

City of Harrisonburg, Virginia Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012



Harrisonburg City School Board Administration Offices

City of Harrisonburg, Virginia

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012



This Report
Prepared by Department of Finance

Report Cover: The front cover is the Harrisonburg City School Board Administration Offices located at One Court Square in Harrisonburg. This building was originally constructed in 1951 and served as Joseph Ney's Department Store until its closure in the early 1980s. The building was subsequently used as office space until purchased by the Harrisonburg Redevelopment and Housing Authority (HRHA) in 2004. After remaining empty for a number of years, the HRHA began renovations of the building to be used by the Harrisonburg City School Board with these renovations finishing in January 2012. To learn more about Harrisonburg City Schools visit www.harrisonburg.k12.va.us.

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

This part of the City's comprehensive annual financial report is intended to familiarize readers with the organizational structure of the City's government, the nature and scope of services that are provided and the specifics of the legal operating environment.

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City of Harrisonburg, Virginia

Office of the City Manager

345 South Main Street
Post Office Box 20031
Harrisonburg, VA 22802
(540) 432-7701 / FAX (540) 432-7778

Kurt D. Hodgen
City Manager

November 28, 2012

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

The Comprehensive Annual Financial Report of the City of Harrisonburg, Virginia (City), for the fiscal year ended June 30, 2012 is hereby submitted in accordance with Section 45 of the *City Charter* and Section 15.2-2511 of the *Code of Virginia*, 1950, as amended. The *City Charter* and the *Code of Virginia* require that the City issue annually a report on its financial position and operations, and that this report be audited by either the state auditor or an independent firm of certified public accountants in accordance with generally accepted auditing standards (GAAS). This report has been prepared by the Department of Finance to conform to the standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), generally accepted accounting principles (GAAP) and the Commonwealth of Virginia Auditor of Public Accounts (APA).

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

Brown, Edwards & Company, LLP, a firm of licensed certified public accountants, have audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. This examination was conducted using guidelines set forth by GAAS and the *Specifications for Audits of Counties, Cities and Towns*, issued by the APA. Based upon this audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

The City With The Planned Future

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

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

Profile of the City of Harrisonburg

Background. The City was established in 1780 and was named for Thomas Harrison, who donated the land for the Rockingham County Court House, which became the permanent county seat of Rockingham County in 1781. The City was incorporated in 1849 and was proclaimed a city of the first class in April 1990. It now encompasses 17.3 square miles and serves a population of approximately 51,200.

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

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

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

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

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

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

The City provides emergency communications services through the Harrisonburg-Rockingham Emergency Communications Center (HRECC). The HRECC is a separate legal entity and is a joint venture of the City and the County with the City being the fiscal agent. Both the City and the County fund an equal share of HRECC's operations.

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

Budgetary Compliance and Control. The City prepares a budget in accordance with Section 60 of the *City Charter* and Section 15.2-2503 of the *Code of Virginia*, 1950, as amended. The *City Charter* requires the City Manager to submit a balanced budget to the City Council at least sixty days prior to the beginning of each fiscal year (July 1). City Council is required to convene a public hearing regarding the City Manager's proposed budget. The proposed budget, which may be modified by the City Council, is required to be adopted by a majority vote of the City Council members 30 days prior to the beginning of the ensuing fiscal year. On the basis of the budget, City Council appropriates funds for expenditures and establishes tax rates sufficient to produce the revenues needed to pay such expenditures. The *City Charter* requires the annual budget to be balanced and prohibits expenditures for which moneys are not available or reasonably expected to be forthcoming in time to meet such expenditures. The *City Charter* also requires the annual budget and the annual appropriation ordinance to make a provision for a reasonable contingency fund.

Budgetary control is maintained at the department level as delineated in the appropriation ordinance. The City Manager is authorized to transfer budgeted amounts within funds other than capital projects funds. Supplemental appropriations, transfers between funds and transfers within capital projects funds require the approval of City Council. Also, supplemental appropriations which exceed one percent of the total expenditures shown in the currently adopted budget require a public hearing prior to approval by City Council. All appropriations lapse at year-end except appropriations for capital projects funds and the Community Development Block Grant (CDBG) Fund. Appropriations for capital projects funds are valid until the end of the project and CDBG fund appropriations are valid until the grant period is completed. Encumbrances outstanding at year-end are generally reappropriated in the following fiscal year. A budget-to-actual comparison is provided in this report for the general fund. This comparison is presented on page 28.

