | |
| Long-term obligations payable from component unit School Board activities: | | | | | |
| Capital lease | \$ 3,217,000 | \$ - | \$ 212,000 | \$ 3,005,000 | \$ 225,000 |
| Compensated absences | 1,170,535 | 587,812 | 608,678 | 1,149,669 | 597,828 |
| Net pension liability | 36,284,000 | 10,799,000 | 6,528,000 | 40,555,000 | - |
| Net OPEB obligation | 2,121,409 | 477,907 | 289,520 | 2,309,796 | - |
| Total component unit School Board | \$ 42,792,944 | \$ 11,864,719 | \$ 7,638,198 | \$ 47,019,465 | \$ 822,828 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 10—Long-term Obligations: (Continued)

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2017:

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | | Capital Lease | |
|-------------------------|--------------------------|----------------------|---------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 6,818,000 | \$ 4,224,180 | \$ 205,000 | \$ 76,622 | \$ 225,000 | \$ 60,401 |
| 2019 | 6,560,000 | 3,964,324 | 215,000 | 65,859 | 238,000 | 55,878 |
| 2020 | 6,805,000 | 3,709,280 | 225,000 | 54,584 | 251,000 | 51,094 |
| 2021 | 6,120,000 | 3,442,758 | 235,000 | 44,397 | 266,000 | 46,049 |
| 2022 | 6,365,000 | 3,186,046 | 245,000 | 33,697 | 272,000 | 40,703 |
| 2023 | 6,410,000 | 2,931,908 | 260,000 | 20,756 | 278,000 | 35,235 |
| 2024 | 6,670,000 | 2,680,142 | 275,000 | 7,047 | 283,000 | 29,648 |
| 2025 | 6,925,000 | 2,412,023 | - | - | 289,000 | 23,959 |
| 2026 | 7,200,000 | 2,135,994 | - | - | 295,000 | 18,150 |
| 2027 | 6,485,000 | 1,864,597 | - | - | 301,000 | 12,221 |
| 2028 | 6,745,000 | 1,596,415 | - | - | 307,000 | 6,170 |
| 2029 | 6,195,000 | 1,328,058 | - | - | - | - |
| 2030 | 6,460,000 | 1,057,202 | - | - | - | - |
| 2031 | 2,840,000 | 855,197 | - | - | - | - |
| 2032 | 2,940,000 | 752,505 | - | - | - | - |
| 2033 | 3,045,000 | 647,337 | - | - | - | - |
| 2034 | 3,155,000 | 539,530 | - | - | - | - |
| 2035 | 3,270,000 | 418,665 | - | - | - | - |
| 2036 | 2,685,000 | 284,884 | - | - | - | - |
| 2037 | 2,805,000 | 162,047 | - | - | - | - |
| 2038 | 2,090,000 | 49,638 | - | - | - | - |
| | <u>\$ 108,588,000</u> | <u>\$ 38,242,730</u> | <u>\$ 1,660,000</u> | <u>\$ 302,962</u> | <u>\$ 3,005,000</u> | <u>\$ 379,508</u> |

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 10—Long-term Obligations: (Continued)

At June 30, 2017, the City's long-term obligations consisted of the following:

Details of Long-term Obligations:

| | <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% | \$ 32,320,000 | \$ 1,805,000 |
| 2007E General Obligation Bonds | 2008 | 2019 | 3.5-5.0% | 1,020,000 | 500,000 |
| 2009A General Obligation Refunding Bonds | 2009 | 2018 | 3.0% | 493,000 | 493,000 |
| 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% | 1,820,000 | 275,000 |
| 2011A General Obligation Bonds | 2012 | 2038 | 3.0-4.75% | 31,335,000 | 1,170,000 |
| 2014A General Obligation Refunding Bonds | 2015 | 2026 | 2.37% | 6,135,000 | 620,000 |
| 2014B General Obligation Refunding Bonds | 2015 | 2028 | 2.55% | 6,710,000 | 110,000 |
| 2015A General Obligation Bonds | 2015 | 2035 | 2.32% | 13,225,000 | 1,355,000 |
| 2016A General Obligation Bonds | 2016 | 2037 | 3.8-5.125% | 12,825,000 | 490,000 |
| Total general obligation bonds | | | | <u>\$ 108,588,000</u> | <u>\$ 6,818,000</u> |
| Revenue bonds: | | | | | |
| Virginia Resources Authority Revenue Bonds | 2016 | 2024 | 3.125-5.125% | <u>\$ 1,660,000</u> | <u>\$ 205,000</u> |
| Unamortized bond premium: | | | | | |
| 2004A General Obligation School Bonds | | | | \$ 579,290 | \$ 79,065 |
| 2010 General Obligation Bonds | | | | 95,575 | 11,748 |
| 2011A General Obligation Bonds | | | | 1,094,958 | 103,419 |
| 2016A Virginia Resources Authority Revenue Bonds | | | | 193,884 | 49,035 |
| 2016A General Obligation Bonds | | | | <u>2,028,488</u> | <u>196,606</u> |
| Total unamortized bond premium | | | | <u>\$ 3,992,195</u> | <u>\$ 439,873</u> |
| Net pension liability | | | | <u>\$ 26,367,291</u> | <u>\$ -</u> |
| Compensated absences | | | | <u>\$ 3,284,512</u> | <u>\$ 2,041,607</u> |
| Net OPEB obligation | | | | <u>\$ 4,947,712</u> | <u>\$ -</u> |
| Landfill post-closure costs | | | | <u>\$ 1,499,514</u> | <u>\$ 80,000</u> |
| Total primary government | | | | <u><u>\$ 150,339,224</u></u> | <u><u>\$ 9,584,480</u></u> |
| Component Unit School Board: | | | | | |
| Capital lease | 2013 | 2028 | 2.0% | <u>\$ 3,005,000</u> | <u>\$ 225,000</u> |
| Compensated absences | | | | <u>\$ 1,149,669</u> | <u>\$ 597,828</u> |
| Net pension liability | | | | <u>\$ 40,555,000</u> | <u>\$ -</u> |
| Net OPEB obligation | | | | <u>\$ 2,309,796</u> | <u>\$ -</u> |
| Total component unit School Board | | | | <u><u>\$ 47,019,465</u></u> | <u><u>\$ 822,828</u></u> |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 10—Long-term Obligations: (Continued)

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.

Conduit Debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2017 totaled approximately \$212,794,596. 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 11—Compensated Absences:

In accordance with GASB Statement No. 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, 2016 | Increase | Decrease | Balance June 30, 2017 | Current Portion |
|--|----------------------------|--------------|--------------|-----------------------------|--------------------|
| Changes in compensated absences are as follows: | | | | | |
| Primary Government: | | | | | |
| Governmental activities | \$ 3,100,980 | \$ 1,863,857 | \$ 1,922,608 | \$ 3,042,229 | \$ 1,886,182 |
| Business-type activities | 217,174 | 165,039 | 139,930 | 242,283 | 155,425 |
| Total primary government | \$ 3,318,154 | \$ 2,028,896 | \$ 2,062,538 | \$ 3,284,512 | \$ 2,041,607 |
| Component Unit School Board | 1,170,535 | 587,812 | 608,678 | 1,149,669 | 597,828 |
| Total | \$ 4,488,689 | \$ 2,616,708 | \$ 2,671,216 | \$ 4,434,181 | \$ 2,639,435 |

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 12—Pension Plan:*Plan Description*

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by the VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through City of Fredericksburg, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan.

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| RETIREMENT PLAN PROVISIONS | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| About Plan 1 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. | About Plan 2 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 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. | About the Hybrid Retirement Plan 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 Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") <ul style="list-style-type: none"> The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 (Cont.)</p> | <p>About Plan 2 (Cont.)</p> | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>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.</p> | <p>Eligible Members Employees are in 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.</p> <p>Hybrid Opt-In Election Eligible 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.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • School division employees • Members in Plan 1 or 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. |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>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 Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of 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.</p> | <p>Retirement Contributions Same as Plan 1.</p> | <p>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.</p> |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| 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. | Creditable Service Same as Plan 1. | Creditable Service <u>Defined Benefit Component:</u> 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. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. |
| 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 their plan. Members also must be vested to receive a full refund of | Vesting Same as Plan 1. | Vesting <u>Defined Benefit Component:</u> 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. |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting (Cont.) their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting (Cont.) Same as Plan 1.</p> | <p>Vesting (Cont.) <u>Defined Benefit Component: (Cont.)</u> Plan 1 or 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.</p> <p><u>Defined Contributions Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p> |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>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.</p> <p>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.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> 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.</p> |
| <p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p> |
| <p>Service Retirement Multiplier VRS: 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 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> | <p>Service Retirement Multiplier VRS: 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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> | <p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Service Retirement Multiplier VRS: (Cont.)</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p> | <p>Service Retirement Multiplier VRS: (Cont.)</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p> | <p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: (Cont.)</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> |
| <p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p> | <p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years (60 months) of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Same as Plan 2</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>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%.</p> <p><u>Eligibility:</u> 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.</p> <p>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 calendar year following the unreduced retirement eligibility date.</p> | <p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • 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. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>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.</p> | <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Disability Coverage Employees of political subdivisions and School divisions (including Plan 1 and 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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> |

Note 12—Pension Plan: (Continued)

Pension Plan Data

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/2016-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's contractually required contribution rate for the year ended June 30, 2017 was 12.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$2,857,223 and \$3,547,326 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the City reported a liability of \$26,367,291 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2017 and 2016 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 97.29% and 96.83%, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

Note 12—Pension Plan: (Continued)

Actuarial Assumptions - General Employees: (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 4.75% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Note 12—Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees: (Continued)

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Note 12—Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---------------------------|-------------------|--|--|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | <u>100.00%</u> | | <u>5.83%</u> |
| | | Inflation | <u>2.50%</u> |
| | | *Expected arithmetic nominal return | <u>8.33%</u> |

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the City of Fredericksburg, Virginia Retirement Plan, Fredericksburg City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|--|---------------|---------------|---------------|
| | (6.00%) | (7.00%) | (8.00%) |
| City's proportionate share of the City Retirement Plan Net Pension Liability (Asset) | \$ 41,373,680 | \$ 26,367,291 | \$ 13,835,846 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$2,156,245. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

| | Primary Government | |
|---|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 945,468 | \$ 1,658,238 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 167,364 | 53,914 |
| Net difference between projected and actual earnings on pension plan investments | 2,507,954 | - |
| Employer contributions subsequent to the measurement date | 2,857,223 | - |
| Total | \$ 6,478,009 | \$ 1,712,152 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$2,857,223 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year ended June 30</u> | <u>Primary Government</u> |
|---------------------------|-------------------------------|
| 2018 | \$ (621,992) |
| 2019 | (154,284) |
| 2020 | 1,673,040 |
| 2021 | 1,011,870 |

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Component Unit School Board (nonprofessional)</u> |
|--|--|
| Inactive members or their beneficiaries currently receiving benefits | 10 |
| Inactive members: | |
| Vested inactive members | 3 |
| Non-vested inactive members | 5 |
| Inactive members active elsewhere in VRS | 3 |
| Total inactive members | 21 |
| Active members | 31 |
| Total covered employees | 52 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 4.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$53,315 and \$86,747 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability (asset) was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Changes in Net Pension Liability (Asset)

| | Component School Board (nonprofessional) | | |
|--|--|--|--|
| | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2015 | \$ 4,107,217 | \$ 4,365,258 | \$ (258,041) |
| Changes for the year: | | | |
| Service cost | \$ 125,309 | \$ - | \$ 125,309 |
| Interest | 283,678 | - | 283,678 |
| Differences between expected and actual experience | (17,054) | - | (17,054) |
| Contributions - employer | - | 85,248 | (85,248) |
| Contributions - employee | - | 60,997 | (60,997) |
| Net investment income | - | 79,053 | (79,053) |
| Benefit payments, including refunds of employee contributions | (109,346) | (109,346) | - |
| Administrative expenses | - | (2,671) | 2,671 |
| Other changes | - | (33) | 33 |
| Net changes | \$ 282,587 | \$ 113,248 | \$ 169,339 |
| Balances at June 30, 2016 | \$ 4,389,804 | \$ 4,478,506 | \$ (88,702) |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|---|------------|-------------|--------------|
| | (6.00%) | (7.00%) | (8.00%) |
| Component Unit School Board (nonprofessional) | | | |
| Net Pension Liability (Asset) | \$ 422,133 | \$ (88,702) | \$ (523,035) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Component Unit School Board (nonprofessional) recognized pension expense of \$7,301. At June 30, 2017, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Component Unit School Board (nonprofessional) | |
|--|---|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 87,508 |
| Net difference between projected and actual earnings on pension plan investments | 115,448 | - |
| Employer contributions subsequent to the measurement date | 53,315 | - |
| Total | \$ 168,763 | \$ 87,508 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$53,315 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year ended June 30</u> | <u>Component Unit School Board (nonprofessional)</u> |
|---------------------------|--|
| 2018 | \$ (36,628) |
| 2019 | (36,630) |
| 2020 | 56,152 |
| 2021 | 45,046 |

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$3,334,139 and \$3,100,340 for the years ended June 30, 2017 and June 30, 2016, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the school division reported a liability of \$40,555,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was .28939% as compared to .28828% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of \$4,003,000. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Component Unit School Board (professional) | |
|---|--|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 1,314,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,757,000 | - |
| Net difference between projected and actual earnings on pension plan investments | 2,317,000 | - |
| Employer contributions subsequent to the measurement date | 3,334,139 | - |
| Total | <u>\$ 7,408,139</u> | <u>\$ 1,314,000</u> |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$3,334,139 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year ended June 30</u> | <u>Component Unit School Board (professional)</u> |
|---------------------------|---|
| 2018 | \$ 244,000 |
| 2019 | 244,000 |
| 2020 | 1,484,000 |
| 2021 | 864,000 |
| 2022 | (76,000) |

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.95% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions: (Continued)

Mortality rates: (Continued)

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|--|---------------|---------------|---------------|
| | (6.00%) | (7.00%) | (8.00%) |
| School division's proportionate share of the VRS | | | |
| Teacher Employee Retirement Plan | | | |
| Net Pension Liability (Asset) | \$ 57,811,000 | \$ 40,555,000 | \$ 26,340,000 |

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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, 2017

Note 13—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.

Note 14—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 Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements*, Cost Principles, and Audit Requirements for Federal Awards. Pursuant to the provisions of this code 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, 2017, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$4,122,182 at June 30, 2017.

Note 15—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, 2017

Note 16—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 eight years has been recorded as a liability at June 30, 2017. The \$1,499,514 reported as landfill post-closure liability at June 30, 2017 represents the estimated liability for post-closure monitoring as well as corrective action costs. All post-closure care and monitoring cost amounts are based on what it would cost to perform all post-closure care based on 2017 costs. These 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, 2016 | \$ | 1,538,675 |
| Increase/(Decrease) in estimate | | <u>(39,161)</u> |
| Balance at June 30, 2017 | \$ | <u><u>1,499,514</u></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 17—Surety Bonds:

| | <u>Amount</u> |
|--|---------------|
| 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, 2017

Note 18—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 | \$ | 665,734 |
| City General Fund: Committed Fund Balance for estimated reserves | | <u>386,962</u> |
| Total | \$ | <u><u>1,052,696</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 |
|-------------|------------------------------------|--|---------------------|------------------------------|
| 2015 | \$ 468,802 | \$ 4,675,217 | \$ 4,754,417 | \$ 389,602 |
| 2016 | 389,602 | 4,743,270 | 4,737,599 | 395,273 |
| 2017 | 395,273 | 5,897,554 | 5,627,093 | 665,734 |

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.

Note 18—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 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 19—Other Post-employment Benefits—Health Insurance:

City:

A. Plan Description

In addition to the pension benefits described in Note 12, 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 post-employment plan report.

The City participates in the Virginia OPEB Trust Fund (Trust Fund), an irrevocable trust established for the purpose of accumulating assets to fund post-employment benefits other than pension. The Trust Fund issues a separate report, which can be obtained by requesting a copy from the plan administrator, Virginia Municipal League (VML), P.O. Box 12164, Richmond, Virginia, 23241.

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, 2017

Note 19—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 | \$ | 1,195,200 |
| Interest on net OPEB obligation | | 336,942 |
| Adjustment to annual required contribution | | (287,903) |
| Annual OPEB cost (expense) | \$ | 1,244,239 |
| Contributions made | | (1,107,700) |
| Increase/(decrease) in net OPEB obligation | \$ | 136,539 |
| Net OPEB obligation-beginning of year | | 4,811,173 |
| Net OPEB obligation-end of year | \$ | 4,947,712 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 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, 2017 | \$ 1,244,239 | 89.03% | \$ 4,947,712 |
| June 30, 2016 | 1,210,699 | 155.94% | 4,811,173 |
| June 30, 2015 | 1,430,724 | 68.63% | 5,488,450 |

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2016, date of the most recent actuarial valuation, is as follows:

| | | |
|---|----|------------|
| Actuarial accrued liability (AAL) | \$ | 15,971,700 |
| Actuarial value of plan assets | | - |
| Unfunded actuarial accrued liability | | 15,971,700 |
| Funded ratio (actuarial value of plan assets / AAL) | | - |
| Covered payroll (active plan members) | | 22,344,600 |
| UAAL as a percentage of covered payroll | | 71.48% |

Note 19—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, 2016 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.00% 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 6.30% initially, reduced by decrements to an ultimate rate of 4.40% after eighty-one years. Both rates included a 3.00% 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, 2016, was thirty years.

| | <u>Funded</u> |
|----------------|---------------|
| Discount rate | 7.00% |
| Payroll growth | 3.00% |

Note 19—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 | \$ 482,100 |
| Interest on net OPEB obligation | 74,249 |
| Adjustment to annual required contribution | (78,442) |
| Annual OPEB cost (expense) | \$ 477,907 |
| Contributions made | (289,520) |
| Increase in net OPEB obligation | \$ 188,387 |
| Net OPEB obligation-beginning of year | 2,121,409 |
| Net OPEB obligation-end of year | \$ 2,309,796 |

Note 19—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 2017 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, 2017 | \$ 477,907 | 60.58% | \$ 2,309,796 |
| June 30, 2016 | 561,418 | 35.87% | 2,121,409 |
| June 30, 2015 | 535,856 | 30.40% | 1,761,391 |

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2016, date of the most recent actuarial valuation, is as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | \$ 4,143,100 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability | 4,143,100 |
| Funded ratio (actuarial value of plan assets / AAL) | - |
| Covered payroll (active plan members) | 25,190,300 |
| UAAL as a percentage of covered payroll | 16.45% |

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 19—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, 2016 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.50% 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 5.00% initially, reduced by decrements to an ultimate rate of 4.00% after eighty years. Both rates included a 2.30% 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, 2016, was thirty years.

| | <u>Unfunded</u> |
|----------------|-----------------|
| Discount rate | 3.50% |
| Payroll growth | 3.00% |

Note 20—Other Post-employment Benefits—Trust Fund - GASB Statement No. 74:

This disclosure applies to the OPEB Trust itself and includes specific OPEB disclosures required by GASB Statement No. 74 not already included in Note 19.

Plan Description

Plan administration. The City of Fredericksburg, Virginia administers the City of Fredericksburg, Virginia OPEB Plan (the Plan), a single-employer defined benefit plan that is used to provide post-employment benefits other than pensions (OPEB) for all employees who are eligible for retirement benefits of the City.

Management of the Plan is vested in the Plan Trustees, which consists of the City Manager, City Treasurer, and a citizen of the City appointed by the City Manager and the City Treasurer.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 20—Other Post-employment Benefits—Trust Fund - GASB Statement No. 74: (Continued)

Plan Description: (Continued)

Plan membership. At January 1, 2016, Plan membership consisted of the following:

| | |
|--------------------------------|------------|
| Retirees and surviving spouses | 138 |
| Spouses of current retirees | 11 |
| Active plan members | 444 |
| Total | <u>593</u> |

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|-----------------------------|------------------------------|
| Core fixed income | 21% |
| Core bonds | 12 |
| Large cap US equities | 22 |
| Small cap US equities | 10 |
| Developed foreign equities | 10 |
| Emerging market equities | 5 |
| Hedge funds/absolute return | 10 |
| Real estate (REITS) | 7 |
| Commodities | 3 |
| Total | <u>100%</u> |

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 12.78%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 20—Other Post-employment Benefits—Trust Fund - GASB Statement No. 74: (Continued)

Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 2017 were as follows:

| | |
|-----------------------------|--------------------------|
| Total OPEB liability | \$ 17,302,143 |
| Plan fiduciary net position | (1,235,520) |
| City's net OPEB liability | <u>\$ 16,066,623</u> (1) |

| | |
|---|-------|
| Plan fiduciary net position as a percentage of the total OPEB liability | 7.14% |
|---|-------|

(1) Note - Net OPEB liability is calculated for the Plan at June 30, 2017 as required by GASB Statement No. 74; however, it will not be included as a liability of the City until the fiscal year ending June 30, 2018 when the City implements GASB Statement No. 75.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Inflation | 2.50% |
| Salary increases | 3.00% |
| Investment rate of return | 7.00% |
| Healthcare cost trend rates | For pre-65 benefits: 5.10% for 2016, 8.60% for 2017, 5.80% for 2018, gradually decreasing to an ultimate rate of 4.10% for 2085 and beyond. For post-65 benefits: 6.30% for 2016, 9.10% for 2017, 6.10% for 2018, gradually decreasing to an ultimate rate of 4.40% for 2098 and beyond. |

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Note 20—Other Post-employment Benefits—Trust Fund - GASB Statement No. 74: (Continued)

Net OPEB Liability of the City: (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the Plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|-----------------------------|---|
| Core fixed income | 2.17% |
| Core bonds | 2.01 |
| Large cap US equities | 4.55 |
| Small cap US equities | 5.77 |
| Developed foreign equities | 5.76 |
| Emerging market equities | 8.06 |
| Hedge funds/absolute return | 1.97 |
| Real estate (REITS) | 5.04 |
| Commodities | 3.04 |

Discount rate. The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current discount rate:

| | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) |
|----------------------------|-----------------------|-------------------------|-----------------------|
| Net OPEB Liability (Asset) | \$ 17,789,365 | \$ 16,066,623 | \$ 14,592,544 |

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 20—Other Post-employment Benefits—Trust Fund - GASB Statement No. 74: (Continued)

Net OPEB Liability of the City: (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

| | | 1% Decrease | Healthcare Cost Trend Rates | 1% Increase |
|----------------------------|----|-------------|--------------------------------|---------------|
| Net OPEB Liability (Asset) | \$ | 14,318,727 | \$ 16,066,623 | \$ 18,115,555 |

Note 21—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.