Major Initiatives

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

- Appropriated \$6 million from a bond issue for the purchase of right-of-way for the Reservoir Street project.
- Appropriated \$850,000 for 2 replacement transit buses.
- Appropriated \$600,000 for a safe route to schools grant in Waterman Elementary School vicinity.
- Appropriated \$522,384 for postclosure costs at the City's closed landfill.
- Appropriated \$460,000 for architecture and engineering for a new Public Transportation facility.
- Appropriated \$300,000 for water main upgrades.
- Appropriated \$300,000 for sewer main upgrades.
- Appropriated \$295,000 for a food service addition to the golf course clubhouse.

Factors Affecting Financial Condition

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

Local economy. The City is in the center of commerce and travel for the area, while the surrounding area is known for its poultry industry. The area is an educational center served by four institutions of higher learning with a total enrollment of approximately 27,950. James Madison University, a state-supported school, is located near the geographic center of the City and has approximately 19,700 students. Eastern Mennonite University, a private

institution with approximately 1,500 students is also located in the City. Bridgewater College, located just south of the City, is also private and has an approximate enrollment of 1,750 students. State-supported Blue Ridge Community College has an enrollment of approximately 5,000 students.

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

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

The City continues to plan and work on the Stone Spring Road and Erickson Avenue Improvement project. It is planned that this project will be completed in at least four phases. Phase 1 construction was completed in fiscal year 2011. Phase 2 is estimated to cost approximately \$21.7 million and is projected to be completed by December 2012. Phase 3 construction began during the year and is estimated to cost approximately \$6.5 million and is projected to be completed by October 2013. Phase 3 construction will be entirely funded by the Commonwealth of Virginia. There are currently no construction plans for Phase 4 of the project.

The City is in the process of constructing a waterline to the South Fork of the Shenandoah River, which is located approximately 17 miles east of the City. The initial phases of this project include the installation of waterlines from the City's water treatment plant across the City to the eastern City limits. The estimated total cost of the project is \$32.4 million of which \$10.5 million has already been expended and \$3.3 million in cash is on hand. It is anticipated that this project will require a future \$18.6 million bond issue in order to complete. The projected completion date is undetermined at this time and will depend on supply/demand, partnering opportunities and the bidding environment.

The City is currently in the process of purchasing right-of-way for improvements to Reservoir Street. It is estimated that this project will cost approximately \$14 million. The project is funded by \$7 million from state funding sources and \$7 million in local sources which includes \$6 million in bonds issued in December 2011. Construction is projected to begin in fiscal year 2015 and to be completed in fiscal year 2016.

The City is currently preparing for the construction of a new public transportation administration and maintenance facility that will replace the current facility. The project will be funded by the City, the Virginia Department of Rail and Public Transportation and the Federal Transit Administration. The project is estimated to cost between \$16 million and take two years to complete. Based upon estimated usage of the new facility, the funding for this project will be approximately 37 percent Federal, 5 percent Commonwealth and 58 percent City. Construction is projected to begin in December 2012 and be completed in June of 2014. The city plans to issue debt to finance its share of the construction cost.

Certificate of Achievement

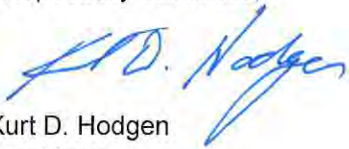
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the seventeenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

Acknowledgments

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

Respectfully submitted,



Kurt D. Hodgen
City Manager



Larry L. Propst, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Harrisonburg
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davidson

President

Jeffrey R. Enns

Executive Director

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graph TD
    Voters[Voters] --> CityCouncil[City Council]
    Voters --> SchoolBoard[School Board]
    Voters --> SchoolSuperintendent[School Superintendent]
    
    CityCouncil --> CommissionerRevenue[Commissioner of the Revenue]
    CityCouncil --> CityClerk[City Clerk]
    CityCouncil --> CityManager[City Manager]
    CityCouncil --> CityAttorney[City Attorney]
    CityCouncil --> Treasurer[Treasurer]
    