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 12.

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 1.11% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2017, 2016, and 2015 were \$252,401, \$132,391, and \$145,879, respectively, and equaled the required contributions for each year.

Note 22—Contributions-In-Aid of Construction:

During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced \$1,175,535 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of equipment. The R-Board has pledged to reimburse the City and County for the capital contributions with interest over a period of seven years. Although the intent of the R-Board is to reimburse these contributions, this amount is not shown as an asset of the City since repayment is not guaranteed.

Note 23—Tax Abatement Disclosures - GASB Statement No. 77:

The City of Fredericksburg at times enters into tax incentive agreements with new businesses/projects locating to the City as well as with existing City businesses expanding within the City to provide a stimulus to the City's economy. Certain areas of priority within the City have been targeted for economic development through the establishment of technology and tourism zones. New or expanding businesses locating in one of the zones and meeting the criteria may be eligible for tax incentives. Generally, the incentive agreements provide a reduction or a reimbursement of taxes paid to include business license tax, real estate tax, personal property tax, sales tax and meals tax. The level of incentives is determined based on the size of the capital investment, the number of jobs created, and other criteria to include the level of taxes generated.

Technology Zones

Virginia Code §58.1-3850 authorizes Virginia localities to establish, by ordinance, one or more technology zones for the purpose of granting incentives and providing regulatory flexibility to qualifying businesses. The City has established the following five technology zones: Central Park - Silver Street, Central Park - Corporate Center, Route 1 Corridor, Route 3 Corridor, and Downtown/Princess Anne Street. The purpose of the technology zones is to attract new businesses and to encourage the expansion of existing businesses that will make a substantial investment and create new technology-related jobs for the benefit of City taxpayers, residents, and businesses. The eligibility requirements for the technology zones are as follows:

- Existing businesses in the City that are expanding: A minimum of five new jobs or at least a \$125,000 capital investment.
- New businesses locating in the City: A minimum of ten jobs or at least a \$250,000 capital investment.

Economic incentives may be provided for up to five years through the performance agreement. In the case of multi-year agreements, the business shall establish its qualification for the incentives on an annual basis. The available technology zone incentives are as follows:

- Reduction of business license tax, up to 100% for years 1-3 and up to 50% for years 4 and 5
- Machinery and tools tax grants for up to 100% for years 1-3 and up to 50% for years 4 and 5
- Business personal property tax grants up to 30% for years 1 and 2, up to 50% for years 3 and 4 and up to 70% for year 5

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

Note 23—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the Fiscal Year ended June 30, 2017, the City's tax incentives totaled \$67,283 under the technology zone program. There was only one participant in the technology zone incentive program for the 2017 fiscal year, as the incentive terms of several other participating companies had recently ended. Three additional technology zone performance agreements were approved by City Council near the beginning of the 2018 fiscal year.

| Purpose/Zone/ Incentive Term/Opening Date | Performance Measures | Incentive/Cap Amount | 2017 Incentive |
|---|---------------------------------------|--|---|
| Existing company expands and remains in City Central Park Technology Zone 1/1/15-12/31/19 (5 Years) June, 2014 (TERMINATES AFTER 3/1/18) | 45 Jobs \$22,000/yr. in BPOL Taxes | 50% BPOL Reduction Years 1-2 30% BPOL Reduction Years 3-5 Business Personal Property Tax Reduction - Years 1 & 2 - 50% Reduction - Years 3-5 - 30% | BPOL Credit: \$48,907 Business tangible pers. prop. tax: \$18,376 Total \$67,283 |

Tourism Zones

Virginia Code §58.1-3851 authorizes localities to establish, by ordinance, one or more tourism zones for the purpose of granting incentives and providing regulatory flexibility to qualifying businesses. The City has established three tourism zones: Eagle Village, Central Park/Celebrate Virginia South, and Downtown/Princess Anne Street. The purpose of the tourism zones is to attract new businesses and to encourage the expansion of existing businesses that will make a substantial investment and create new jobs for the benefit of City taxpayers, residents, and businesses. The eligibility requirements for the tourism zones are as follows:

Eagle Village and Central Park/Celebrate Virginia South:

- New or expanding businesses in the City must make a capital investment of at least \$500,000 or create at least 25 jobs.

Downtown/Princess Anne Street:

- Existing businesses in the City that are expanding: A minimum of five new jobs or at least a \$125,000 capital investment.
- New businesses locating in the City: A minimum of ten jobs or at least a \$250,000 capital investment.

Economic incentives may be provided for up to ten years through the performance agreement. In the case of multi-year agreements, the business shall establish its qualification for the incentives on an annual basis. The incentive value is generated from a reduction or waiver of business license tax and performance grants on tax revenue generation for meals, lodging, sales, admissions, and business personal property, as applicable.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2017

Note 23—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the fiscal year ended June 30, 2017, the City's tax incentives totaled \$298,826 under the tourism zones, including the following tax incentive agreements that exceeded a threshold of \$10,000:

| Purpose/Zone/ Incentive Term/Opening Date | Performance Measures | Incentive/Cap Amount | 2017 Incentive |
|--|--|--|--|
| New business locates to City CVAS Tourism Zone 7/1/09 - 7/1/19 (10 Years) June 21, 2009 | 450 Jobs \$300,000/yr. in All Taxes \$25M Capital Investment | 100% BPOL Reduction \$1.7 Million Total Limit | BPOL Credit: \$183,548 |
| New business locates to City Downtown Tourism Zone 5/1/10 - 5/1/20 (10 Years) May 1, 2010 | 25 Jobs \$75,000/yr. in Meals/Sales Taxes Arts Display \$175,000 Capital Investment | 100% BPOL Waiver up to \$4,000/yr. 10% Sales/Meals Taxes Reimbursement up to \$14,000/yr. \$18,000/yr. Limit \$90,000 Total Limit | BPOL Credit: \$2,687 Meals/Sales Taxes: \$8,588 Total: \$11,275 |
| New business locates to City Eagle Village Tourism Zone 10 yrs. from Opening, December 13, 2014 | 20 FTE Jobs \$130,000/yr. in Lodging, Meals, Sales and BPOL Taxes \$11M Capital Investment | 100% Reimbursement of 1% Local Sales Tax and 1% State Sales Tax \$620,000 Limit (\$310K from city) | Local sales tax reimbursement: \$28,219 |
| New business locates to City Central Park Tourism Zone 3/1/13 - 3/1/23 (10 Years) April 1, 2013 | 25 Jobs Local Sales Tax of at Least \$34,000/yr. | 100% BPOL waiver - Up to \$10,000/yr. 10% Reimbursement of Local Sales Tax - up to \$6,500/yr. Maximum Annual Incentive - \$16,500 Maximum Total Incentive - \$100,000 | BPOL Credit: \$8,713 Sales Taxes: \$4,237 Total: \$12,949 |
| New business locates to City Downtown Tourism Zone 7/1/14 - 7/1/20 (6 Years) May 1, 2015 | 58,500 Working Hours (35 Jobs) Annual Meals/Sales Taxes of \$2,000,000/yr. \$1,800,000 Capital Investment | EDA shall award an annual performance grant of \$40,000 for five years beginning July 1, 2016 through July 1, 2020 | \$40,000 |

Arts and Cultural District

In addition to the Technology Zones and Tourism Zones, the City has established, under Virginia Code §15.2-1129.1, an Arts and Cultural District to attract new arts and cultural venues, support existing arts and cultural venues, and to encourage the expansion of existing venues in the downtown area. These new, existing, and expanded venues will increase the City's reputation and market presence as a regional destination for arts and cultural activities, as well as the opportunities and benefits to City residents of arts and cultural offerings.

Qualifying businesses include visual arts, dance, media arts, music studios, places of instruction, museums, art galleries, and various performing arts venues. The tax incentives for qualifying businesses are for a term of five years and include a reduction to business license tax of \$250 for existing businesses and non-arts businesses that host year-round art exhibits, 100% for any new gross receipts for expanded businesses, and 100% for new businesses. Permit fee relief up to \$2,000 is also available for new and expanded businesses. For the fiscal year 2017, the City's tax incentives for the Arts and Cultural District totaled \$4,199.

Note 24—Upcoming GASB Pronouncements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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.

This page intentionally left blank

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|---------------|---|
| Revenues | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real estate | \$ 29,265,500 | \$ 29,515,500 | \$ 30,044,759 | \$ 529,259 |
| Public service corporations | 820,000 | 820,000 | 820,716 | 716 |
| Personal property | 8,310,000 | 8,310,000 | 8,621,854 | 311,854 |
| Mobile homes | - | - | 885 | 885 |
| Machinery and tools | 160,500 | 160,500 | 121,248 | (39,252) |
| Penalties | 270,000 | 270,000 | 300,527 | 30,527 |
| Interest | 160,000 | 160,000 | 164,301 | 4,301 |
| Total general property taxes | \$ 38,986,000 | \$ 39,236,000 | \$ 40,074,290 | \$ 838,290 |
| Other local taxes: | | | | |
| Local sales and use taxes | \$ 11,070,000 | \$ 11,070,000 | \$ 11,376,302 | \$ 306,302 |
| Utility taxes | 1,825,000 | 1,825,000 | 1,808,256 | (16,744) |
| Business licenses and rental tax | 5,870,000 | 5,870,000 | 6,320,104 | 450,104 |
| Motor vehicle licenses | 480,000 | 480,000 | 486,096 | 6,096 |
| Bank stock taxes | 730,000 | 730,000 | 862,442 | 132,442 |
| Recordation taxes | 450,000 | 450,000 | 567,144 | 117,144 |
| Tobacco tax | 525,000 | 525,000 | 509,819 | (15,181) |
| Amusement tax | 365,000 | 365,000 | 462,665 | 97,665 |
| Hotel/lodging taxes | 1,395,000 | 1,395,000 | 1,524,371 | 129,371 |
| Meals taxes | 10,450,000 | 10,450,000 | 11,141,603 | 691,603 |
| Gasoline taxes | 121,430 | 145,450 | 119,529 | (25,921) |
| Other | 80,000 | 80,000 | 100,913 | 20,913 |
| Total other local taxes | \$ 33,361,430 | \$ 33,385,450 | \$ 35,279,244 | \$ 1,893,794 |
| Permits, privilege fees and licenses: | | | | |
| Permits and other licenses | \$ 525,250 | \$ 525,250 | \$ 667,312 | \$ 142,062 |
| Animal licenses | 10,000 | 10,000 | 9,747 | (253) |
| Total permits, privilege fees and licenses | \$ 535,250 | \$ 535,250 | \$ 677,059 | \$ 141,809 |
| Fines and forfeitures | \$ 420,000 | \$ 420,000 | \$ 310,008 | \$ (109,992) |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 115,000 | \$ 115,000 | \$ 145,443 | \$ 30,443 |
| Revenue from use of property | 36,000 | 36,000 | 18,701 | (17,299) |
| Total revenue from use of money and property | \$ 151,000 | \$ 151,000 | \$ 164,144 | \$ 13,144 |
| Charges for services: | | | | |
| Court costs | \$ 148,550 | \$ 208,550 | \$ 107,454 | \$ (101,096) |
| Commonwealth's Attorney | 8,500 | 8,500 | 10,075 | 1,575 |
| Sanitation and waste removal | 981,650 | 981,650 | 998,126 | 16,476 |
| Parks and recreation | 456,670 | 456,670 | 470,994 | 14,324 |
| Planning and community development | 1,100 | 1,100 | 28 | (1,072) |
| Fire and rescue services | 845,000 | 845,000 | 859,889 | 14,889 |
| Administrative charges | 135,000 | 135,000 | 149,415 | 14,415 |
| Total charges for services | \$ 2,576,470 | \$ 2,636,470 | \$ 2,595,981 | \$ (40,489) |

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|-----------------|---------------|---|
| Revenues: (continued) | | | | |
| Revenue from local sources: (continued) | | | | |
| Miscellaneous: | | | | |
| Payments in-lieu of taxes | \$ 27,000 | \$ 27,000 | \$ 57,569 | \$ 30,569 |
| Souvenir sales | 23,000 | 23,000 | 21,595 | (1,405) |
| Donations - parks and recreation | 60,000 | 60,000 | 59,057 | (943) |
| Other | 31,500 | 31,500 | 38,349 | 6,849 |
| Total miscellaneous | \$ 141,500 | \$ 141,500 | \$ 176,570 | \$ 35,070 |
| Recovered costs: | | | | |
| Health department | \$ 150,000 | \$ 150,000 | \$ 106,252 | \$ (43,748) |
| Social services | 100,000 | 100,000 | 101,647 | 1,647 |
| Transit | 100,000 | 100,000 | 100,000 | - |
| Other | 161,250 | 218,052 | 262,408 | 44,356 |
| Total recovered costs | \$ 511,250 | \$ 568,052 | \$ 570,307 | \$ 2,255 |
| Total revenue from local sources | \$ 76,682,900 | \$ 77,073,722 | \$ 79,847,603 | \$ 2,773,881 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Grantors tax | \$ 150,000 | \$ 150,000 | \$ 136,409 | \$ (13,591) |
| Motor vehicle rental tax | 125,000 | 125,000 | 144,528 | 19,528 |
| Communication sales tax | 1,750,000 | 1,750,000 | 1,682,625 | (67,375) |
| Personal property relief | 1,725,000 | 1,725,000 | 1,728,833 | 3,833 |
| Other | 10,500 | 10,500 | 31,780 | 21,280 |
| Total noncategorical aid | \$ 3,760,500 | \$ 3,760,500 | \$ 3,724,175 | \$ (36,325) |
| Categorical aid - shared expenses: | | | | |
| Commonwealth's Attorney | \$ 635,000 | \$ 635,000 | \$ 629,758 | \$ (5,242) |
| Sheriff | 505,000 | 505,000 | 500,897 | (4,103) |
| Commissioner of Revenue | 135,000 | 135,000 | 136,940 | 1,940 |
| Treasurer | 100,000 | 100,000 | 96,902 | (3,098) |
| Registrar | 40,000 | 40,000 | 41,896 | 1,896 |
| Clerk of the Circuit Court | 330,000 | 330,000 | 323,366 | (6,634) |
| Total categorical aid - shared expenses | \$ 1,745,000 | \$ 1,745,000 | \$ 1,729,759 | \$ (15,241) |
| Categorical aid - other: | | | | |
| Street and highway maintenance | \$ 2,750,000 | \$ 2,750,000 | \$ 2,799,781 | \$ 49,781 |
| Law enforcement assistance | 780,000 | 780,000 | 803,612 | 23,612 |
| Wireless E-911 grants | 180,000 | 180,000 | 187,297 | 7,297 |
| Other | 21,600 | 21,600 | - | (21,600) |
| Total categorical aid - other | \$ 3,731,600 | \$ 3,731,600 | \$ 3,790,690 | \$ 59,090 |
| Total revenue from the Commonwealth | \$ 9,237,100 | \$ 9,237,100 | \$ 9,244,624 | \$ 7,524 |

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | 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 | \$ 33,000 | \$ 33,000 | \$ 89,337 | \$ 56,337 |
| Total revenue from the Federal Government | \$ 33,000 | \$ 33,000 | \$ 89,337 | \$ 56,337 |
| Total revenues | \$ 85,953,000 | \$ 86,343,822 | \$ 89,181,564 | \$ 2,837,742 |
| Expenditures | | | | |
| General government administration: | | | | |
| Legislative: | | | | |
| City Council | \$ 244,680 | \$ 244,680 | \$ 238,848 | \$ 5,832 |
| Clerk of Council | 114,018 | 118,018 | 117,448 | 570 |
| Total legislative | \$ 358,698 | \$ 362,698 | \$ 356,296 | \$ 6,402 |
| General and financial administration: | | | | |
| City manager | \$ 717,813 | \$ 818,013 | \$ 814,982 | \$ 3,031 |
| Insurance program | 901,000 | 884,800 | 858,574 | 26,226 |
| Human resources | 456,457 | 397,457 | 357,013 | 40,444 |
| Independent auditor | 71,950 | 84,950 | 84,085 | 865 |
| Commissioner of the revenue | 1,012,195 | 987,195 | 972,243 | 14,952 |
| Board of Real Estate Assessors | 10,000 | 10,000 | 100 | 9,900 |
| Equalization Board | 5,500 | 5,500 | 4,188 | 1,312 |
| Treasurer | 882,536 | 774,312 | 767,892 | 6,420 |
| Fiscal affairs | 792,314 | 736,314 | 733,019 | 3,295 |
| Information technology | 1,313,818 | 1,444,256 | 1,257,025 | 187,231 |
| Copying and postage | 24,600 | 24,600 | 24,036 | 564 |
| Safety program | 117,465 | 117,465 | 105,875 | 11,590 |
| Legal services | 366,589 | 362,589 | 337,615 | 24,974 |
| Total general and financial administration | \$ 6,672,237 | \$ 6,647,451 | \$ 6,316,647 | \$ 330,804 |
| Board of elections: | | | | |
| Registrar and electoral board | \$ 252,860 | \$ 268,860 | \$ 268,322 | \$ 538 |
| Total general government administration | \$ 7,283,795 | \$ 7,279,009 | \$ 6,941,265 | \$ 337,744 |
| Judicial administration: | | | | |
| Courts: | | | | |
| Circuit Court | \$ 115,023 | \$ 115,023 | \$ 108,447 | \$ 6,576 |
| General District Court | 28,600 | 24,600 | 18,105 | 6,495 |
| Special magistrate | 3,000 | 3,000 | - | 3,000 |
| Juvenile and Domestic Relations District Court | 16,400 | 16,400 | 15,724 | 676 |
| Clerk of the Circuit Court | 855,280 | 849,280 | 783,130 | 66,150 |
| Sheriff | 2,156,620 | 2,188,200 | 2,182,349 | 5,851 |
| JDR services | 108,340 | 108,340 | 108,340 | - |
| Juries | 28,000 | 42,000 | 41,291 | 709 |
| Court appointed attorney | 12,000 | 2,000 | 1,920 | 80 |
| Total courts | \$ 3,323,263 | \$ 3,348,843 | \$ 3,259,306 | \$ 89,537 |

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|---------------|---|
| Expenditures: (continued) | | | | |
| Judicial administration: (continued) | | | | |
| Commonwealth Attorney: | | | | |
| Commonwealth Attorney | \$ 1,332,608 | \$ 1,332,608 | \$ 1,329,462 | \$ 3,146 |
| Total judicial administration | \$ 4,655,871 | \$ 4,681,451 | \$ 4,588,768 | \$ 92,683 |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Police department | \$ 8,099,728 | \$ 8,067,165 | \$ 7,917,097 | \$ 150,068 |
| Fire and rescue: | | | | |
| Fire department | \$ 4,898,596 | \$ 4,922,681 | \$ 4,766,601 | \$ 156,080 |
| Rescue services | 257,100 | 257,100 | 257,100 | - |
| Emergency medical services | 1,434,078 | 1,438,731 | 1,424,862 | 13,869 |
| Hazardous materials | 43,128 | 43,128 | 20,524 | 22,604 |
| E-911 communications | 1,329,353 | 1,307,413 | 1,300,214 | 7,199 |
| Total fire and rescue | \$ 7,962,255 | \$ 7,969,053 | \$ 7,769,301 | \$ 199,752 |
| Correction and detention: | | | | |
| Juvenile Detention Center | \$ 450,000 | \$ 723,381 | \$ 714,265 | \$ 9,116 |
| Rappahannock Security Center | 3,853,904 | 3,853,904 | 3,853,904 | - |
| Total correction and detention | \$ 4,303,904 | \$ 4,577,285 | \$ 4,568,169 | \$ 9,116 |
| Inspections: | | | | |
| Building and development services | \$ 808,069 | \$ 778,069 | \$ 754,092 | \$ 23,977 |
| Other protection: | | | | |
| Animal control | \$ 121,400 | \$ 121,400 | \$ 121,400 | \$ - |
| Public safety radio system | 298,600 | 298,700 | 298,691 | 9 |
| Medical Examiner | 1,000 | 1,000 | 520 | 480 |
| Total other protection | \$ 421,000 | \$ 421,100 | \$ 420,611 | \$ 489 |
| Total public safety | \$ 21,594,956 | \$ 21,812,672 | \$ 21,429,270 | \$ 383,402 |
| Public works: | | | | |
| Maintenance of streets, highways, bridges and sidewalks: | | | | |
| Administration | \$ 847,226 | \$ 833,241 | \$ 789,855 | \$ 43,386 |
| Street maintenance | 1,252,335 | 1,350,184 | 1,230,417 | 119,767 |
| Drainage | 281,187 | 285,187 | 284,131 | 1,056 |
| Street lights | 405,000 | 417,000 | 415,524 | 1,476 |
| Snow removal | 125,530 | 80,207 | 69,533 | 10,674 |
| Industrial park rail spur | 15,500 | 15,500 | 13,099 | 2,401 |
| Traffic engineering | 834,100 | 895,747 | 817,335 | 78,412 |
| Shop and garage | 1,291,806 | 1,281,806 | 1,207,663 | 74,143 |
| Total maintenance of streets, highways, bridges and sidewalks | \$ 5,052,684 | \$ 5,158,872 | \$ 4,827,557 | \$ 331,315 |