    CommissionerRevenue --> GeneralAssembly[General Assembly Representatives]
    CommissionerRevenue --> BoardElections[Board of Elections]
    CommissionerRevenue --> Registrar[Registrar]
    
    CityManager --> CityClerk
    CityManager --> CityAttorney
    CityManager --> AssistantCityManager[Assistant City Manager]
    
    AssistantCityManager --> PlanningCommission[Planning Commission]
    AssistantCityManager --> BoardZoningAppeals[Board of Zoning Appeals]
    AssistantCityManager --> BoardEqualization[Board of Equalization]
    AssistantCityManager --> ParksRecreation[Parks and Recreation Commission]
    
    PlanningCommission --> HarrisonburgElectric[Harrisonburg Electric Commission]
    PlanningCommission --> ShenandoahValleyAirport[Shenandoah Valley Airport Commission]
    PlanningCommission --> ShenandoahValleyDetention[Shenandoah Valley Detention Commission]
    
    CityClerk --> PlanningCommission
    CityClerk --> BoardZoningAppeals
    CityClerk --> BoardEqualization
    CityClerk --> ParksRecreation
    
    CityAttorney --> HburgRedevelopment[Hburg Redevelopment and Housing Authority]
    CityAttorney --> HburgIndustrial[Hburg Industrial Development Authority]
    CityAttorney --> HburgR'hamRegional[Hburg-R'ham Regional Sewer Authority]
    CityAttorney --> HburgR'hamMetro[Hburg-R'ham Metro Planning Organization]
    
    Treasurer --> HburgR'hamEmergency[Hburg-R'ham Emergency Communications Center]
    Treasurer --> HburgR'hamSocial[Hburg-R'ham Social Services District]
    Treasurer --> HburgR'hamComm[Hburg-R'ham Community Services Board]
    
    CityManager --> ParksRecreation[Parks and Recreation]
    CityManager --> PublicTransportation[Public Transportation]
    CityManager --> PlanningCommunityDevelopment[Planning and Community Development]
    CityManager --> EconomicDevelopment[Economic Development]
    CityManager --> Finance[Finance]
    CityManager --> InformationTechnology[Information Technology]
    CityManager --> Police[Police]
    CityManager --> Fire[Fire]
    CityManager --> PublicWorks[Public Works]
    CityManager --> HumanResources[Human Resources]
    CityManager --> PublicUtilities[Public Utilities]
    
    ParksRecreation --> Parks[Parks]
    ParksRecreation --> RecreationCenters[Recreation Centers and Playgrounds]
    ParksRecreation --> WestoverPool[Westover Pool]
    ParksRecreation --> Athletics[Athletics]
    ParksRecreation --> SimmsContinuing[Simms Continuing Education Center]
    ParksRecreation --> BlacksRun[Blacks Run Greenway]
    ParksRecreation --> NationalGuard[National Guard Armory]
    ParksRecreation --> SelfCourse[Self Course]
    
    PublicTransportation --> TransitBuses[Transit Buses]
    PublicTransportation --> SchoolBuses[School Buses]
    PublicTransportation --> CentralGarage[Central Garage]
    
    PlanningCommunityDevelopment --> GeneralEngineering[General Engineering]
    PlanningCommunityDevelopment --> Planning[Planning]
    PlanningCommunityDevelopment --> ZoningAdministration[Zoning Administration]
    PlanningCommunityDevelopment --> Inspection[Inspection]
    PlanningCommunityDevelopment --> GeneralProperties[General Properties]
    
    EconomicDevelopment --> VisitorTourism[Visitor and Tourism Services]
    EconomicDevelopment --> DowntownParking[Downtown Parking Services]
    
    Finance --> Finance[Finance]
    Finance --> Purchasing[Purchasing]
    
    InformationTechnology --> CDBG[CDBG]
    
    Police --> Operations[Operations]
    Police --> CriminalInvestigation[Criminal Investigation]
    Police --> SupportServices[Support Services]
    Police --> GangTaskForce[Gang Task Force]
    Police --> SpecialOperations[Special Operations]
    Police --> AnimalControl[Animal Control]
    