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|---------------|---|
| Expenditures: (continued) | | | | |
| Public works: (continued) | | | | |
| Sanitation and waste removal: | | | | |
| Street sanitation | \$ 909,412 | \$ 1,049,412 | \$ 1,030,834 | \$ 18,578 |
| Tree purchase program | 85,000 | 85,000 | 83,745 | 1,255 |
| Refuse collection | 717,916 | 855,916 | 774,556 | 81,360 |
| Refuse disposal | 311,350 | 1,487,884 | 1,487,523 | 361 |
| Recycling collection | 131,271 | 135,271 | 134,554 | 717 |
| Total sanitation and waste removal | \$ 2,154,949 | \$ 3,613,483 | \$ 3,511,212 | \$ 102,271 |
| Maintenance of buildings and grounds: | | | | |
| Public facilities | \$ 2,161,605 | \$ 2,043,444 | \$ 1,930,017 | \$ 113,427 |
| Courthouse maintenance | 148,355 | 273,785 | 273,178 | 607 |
| Commuter rail | - | 43,509 | 42,570 | 939 |
| Total maintenance of buildings and grounds | \$ 2,309,960 | \$ 2,360,738 | \$ 2,245,765 | \$ 114,973 |
| Total public works | \$ 9,517,593 | \$ 11,133,093 | \$ 10,584,534 | \$ 548,559 |
| 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 | \$ 246,876 | \$ 246,876 | \$ 246,876 | \$ - |
| Social services: | | | | |
| Other contributions | \$ 355,262 | \$ 352,762 | \$ 352,262 | \$ 500 |
| Total health and welfare | \$ 1,016,418 | \$ 1,013,918 | \$ 1,013,418 | \$ 500 |
| Education: | | | | |
| Community colleges | \$ 68,719 | \$ 68,719 | \$ 68,719 | \$ - |
| Appropriations to public school system | 28,282,210 | 28,282,210 | 28,282,210 | - |
| Total education | \$ 28,350,929 | \$ 28,350,929 | \$ 28,350,929 | \$ - |
| Parks, recreation and cultural: | | | | |
| Parks and recreation: | | | | |
| Administration | \$ 641,930 | \$ 631,930 | \$ 626,296 | \$ 5,634 |
| Supervision | 733,874 | 728,292 | 726,209 | 2,083 |
| Maintenance | 1,112,495 | 1,091,894 | 1,091,032 | 862 |
| Motts Run | - | 96,971 | 96,359 | 612 |
| Dixon Park swimming pool | 142,935 | 142,435 | 141,881 | 554 |
| Total parks and recreation | \$ 2,631,234 | \$ 2,691,522 | \$ 2,681,777 | \$ 9,745 |
| Library: | | | | |
| Regional library | \$ 1,336,914 | \$ 1,336,914 | \$ 1,336,914 | \$ - |
| Cultural: | | | | |
| Museums | \$ 95,975 | \$ 224,778 | \$ 224,778 | \$ - |
| Total parks, recreation and cultural | \$ 4,064,123 | \$ 4,253,214 | \$ 4,243,469 | \$ 9,745 |

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|-----------------|-----------------|---|
| Expenditures: (continued) | | | | |
| Community development: | | | | |
| Planning and community development: | | | | |
| Planning | \$ 792,106 | \$ 708,943 | \$ 680,458 | \$ 28,485 |
| Zoning Appeals Board | 1,400 | 1,400 | - | 1,400 |
| Transportation division | - | 82,718 | 81,214 | 1,504 |
| Community development | 153,842 | 153,842 | 153,702 | 140 |
| Architectural Review Board | 2,000 | 20,200 | 19,895 | 305 |
| Clean and Green Commission | 3,000 | 3,000 | 2,927 | 73 |
| Economic development and tourism | 1,077,045 | 1,137,965 | 1,077,552 | 60,413 |
| Total planning and community development | \$ 2,029,393 | \$ 2,108,068 | \$ 2,015,748 | \$ 92,320 |
| Environmental management: | | | | |
| Soil and water conservation district | \$ 2,000 | \$ 2,000 | \$ 2,000 | \$ - |
| Total community development | \$ 2,031,393 | \$ 2,110,068 | \$ 2,017,748 | \$ 92,320 |
| Nondepartmental: | | | | |
| OPEB trust contribution | \$ - | \$ 75,000 | \$ 75,000 | \$ - |
| Total expenditures | \$ 78,515,078 | \$ 80,709,354 | \$ 79,244,401 | \$ 1,464,953 |
| Excess (deficiency) of revenues over expenditures | \$ 7,437,922 | \$ 5,634,468 | \$ 9,937,163 | \$ 4,302,695 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from the sale of capital assets | \$ 40,000 | \$ 40,000 | \$ 15,786 | \$ (24,214) |
| Transfers in | 711,500 | 613,500 | 613,500 | - |
| Transfers out | (11,386,722) | (12,027,972) | (11,995,511) | 32,461 |
| Total other financing sources (uses) | \$ (10,635,222) | \$ (11,374,472) | \$ (11,366,225) | \$ 8,247 |
| Net change in fund balance | \$ (3,197,300) | \$ (5,740,004) | \$ (1,429,062) | \$ 4,310,942 |
| Fund balance, beginning of year | 3,197,300 | 5,740,004 | 25,704,455 | 19,964,451 |
| Fund balance, end of year | \$ - | \$ - | \$ 24,275,393 | \$ 24,275,393 |

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

Schedule of Employer's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2017

| Date (1) | Proportion of the Net Pension Liability (NPL) (2) | Proportionate Share of the NPL (3) | Covered Payroll (4) | Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5) | Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6) |
|---|--|--|---------------------------|--|---|
| Primary Government - City Retirement Plan | | | | | |
| 2016 | 97.29% \$ | 26,367,292 \$ | 22,354,388 | 117.95% | 78.31% |
| 2015 | 96.83% | 20,719,184 | 22,248,692 | 93.13% | 82.01% |
| 2014 | 96.57% | 22,917,333 | 21,687,751 | 105.67% | 79.85% |
| Component Unit School Board (professional) | | | | | |
| 2016 | 0.2894% \$ | 40,555,000 \$ | 22,065,166 | 183.80% | 68.28% |
| 2015 | 0.2883% | 36,284,000 | 21,447,563 | 169.18% | 70.68% |
| 2014 | 0.2730% | 32,995,000 | 19,966,621 | 165.25% | 70.88% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2017

| | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|
| Total pension liability | | | |
| Service cost | \$ 125,309 | \$ 130,660 | \$ 132,328 |
| Interest | 283,678 | 273,318 | 255,208 |
| Differences between expected and actual experience | (17,054) | (143,981) | - |
| Benefit payments, including refunds of employee contributions | (109,346) | (114,651) | (142,987) |
| Net change in total pension liability | \$ 282,587 | \$ 145,346 | \$ 244,549 |
| Total pension liability - beginning | 4,107,217 | 3,961,871 | 3,717,322 |
| Total pension liability - ending (a) | <u>\$ 4,389,804</u> | <u>\$ 4,107,217</u> | <u>\$ 3,961,871</u> |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 85,248 | \$ 84,468 | \$ 76,354 |
| Contributions - employee | 60,997 | 60,507 | 59,538 |
| Net investment income | 79,053 | 191,424 | 567,330 |
| Benefit payments, including refunds of employee contributions | (109,346) | (114,651) | (142,987) |
| Administrative expense | (2,671) | (2,558) | (3,030) |
| Other | (33) | (41) | 30 |
| Net change in plan fiduciary net position | \$ 113,248 | \$ 219,149 | \$ 557,235 |
| Plan fiduciary net position - beginning | 4,365,258 | 4,146,109 | 3,588,874 |
| Plan fiduciary net position - ending (b) | <u>\$ 4,478,506</u> | <u>\$ 4,365,258</u> | <u>\$ 4,146,109</u> |
| School Division's net pension liability(asset) - ending (a) - (b) | \$ (88,702) | \$ (258,041) | \$ (184,238) |
| Plan fiduciary net position as a percentage of the total pension liability | 102.02% | 106.28% | 104.65% |
| Covered payroll | \$ 1,249,950 | \$ 1,235,088 | \$ 1,191,588 |
| School Division's net pension liability as a percentage of covered payroll | 7.10% | 20.89% | 15.46% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions

For the Years Ended June 30, 2008 through June 30, 2017

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|--|--|---|---|---|---|
| Primary Government | | | | | |
| 2017 | \$ 2,915,650 | \$ 2,915,650 | \$ - | \$ 23,232,269 | 12.55% |
| 2016 | 3,662,544 | 3,662,544 | - | 22,977,066 | 15.94% |
| 2015 | 3,608,107 | 3,608,107 | - | 22,635,550 | 15.94% |
| 2014 | 3,138,165 | 3,138,165 | - | 21,420,920 | 14.65% |
| 2013 | 3,070,145 | 3,070,145 | - | 20,956,620 | 14.65% |
| 2012 | 2,193,209 | 2,193,209 | - | 20,307,488 | 10.80% |
| 2011 | 2,169,552 | 2,169,552 | - | 20,088,443 | 10.80% |
| 2010 | 1,902,397 | 1,902,397 | - | 20,216,761 | 9.41% |
| 2009 | 1,970,440 | 1,970,440 | - | 20,939,846 | 9.41% |
| 2008 | 1,866,825 | 1,866,825 | - | 20,788,700 | 8.98% |
| Component Unit School Board (nonprofessional) | | | | | |
| 2017 | \$ 53,315 | \$ 53,315 | \$ - | \$ 1,284,705 | 4.15% |
| 2016 | 86,747 | 86,747 | - | 1,249,950 | 6.94% |
| 2015 | 85,715 | 85,715 | - | 1,235,088 | 6.94% |
| 2014 | 86,152 | 86,152 | - | 1,191,588 | 7.23% |
| 2013 | 84,302 | 84,302 | - | 1,166,004 | 7.23% |
| 2012 | 49,855 | 49,855 | - | 1,105,427 | 4.51% |
| 2011 | 48,946 | 48,946 | - | 1,085,267 | 4.51% |
| 2010 | 49,309 | 49,309 | - | 1,133,534 | 4.35% |
| 2009 | 50,196 | 50,196 | - | 1,153,923 | 4.35% |
| 2008 | 72,948 | 72,948 | - | 1,122,280 | 6.50% |
| Component Unit School Board (professional) | | | | | |
| 2017 | \$ 3,334,139 | \$ 3,334,139 | \$ - | \$ 22,743,104 | 14.66% |
| 2016 | 3,100,340 | 3,100,340 | - | 22,065,166 | 14.05% |
| 2015 | 3,526,396 | 3,526,396 | - | 21,447,563 | 16.44% |

Schedule is intended to show information for 10 years. Information for the School Board (professional) plan prior to 2015 is not available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
As of June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

Changes in assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Schedule of OPEB Funding Progress

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, 2016 (1) | \$ - | \$ 15,971,700 | \$ 15,971,700 | 0.00% | \$ 22,344,600 | 71.48% |
| January 1, 2014 | - | 22,618,400 | 22,618,400 | 0.00% | 20,837,300 | 108.55% |
| January 1, 2012 | - | 20,305,900 | 20,305,900 | 0.00% | 20,443,300 | 99.33% |

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, 2016 | \$ - | \$ 4,143,100 | \$ 4,143,100 | 0.00% | \$ 25,190,300 | 16.45% |
| January 1, 2014 | - | 4,512,700 | 4,512,700 | 0.00% | 23,123,600 | 19.52% |
| January 1, 2012 | - | 3,206,600 | 3,206,600 | 0.00% | 19,647,600 | 16.32% |

(1) The City established an irrevocable OPEB trust fund after the January 1, 2016 actuarial valuation date. The resulting Actuarial Value of Assets of \$963,400 had the effect of reducing the Unfunded Actuarial Accrued Liability to \$15,008,300.

Schedule of Changes in the City's Net OPEB Liability and Related Ratios
Last Ten Fiscal Years

| | <u>2017</u> |
|--|----------------------|
| Total OPEB liability | |
| Service cost | \$ 199,978 |
| Interest | 1,163,246 |
| Benefit payments | (941,888) |
| Net change in total OPEB liability | \$ 421,336 |
| Total OPEB liability - beginning | 16,880,807 |
| Total OPEB liability - ending (a) | <u>\$ 17,302,143</u> |
| Plan fiduciary net position | |
| Contributions - employer | \$ 1,053,888 |
| Net investment income | 128,315 |
| Benefit payments | (941,888) |
| Administrative expense | (1,347) |
| Net change in plan fiduciary net position | \$ 238,968 |
| Plan fiduciary net position - beginning | 996,552 |
| Plan fiduciary net position - ending (b) | <u>\$ 1,235,520</u> |
| City's net OPEB liability - ending (a) - (b) | \$ 16,066,623 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 7.14% |
| Covered-employee payroll | \$ 22,344,600 |
| City's net OPEB liability as a percentage of covered payroll | 71.90% |

This schedule is intended to show information for 10 years. While 2017 is the first year for this presentation, additional years will be included as they become available.

Schedule of Employer Contributions - OPEB
Last Ten Fiscal Years

| Date | Actuarially Determined Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|------|---|--|--|--------------------------------|--|
| 2017 | \$ 1,195,200 | \$ 1,053,900 | \$ 141,300 | \$ 22,344,600 | 4.72% |
| 2016 | 1,148,800 | 1,888,000 | (739,200) | 22,344,600 | 8.45% |

Information prior to 2015 was obtained from the VRS actuarial valuation performed for that year.

Notes to Schedule

Valuation date: January 1, 2016

Methods and assumptions used to determine contribution rates:

| | |
|-----------------------------|---|
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percentage of payroll, closed |
| Amortization period | 29 years |
| Asset valuation method | Market Value |
| Inflation | 2.50 percent |
| Healthcare cost trend rates | For pre-65 benefits: 5.10% for 2016, 8.60% for 2017, 5.80% for 2018, gradually decreasing to an ultimate rate of 4.10% for 2085 and beyond. For post-65 benefits: 6.30% for 2016, 9.10% for 2017, 6.10% for 2018, gradually decreasing to an ultimate rate of 4.40% for 2098 and beyond. |
| Salary increases | 3.25 percent, average, including inflation 7.00 percent, net of OPEB plan investment expense, including inflation. |
| Investment rate of return | 7.00 percent |
| Retirement age | In the 2016 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience. |
| Mortality | In the 2016 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. |

Schedule of Investment Returns
Last Ten Fiscal Years

| | <u>2017</u> |
|---|-------------|
| Annual money-weighted rate of return, net of investment expense | 12.78% |

This schedule is intended to show information for 10 years. While 2017 is the first year for this presentation, additional years will be included as they become available.

OTHER SUPPLEMENTARY INFORMATION

This page intentionally left blank

Budgetary Comparison Schedule
School Bond Funded Capital Fund
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|----------------|---|
| Revenues | | | | |
| Revenue from use of money and property: | | | | |
| Use of money | \$ - | \$ - | \$ 64,047 | \$ 64,047 |
| Expenditures | | | | |
| Capital projects: | | | | |
| Walker-Grant Middle School roof replacement | \$ - | \$ 136,600 | \$ 136,600 | \$ - |
| Walker-Grant Center renovation project | - | 11,403,527 | 9,142,565 | 2,260,962 |
| Total expenditures | \$ - | \$ 11,540,127 | \$ 9,279,165 | \$ 2,260,962 |
| Excess (deficiency) of revenues over (under) expenditures | \$ - | \$ (11,540,127) | \$ (9,215,118) | \$ 2,325,009 |
| Other Financing Sources (Uses) | | | | |
| Issuance of bonds | \$ - | \$ 136,600 | \$ - | \$ (136,600) |
| Transfers in | - | 250,000 | 250,000 | - |
| Total other financing sources (uses) | \$ - | \$ 386,600 | \$ 250,000 | \$ (136,600) |
| Net change in fund balance | \$ - | \$ (11,153,527) | \$ (8,965,118) | \$ 2,188,409 |
| Fund balance, beginning of year | - | 11,153,527 | 10,676,162 | (477,365) |
| Fund balance, end of year | \$ - | \$ - | \$ 1,711,044 | \$ 1,711,044 |

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, 2017

| | Special Revenue | Capital Projects | Debt Service | Total |
|--|---------------------|---------------------|---------------------|----------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,478,035 | \$ 8,295,043 | \$ 2,000,490 | \$ 11,773,568 |
| Accrued revenue | 14,995 | 69,290 | - | 84,285 |
| Prepaid items | 9,710 | - | - | 9,710 |
| Due from other governments | 1,169,461 | 678,691 | - | 1,848,152 |
| Total assets | \$ 2,672,201 | \$ 9,043,024 | \$ 2,000,490 | \$ 13,715,715 |
| Liabilities: | | | | |
| Accounts payable | \$ 306,226 | \$ 249,592 | \$ - | \$ 555,818 |
| Accrued liabilities | 153,128 | 218,310 | - | 371,438 |
| Unearned revenue | 20,000 | 356,625 | - | 376,625 |
| Total liabilities | \$ 479,354 | \$ 824,527 | \$ - | \$ 1,303,881 |
| Fund Balances: | | | | |
| Nonspendable | \$ 9,710 | \$ - | \$ - | \$ 9,710 |
| Restricted | 100,000 | - | - | 100,000 |
| Committed | 2,083,137 | 1,538,056 | 2,000,490 | 5,621,683 |
| Assigned | - | 6,680,441 | - | 6,680,441 |
| Total fund balances | \$ 2,192,847 | \$ 8,218,497 | \$ 2,000,490 | \$ 12,411,834 |
| Total liabilities and fund balances | \$ 2,672,201 | \$ 9,043,024 | \$ 2,000,490 | \$ 13,715,715 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017

| | Special Revenue | Capital Projects | Debt Service | Total |
|--|--------------------|---------------------|-----------------|-----------------|
| Revenues | | | | |
| Other local taxes | \$ - | \$ 50,000 | \$ - | \$ 50,000 |
| Permits, privilege fees and regulatory licenses | 23,138 | - | - | 23,138 |
| Fines and forfeitures | 2,000 | 843 | - | 2,843 |
| Use of money and property | 1,192 | 238,869 | - | 240,061 |
| Charges for services | 24,098 | 53,021 | - | 77,119 |
| Miscellaneous | 188,428 | - | 279,922 | 468,350 |
| Recovered costs | 425,161 | 124,242 | - | 549,403 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth | 3,391,018 | 979,565 | - | 4,370,583 |
| Revenue from the Federal Government | 2,718,260 | 353,719 | - | 3,071,979 |
| Total revenues | \$ 6,773,295 | \$ 1,800,259 | \$ 279,922 | \$ 8,853,476 |
| Expenditures | | | | |
| Current: | | | | |
| Judicial administration | \$ 253,653 | \$ - | \$ - | \$ 253,653 |
| Public safety | 432,988 | - | - | 432,988 |
| Public works | 214,887 | - | - | 214,887 |
| Health and welfare | 7,180,361 | - | - | 7,180,361 |
| Parks, recreation and cultural | 110,944 | - | - | 110,944 |
| Community development | 799,275 | - | - | 799,275 |
| Capital projects | - | 5,053,149 | - | 5,053,149 |
| Debt service: | | | | |
| Principal payments | - | - | 4,456,281 | 4,456,281 |
| Interest and fiscal charges | - | - | 3,763,249 | 3,763,249 |
| Total expenditures | \$ 8,992,108 | \$ 5,053,149 | \$ 8,219,530 | \$ 22,264,787 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (2,218,813) | \$ (3,252,890) | \$ (7,939,608) | \$ (13,411,311) |
| Other financing sources (uses) | | | | |
| Proceeds from the sale of capital assets | \$ 3,783 | \$ - | \$ - | \$ 3,783 |
| Transfers in | 2,250,015 | 2,175,650 | 7,325,701 | 11,751,366 |
| Total other financing sources (uses) | \$ 2,253,798 | \$ 2,175,650 | \$ 7,325,701 | \$ 11,755,149 |
| Net change in fund balance | \$ 34,985 | \$ (1,077,240) | \$ (613,907) | \$ (1,656,162) |
| Fund balances, beginning of year | 2,157,862 | 9,295,737 | 2,614,397 | 14,067,996 |
| Fund balances, end of year | \$ 2,192,847 | \$ 8,218,497 | \$ 2,000,490 | \$ 12,411,834 |

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2017

| | Virginia Public Assistance Fund | State, Federal and Local Grants Fund | Children's Services Act Fund | Central Park Special Tax District Fund | Environmental Section Fund | Forfeited Asset Sharing Program Fund | Blight Abatement Fund | Total |
|--|--|--|------------------------------------|---|----------------------------------|---|-----------------------------|---------------------|
| Assets: | | | | | | | | |
| Cash and cash equivalents | \$ 236,528 | \$ 560,545 | \$ 40,786 | \$ 262,519 | \$ 34,881 | \$ 148,577 | \$ 194,199 | \$ 1,478,035 |
| Accrued revenue | 8,150 | 4,924 | 1,921 | - | - | - | - | 14,995 |
| Prepaid items | 3,650 | 4,760 | - | - | 1,300 | - | - | 9,710 |
| Due from other governments | 446,216 | 288,002 | 435,243 | - | - | - | - | 1,169,461 |
| Total assets | \$ 694,544 | \$ 858,231 | \$ 477,950 | \$ 262,519 | \$ 36,181 | \$ 148,577 | \$ 194,199 | \$ 2,672,201 |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ 26,977 | \$ 112,739 | \$ 161,435 | \$ - | \$ 154 | \$ 456 | \$ 4,465 | \$ 306,226 |
| Accrued liabilities | 93,580 | 10,820 | 2,546 | - | 7,907 | 38,275 | - | 153,128 |
| Unearned revenue | - | 20,000 | - | - | - | - | - | 20,000 |
| Total liabilities | \$ 120,557 | \$ 143,559 | \$ 163,981 | \$ - | \$ 8,061 | \$ 38,731 | \$ 4,465 | \$ 479,354 |
| Fund Balances: | | | | | | | | |
| Nonspendable | \$ 3,650 | \$ 4,760 | \$ - | \$ - | \$ 1,300 | \$ - | \$ - | \$ 9,710 |
| Restricted | - | 100,000 | - | - | - | - | - | 100,000 |
| Committed | 570,337 | 609,912 | 313,969 | 262,519 | 26,820 | 109,846 | 189,734 | 2,083,137 |
| Total fund balances | \$ 573,987 | \$ 714,672 | \$ 313,969 | \$ 262,519 | \$ 28,120 | \$ 109,846 | \$ 189,734 | \$ 2,192,847 |
| Total liabilities and fund balances | \$ 694,544 | \$ 858,231 | \$ 477,950 | \$ 262,519 | \$ 36,181 | \$ 148,577 | \$ 194,199 | \$ 2,672,201 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2017

| | Virginia Public Assistance Fund | State, Federal and Local Grants Fund | Children's Services Act Fund | Central Park Special Tax District Fund | Environmental Section Fund | Forfeited Asset Sharing Program Fund | Blight Abatement Fund | Total |
|---|--|--|------------------------------------|---|----------------------------------|---|-----------------------------|----------------|
| Revenues | | | | | | | | |
| Permits, privilege fees and regulatory licenses | \$ - | \$ 9,888 | \$ - | \$ - | \$ 13,250 | \$ - | \$ - | \$ 23,138 |
| Fines and forfeitures | - | - | - | - | 2,000 | - | - | 2,000 |
| Use of money and property | - | 629 | - | - | - | 563 | - | 1,192 |
| Charges for services | - | 24,098 | - | - | - | - | - | 24,098 |
| Miscellaneous | 2,986 | 184,257 | - | - | - | - | 1,185 | 188,428 |
| Recovered costs | 42,590 | 363,399 | - | - | - | 465 | 18,707 | 425,161 |
| Intergovernmental: | | | | | | | | |
| Revenue from the Commonwealth | 1,567,769 | 467,508 | 1,350,086 | - | - | 5,655 | - | 3,391,018 |
| Revenue from the Federal Government | 2,413,390 | 232,708 | 72,162 | - | - | - | - | 2,718,260 |
| Total revenues | \$ 4,026,735 | \$ 1,282,487 | \$ 1,422,248 | \$ - | \$ 15,250 | \$ 6,683 | \$ 19,892 | \$ 6,773,295 |
| Expenditures | | | | | | | | |
| Judicial administration | \$ - | \$ 253,653 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 253,653 |
| Public safety | - | 416,277 | - | - | - | 16,711 | - | 432,988 |
| Public works | - | - | - | - | 192,567 | - | 22,320 | 214,887 |
| Health and welfare | 5,005,800 | - | 2,174,561 | - | - | - | - | 7,180,361 |
| Parks, recreation and cultural | - | 110,944 | - | - | - | - | - | 110,944 |
| Community development | - | 799,275 | - | - | - | - | - | 799,275 |
| Total expenditures | \$ 5,005,800 | \$ 1,580,149 | \$ 2,174,561 | \$ - | \$ 192,567 | \$ 16,711 | \$ 22,320 | \$ 8,992,108 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (979,065) | \$ (297,662) | \$ (752,313) | \$ - | \$ (177,317) | \$ (10,028) | \$ (2,428) | \$ (2,218,813) |
| Other financing sources (uses) | | | | | | | | |
| Transfers in | \$ 1,067,430 | \$ 381,810 | \$ 675,275 | \$ - | \$ 125,500 | \$ - | \$ - | \$ 2,250,015 |
| Proceeds from the sale of capital assets | 3,783 | - | - | - | - | - | - | 3,783 |
| Total other financing sources (uses) | \$ 1,071,213 | \$ 381,810 | \$ 675,275 | \$ - | \$ 125,500 | \$ - | \$ - | \$ 2,253,798 |
| Net change in fund balance | \$ 92,148 | \$ 84,148 | \$ (77,038) | \$ - | \$ (51,817) | \$ (10,028) | \$ (2,428) | \$ 34,985 |
| Fund balances, beginning of year | 481,839 | 630,524 | 391,007 | 262,519 | 79,937 | 119,874 | 192,162 | 2,157,862 |
| Fund balances, end of year | \$ 573,987 | \$ 714,672 | \$ 313,969 | \$ 262,519 | \$ 28,120 | \$ 109,846 | \$ 189,734 | \$ 2,192,847 |

Combining Balance Sheet
Nonmajor Capital Projects Funds
At June 30, 2017

| | Public Works Capital Fund | Public Facilities Capital Fund | Public Safety Capital Fund | New Court Capital Fund | Total |
|--|------------------------------------|---|-------------------------------------|---------------------------------|---------------------|
| Assets: | | | | | |
| Cash and cash equivalents | \$ 3,726,636 | \$ 1,956,557 | \$ 1,645,175 | \$ 966,675 | \$ 8,295,043 |
| Accrued revenue | 23,097 | 23,096 | 23,097 | - | 69,290 |
| Due from other governments | 678,691 | - | - | - | 678,691 |
| Total assets | \$ 4,428,424 | \$ 1,979,653 | \$ 1,668,272 | \$ 966,675 | \$ 9,043,024 |
| Liabilities: | | | | | |
| Accounts payable | \$ 226,189 | \$ 23,403 | \$ - | \$ - | \$ 249,592 |
| Accrued liabilities | 218,310 | - | - | - | 218,310 |
| Unearned revenue | 356,625 | - | - | - | 356,625 |
| Total liabilities | \$ 801,124 | \$ 23,403 | \$ - | \$ - | \$ 824,527 |
| Fund Balances: | | | | | |
| Committed | \$ 1,055,933 | \$ 135,674 | \$ 346,449 | \$ - | \$ 1,538,056 |
| Assigned | 2,571,367 | 1,820,576 | 1,321,823 | 966,675 | 6,680,441 |
| Total fund balances | \$ 3,627,300 | \$ 1,956,250 | \$ 1,668,272 | \$ 966,675 | \$ 8,218,497 |
| Total liabilities and fund balances | \$ 4,428,424 | \$ 1,979,653 | \$ 1,668,272 | \$ 966,675 | \$ 9,043,024 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2017

| | Public Works Construction Fund | Public Facilities Construction Fund | Public Safety Construction Fund | New Court Construction Fund | Total |
|--|---|--|--|--------------------------------------|-----------------------|
| Revenues | | | | | |
| Other local taxes | \$ 50,000 | \$ - | \$ - | \$ - | \$ 50,000 |
| Fines and forfeitures | 843 | - | - | - | 843 |
| Use of money and property | 55,798 | 126,373 | 56,562 | 136 | 238,869 |
| Charges for services | - | - | - | 53,021 | 53,021 |
| Recovered costs | 105,486 | - | 18,756 | - | 124,242 |
| Intergovernmental: | | | | | |
| Revenue from the Commonwealth | 829,565 | - | 150,000 | - | 979,565 |
| Revenue from the Federal Government | 340,000 | 13,719 | - | - | 353,719 |
| Total revenues | \$ 1,381,692 | \$ 140,092 | \$ 225,318 | \$ 53,157 | \$ 1,800,259 |
| Expenditures | | | | | |
| Capital projects | \$ 2,664,572 | \$ 726,349 | \$ 1,460,013 | \$ 202,215 | \$ 5,053,149 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (1,282,880) | \$ (586,257) | \$ (1,234,695) | \$ (149,058) | \$ (3,252,890) |
| Other financing sources (uses) | | | | | |
| Transfers in | \$ 980,000 | \$ 464,400 | \$ 731,250 | \$ - | \$ 2,175,650 |
| Net change in fund balance | \$ (302,880) | \$ (121,857) | \$ (503,445) | \$ (149,058) | \$ (1,077,240) |
| Fund balances, beginning of year | 3,930,180 | 2,078,107 | 2,171,717 | 1,115,733 | 9,295,737 |
| Fund balances, end of year | \$ 3,627,300 | \$ 1,956,250 | \$ 1,668,272 | \$ 966,675 | \$ 8,218,497 |

Combining Balance Sheet
 Nonmajor Debt Service Funds
 At June 30, 2017

| | General Obligation Bond Debt Service Fund | Education Debt Service Fund | Total |
|-------------------------------------|---|-----------------------------------|--------------|
| Assets: | | | |
| Cash and cash equivalents | \$ - | \$ 2,000,490 | \$ 2,000,490 |
| Fund Balances: | | | |
| Committed | \$ - | \$ 2,000,490 | \$ 2,000,490 |
| Total liabilities and fund balances | \$ - | \$ 2,000,490 | \$ 2,000,490 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2017

| | General Obligation Bond Debt Service Fund | Education Debt Service Fund | Total |
|--|---|-----------------------------------|----------------|
| Revenues | | | |
| Miscellaneous | \$ 279,922 | \$ - | \$ 279,922 |
| Expenditures | | | |
| Debt service: | | | |
| Principal | \$ 2,690,141 | \$ 1,766,140 | \$ 4,456,281 |
| Interest and fiscal charges | 1,641,912 | 2,121,337 | 3,763,249 |
| Total expenditures | \$ 4,332,053 | \$ 3,887,477 | \$ 8,219,530 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (4,052,131) | \$ (3,887,477) | \$ (7,939,608) |
| Other financing sources (uses) | | | |
| Transfers in | \$ 4,052,131 | \$ 3,273,570 | \$ 7,325,701 |
| Net change in fund balance | \$ - | \$ (613,907) | \$ (613,907) |
| Fund balances, beginning of year | - | 2,614,397 | 2,614,397 |
| Fund balances, end of year | \$ - | \$ 2,000,490 | \$ 2,000,490 |

Combining Statement of Fiduciary Net Position - Agency Funds
At June 30, 2017

| | Criminal Justice Academy | Special Welfare | Court Service Unit | Rappahannock Area Youth Services | Revenue Maximization | Community Development Authority | Total |
|---------------------------|--------------------------------|--------------------|--------------------------|---|-------------------------|---------------------------------------|---------------------|
| Assets: | | | | | | | |
| Cash and cash equivalents | \$ 388,629 | \$ 15,160 | \$ 147,131 | \$ 285,153 | \$ 20,451 | \$ 302,435 | \$ 1,158,959 |
| Accounts receivable | - | - | - | 121,425 | - | - | 121,425 |
| Total assets | <u>\$ 388,629</u> | <u>\$ 15,160</u> | <u>\$ 147,131</u> | <u>\$ 406,578</u> | <u>\$ 20,451</u> | <u>\$ 302,435</u> | <u>\$ 1,280,384</u> |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 8,855 | \$ - | \$ 17,152 | \$ 18,551 | \$ - | \$ - | \$ 44,558 |
| Accrued liabilities | 54,752 | - | 705 | 32,522 | - | - | 87,979 |
| Amounts held for others | 325,022 | 15,160 | 129,274 | 355,505 | 20,451 | 302,435 | 1,147,847 |
| Total liabilities | <u>\$ 388,629</u> | <u>\$ 15,160</u> | <u>\$ 147,131</u> | <u>\$ 406,578</u> | <u>\$ 20,451</u> | <u>\$ 302,435</u> | <u>\$ 1,280,384</u> |

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2017

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 |
|---------------------------------|----------------------------|-------------------|-------------------|-----------------------------|
| CRIMINAL JUSTICE ACADEMY | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 158,387 | \$ 388,629 | \$ 158,387 | \$ 388,629 |
| Accounts receivable | 19,919 | - | 19,919 | - |
| Total assets | <u>\$ 178,306</u> | <u>\$ 388,629</u> | <u>\$ 178,306</u> | <u>\$ 388,629</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 9,059 | \$ 8,855 | \$ 9,059 | \$ 8,855 |
| Accrued liabilities | 34,464 | 54,752 | 34,464 | 54,752 |
| Amounts held for others | 134,783 | 325,022 | 134,783 | 325,022 |
| Total liabilities | <u>\$ 178,306</u> | <u>\$ 388,629</u> | <u>\$ 178,306</u> | <u>\$ 388,629</u> |
| SPECIAL WELFARE | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 18,358 | \$ 21,832 | \$ 25,030 | \$ 15,160 |
| Liabilities: | | | | |
| Amounts held for others | \$ 18,358 | \$ 21,832 | \$ 25,030 | \$ 15,160 |
| COURT SERVICE UNIT | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 147,567 | \$ 236,571 | \$ 237,007 | \$ 147,131 |
| Liabilities: | | | | |
| Accounts payable | \$ 18,016 | \$ 17,152 | \$ 18,016 | \$ 17,152 |
| Accrued liabilities | 811 | 705 | 811 | 705 |
| Amounts held for others | 128,740 | 218,714 | 218,180 | 129,274 |
| Total liabilities | <u>\$ 147,567</u> | <u>\$ 236,571</u> | <u>\$ 237,007</u> | <u>\$ 147,131</u> |

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2017

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 |
|---|----------------------------|---------------------|---------------------|-----------------------------|
| RAPPAHANNOCK AREA YOUTH SERVICES | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ - | \$ 285,153 | \$ - | \$ 285,153 |
| Accounts receivable | 329,912 | 121,425 | 329,912 | 121,425 |
| Total assets | <u>\$ 329,912</u> | <u>\$ 406,578</u> | <u>\$ 329,912</u> | <u>\$ 406,578</u> |
| Liabilities: | | | | |
| Reconciled overdraft | \$ 103,908 | \$ - | \$ 103,908 | \$ - |
| Accounts payable | 25,882 | 18,551 | 25,882 | 18,551 |
| Accrued liabilities | 10,342 | 32,522 | 10,342 | 32,522 |
| Amounts held for others | 189,780 | 355,505 | 189,780 | 355,505 |
| Total liabilities | <u>\$ 329,912</u> | <u>\$ 406,578</u> | <u>\$ 329,912</u> | <u>\$ 406,578</u> |
| REVENUE MAXIMIZATION | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 20,451 | \$ - | \$ - | \$ 20,451 |
| Liabilities: | | | | |
| Amounts held for others | \$ 20,451 | \$ - | \$ - | \$ 20,451 |
| COMMUNITY DEVELOPMENT AUTHORITY | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 284,720 | \$ 611,181 | \$ 593,466 | \$ 302,435 |
| Liabilities: | | | | |
| Amounts held for others | \$ 284,720 | \$ 611,181 | \$ 593,466 | \$ 302,435 |
| TOTALS -- ALL AGENCY FUNDS | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 629,483 | \$ 1,543,366 | \$ 1,013,890 | \$ 1,158,959 |
| Accounts receivable | 349,831 | 121,425 | 349,831 | 121,425 |
| Total assets | <u>\$ 979,314</u> | <u>\$ 1,664,791</u> | <u>\$ 1,363,721</u> | <u>\$ 1,280,384</u> |
| Liabilities: | | | | |
| Reconciled overdraft | \$ 103,908 | \$ - | \$ 103,908 | \$ - |
| Accounts payable | 52,957 | 44,558 | 52,957 | 44,558 |
| Accrued liabilities | 45,617 | 87,979 | 45,617 | 87,979 |
| Amounts held for others | 776,832 | 1,532,254 | 1,161,239 | 1,147,847 |
| Total liabilities | <u>\$ 979,314</u> | <u>\$ 1,664,791</u> | <u>\$ 1,363,721</u> | <u>\$ 1,280,384</u> |

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| Special Revenue Funds | | | | |
| Virginia Public Assistance Fund | | | | |
| Revenues | | | | |
| Miscellaneous | \$ - | \$ 2,986 | \$ 2,986 | \$ - |
| Recovered costs | \$ 79,277 | \$ 79,277 | \$ 42,590 | \$ (36,687) |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Public assistance grants | \$ 1,936,620 | \$ 1,944,120 | \$ 1,567,769 | \$ (376,351) |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Public assistance grants | \$ 2,155,043 | \$ 2,167,043 | \$ 2,413,390 | \$ 246,347 |
| Total revenues | \$ 4,170,940 | \$ 4,193,426 | \$ 4,026,735 | \$ (166,691) |
| Expenditures | | | | |
| Health and welfare | \$ 5,260,233 | \$ 5,293,219 | \$ 5,005,800 | \$ 287,419 |
| State, Federal and Local Grants Fund | | | | |
| Revenues | | | | |
| Permits and other licenses | \$ 10,100 | \$ 10,100 | \$ 9,888 | \$ (212) |
| Revenue from use of money and property: | | | | |
| Use of money | \$ - | \$ - | \$ 629 | \$ 629 |
| Miscellaneous | \$ 72,500 | \$ 93,867 | \$ 184,257 | \$ 90,390 |
| Charges for services: | | | | |
| Court costs | \$ - | \$ - | \$ 21,449 | \$ 21,449 |
| Parks and recreation fees | \$ 8,000 | \$ 8,000 | \$ 2,649 | \$ (5,351) |
| Total charges for services | \$ 8,000 | \$ 8,000 | \$ 24,098 | \$ 16,098 |
| Recovered costs: | | | | |
| Stafford and Spotsylvania Counties | \$ 342,000 | \$ 342,000 | \$ 342,000 | \$ - |
| Other | \$ - | \$ - | \$ 21,399 | \$ 21,399 |
| Total recovered costs | \$ 342,000 | \$ 342,000 | \$ 363,399 | \$ 21,399 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Dispatch grant | \$ - | \$ 68,473 | \$ 68,473 | \$ - |
| Hazardous materials grant | \$ 30,000 | \$ 30,000 | \$ 175,000 | \$ 145,000 |
| Fire services program | \$ 76,972 | \$ 76,972 | \$ 78,811 | \$ 1,839 |
| VA domestic violence victim fund | \$ 40,000 | \$ 40,000 | \$ 45,000 | \$ 5,000 |
| Victim-witness program | \$ 33,431 | \$ 33,431 | \$ 33,431 | \$ - |
| Four-for-life grant | \$ 25,000 | \$ 25,000 | \$ 31,789 | \$ 6,789 |
| Other | \$ 23,680 | \$ 172,934 | \$ 35,004 | \$ (137,930) |
| Total revenue from the Commonwealth | \$ 229,083 | \$ 446,810 | \$ 467,508 | \$ 20,698 |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Law enforcement and related programs | \$ 138,820 | \$ 140,287 | \$ 109,857 | \$ (30,430) |
| Arts grant | \$ - | \$ - | \$ 5,000 | \$ 5,000 |
| Community development block grants | \$ 157,020 | \$ 157,020 | \$ 117,851 | \$ (39,169) |
| Total revenue from the Federal Government | \$ 295,840 | \$ 297,307 | \$ 232,708 | \$ (64,599) |
| Total revenues | \$ 957,523 | \$ 1,198,084 | \$ 1,282,487 | \$ 84,403 |

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

| | 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 program | \$ 204,186 | \$ 204,186 | \$ 172,010 | \$ 32,176 |
| Domestic violence victim fund grant | 71,720 | 71,720 | 53,901 | 17,819 |
| Records preservation program | - | 12,640 | 27,742 | (15,102) |
| Total judicial administration | \$ 275,906 | \$ 288,546 | \$ 253,653 | \$ 34,893 |
| Public safety: | | | | |
| Hazardous materials response program | \$ 30,000 | \$ 179,052 | \$ 162,559 | \$ 16,493 |
| Fire services program | 76,972 | 92,588 | 71,583 | 21,005 |
| Four-for-life grant | 25,000 | 25,000 | 31,789 | (6,789) |
| Rescue squad assistance | - | 35,000 | - | 35,000 |
| Dispatch grant | - | 68,473 | 68,473 | - |
| Camera grant | - | 76,614 | - | 76,614 |
| LEMPG | 10,680 | 13,502 | 10,652 | 2,850 |
| ICAC grant | 6,000 | 6,000 | 5,262 | 738 |
| Community projects | - | 9,109 | 8,193 | 916 |
| Crime prevention | - | 3,236 | 1,000 | 2,236 |
| E-911 educational grant | 2,000 | 2,000 | 2,000 | - |
| E-summons | - | - | 2,040 | (2,040) |
| Prisoner extradition | - | - | 16,057 | (16,057) |
| State homeland security grant | - | 60,000 | 975 | 59,025 |
| DOJ grant | 14,500 | 15,967 | 15,856 | 111 |
| DMV grants | 24,025 | 32,376 | 19,838 | 12,538 |
| Total public safety | \$ 189,177 | \$ 618,917 | \$ 416,277 | \$ 202,640 |
| Parks, recreation and cultural: | | | | |
| Soap Box Derby | \$ 21,500 | \$ 21,500 | \$ 13,255 | \$ 8,245 |
| Starfires drill team | 10,000 | 10,000 | 2,098 | 7,902 |
| Farmers' market | 22,600 | 22,600 | 17,223 | 5,377 |
| Midnight madness | 15,000 | 15,000 | 11,991 | 3,009 |
| Fredericksburg Arts Commission | 40,000 | 40,000 | 37,055 | 2,945 |
| Other | 8,000 | 48,082 | 29,322 | 18,760 |
| Total parks, recreation and cultural | \$ 117,100 | \$ 157,182 | \$ 110,944 | \$ 46,238 |
| Community development: | | | | |
| Community development block grant | \$ 206,870 | \$ 206,870 | \$ 160,098 | \$ 46,772 |
| Downtown 31 celebration | 50,000 | 50,000 | 15,876 | 34,124 |
| Regional consumer marketing | 363,000 | 363,000 | 359,440 | 3,560 |
| Regional group tourism | 150,000 | 198,100 | 189,402 | 8,698 |
| PEG access | - | 60,000 | 47,928 | 12,072 |
| United Way special events | - | - | 26,531 | (26,531) |
| Total community development | \$ 769,870 | \$ 877,970 | \$ 799,275 | \$ 78,695 |
| Total expenditures | \$ 1,352,053 | \$ 1,942,615 | \$ 1,580,149 | \$ 362,466 |
| Children's Services Act Fund | | | | |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Children's Services Act grants | \$ 1,085,199 | \$ 1,395,199 | \$ 1,350,086 | \$ (45,113) |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Public assistance grants | \$ 41,153 | \$ 41,153 | \$ 72,162 | \$ 31,009 |
| Total revenues | \$ 1,126,352 | \$ 1,436,352 | \$ 1,422,248 | \$ (14,104) |
| Expenditures | | | | |
| Health and Welfare: | | | | |
| Children's Services Act program | \$ 1,874,432 | \$ 2,224,432 | \$ 2,174,561 | \$ 49,871 |

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|-------------------|-------------------|---|
| Special Revenue Funds: (continued) | | | | |
| Environmental Section Fund | | | | |
| Revenues | | | | |
| Permits and other licenses | \$ 85,000 | \$ 85,000 | \$ 13,250 | \$ (71,750) |
| Fines and forfeitures | \$ - | \$ - | \$ 2,000 | \$ 2,000 |
| Total revenues | <u>\$ 85,000</u> | <u>\$ 85,000</u> | <u>\$ 15,250</u> | <u>\$ (69,750)</u> |
| Expenditures | | | | |
| Public works: | | | | |
| VSMP administration | <u>\$ 210,500</u> | <u>\$ 210,500</u> | <u>\$ 192,567</u> | <u>\$ 17,933</u> |
| Blight Abatement Fund | | | | |
| Revenues | | | | |
| Miscellaneous | \$ - | \$ - | \$ 1,185 | \$ 1,185 |
| Recovered costs | \$ - | \$ - | \$ 18,707 | \$ 18,707 |
| Total revenues | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 19,892</u> | <u>\$ 19,892</u> |
| Expenditures | | | | |
| Public works: | | | | |
| Blight abatement | <u>\$ 95,000</u> | <u>\$ 95,000</u> | <u>\$ 22,320</u> | <u>\$ 72,680</u> |
| Forfeited Asset Sharing Program Fund | | | | |
| Revenues | | | | |
| Revenue from use of money and property: | | | | |
| Use of money | \$ - | \$ - | \$ 563 | \$ 563 |
| Recovered costs | \$ - | \$ - | \$ 465 | \$ 465 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Forfeited asset sharing program | \$ - | \$ 60,083 | \$ 5,655 | \$ (54,428) |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Forfeited asset sharing program | \$ - | \$ 1,218 | \$ - | \$ (1,218) |
| Total revenues | <u>\$ -</u> | <u>\$ 61,301</u> | <u>\$ 6,683</u> | <u>\$ (54,618)</u> |
| Expenditures | | | | |
| Public safety: | | | | |
| Forfeited asset sharing program | <u>\$ -</u> | <u>\$ 97,853</u> | <u>\$ 16,711</u> | <u>\$ 81,142</u> |
| Capital Projects Funds | | | | |
| Public Works Capital Fund | | | | |
| Revenues | | | | |
| Other local taxes: | | | | |
| Gasoline taxes | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ - |
| Fines and forfeitures | \$ 20,000 | \$ 20,000 | \$ 843 | \$ (19,157) |
| Revenue from use of money and property: | | | | |
| Use of money | \$ - | \$ - | \$ 55,798 | \$ 55,798 |
| Recovered costs | \$ - | \$ - | \$ 105,486 | \$ 105,486 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| VDOT grants | \$ 625,000 | \$ 1,613,387 | \$ 829,565 | \$ (783,822) |

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| Capital Projects Funds: (continued) | | | | |
| Public Works Capital Fund: (continued) | | | | |
| Revenues: (continued) | | | | |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| VDOT grants | \$ - | \$ - | \$ 340,000 | \$ 340,000 |
| Total revenues | \$ 695,000 | \$ 1,683,387 | \$ 1,381,692 | \$ (301,695) |
| Expenditures | | | | |
| Capital projects: | | | | |
| Annual pavement rehabilitation | \$ 1,400,000 | \$ 1,835,900 | \$ 793,205 | \$ 1,042,695 |
| Drainage improvements | - | 75,000 | - | 75,000 |
| Historic district improvements | 50,000 | 100,000 | - | 100,000 |
| Culvert repair | 75,000 | 75,000 | 34,513 | 40,487 |
| Amelia and Charles Street parking lot | - | 1,300 | 1,300 | - |
| Pedestrian signals | - | 1,199,274 | 386,892 | 812,382 |
| Riverfront Park | 500,000 | 810,851 | 70,186 | 740,665 |
| Rappahannock Canal repairs | - | 56,056 | 38,876 | 17,180 |
| Stormwater management plan | 75,000 | 141,434 | 15,254 | 126,180 |
| Fall Hill Avenue widening | 2,880,000 | 2,880,000 | - | 2,880,000 |
| Signalization | 100,000 | 10,000 | 9,244 | 756 |
| Payne Street reconstruction | - | - | 155,563 | (155,563) |
| Dandridge Street reconstruction | - | - | 166,678 | (166,678) |
| William Street paving | - | - | 101,646 | (101,646) |
| Dixon Street paving | - | - | 157,369 | (157,369) |
| Blue & Gray Parkway paving | - | - | 175,982 | (175,982) |
| Embrey Dam/Rappahannock Canal footbridge | 100,000 | 100,000 | - | 100,000 |
| Route 1 over Hazel Run bridge repair | - | 45,000 | 45,000 | - |
| Traffic operations center | - | 405,700 | 413,859 | (8,159) |
| Wheeled refuse cart program | 100,000 | 125,000 | 99,005 | 25,995 |
| Total capital projects | \$ 5,280,000 | \$ 7,860,515 | \$ 2,664,572 | \$ 5,195,943 |
| Public Facilities Capital Fund | | | | |
| Revenues | | | | |
| Revenue from use of money and property: | | | | |
| Use of money | \$ 25,000 | \$ 25,000 | \$ 46,057 | \$ 21,057 |
| Use of property | - | - | 80,316 | 80,316 |
| Total revenue from use of money and property | \$ 25,000 | \$ 25,000 | \$ 126,373 | \$ 101,373 |
| Intergovernmental: | | | | |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Miscellaneous grants | \$ - | \$ - | \$ 13,719 | \$ 13,719 |
| Total revenues | \$ 25,000 | \$ 25,000 | \$ 140,092 | \$ 115,092 |
| Expenditures | | | | |
| Capital projects: | | | | |
| General parks maintenance improvements | \$ - | \$ 93,372 | \$ - | \$ 93,372 |
| Roof replacements | 95,000 | 95,000 | 87,849 | 7,151 |
| Computer equipment replacement | 237,500 | 286,755 | 205,583 | 81,172 |
| Executive Plaza building | - | 77,122 | 21,379 | 55,743 |
| Memorial Park restroom | 105,000 | 82,830 | - | 82,830 |
| Energy retrofits | 55,000 | 55,000 | - | 55,000 |

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|---------------------|---------------------|---|
| Capital Projects Funds: (continued) | | | | |
| Public Facilities Capital Fund: (continued) | | | | |
| Expenditures: (continued) | | | | |
| Facilities improvements | \$ - | \$ 75,282 | \$ 74,118 | \$ 1,164 |
| City elevator repairs | - | 4,900 | 5,548 | (648) |
| Area plan updates | 75,000 | 225,000 | 152,460 | 72,540 |
| IT resilience | 96,900 | 96,900 | 21,541 | 75,359 |
| HVAC replacements | 75,000 | 167,785 | 157,871 | 9,914 |
| Telephone system replacements | - | 5,464 | - | 5,464 |
| Total capital projects | <u>\$ 739,400</u> | <u>\$ 1,265,410</u> | <u>\$ 726,349</u> | <u>\$ 539,061</u> |
| Public Safety Capital Fund | | | | |
| Revenues | | | | |
| Revenue from use of money and property: | | | | |
| Use of money | \$ 25,000 | \$ 25,000 | \$ 56,562 | \$ 31,562 |
| Recovered costs | \$ - | \$ - | \$ 18,756 | \$ 18,756 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Public safety grants | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ - |
| Total revenues | <u>\$ 175,000</u> | <u>\$ 175,000</u> | <u>\$ 225,318</u> | <u>\$ 50,318</u> |
| Expenditures | | | | |
| Capital projects: | | | | |
| SCBA replacement | \$ 60,000 | \$ 60,000 | \$ 60,000 | \$ - |
| Public safety radio system upgrade | - | 1,298,795 | 932,682 | 366,113 |
| Emergency medical vehicles | 260,000 | 260,000 | 9,665 | 250,335 |
| Fire station upgrades | 100,000 | 218,818 | 116,869 | 101,949 |
| 911 center improvements | 275,000 | 275,000 | 234,715 | 40,285 |
| Tactical firearms training building | - | 100,000 | - | 100,000 |
| Police camera system | 185,000 | 198,915 | 106,082 | 92,833 |
| Total capital projects | <u>\$ 880,000</u> | <u>\$ 2,411,528</u> | <u>\$ 1,460,013</u> | <u>\$ 951,515</u> |
| New Court Capital Fund | | | | |
| Revenues | | | | |
| Revenue from use of money and property: | | | | |
| Use of money | \$ - | \$ - | \$ 136 | \$ 136 |
| Charges for services: | | | | |
| Courthouse construction fees | \$ - | \$ - | \$ 53,021 | \$ 53,021 |
| Total revenues | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 53,157</u> | <u>\$ 53,157</u> |
| Expenditures | | | | |
| Capital projects: | | | | |
| Renwick courthouse redevelopment | \$ 250,000 | \$ 252,000 | \$ 8,180 | \$ 243,820 |
| New court radio project | - | - | 194,035 | (194,035) |
| Total capital projects | <u>\$ 250,000</u> | <u>\$ 252,000</u> | <u>\$ 202,215</u> | <u>\$ 49,785</u> |
| Debt Service Funds | | | | |
| General Obligation Bond Debt Service Fund | | | | |
| Revenues | | | | |
| Miscellaneous | \$ - | \$ 279,922 | \$ 279,922 | \$ - |
| Expenditures | | | | |
| Principal and interest | \$ 4,079,286 | \$ 4,359,208 | \$ 4,332,053 | \$ 27,155 |
| Education Debt Service Fund | | | | |
| Expenditures | | | | |
| Principal and interest | \$ 3,426,904 | \$ 3,887,477 | \$ 3,887,477 | \$ - |

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, 2017

| | School Operating Fund | Special School Fund | School Capital Projects Fund | Total Governmental Funds |
|-------------------------------------|-----------------------------|---------------------------|---------------------------------------|--------------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 5,827,272 | \$ 724,270 | \$ 840,064 | \$ 7,391,606 |
| Accrued revenue | - | 22,581 | - | 22,581 |
| Due from other governments | 644,954 | 756,428 | - | 1,401,382 |
| Prepaid items | 339,286 | 23,539 | - | 362,825 |
| Total assets | <u>\$ 6,811,512</u> | <u>\$ 1,526,818</u> | <u>\$ 840,064</u> | <u>\$ 9,178,394</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 566,832 | \$ 112,967 | \$ 68,430 | \$ 748,229 |
| Accrued liabilities | 3,449,033 | 457,153 | - | 3,906,186 |
| Total liabilities | <u>\$ 4,015,865</u> | <u>\$ 570,120</u> | <u>\$ 68,430</u> | <u>\$ 4,654,415</u> |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Prepaid items | \$ 339,286 | \$ 23,539 | \$ - | \$ 362,825 |
| Committed: | | | | |
| Grant related expenditures | - | 933,159 | - | 933,159 |
| Subsequent year's expenditures | 250,000 | - | - | 250,000 |
| Assigned: | | | | |
| Capital projects | - | - | 771,634 | 771,634 |
| Debt service | 300,000 | - | - | 300,000 |
| Unassigned | 1,906,361 | - | - | 1,906,361 |
| Total fund balances | <u>\$ 2,795,647</u> | <u>\$ 956,698</u> | <u>\$ 771,634</u> | <u>\$ 4,523,979</u> |
| Total liabilities and fund balances | <u>\$ 6,811,512</u> | <u>\$ 1,526,818</u> | <u>\$ 840,064</u> | <u>\$ 9,178,394</u> |

Component Unit School Board

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

At June 30, 2017

| | |
|---|--------------|
| Total fund balances for governmental funds (Exhibit 34) | \$ 4,523,979 |
|---|--------------|

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 | 25,000 | |
| Land improvements, net of accumulated depreciation | 120,523 | |
| Buildings and improvements, net of accumulated depreciation | 21,600,232 | |
| Machinery, equipment, and vehicles, net of accumulated depreciation | <u>2,228,568</u> | 24,447,002 |

| | |
|--|--------|
| The net pension asset is not an available resource and, therefore, is not reported in the funds. | 88,702 |
|--|--------|

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

| | |
|---|-------------|
| Items related to measurement of net pension liability | (1,401,508) |
|---|-------------|

| | |
|--|-----------|
| Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds. | 3,387,454 |
|--|-----------|

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 | (3,005,000) |
| Net OPEB obligation not reported as fund liabilities | (2,309,796) |
| Net pension liability not reported as fund liabilities | (40,555,000) |
| Compensated absences not reported as fund liabilities | (1,149,669) |
| Deferred outflows - items related to measurement of net pension liability | 2,432,448 |
| Deferred outflows - changes in proportionate share of net pension liability | <u>1,757,000</u> |

| | |
|---|------------------------|
| Total net position of governmental activities (Exhibits 1 and 12) | <u>\$ (11,784,388)</u> |
|---|------------------------|

Component Unit School Board

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

Governmental Funds

Year Ended June 30, 2017

| | School Operating Fund | Special School Fund | School Capital Projects Fund | Total Governmental Funds |
|--|-----------------------------|---------------------------|---------------------------------------|--------------------------------|
| Revenues | | | | |
| Use of money and property | \$ 12,000 | \$ - | \$ - | \$ 12,000 |
| Charges for services | 139,697 | 289,586 | - | 429,283 |
| Miscellaneous | 83,107 | 326,160 | - | 409,267 |
| Recovered costs | 249,241 | 27,091 | 248,276 | 524,608 |
| Intergovernmental: | | | | |
| Appropriation from primary government | 27,760,210 | - | 522,000 | 28,282,210 |
| Revenue from the Commonwealth | 13,954,518 | 407,189 | - | 14,361,707 |
| Revenue from the Federal Government | 55,613 | 4,755,525 | - | 4,811,138 |
| Total revenues | \$ 42,254,386 | \$ 5,805,551 | \$ 770,276 | \$ 48,830,213 |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Instruction | \$ 31,204,185 | \$ 3,578,139 | \$ - | \$ 34,782,324 |
| Administration, attendance and health | 3,098,795 | - | - | 3,098,795 |
| Transportation | 1,632,997 | - | - | 1,632,997 |
| Facilities operations | 4,147,226 | - | - | 4,147,226 |
| Technology | 1,553,473 | 153,225 | - | 1,706,698 |
| School food service operations | 171,629 | 1,950,193 | - | 2,121,822 |
| Capital projects | - | - | 395,484 | 395,484 |
| Debt service: | | | | |
| Principal | 212,000 | - | - | 212,000 |
| Interest | 64,662 | - | - | 64,662 |
| Total expenditures | \$ 42,084,967 | \$ 5,681,557 | \$ 395,484 | \$ 48,162,008 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 169,419 | \$ 123,994 | \$ 374,792 | \$ 668,205 |
| Net change in fund balance | \$ 169,419 | \$ 123,994 | \$ 374,792 | \$ 668,205 |
| Fund balances, beginning of year | 2,626,228 | 832,704 | 396,842 | 3,855,774 |
| Fund balances, end of year | \$ 2,795,647 | \$ 956,698 | \$ 771,634 | \$ 4,523,979 |

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, 2017

| | |
|---|------------|
| Net change in fund balances - total governmental funds (Exhibit 36) | \$ 668,205 |
|---|------------|

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 depreciation exceeded capital outlays in the current period.

| | |
|--|-----------|
| | (944,075) |
|--|-----------|

| | |
|---|-----------|
| Transfer of joint tenancy assets from Primary Government to the Component Unit School Board | 1,086,717 |
|---|-----------|

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

| | |
|--|-----------|
| Change in deferred inflows related to the measurement of the net pension liability/asset | 1,539,838 |
|--|-----------|

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 | 212,000 |
|---------------|---------|

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 | (188,387) |
| Net pension asset | (169,339) |
| Net pension liability | (4,271,000) |
| Deferred outflows of resources related to pension | 2,252,815 |
| Compensated absences | 20,866 |
| | <hr/> |

| | |
|--|-------------------|
| Change in net position of governmental activities (Exhibit 12) | \$ <u>207,640</u> |
|--|-------------------|

Component Unit School Board
 School Operating Fund
 Revenues and Expenditures Budgetary Comparison Schedule
 Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|---------------|---|
| School Operating Fund | | | | |
| Revenues | | | | |
| Use of money and property: | | | | |
| Use of property | \$ 1,200 | \$ 1,200 | \$ 12,000 | \$ 10,800 |
| Charges for services: | | | | |
| Charges for education | \$ 160,400 | \$ 160,400 | \$ 139,697 | \$ (20,703) |
| Miscellaneous | \$ 28,200 | \$ 28,200 | \$ 83,107 | \$ 54,907 |
| Recovered costs: | | | | |
| Education | \$ - | \$ - | \$ 249,241 | \$ 249,241 |
| Intergovernmental: | | | | |
| Appropriation from primary government | \$ 27,544,710 | \$ 27,760,210 | \$ 27,760,210 | \$ - |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| State sales taxes | \$ 3,672,346 | \$ 3,672,346 | \$ 3,580,784 | \$ (91,562) |
| Basic aid | 6,448,904 | 6,492,359 | 6,521,381 | 29,022 |
| Other | 3,799,640 | 3,897,553 | 3,852,353 | (45,200) |
| Total revenue from the Commonwealth | \$ 13,920,890 | \$ 14,062,258 | \$ 13,954,518 | \$ (107,740) |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Gear up | \$ - | \$ - | \$ 55,613 | \$ 55,613 |
| Total revenues | \$ 41,655,400 | \$ 42,012,268 | \$ 42,254,386 | \$ 242,118 |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Instruction | \$ 31,189,183 | \$ 31,986,551 | \$ 31,204,185 | \$ 782,366 |
| Administration, attendance and health | 3,228,028 | 3,269,028 | 3,098,795 | 170,233 |
| Transportation | 1,697,666 | 1,763,166 | 1,632,997 | 130,169 |
| School food service operations | 100,000 | 110,000 | 171,629 | (61,629) |
| Facilities operations | 4,212,530 | 4,342,030 | 4,147,226 | 194,804 |
| Technology | 1,424,493 | 1,692,493 | 1,553,473 | 139,020 |
| Debt service: | | | | |
| Principal | 212,000 | 212,000 | 212,000 | - |
| Interest and fiscal charges | 57,000 | 65,000 | 64,662 | 338 |
| Total expenditures | \$ 42,120,900 | \$ 43,440,268 | \$ 42,084,967 | \$ 1,355,301 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (465,500) | \$ (1,428,000) | \$ 169,419 | \$ 1,597,419 |
| Net change in fund balance | \$ (465,500) | \$ (1,428,000) | \$ 169,419 | \$ 1,597,419 |
| Fund balance, beginning of year | 465,500 | 1,428,000 | 2,626,228 | 1,198,228 |
| Fund balance, end of year | \$ - | \$ - | \$ 2,795,647 | \$ 2,795,647 |

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, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|--------------|---|
| Special School Fund | | | | |
| Revenues | | | | |
| Charges for services: | | | | |
| Cafeteria sales | \$ 388,300 | \$ 388,300 | \$ 289,586 | \$ (98,714) |
| Miscellaneous | \$ - | \$ 30,000 | \$ 326,160 | \$ 296,160 |
| Recovered costs: | | | | |
| Education | \$ 259,160 | \$ 491,320 | \$ 27,091 | \$ (464,229) |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| School food | \$ 64,603 | \$ 64,603 | \$ 34,911 | \$ (29,692) |
| Preschool initiative grant | 168,187 | 168,187 | 183,750 | 15,563 |
| VPSA technology grant | 154,000 | 154,000 | 154,000 | - |
| Other | 26,000 | 26,000 | 34,528 | 8,528 |
| Total revenue from the Commonwealth | \$ 412,790 | \$ 412,790 | \$ 407,189 | \$ (5,601) |
| Revenue from the Federal Government: | | | | |
| Categorical aid: | | | | |
| Title I | \$ 885,943 | \$ 1,021,191 | \$ 1,019,135 | \$ (2,056) |
| School food | 1,350,712 | 1,350,712 | 1,625,695 | 274,983 |
| Head Start | 886,900 | 654,740 | 1,128,305 | 473,565 |
| Special education IDEA | 661,221 | 661,221 | 752,635 | 91,414 |
| Other | 296,009 | 296,009 | 229,755 | (66,254) |
| Total revenue from the Federal Government | \$ 4,080,785 | \$ 3,983,873 | \$ 4,755,525 | \$ 771,652 |
| Total revenues | \$ 5,141,035 | \$ 5,306,283 | \$ 5,805,551 | \$ 499,268 |
| Expenditures | | | | |
| Current: | | | | |
| Education: | | | | |
| Instruction | \$ 3,183,418 | \$ 3,668,666 | \$ 3,578,139 | \$ 90,527 |
| Technology | 154,000 | 154,000 | 153,225 | 775 |
| School food service operations | 1,803,617 | 1,863,617 | 1,950,193 | (86,576) |
| Total expenditures | \$ 5,141,035 | \$ 5,686,283 | \$ 5,681,557 | \$ 4,726 |
| Excess (deficiency) of revenues over (under) expenditures | \$ - | \$ (380,000) | \$ 123,994 | \$ 503,994 |
| Net change in fund balance | \$ - | \$ (380,000) | \$ 123,994 | \$ 503,994 |
| Fund balance, beginning of year | - | 380,000 | 832,704 | 452,704 |
| Fund balance, end of year | \$ - | \$ - | \$ 956,698 | \$ 956,698 |

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, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|-----------------|------------|---|
| School Capital Projects Fund | | | | |
| Revenues | | | | |
| Recovered costs: | | | | |
| Education | \$ - | \$ - | \$ 248,276 | \$ 248,276 |
| Intergovernmental: | | | | |
| Appropriation from primary government | \$ 522,000 | \$ 522,000 | \$ 522,000 | \$ - |
| Total revenues | \$ 522,000 | \$ 522,000 | \$ 770,276 | \$ 248,276 |
| Expenditures | | | | |
| Capital projects: | | | | |
| School buses | \$ 185,000 | \$ 185,000 | \$ 182,743 | \$ 2,257 |
| School computer technology | 150,000 | 150,000 | 136,049 | 13,951 |
| Walker-Grant improvements | 8,000,000 | - | 1,554 | (1,554) |
| School bus garage facility | 102,000 | 102,000 | - | 102,000 |
| Other | 85,000 | 85,000 | 75,138 | 9,862 |
| Total capital projects | \$ 8,522,000 | \$ 522,000 | \$ 395,484 | \$ 126,516 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (8,000,000) | \$ - | \$ 374,792 | \$ 374,792 |
| Net change in fund balance | \$ (8,000,000) | \$ - | \$ 374,792 | \$ 374,792 |
| Fund balance, beginning of year | 8,000,000 | - | 396,842 | 396,842 |
| Fund balance, end of year | \$ - | \$ - | \$ 771,634 | \$ 771,634 |

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 - 14

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.

15, 16

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.

17 - 19

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

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

Table 1

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

| | Fiscal Year | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Governmental activities: | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 81,234,288 | \$ 80,177,661 | \$ 81,665,145 | \$ 80,513,796 | \$ 80,274,520 | \$ 81,353,678 | \$ 84,961,559 | \$ 88,179,245 | \$ 85,329,030 | \$ 88,860,358 |
| Unrestricted | 28,429,225 | 24,379,848 | 22,042,434 | 23,055,185 | 27,061,221 | 31,143,089 | 30,874,128 | 6,205,397 | 9,448,661 | 8,241,949 |
| Total governmental activities net position | \$ 109,663,513 | \$ 104,557,509 | \$ 103,707,579 | \$ 103,568,981 | \$ 107,335,741 | \$ 112,496,767 | \$ 115,835,687 | \$ 94,384,642 | \$ 94,777,691 | \$ 97,102,307 |
| Business-type activities: | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 29,319,742 | \$ 38,744,975 | \$ 39,780,366 | \$ 39,550,414 | \$ 40,307,710 | \$ 44,809,475 | \$ 47,687,656 | \$ 47,153,509 | \$ 44,280,931 | \$ 44,971,811 |
| Unrestricted | 21,584,625 | 12,503,966 | 13,022,965 | 16,473,376 | 17,161,279 | 16,705,512 | 17,779,917 | 17,046,024 | 21,962,726 | 23,631,467 |
| Total business-type activities net position | \$ 50,904,367 | \$ 51,248,941 | \$ 52,803,331 | \$ 56,023,790 | \$ 57,468,989 | \$ 61,514,987 | \$ 65,467,573 | \$ 64,199,533 | \$ 66,243,657 | \$ 68,603,278 |
| Primary government: | | | | | | | | | | |
| Net investment in capital assets | \$ 110,554,030 | \$ 118,922,636 | \$ 121,445,511 | \$ 120,064,210 | \$ 120,582,230 | \$ 126,163,153 | \$ 132,649,215 | \$ 135,332,754 | \$ 129,609,961 | \$ 133,832,169 |
| Unrestricted | 50,013,850 | 36,883,814 | 35,065,399 | 39,528,561 | 44,222,500 | 47,848,601 | 48,654,045 | 23,251,421 | 31,411,387 | 31,873,416 |
| Total primary government net position | \$ 160,567,880 | \$ 155,806,450 | \$ 156,510,910 | \$ 159,592,771 | \$ 164,804,730 | \$ 174,011,754 | \$ 181,303,260 | \$ 158,584,175 | \$ 161,021,348 | \$ 165,705,585 |

CITY OF FREDERICKSBURG, VIRGINIA

Table 2
Page 1 of 3

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 5,254,913 | \$ 5,760,023 | \$ 5,171,028 | \$ 5,407,587 | \$ 5,833,003 | \$ 6,889,501 | \$ 6,397,126 | \$ 6,285,041 | \$ 6,866,241 | \$ 7,065,308 |
| Judicial administration | 3,559,936 | 3,701,857 | 3,854,380 | 3,609,180 | 3,879,790 | 4,341,611 | 4,392,902 | 4,478,163 | 5,566,392 | 5,700,242 |
| Public safety | 19,073,783 | 20,056,605 | 20,200,427 | 19,937,181 | 19,316,975 | 19,579,277 | 20,623,797 | 20,645,685 | 21,630,457 | 22,472,125 |
| Public works | 9,882,486 | 10,194,381 | 10,964,359 | 10,707,212 | 10,898,437 | 11,584,108 | 12,681,384 | 13,162,173 | 12,836,598 | 12,324,625 |
| Health and welfare | 6,465,395 | 6,661,643 | 6,721,050 | 6,797,908 | 6,790,459 | 6,426,311 | 6,594,938 | 7,279,605 | 7,014,254 | 7,951,696 |
| Education | 28,328,165 | 27,341,339 | 26,228,250 | 26,383,137 | 27,249,752 | 28,633,110 | 28,797,870 | 28,803,904 | 29,862,457 | 30,433,939 |
| Parks, recreation and cultural | 4,588,059 | 4,400,464 | 3,936,068 | 4,031,435 | 4,340,912 | 4,554,212 | 4,765,119 | 4,790,452 | 4,748,604 | 5,025,061 |
| Community development | 2,344,557 | 1,965,407 | 1,819,607 | 1,930,369 | 2,154,832 | 2,165,794 | 2,186,948 | 2,694,020 | 2,882,580 | 2,652,990 |
| Interest on long-term debt | 2,948,621 | 2,859,774 | 2,674,176 | 2,542,424 | 3,186,127 | 3,485,231 | 3,343,630 | 3,150,988 | 3,419,833 | 3,357,340 |
| Total governmental activities expenses | \$ 82,445,915 | \$ 82,941,493 | \$ 81,569,345 | \$ 81,346,433 | \$ 83,650,287 | \$ 87,659,155 | \$ 89,783,714 | \$ 91,290,031 | \$ 94,827,416 | \$ 96,983,326 |
| Business-type activities: | | | | | | | | | | |
| Water | \$ 3,148,696 | \$ 2,748,400 | \$ 2,882,295 | \$ 2,523,517 | \$ 2,884,071 | \$ 2,999,771 | \$ 2,751,523 | \$ 2,933,514 | \$ 2,972,130 | \$ 3,125,748 |
| Sewer | 4,172,099 | 4,476,638 | 4,156,245 | 4,975,289 | 5,256,052 | 4,875,587 | 4,874,582 | 4,795,857 | 5,092,925 | 5,485,742 |
| Transit | 3,345,639 | 3,893,458 | 3,600,428 | 3,887,158 | 4,097,929 | 4,157,157 | 4,437,179 | 4,275,370 | 4,410,391 | 4,671,545 |
| Parking | 495,917 | 493,920 | 528,819 | 460,950 | 476,315 | 456,999 | 470,905 | 448,933 | 443,485 | 493,395 |
| Total business-type activities expenses | \$ 11,162,351 | \$ 11,612,416 | \$ 11,167,787 | \$ 11,846,914 | \$ 12,714,367 | \$ 12,489,514 | \$ 12,534,189 | \$ 12,453,674 | \$ 12,918,931 | \$ 13,776,430 |
| Total primary government expenses | \$ 93,608,266 | \$ 94,553,909 | \$ 92,737,132 | \$ 93,193,347 | \$ 96,364,654 | \$ 100,148,669 | \$ 102,317,903 | \$ 103,743,705 | \$ 107,746,347 | \$ 110,759,756 |

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 50,515 | \$ 93,045 | \$ 79,215 | \$ 85,191 | \$ 82,624 | \$ 94,773 | \$ 109,152 | \$ 152,025 | \$ 157,793 | \$ 149,415 |
| Judicial administration | 112,162 | 106,210 | 196,474 | 219,127 | 214,894 | 209,917 | 204,046 | 220,427 | 195,804 | 191,999 |
| Public safety | 1,361,978 | 1,834,819 | 1,848,719 | 2,111,221 | 1,943,884 | 2,042,868 | 1,862,973 | 2,087,775 | 1,891,374 | 1,872,937 |
| Public works | 689,151 | 727,253 | 725,710 | 733,070 | 743,145 | 757,997 | 828,049 | 967,752 | 985,924 | 998,126 |
| Parks, recreation and cultural | 550,465 | 518,630 | 469,802 | 487,368 | 459,848 | 440,392 | 471,289 | 497,253 | 455,603 | 473,643 |
| Community development | 2,470 | 1,685 | 691 | 476 | 145 | 274 | 1,169 | 263 | 57 | 28 |
| Operating grants and contributions | 10,656,874 | 10,522,749 | 10,073,459 | 10,159,077 | 11,758,221 | 9,685,095 | 9,985,588 | 10,896,754 | 10,645,954 | 11,601,213 |
| Capital grants and contributions | 453,402 | 202,849 | 1,750,758 | 841,870 | 1,725,467 | 2,967,105 | 4,595,323 | 2,011,484 | 1,460,003 | 3,192,416 |
| Total governmental activities program revenues | \$ 13,877,017 | \$ 14,007,240 | \$ 15,144,828 | \$ 14,637,400 | \$ 16,928,228 | \$ 16,198,421 | \$ 18,057,589 | \$ 16,833,733 | \$ 15,792,512 | \$ 18,479,777 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | \$ 2,150,126 | \$ 2,180,347 | \$ 2,261,200 | \$ 2,344,438 | \$ 2,448,425 | \$ 2,689,470 | \$ 2,829,872 | \$ 3,035,359 | \$ 3,285,584 | \$ 3,322,933 |
| Sewer | 3,264,915 | 3,457,792 | 3,742,221 | 3,821,281 | 4,013,111 | 4,526,072 | 4,857,512 | 5,144,191 | 5,408,049 | 5,426,986 |
| Transit | 116,661 | 159,741 | 271,610 | 274,395 | 368,072 | 344,624 | 423,081 | 403,921 | 470,343 | 307,579 |
| Parking | 106,916 | 130,281 | 192,461 | 238,240 | 261,991 | 304,003 | 328,385 | 353,532 | 283,741 | 247,274 |
| Operating grants and contributions | 4,560,490 | 4,342,760 | 5,270,270 | 6,621,263 | 5,493,221 | 3,521,961 | 4,784,398 | 3,514,732 | 4,336,969 | 3,979,565 |
| Capital grants and contributions | 2,301,859 | 566,957 | 931,897 | 870,726 | 763,564 | 4,397,886 | 2,307,225 | 145,599 | 410,573 | 1,682,639 |
| Total business-type activities program revenues | \$ 12,500,967 | \$ 10,837,878 | \$ 12,669,659 | \$ 14,170,343 | \$ 13,348,384 | \$ 15,784,016 | \$ 15,530,473 | \$ 12,597,334 | \$ 14,195,259 | \$ 14,966,976 |
| Total primary government program revenues | \$ 26,377,984 | \$ 24,845,118 | \$ 27,814,487 | \$ 28,807,743 | \$ 30,276,612 | \$ 31,982,437 | \$ 33,588,062 | \$ 29,431,067 | \$ 29,987,771 | \$ 33,446,753 |
| Net (expense)/revenue | | | | | | | | | | |
| Governmental activities | \$ (68,568,898) | \$ (68,934,253) | \$ (66,424,517) | \$ (66,709,033) | \$ (66,722,059) | \$ (71,460,734) | \$ (71,726,125) | \$ (74,456,298) | \$ (79,034,904) | \$ (78,503,549) |
| Business-type activities | 1,338,616 | (774,538) | 1,501,872 | 2,323,429 | 634,017 | 3,294,502 | 2,996,284 | 143,660 | 1,276,328 | 1,190,546 |
| Total primary government net expense | \$ (67,230,282) | \$ (69,708,791) | \$ (64,922,645) | \$ (64,385,604) | \$ (66,088,042) | \$ (68,166,232) | \$ (68,729,841) | \$ (74,312,638) | \$ (77,758,576) | \$ (77,313,003) |

CITY OF FREDERICKSBURG, VIRGINIA

Table 2
Page 3 of 3

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

| | Fiscal Year | | | | | | | | | | |
|---|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
| General Revenues and Other Changes in Net Position | | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | | |
| Taxes: | | | | | | | | | | | |
| Property taxes | \$ 27,791,803 | \$ 29,632,428 | \$ 29,951,918 | \$ 31,254,682 | \$ 33,896,976 | \$ 34,601,092 | \$ 35,247,134 | \$ 37,567,214 | \$ 38,983,743 | \$ 40,022,650 | |
| Local sales and use taxes | 12,746,040 | 11,929,648 | 10,043,091 | 10,191,895 | 10,311,633 | 10,840,598 | 10,663,183 | 10,780,677 | 11,176,401 | 11,376,302 | |
| Consumer utility taxes | 1,527,028 | 1,517,109 | 1,677,699 | 1,644,628 | 1,831,083 | 1,795,046 | 1,844,379 | 1,856,992 | 1,810,911 | 1,808,256 | |
| Business license taxes | 5,436,366 | 5,847,174 | 5,893,072 | 5,538,312 | 5,735,557 | 5,994,920 | 5,641,614 | 5,943,742 | 6,101,499 | 6,320,104 | |
| Hotel/Lodging taxes | 918,952 | 1,050,586 | 1,084,542 | 1,175,244 | 1,182,500 | 1,204,855 | 1,149,906 | 1,329,542 | 1,432,190 | 1,524,371 | |
| Meals taxes | 7,042,409 | 7,080,021 | 8,132,542 | 8,842,347 | 9,373,302 | 9,657,796 | 9,752,120 | 10,115,765 | 10,693,375 | 11,141,603 | |
| Other local taxes | 3,406,556 | 2,707,109 | 3,147,579 | 2,892,598 | 2,877,503 | 2,914,744 | 3,837,495 | 4,391,651 | 3,911,733 | 3,158,608 | |
| Unrestricted grants and contributions | 2,027,309 | 1,967,696 | 3,810,995 | 3,909,817 | 3,741,002 | 4,696,323 | 5,557,931 | 3,820,401 | 3,814,470 | 3,724,175 | |
| Unrestricted revenues from use of money and property | 1,724,668 | 1,352,809 | 537,035 | 441,779 | 426,375 | 348,295 | 462,109 | 122,448 | 88,766 | 99,017 | |
| Gain/(loss) on disposal of assets | 1,073,425 | (846,807) | - | - | - | - | - | 283,009 | 465,933 | 369,235 | |
| Miscellaneous | 1,837,386 | 733,896 | 391,890 | 294,113 | 512,888 | 243,201 | 287,916 | 403,665 | 329,387 | 664,489 | |
| Transfers | 834,798 | 856,580 | 904,224 | 385,020 | 600,000 | 620,436 | 604,393 | 603,480 | 619,545 | 619,355 | |
| Total governmental activities | \$ 66,366,740 | \$ 63,828,249 | \$ 65,574,587 | \$ 66,570,435 | \$ 70,488,819 | \$ 72,917,306 | \$ 75,048,180 | \$ 77,218,586 | \$ 79,427,953 | \$ 80,828,165 | |
| Business-type activities: | | | | | | | | | | | |
| Taxes: | | | | | | | | | | | |
| Other local taxes | \$ 536,846 | \$ 1,355,225 | \$ 321,058 | \$ 765,756 | \$ 726,653 | \$ 897,209 | \$ 961,084 | \$ 743,502 | \$ 687,620 | \$ 1,154,538 | |
| Unrestricted revenues from use of money and property | 448,499 | 275,621 | 123,522 | 71,152 | 85,668 | 31,694 | 70,392 | 65,812 | 111,862 | 62,519 | |
| Miscellaneous | 1,581,616 | 344,846 | 512,162 | 445,142 | 598,861 | 443,029 | 529,219 | 655,766 | 587,859 | 571,373 | |
| Transfers | (834,798) | (856,580) | (904,224) | (385,020) | (600,000) | (620,436) | (604,393) | (603,480) | (619,545) | (619,355) | |
| Total business-type activities | \$ 1,732,163 | \$ 1,119,112 | \$ 52,518 | \$ 897,030 | \$ 811,182 | \$ 751,496 | \$ 956,302 | \$ 861,600 | \$ 767,796 | \$ 1,169,075 | |
| Total primary government | \$ 68,098,903 | \$ 64,947,361 | \$ 65,627,105 | \$ 67,467,465 | \$ 71,300,001 | \$ 73,668,802 | \$ 76,004,482 | \$ 78,080,186 | \$ 80,195,749 | \$ 81,997,240 | |
| Change in Net Position | | | | | | | | | | | |
| Governmental activities | \$ (2,202,158) | \$ (5,106,004) | \$ (849,930) | \$ (138,598) | \$ 3,766,760 | \$ 1,456,572 | \$ 3,322,056 | \$ 2,762,288 | \$ 393,049 | \$ 2,324,616 | |
| Business-type activities | 3,070,779 | 344,574 | 1,554,390 | 3,220,459 | 1,445,199 | 4,045,998 | 3,952,586 | 1,005,260 | 2,044,124 | 2,359,621 | |
| Total primary government | \$ 868,621 | \$ (4,761,430) | \$ 704,460 | \$ 3,081,861 | \$ 5,211,959 | \$ 5,502,570 | \$ 7,274,642 | \$ 3,767,548 | \$ 2,437,173 | \$ 4,684,237 | |

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

| | Fiscal Year | | | | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| General fund | | | | | | | | | | |
| Reserved | \$ 225,153 | \$ 189,721 | \$ 445,308 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Unreserved | 17,750,689 | 15,924,951 | 17,272,991 | - | - | - | - | - | - | - |
| Nonspendable | - | - | - | 44,611 | 348,945 | 359,240 | 480,656 | 370,237 | 387,695 | 427,347 |
| Restricted | - | - | - | - | - | - | - | - | 327,422 | 100,466 |
| Committed | - | - | - | 5,257,805 | 5,004,661 | 7,786,761 | 6,236,045 | 6,731,037 | 4,347,210 | 6,897,202 |
| Assigned | - | - | - | 373,829 | 292,876 | 858,372 | 769,149 | 47,997 | 1,306,350 | 996,272 |
| Unassigned | - | - | - | 13,662,911 | 20,225,801 | 18,571,037 | 19,799,255 | 20,988,745 | 19,335,778 | 15,854,106 |
| Total general fund | \$ 17,975,842 | \$ 16,114,672 | \$ 17,718,299 | \$ 19,339,156 | \$ 25,872,283 | \$ 27,575,410 | \$ 27,285,105 | \$ 28,138,016 | \$ 25,704,455 | \$ 24,275,393 |
| All other governmental funds | | | | | | | | | | |
| Reserved | \$ 870,711 | \$ 1,232,229 | \$ 250,474 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 2,730,594 | 3,255,921 | 3,346,494 | - | - | - | - | - | - | - |
| Capital projects funds | 11,504,973 | 9,629,901 | 7,938,299 | - | - | - | - | - | - | - |
| Nonspendable, reported in: | | | | | | | | | | |
| Special revenue funds | - | - | - | - | - | 1,190 | 4,569 | 4,876 | 581 | 9,710 |
| Restricted, reported in: | | | | | | | | | | |
| Special revenue funds | - | - | - | 193,070 | 243,980 | 290,342 | 336,280 | 332,993 | - | 100,000 |
| Committed, reported in: | | | | | | | | | | |
| Special revenue funds | - | - | - | 2,480,555 | 1,821,770 | 1,487,032 | 1,966,427 | 1,758,385 | 2,157,281 | 2,083,137 |
| Capital projects funds | - | - | - | 1,981,075 | 31,832,728 | 24,819,754 | 9,247,406 | 2,351,359 | 12,032,685 | 3,249,100 |
| Debt service Funds | - | - | - | - | - | 805,804 | 2,462,142 | 2,308,258 | 2,614,397 | 2,000,490 |
| Assigned, reported in: | | | | | | | | | | |
| Capital projects funds | - | - | - | 7,653,041 | 8,261,194 | 9,501,088 | 5,784,081 | 8,251,305 | 7,939,214 | 6,680,441 |
| Total all other governmental funds | \$ 15,106,278 | \$ 14,118,051 | \$ 11,535,267 | \$ 12,307,741 | \$ 42,159,672 | \$ 36,905,210 | \$ 19,800,905 | \$ 15,007,176 | \$ 24,744,158 | \$ 14,122,878 |

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 | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenues | | | | | | | | | | |
| General property taxes | \$ 27,840,128 | \$ 29,410,334 | \$ 29,903,318 | \$ 31,240,415 | \$ 33,961,795 | \$ 34,698,020 | \$ 35,293,983 | \$ 37,516,803 | \$ 39,027,174 | \$ 40,074,290 |
| Other local taxes | 31,077,351 | 30,131,647 | 29,978,525 | 30,285,024 | 31,311,578 | 32,407,959 | 32,888,697 | 34,418,369 | 35,126,109 | 35,329,244 |
| Permits, privilege fees and regulatory licenses | 653,453 | 717,349 | 822,476 | 945,035 | 748,371 | 676,892 | 598,444 | 726,685 | 691,636 | 700,197 |
| Fines and forfeitures | 408,580 | 466,213 | 344,897 | 586,421 | 479,355 | 603,398 | 477,161 | 523,547 | 350,564 | 312,851 |
| Revenue from use of money and property | 1,724,668 | 1,352,809 | 537,035 | 441,779 | 426,375 | 348,295 | 462,109 | 405,457 | 554,699 | 468,252 |
| Charges for services | 1,704,708 | 2,098,080 | 2,153,238 | 2,104,997 | 2,216,814 | 2,265,931 | 2,401,073 | 2,675,263 | 2,644,355 | 2,673,100 |
| Miscellaneous | 563,376 | 392,910 | 391,890 | 257,448 | 485,647 | 214,655 | 274,259 | 273,284 | 248,557 | 644,920 |
| Recovered costs | 1,694,312 | 1,364,758 | 1,256,605 | 1,004,106 | 1,491,448 | 1,087,070 | 959,739 | 1,143,810 | 1,038,569 | 1,119,710 |
| Intergovernmental: | | | | | | | | | | |
| Commonwealth | 10,169,012 | 9,936,350 | 11,239,010 | 11,490,604 | 13,345,182 | 12,561,997 | 15,071,859 | 12,829,369 | 12,909,183 | 13,615,207 |
| Federal | 2,968,573 | 2,756,944 | 3,337,402 | 3,221,610 | 3,879,508 | 4,775,305 | 4,363,883 | 3,761,934 | 2,603,528 | 3,161,316 |
| Total revenues | \$ 78,804,161 | \$ 78,627,394 | \$ 79,964,396 | \$ 81,577,439 | \$ 88,346,073 | \$ 89,639,522 | \$ 92,791,207 | \$ 94,274,521 | \$ 95,194,374 | \$ 98,099,087 |
| Expenditures | | | | | | | | | | |
| General government administration | \$ 5,047,982 | \$ 5,402,264 | \$ 4,785,487 | \$ 5,034,113 | \$ 5,785,583 | \$ 6,669,886 | \$ 6,178,075 | \$ 6,309,106 | \$ 7,905,904 | \$ 7,016,265 |
| Judicial administration | 3,575,964 | 3,324,483 | 3,326,241 | 3,347,017 | 3,707,295 | 3,872,721 | 4,058,896 | 4,426,162 | 4,757,907 | 4,842,421 |
| Public safety | 18,603,995 | 18,220,229 | 18,666,202 | 18,154,890 | 18,006,243 | 18,838,158 | 19,354,308 | 20,738,813 | 21,014,424 | 21,862,258 |
| Public works | 7,273,319 | 7,206,095 | 7,648,942 | 7,430,631 | 7,932,048 | 8,134,695 | 8,719,453 | 8,680,717 | 9,938,991 | 10,799,421 |
| Health and welfare | 6,859,859 | 6,976,070 | 7,004,337 | 7,136,173 | 7,181,433 | 6,692,144 | 6,878,616 | 7,776,388 | 7,343,391 | 8,193,779 |
| Education | 24,441,360 | 25,202,840 | 24,143,850 | 24,343,841 | 25,243,849 | 26,663,850 | 26,853,825 | 26,883,825 | 27,937,535 | 28,350,929 |
| Parks, recreation and cultural | 4,053,007 | 4,090,417 | 3,441,368 | 3,389,943 | 3,733,260 | 3,755,802 | 3,883,740 | 4,041,718 | 4,134,366 | 4,354,413 |
| Community development | 2,732,018 | 2,380,204 | 2,168,755 | 2,255,173 | 2,416,979 | 2,487,037 | 2,602,400 | 2,848,613 | 3,102,783 | 2,817,023 |
| Capital projects | 6,735,321 | 3,456,377 | 4,792,112 | 2,675,390 | 9,269,823 | 10,160,076 | 25,044,316 | 13,197,828 | 12,206,160 | 14,332,314 |
| Debt service | | | | | | | | | | |
| Principal | 3,296,107 | 3,126,779 | 3,026,695 | 3,127,831 | 2,857,891 | 2,704,885 | 3,588,507 | 4,437,379 | 3,966,345 | 4,456,281 |
| Interest and other fiscal charges | 3,064,543 | 3,046,535 | 2,843,788 | 2,710,791 | 2,675,680 | 3,860,585 | 3,658,596 | 3,457,000 | 3,593,740 | 3,763,249 |
| Total expenditures | \$ 85,683,475 | \$ 82,432,293 | \$ 81,847,777 | \$ 79,605,793 | \$ 88,810,084 | \$ 93,839,839 | \$ 110,820,732 | \$ 102,797,549 | \$ 105,901,546 | \$ 110,788,353 |
| Excess (deficiency) of revenues over expenditures | \$ (6,879,314) | \$ (3,804,899) | \$ (1,883,381) | \$ 1,971,646 | \$ (464,011) | \$ (4,200,317) | \$ (18,029,525) | \$ (8,523,028) | \$ (10,707,172) | \$ (12,689,266) |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers in | \$ 834,798 | \$ 10,133,320 | \$ 9,732,457 | \$ 11,913,628 | \$ 9,615,156 | \$ 10,600,181 | \$ 10,924,477 | \$ 12,138,388 | \$ 12,726,061 | \$ 12,614,866 |
| Transfers out | - | (9,276,740) | (8,828,233) | (11,528,608) | (9,015,156) | (9,979,745) | (10,320,084) | (11,534,908) | (12,106,516) | (11,995,511) |
| Refunding bonds issued | - | 2,672,836 | - | - | 2,469,101 | - | - | 5,714,176 | - | - |
| Bonds issued | 2,462,150 | - | - | - | 33,860,000 | - | - | 3,832,391 | 14,820,000 | - |
| Premium on bonds issued | 64,015 | - | - | - | 1,760,063 | - | - | - | 2,490,218 | - |
| Payments to refunded bond escrow agent | - | (2,650,207) | - | - | (2,592,336) | - | - | (5,698,218) | - | - |
| Long-term notes payable issued | - | - | - | - | 725,000 | - | - | - | - | - |
| Sale of capital assets | 1,105,125 | 76,293 | - | 36,665 | 27,241 | 28,546 | 13,658 | 130,381 | 80,830 | 19,569 |
| Total other financing sources (uses) | \$ 4,466,088 | \$ 955,502 | \$ 904,224 | \$ 421,685 | \$ 36,849,069 | \$ 648,982 | \$ 618,051 | \$ 4,582,210 | \$ 18,010,593 | \$ 638,924 |
| Net change in fund balances | \$ (2,413,226) | \$ (2,849,397) | \$ (979,157) | \$ 2,393,331 | \$ 36,385,058 | \$ (3,551,335) | \$ (17,411,474) | \$ (3,940,818) | \$ 7,303,421 | \$ (12,050,342) |
| Debt service as a percentage of noncapital expenditures | 8.03% | 7.84% | 7.59% | 7.53% | 6.93% | 7.86% | 8.44% | 8.84% | 7.88% | 8.52% |

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 | | | | | | | |
| 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 |
| 2015 | 37,516,803 | 10,780,677 | 1,856,992 | 5,943,742 | 471,438 | | 792,451 | 456,665 | 525,413 | 1,329,542 | 10,115,765 | 69,789,488 |
| 2016 | 39,027,174 | 11,176,401 | 1,810,911 | 6,101,499 | 472,014 | | 755,230 | 711,445 | 513,669 | 1,432,190 | 10,693,375 | 72,693,908 |
| 2017 | 40,074,290 | 11,376,302 | 1,808,256 | 6,320,104 | 486,096 | | 862,442 | 567,144 | 509,819 | 1,524,371 | 11,141,603 | 74,670,427 |

CITY OF FREDERICKSBURG, VIRGINIA

Table 6

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

| Fiscal Year | Real Estate | Direct Tax | | Personal Property | Direct Tax Rate | Machinery and Tools | Direct Tax Rate | Public Service | | Service Charges | Total Taxable Assessed Value | | Total Direct Tax Rate | Estimated Actual Taxable Value | | Assessed Value as a Percentage of Actual Value |
|-------------|------------------|------------|----|-------------------|-----------------|---------------------|-----------------|----------------|----|-----------------|------------------------------|----|-----------------------|--------------------------------|----|--|
| | | Rate | | | | | | Service | | | Value | | | Value | | |
| 2008 | \$ 4,045,740,800 | \$ 0.53 | \$ | 247,570,187 | \$ 2.99 | \$ 8,972,280 | \$ 0.80 | \$ 45,382,045 | \$ | 4,023,600 | \$ 4,351,688,912 | \$ | 0.67 | \$ 4,351,688,912 | \$ | 100.00% |
| 2009 | 4,106,387,300 | 0.56 | | 244,149,967 | 2.99 | 9,064,237 | 0.80 | 87,776,155 | | 4,060,300 | 4,451,437,959 | | 0.70 | 4,451,437,959 | | 100.00% |
| 2010 | 3,501,342,300 | 0.68 | | 237,860,715 | 3.40 | 20,065,271 | 0.80 | 92,224,942 | | 3,464,100 | 3,854,957,328 | | 0.85 | 3,854,957,328 | | 100.00% |
| 2011 | 3,542,088,600 | 0.68 | | 252,413,838 | 3.40 | 33,658,145 | 0.80 | 106,522,343 | | 3,464,100 | 3,938,147,026 | | 0.86 | 3,938,147,026 | | 100.00% |
| 2012 | 3,606,739,500 | 0.72 | | 266,300,640 | 3.40 | 34,817,018 | 0.80 | 121,621,449 | | 3,464,100 | 4,032,942,707 | | 0.90 | 4,032,942,707 | | 100.00% |
| 2013 | 3,519,520,600 | 0.74 | | 289,788,976 | 3.40 | 29,433,766 | 0.80 | 112,250,088 | | 3,427,400 | 3,954,420,830 | | 0.94 | 3,954,420,830 | | 100.00% |
| 2014 | 3,596,021,600 | 0.74 | | 296,590,842 | 3.40 | 25,812,744 | 0.80 | 98,288,766 | | 3,927,400 | 4,020,641,352 | | 0.94 | 4,020,641,352 | | 100.00% |
| 2015 | 3,626,209,900 | 0.79 | | 301,993,080 | 3.40 | 22,001,821 | 0.80 | 100,894,855 | | 3,427,400 | 4,054,527,056 | | 0.99 | 4,054,527,056 | | 100.00% |
| 2016 | 3,651,843,200 | 0.82 | | 311,513,383 | 3.40 | 16,746,858 | 0.80 | 98,498,817 | | 3,427,400 | 4,082,029,658 | | 1.02 | 4,082,029,658 | | 100.00% |
| 2017 | 3,956,381,500 | 0.77 | | 312,718,088 | 3.40 | 15,692,250 | 0.80 | 103,541,921 | | 3,541,360 | 4,391,875,119 | | 0.96 | 4,391,875,119 | | 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 |
|-----------------|----------------|----------------------|-----------------|------------------------|--------------------------------|
| 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 |
| 2015 | 0.79 | 3.40 | 0.79 | 0.80 | 0.99 |
| 2016 | 0.82 | 3.40 | 0.82 | 0.80 | 1.02 |
| 2017 | 0.77 | 3.40 | 0.77 | 0.80 | 0.96 |

(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 2017 | | | Fiscal Year 2008 | | |
|--|--|-----------------------|------|---|------------------------------------|------|---|
| | | Assessed Valuation | Rank | % of Total Assessed Valuation (1) | 2007-2008 Assessed Valuation | Rank | % of Total Assessed Valuation (1) |
| Central Park Retail LLC | Retail | \$ 72,378,300 | 1 | 1.78 % | \$ - | - | - |
| Mach II MCB Silver Portfolio | Central Park property | 63,552,900 | 2 | 1.56 | - | - | - |
| The Apartments at Cobblestone | New home sales | 59,887,100 | 3 | 1.47 | - | - | - |
| Virginia Electric & Power Co. | Public utility | 50,271,803 | 4 | 1.24 | - | - | - |
| Mid-America Apartments LP | Apartment complex | 45,494,600 | 5 | 1.12 | - | - | - |
| Medicorp Properties, Inc. | Hospitals, office buildings, surgical center | 40,627,400 | 6 | 1.00 | 68,427,400 | 2 | 1.67 |
| Mid-America Apts. LP Seasons at Cel. VA. | Apartment complex | 38,196,000 | 7 | 0.94 | - | - | - |
| Central Park Marketplace Holdings LLC | Central Park property | 34,733,600 | 8 | 0.85 | - | - | - |
| Residences at Belmont Apts. LLC | Apartment complex | 33,667,000 | 9 | 0.83 | - | - | - |
| Verizon Virginia, Inc. | Public utility | 26,629,620 | 10 | 0.66 | - | - | - |
| Fredericksburg 35 LLC | Central Park property | - | - | - | 118,492,200 | 1 | 2.89 |
| Celebrate Virginia South LLC | Office buildings, retail | - | - | - | 67,618,600 | 3 | 1.65 |
| Stellar Belmond | Apartment complex | - | - | - | 34,348,300 | 4 | 0.84 |
| Wal-Mart Real Estate Business | Commercial | - | - | - | 25,447,300 | 5 | 0.62 |
| Hylton Venture LLC | Land development | - | - | - | 28,774,800 | 6 | 0.70 |
| Virginia Landmark Hotels | Hotels | - | - | - | 21,776,800 | 7 | 0.53 |
| Lowes Home Center, Inc. | Retail | - | - | - | 19,569,800 | 8 | 0.48 |
| Snowden Village | Office buildings | - | - | - | 22,378,100 | 9 | 0.55 |
| CVA Expo Center | Trade shows, conventions | - | - | - | 22,063,000 | 10 | 0.54 |
| Total | | \$ 465,438,323 | | 11.45 % | \$ 428,896,300 | | 10.47 % |

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 | | | | Collections in Subsequent Years (1) (3) | Total Collections to Date | |
|----------------|--|-----------------------------|--|---------------------------|----------------|---|---------------------------|--|
| | | Year of the Levy | | Percentage of Levy (2) | Amount (1) (3) | | Percentage of Levy (2) | |
| | | Amount (1) (3) | | | | | | |
| 2008 | \$ 29,330,707 | \$ 28,961,391 | | 98.74% | \$ 316,609 | \$ 29,278,000 | 99.82% | |
| 2009 | 30,902,557 | 30,222,352 | | 97.80% | 617,944 | 30,840,296 | 99.80% | |
| 2010 | 32,129,525 | 31,050,501 | | 96.64% | 1,007,414 | 32,057,915 | 99.78% | |
| 2011 | 33,269,826 | 32,103,892 | | 96.50% | 974,238 | 33,078,130 | 99.42% | |
| 2012 | 35,663,960 | 34,417,182 | | 96.50% | 832,832 | 35,250,014 | 98.84% | |
| 2013 | 36,540,252 | 35,453,742 | | 97.03% | 705,332 | 36,159,074 | 98.96% | |
| 2014 | 37,507,994 | 35,982,391 | | 95.93% | 1,133,089 | 37,115,480 | 98.95% | |
| 2015 | 39,392,612 | 38,212,293 | | 97.00% | 715,092 | 38,927,385 | 98.82% | |
| 2016 | 40,976,073 | 39,725,807 | | 96.95% | 661,349 | 40,387,156 | 98.56% | |
| 2017 | 41,500,053 | 40,450,013 | | 97.47% | - | 40,450,013 | 97.47% | |

(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 | | Revenue | | General | | Revenue | | | | | | | | | | |
| | Obligation Bonds | Notes | Bonds | | Obligation Bonds | Notes | Bonds | | | | | | | | | | |
| 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 | | 725,000 | | 17,984,434 | | - | | 1,609,765 | | 109,236,327 | 10.26% | | 4,198 |
| 2013 | | 85,946,002 | | 725,000 | | 725,000 | | 16,964,140 | | - | | 545,659 | | 104,180,801 | 9.33% | | 3,815 |
| 2014 | | 82,110,710 | | 725,000 | | 725,000 | | 15,939,460 | | - | | - | | 98,775,170 | 8.12% | | 3,511 |
| 2015 | | 82,357,412 | | - | | - | | 27,611,336 | | - | | - | | 109,968,748 | 9.15% | | 3,898 |
| 2016 | | 93,367,519 | | - | | 2,103,232 | | 25,658,010 | | - | | - | | 121,128,761 | 9.64% | | 4,308 |
| 2017 | | 88,724,301 | | - | | 1,853,884 | | 23,662,010 | | - | | - | | 114,240,195 | 8.70% | | 4,037 |

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 15.

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) | |
|----------------|-------------------------|-------------|---|-----------|---------------------------|-------------|---|----|---|--|
| | \$ | \$ | | | | | | | | |
| 2008 | \$ | 81,148,450 | \$ | - | \$ | 81,148,450 | 1.86% | \$ | 3,544 | |
| 2009 | | 77,211,954 | | - | | 77,211,954 | 1.73% | | 3,306 | |
| 2010 | | 79,694,151 | | - | | 79,694,151 | 2.07% | | 3,281 | |
| 2011 | | 75,421,265 | | - | | 75,421,265 | 1.92% | | 2,936 | |
| 2012 | | 107,626,562 | | - | | 107,626,562 | 2.67% | | 4,136 | |
| 2013 | | 103,635,142 | | 805,804 | | 102,829,338 | 2.60% | | 3,766 | |
| 2014 | | 98,775,170 | | 2,462,142 | | 96,313,028 | 2.40% | | 3,424 | |
| 2015 | | 109,968,748 | | 2,308,258 | | 107,660,490 | 2.66% | | 3,816 | |
| 2016 | | 119,025,529 | | 2,614,397 | | 116,411,132 | 2.85% | | 4,140 | |
| 2017 | | 112,386,311 | | 2,000,490 | | 110,385,821 | 2.51% | | 3,901 | |

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

(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 15.

Legal Debt Margin Information
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Debt limit | \$ 231,895,610 | \$ 237,514,942 | \$ 207,207,276 | \$ 211,856,637 | \$ 216,056,402 | \$ 212,771,995 | \$ 215,659,654 | \$ 218,129,465 | \$ 219,586,863 | \$ 252,766,739 |
| Total net debt applicable to limit | 79,400,147 | 75,597,147 | 78,024,146 | 73,892,147 | 104,475,147 | 99,973,210 | 93,731,873 | 105,466,742 | 112,218,603 | 106,587,510 |
| Legal debt margin | \$ 152,495,463 | \$ 161,917,795 | \$ 129,183,130 | \$ 137,964,490 | \$ 111,581,255 | \$ 112,798,785 | \$ 121,927,781 | \$ 112,662,723 | \$ 107,368,260 | \$ 146,179,229 |
| Total net debt applicable to the limit as a percentage of debt limit | 34.24% | 31.83% | 37.66% | 34.88% | 48.36% | 46.99% | 43.46% | 48.35% | 51.10% | 42.17% |

Legal Debt Margin Calculation for Fiscal Year 2017:

| | |
|---|------------------|
| Assessed value | \$ 4,059,923,421 |
| Add back: exempt real property | 1,206,050,300 |
| Total assessed value | \$ 5,265,973,721 |
| Debt limit (4.8% of total assessed value) | \$ 252,766,739 |
| Net debt applicable to limit | 106,587,510 |
| Legal debt margin | \$ 146,179,229 |

CITY OF FREDERICKSBURG, VIRGINIA

Table 13

Pledged-Revenue Coverage
Last Ten Fiscal Years

| Fiscal Year | Water and Sewer Bonds | | | | | | | | | | | |
|----------------|-----------------------|-----------------------|---------|--------------|-----|-----------|----|-----------|----------|---------|----|------|
| | Water & Sewer | | Less: | | Net | | | | | | | |
| | Charges and Other | Operating Expenses | Revenue | Debt Service | | | | Interest | Coverage | | | |
| | | | | Principal | | | | | | | | |
| 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 |
| 2015 | | 9,342,915 | | 7,097,478 | | 2,245,437 | | 835,936 | | 631,893 | | 1.53 |
| 2016 | | 10,357,703 | | 7,294,421 | | 3,063,282 | | 1,707,399 | | 770,634 | | 1.24 |
| 2017 | | 10,027,275 | | 7,889,958 | | 2,137,317 | | 1,742,554 | | 721,532 | | 0.87 |

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Direct and Overlapping Debt
As of June 30, 2017

| | Debt Outstanding | Percentage | Share of Direct and Overlapping Debt |
|--------------------------------------|-----------------------|------------|---|
| Direct Debt: | | | |
| Primary Government: | | | |
| General Obligation Bonds | \$ 112,386,311 | 100.00% | \$ 112,386,311 |
| VRA Revenue Bonds | 1,853,884 | 100.00% | 1,853,884 |
| Total Primary Government Direct Debt | <u>\$ 114,240,195</u> | | <u>\$ 114,240,195</u> |

The City has no overlapping debt.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Demographic and Economic Statistics

Last Ten Fiscal Years

| Fiscal Year | Population (1) | Personal Income | Per Capita | | School Enrollment (3) | Unemploy-ment Rate (4) |
|-------------|----------------|-----------------|---------------------|------------|-----------------------|------------------------|
| | | | Personal Income (2) | Income (2) | | |
| 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% |
| 2015 | 28,213 | * 1,201,676,309 | 42,593 | | 3,300 | 6.2% |
| 2016 | 28,118 | * 1,256,818,364 | 44,698 | | 3,478 | 4.8% |
| 2017 | 28,297 | * 1,313,009,097 | 46,401 | | 3,546 | 4.6% |

(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 16

Principal Employers

Current Year and the Period Nine Years Prior

| Employer | Fiscal Year 2017 | | | Fiscal Year 2008 | | |
|-------------------------------------|-------------------------------|------|--------------------------------------|-------------------------------|------|--|
| | Number of Employees (1) | Rank | Percentage of Total Employment | Number of Employees (2) | Rank | |
| Mary Washington Healthcare | 4,576 | 1 | 24.14% | 1000 and over | 1 | |
| University of Mary Washington | 886 | 2 | 4.67% | 1000 and over | 2 | |
| City of Fredericksburg | 776 | 3 | 4.09% | 500 to 999 | 3 | |
| City of Fredericksburg School Board | 742 | 4 | 3.91% | 500 to 999 | 4 | |
| Wal-Mart | 550 | 5 | 2.90% | 500 to 999 | 5 | |
| Wegmans | 535 | 6 | 2.82% | - | - | |
| Snowden Services | 457 | 7 | 2.41% | - | - | |
| Free Lance Star Publishing, Inc. | 425 | 8 | 2.24% | 250 to 499 | 6 | |
| RACSB | 317 | 9 | 1.67% | 250 to 499 | 8 | |
| OS Restaurant Services | 208 | 10 | 1.10% | - | - | |
| VDOT | - | - | - | 250 to 499 | 7 | |
| USPS | - | - | - | 100 to 249 | 9 | |
| Lowe's Home Centers, Inc. | - | - | - | 100 to 249 | 10 | |

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

(2) For fiscal year 2008 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA

Table 17

Full-time Equivalent City Government Employees by Function

Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|-------------------------|-------------|------|------|------|------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| General government | 43 | 40 | 38 | 41 | 41 | 43 | 44 | 51 | 52 | 51 |
| Judicial administration | 41 | 39 | 38 | 39 | 39 | 40 | 42 | 48 | 48 | 50 |
| Public safety | 162 | 162 | 164 | 162 | 166 | 162 | 156 | 165 | 159 | 161 |
| Public works | 86 | 81 | 75 | 73 | 74 | 73 | 78 | 72 | 73 | 80 |
| Health and welfare | 35 | 35 | 35 | 34 | 33 | 32 | 34 | 33 | 35 | 35 |
| Parks and recreation | 19 | 17 | 17 | 17 | 16 | 17 | 32 | 19 | 19 | 18 |
| Community development | 13 | 12 | 12 | 12 | 11 | 13 | 14 | 14 | 16 | 15 |
| Water | 9 | 10.5 | 10.5 | 10 | 10 | 9 | 6 | 11 | 12 | 12 |
| Wastewater | 21 | 18.5 | 16.5 | 19 | 19 | 17 | 12 | 20 | 21 | 18 |
| Transit | 12 | 13 | 13 | 13 | 13 | 14 | 15 | 15 | 14 | 15 |
| Parking garage | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Totals | 442 | 429 | 420 | 421 | 423 | 421 | 434 | 449 | 450 | 456 |

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|---|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Public safety: | | | | | | | | | | |
| Police department: | | | | | | | | | | |
| Physical arrests | 2,850 | 3,168 | 3,477 | 3,772 | 3,621 | 3,722 | 3,660 | 3,974 | 3,522 | 3,435 |
| Traffic violations (1) | 7,290 | 7,335 | 6,546 | 7,937 | 7,914 | 7,824 | 5,981 | 5,320 | 3,733 | 3,738 |
| Parking violations | 10,671 | 8,397 | 7,467 | 7,223 | 6,965 | 6,528 | 7,513 | 6,235 | 6,219 | 7,577 |
| Sheriffs department: | | | | | | | | | | |
| Civil papers (2) | 44,088 | 41,379 | 48,074 | 48,918 | 50,764 | 63,886 | 58,338 | 58,111 | 59,405 | 59,568 |
| Fire and rescue: | | | | | | | | | | |
| Number of calls answered | 6,145 | 5,885 | 5,882 | 5,825 | 5,471 | 5,407 | 5,311 | 5,344 | 5,462 | 5,554 |
| Inspections | 2,030 | 1,478 | 1,624 | 1,596 | 1,548 | 1,650 | 1,673 | 2,072 | 2,015 | 1,762 |
| Building inspections: | | | | | | | | | | |
| Permits issued | 1,781 | 1,541 | 1,486 | 1,633 | 1,558 | 1,554 | 1,618 | 1,640 | 1,703 | 1,580 |
| Animal control: | | | | | | | | | | |
| Number of calls answered | 1,010 | 811 | 1,015 | 897 | 864 | 1,022 | 926 | 520 | 895 | 876 |
| Public works: | | | | | | | | | | |
| Street maintenance: | | | | | | | | | | |
| Asphalt usage for street repairs (tons) | 311 | 277 | 327 | 517 | 400 | 309 | 212 | 248 | 377 | 359 |
| Waste removal: | | | | | | | | | | |
| Refuse collected | | | | | | | | | | |
| (thousands of pounds/day) | 24.7 | 20.6 | 21.4 | 20.7 | 19.3 | 19.0 | 20.6 | 21.1 | 21.4 | 20.4 |
| Recycling collected: | | | | | | | | | | |
| Leaves (cubic yards) | 6,292 | 5,604 | 5,604 | 5,038 | 4,510 | 5,421 | 5,336 | 5,027 | 4,218 | 4,820 |
| General services: | | | | | | | | | | |
| Buildings maintained | | | | | | | | | | |
| (thousands of square feet) | 496.9 | 501.9 | 500.5 | 500.5 | 480.5 | 462.3 | 551.2 | 551.9 | 604.2 | 550.8 |
| Culture and recreation: | | | | | | | | | | |
| Parks and recreation: | | | | | | | | | | |
| Number of programs (3) | 518 | 510 | 464 | 471 | 514 | 495 | 414 | 397 | 377 | 394 |
| Number of participants (3) | 20,964 | 18,563 | 16,193 | 19,082 | 20,425 | 19,525 | 14,177 | 13,966 | 8,421 | 12,576 |
| Community development: | | | | | | | | | | |
| Planning: | | | | | | | | | | |
| Zoning permits issued (4) (5) | 237 | 291 | 260 | 283 | 390 | 338 | 309 | 367 | 365 | 364 |

Operating Indicators by Function
Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Water: | | | | | | | | | | |
| Number of connections | 7,274 | 7,351 | 7,453 | 7,614 | 7,718 | 7,801 | 7,861 | 7,911 | 7,950 | 8,047 |
| Average daily consumption (thousands of gallons) | 2,639 | 2,492 | 2,334 | 2,557 | 2,584 | 2,649 | 2,537 | 2,650 | 2,544 | 2,561 |
| Wastewater: | | | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 2,700 | 2,794 | 3,210 | 2,700 | 3,010 | 2,493 | 2,833 | 3,290 | 3,350 | 2,720 |
| Transit: | | | | | | | | | | |
| Ridership per service area: | | | | | | | | | | |
| City of Fredericksburg (7) | 208,410 | 273,685 | 261,238 | 274,540 | 278,657 | 279,363 | 259,790 | 238,024 | 214,439 | 193,786 |
| UMW - Eagle Express | 16,444 | 15,014 | 12,030 | 15,323 | 12,284 | 13,685 | 11,679 | 10,287 | 11,371 | 7,893 |
| Spotsylvania County | 81,315 | 113,669 | 97,343 | 96,248 | 116,623 | 117,633 | 114,162 | 114,417 | 94,740 | 79,935 |
| South Stafford County (6) | 32,112 | 39,234 | 40,830 | 45,288 | 44,341 | 68,614 | 65,033 | 63,781 | 62,618 | 55,409 |
| North Stafford County (6) | 62,895 | 77,303 | 74,369 | 70,397 | 72,366 | 39,446 | 33,751 | 38,495 | 34,036 | 32,622 |
| Caroline County | 6,189 | 8,160 | 7,155 | 5,882 | 7,352 | 10,425 | 11,094 | 12,168 | 10,192 | 7,397 |
| King George County | 15,867 | 21,550 | 16,792 | 16,993 | 17,033 | - | - | - | - | - |
| Component Unit - School Board: | | | | | | | | | | |
| Education: | | | | | | | | | | |
| Number of students | 2,540 | 2,655 | 2,793 | 3,037 | 3,072 | 3,139 | 3,214 | 3,300 | 3,356 | 3,546 |
| Number of teachers | 256 | 257 | 256 | 258 | 258 | 264 | 267 | 265 | 269 | 304 |
| Cost per pupil | \$ 14,416 | \$ 13,911 | \$ 13,276 | \$ 11,882 | \$ 12,546 | \$ 13,853 | \$ 14,235 | \$ 13,771 | \$ 13,849 | \$ 13,582 |

Source: Individual city departments.

- (1) Reduction in traffic violations issued is due to Police Department staffing shortage and shift in work functions.
- (2) Beginning in FY13, increase in civil papers served is due to increased jury summons for Circuit Court.
- (3) 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 (FY2007 and FY2008).
- (6) Beginning in FY13, north and south Stafford transit routes have shifted due to new census data.
- (7) Ridership decreases are due to road construction in the area, low gas prices, and the opening of the Spotsylvania VRE station.

Capital Asset Statistics by Function
Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|--------------------------------|-------------|------|------|------|------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| 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 | 35 | 33 | 31 | 31 | 31 | 35 | 34 | 34 | 40 | 40 |
| Fire department: | | | | | | | | | | |
| Stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Fire/Rescue vehicles | 7 | 8 | 8 | 9 | 10 | 11 | 12 | 12 | 14 | 15 |
| Sheriffs department: | | | | | | | | | | |
| Patrol units | 14 | 15 | 15 | 15 | 15 | 16 | 16 | 19 | 20 | 22 |
| Building inspections: | | | | | | | | | | |
| Vehicles | 7 | 7 | 7 | 7 | 7 | 7 | 6 | 5 | 5 | 5 |
| Animal control: | | | | | | | | | | |
| Vehicles | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Public works: | | | | | | | | | | |
| Street maintenance: | | | | | | | | | | |
| Trucks/vehicles | 22 | 22 | 21 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Streets (moving lane miles) | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 |
| Traffic signals | 61 | 61 | 61 | 61 | 61 | 61 | 60 | 61 | 61 | 56 |
| Waste removal: | | | | | | | | | | |
| Trucks/vehicles | 7 | 7 | 8 | 10 | 10 | 7 | 7 | 7 | 7 | 6 |
| Building maintenance: | | | | | | | | | | |
| Trucks/vehicles | 10 | 8 | 10 | 10 | 10 | 10 | 13 | 15 | 16 | 16 |
| 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 | | | | | | | | | |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Culture and recreation: | | | | | | | | | | |
| Parks and recreation: | | | | | | | | | | |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Trucks/vehicles | 13 | 15 | 13 | 13 | 14 | 14 | 13 | 15 | 15 | 15 |
| Parks | 13 | 13 | 17 | 18 | 18 | 18 | 18 | 19 | 19 | 19 |
| Park acreage | 1,015 | 1,015 | 1,051 | 1,055 | 1,055 | 1,055 | 1,057 | 1,085 | 1,085 | 1,085 |
| 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 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| School buses | 36 | 36 | 37 | 38 | 37 | 41 | 41 | 42 | 43 | 44 |

Source: Individual City departments.

This page intentionally left blank

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, 2017, 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 29, 2017.

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 29, 2017

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 the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City 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 the City of Fredericksburg, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2017.

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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Fredericksburg, Virginia
November 29, 2017

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017

| Federal Grantor/ Pass-through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Provided to Subrecipients |
|---|---------------------------|---|-------------------------|---------------------------------|
| Primary Government: | | | | |
| Department of Agriculture: | | | | |
| Pass-through Payments: | | | | |
| Department of Social Services: | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition | 10.561 | 0010116/0010117 | \$ 414,500 | \$ - |
| Total Department of Agriculture | | | \$ 414,500 | \$ - |
| National Endowment for the Arts: | | | | |
| Pass-through Payments: | | | | |
| Virginia Commission for the Arts: | | | | |
| Promotion of the Arts Partnership Agreements | 45.025 | 16-16100-2049 | \$ 5,000 | \$ - |
| Total National Endowment for the Arts | | | \$ 5,000 | \$ - |
| Department of Housing and Urban Development: | | | | |
| Direct Payments: | | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | N/A | \$ 117,851 | \$ 41,776 |
| Total Department of Housing and Urban Development | | | \$ 117,851 | \$ 41,776 |
| Department of Justice: | | | | |
| Direct Payments: | | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | N/A | \$ 15,856 | \$ - |
| Pass-through Payments: | | | | |
| Department of Criminal Justice Services: | | | | |
| Crime Victim Assistance | 16.575 | CJS86015 | 63,481 | - |
| Total Department of Justice | | | \$ 79,337 | \$ - |
| Department of Transportation: | | | | |
| Direct Payments: | | | | |
| Federal Transit - Formula Grants | 20.507 | N/A | \$ 2,749,516 | \$ - |
| Pass-through Payments: | | | | |
| Virginia Department of Transportation: | | | | |
| Highway Planning and Construction | 20.205 | 105210/100451 | \$ 353,719 | \$ - |
| Formula Grants for Rural Areas | 20.509 | 42516-06 | 136,089 | - |
| Total Federal Transit Formula Grants | | | \$ 3,239,324 | \$ - |
| Virginia Department of Motor Vehicles: | | | | |
| Highway Safety Cluster: | | | | |
| State and Community Highway Safety | 20.600 | 60507-56219/57200 | \$ 11,413 | \$ - |
| National Priority Safety Programs | 20.616 | 60507-57265 | 8,426 | - |
| Total Highway Safety Cluster | | | \$ 19,839 | \$ - |
| Total Department of Transportation | | | \$ 3,259,163 | \$ - |

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017 (Continued)

| Federal Grantor/ Pass-through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Provided to Subrecipients |
|--|---------------------------|---|-------------------------|---------------------------------|
| 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 | 0760116/0760117 | \$ 50,151 | \$ - |
| Promoting Safe and Stable Families | 93.556 | 0950115/0950116 | 20,903 | - |
| Temporary Assistance for Needy Families | 93.558 | 0400116/0400117 | 277,341 | - |
| Refugee and Entrant Assistance State Administered Programs | 93.566 | 0500116/0500117 | 21,294 | - |
| Low-Income Home Energy Assistance | 93.568 | 0600416/0600417 | 31,103 | - |
| Chafee Education and Training Vouchers Program | 93.599 | 9160115/9160116 | 1,018 | - |
| Adoption and Legal Guardianship Incentive Payments | 93.603 | 1130114/1130115 | 2,343 | - |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 900116 | 315 | - |
| Foster Care - Title IV-E | 93.658 | 1100116/1100117 | 325,561 | - |
| Adoption Assistance | 93.659 | 1120116/1120117 | 585,547 | - |
| Social Services Block Grant | 93.667 | 1000116/1000117 | 253,511 | - |
| Chafee Foster Care Independence Program | 93.674 | 9150116/9150117 | 3,209 | - |
| Children's Health Insurance Program | 93.767 | 0540116/0540117 | 19,518 | - |
| Medical Assistance Program | 93.778 | 1200116/1200117 | 568,576 | - |
| Total Department of Health and Human Services | | | \$ 2,160,390 | \$ - |
| Department of Homeland Security: | | | | |
| Pass-through Payments: | | | | |
| Department of Emergency Services: | | | | |
| Emergency Management Performance Grants | 97.042 | DEM6274500 | \$ 10,680 | \$ - |
| Total Department of Homeland Security | | | \$ 10,680 | \$ - |
| Total Expenditures of Federal Awards - Primary Government | | | \$ 6,046,921 | \$ 41,776 |
| Component Unit - School Board: | | | | |
| Department of Agriculture: | | | | |
| Pass-through Payments: | | | | |
| Department of Agriculture: | | | | |
| Child Nutrition Cluster: | | | | |
| Food Distribution Service | 10.555 | 2017IN109941/ 201616N109941 | \$ 137,595 | \$ - |
| Virginia Department of Education: | | | | |
| National School Lunch Program (SL-4) (SL-11) | 10.555 | 2017IN109941/ 201616N109941 | 1,122,637 | - |
| Total 10.555 | | | \$ 1,260,232 | \$ - |
| School Breakfast Program | 10.553 | 2017IN109941/ 201616N109941 | \$ 365,463 | \$ - |
| Total Child Nutrition Cluster | | | \$ 1,625,695 | \$ - |
| Total Department of Agriculture | | | \$ 1,625,695 | \$ - |
| Department of Health and Human Services: | | | | |
| Direct Payments: | | | | |
| Head Start | 93.600 | N/A | \$ 1,128,305 | \$ - |
| Total Department of Health and Human Services | | | \$ 1,128,305 | \$ - |

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017 (Continued)

| Federal Grantor/ Pass-through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures | Provided to Subrecipients |
|---|---------------------------|---|-------------------------|---------------------------------|
| Component Unit - School Board: (continued) | | | | |
| Department of Education: | | | | |
| Pass-through Payments: | | | | |
| Virginia Council on Higher Education: | | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | PS334S140027 | \$ 55,613 | \$ - |
| Virginia Department of Education: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | S010A150046/ S010A160046 | 1,019,135 | - |
| Special Education Cluster (IDEA): | | | | |
| Special Education - Grants to States | 84.027 | H027A150107/ H027A160107 | \$ 752,635 | \$ - |
| Special Education - Preschool Grants | 84.173 | H173A150112/ H173A140112 | 16,177 | - |
| Total Special Education Cluster (IDEA) | | | <u>\$ 768,812</u> | <u>\$ -</u> |
| English Language Acquisition State Grants | 84.365 | S365A150046/ S365A160046 | 34,595 | - |
| Career and Technical Education - Basic Grants to States | 84.048 | V048A150046/ V048A160046 | 55,873 | - |
| Supporting Effective Instruction State Grant | 84.367 | S367A160044 | 123,110 | - |
| Total Department of Education | | | <u>\$ 2,057,138</u> | <u>\$ -</u> |
| Total Expenditures of Federal Awards - Component Unit School Board | | | <u>\$ 4,811,138</u> | <u>\$ -</u> |
| Total Expenditures of Federal Awards - Reporting Entity | | | <u>\$ 10,858,059</u> | <u>\$ 41,776</u> |

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

(3) The City did not elect to use the 10% de minimus indirect cost rate.

Note 3 - 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 | \$ 89,337 |
| Special Revenue Funds: | |
| Virginia Public Assistance Fund | 2,413,390 |
| Children's Services Act Fund | 72,162 |
| State, Federal, and Local Grants Fund | 232,708 |
| Capital Projects Funds: | |
| Public Works Construction Fund | 340,000 |
| Public Facilities Construction Fund | 13,719 |
| Proprietary Funds: | |
| Transit Fund | 2,885,605 |
| Wastewater Fund | 57,414 |
| Total Primary Government | <u>\$ 6,104,335</u> |

Component Unit School Board:

| | |
|-----------------------------------|---------------------|
| School Operating Fund | \$ 55,613 |
| Special School Fund | 4,755,525 |
| Total Component Unit School Board | <u>\$ 4,811,138</u> |

Less:

| | |
|--------------------------------------|--------------------|
| Build America Bonds Interest Subsidy | <u>\$ (57,414)</u> |
|--------------------------------------|--------------------|

| | |
|---|-----------------------------|
| Total Federal Expenditures per the Schedule of Expenditures of Federal Awards | <u><u>\$ 10,858,059</u></u> |
|---|-----------------------------|

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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 2 CFR Section 200.516(a)? | No |
| Identification of major programs: | |

| CFDA # | Name of Federal Program or Cluster |
|---------------|--|
| 10.555/10.553 | Child Nutrition Cluster |
| 84.010 | Title I Grants to Local Educational Agencies |

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 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

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

There were no prior year findings.