    Fire --> Suppression[Suppression]
    Fire --> Prevention[Prevention]
    Fire --> Training[Training]
    Fire --> EmergencyServices[Emergency Services]
    Fire --> PublicSafetyBuilding[Public Safety Building]
    Fire --> ChildSafetyAlliance[Child Safety Alliance]
    
    PublicWorks --> StreetsHighways[Streets and Highways]
    PublicWorks --> TrafficEngineering[Traffic Engineering]
    PublicWorks --> InsectRodent[Insect and Rodent Control]
    PublicWorks --> CentralStores[Central Stores]
    
    HumanResources --> Sanitation[Sanitation]
    HumanResources --> SteamPlant[Steam Plant]
    HumanResources --> RefuseCollection[Refuse Collection]
    HumanResources --> Recycling[Recycling]
    
    PublicUtilities --> WaterTreatment[Water Treatment]
    PublicUtilities --> SanitarySewer[Sanitary Sewer]
    PublicUtilities --> UtilityBillings[Utility Billings]
  
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CITY OF HARRISONBURG, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

CITY COUNCIL

Richard A. Baugh	Mayor
J. Ted Byrd	Vice Mayor
Kai E. Degner	Council Member
David K. Wiens	Council Member
Charles R. Chenault	Council Member

CITY OFFICIALS

Kurt D. Hodgen	City Manager
Anne C. Lewis	Assistant City Manager
Jeffrey L. Shafer	City Treasurer
June W. Hosaflook	Commissioner of the Revenue
Earl Q. Thumma, Jr.	City Attorney
Erica S. Kann	City Clerk
Stephen P. Monticelli	Police Chief
Larry W. Shifflett	Fire Chief
Larry L. Propst	Director of Finance
A. Michael Collins	Director of Public Utilities
James D. Baker	Director of Public Works
Stacy H. Turner	Director of Planning and Community Development
Reginald S. "Reggie" Smith	Director of Public Transportation
Jennifer L. Whistleman	Director of Human Resources
E. Lee Foerster, Jr.	Director of Parks and Recreation
Brian B. Shull	Director of Economic Development
Paul A. Malabad	Director of Information Technology
Deborah Logan	City Registrar

SCHOOL BOARD

Kerri M. Wilson	Chairperson
Steve S. Barranco	Vice Chairperson
Greg Coffman	Board Member
Dominic D. "Nick" Swayne	Board Member
Polly B. Fravel	Board Member
Sallie Strickler	Board Member

SCHOOL OFFICIALS

Scott R. Kizner, Ph.D.	Superintendent of Schools
Lisa M. Lantz	Clerk
Denise E. "DD" Dawson	Director of Finance and Technology

FINANCIAL SECTION

This part of the City's comprehensive annual financial report contains the financial statements which include the basic financial statements, notes to financial statements and other supplementary information. This part also provides management's analysis of the City's current financial position and the outcome of its operations, as well as, the independent auditor's report.

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of City Council
City of Harrisonburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia, as of June 30, 2012, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section; the combining and individual non-major fund financial statements and budget and actual schedules collectively referred to as Other Supplementary Information; and the statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Other Supplementary Information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2012

CITY OF HARRISONBURG, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Harrisonburg (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$256.5 million (net assets). Of this amount, \$58.3 million (unrestricted net assets) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets decreased by \$1 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$47.9 million, an increase of \$9.7 million in comparison with the previous year. Approximately 85.4 percent of this total amount, \$40.9 million, is available for spending at the City's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$25.5 million, or 30 percent of total General Fund expenditures and other financing uses (less debt refunding transactions).
- The City's total long-term debt decreased by \$2 million during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of

those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 34 through 70 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension and postretirement healthcare benefits to its employees. This information is presented immediately following the notes to financial statements and can be found on pages 71 through 72 of this report.

Other supplementary information. This report also presents certain other supplementary information concerning the combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, agency funds and School Board individual fund financial statements. This information is presented immediately following required supplementary information. The combining and individual fund statements and schedules can be found on pages 73 through 93 of this report.

Government-wide Financial Analysis (Primary Government)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceed liabilities by \$256.5 million at the close of the most recent fiscal year.

The largest portion of the City's net assets (77.1percent) reflects its investment in capital assets (e.g., land, buildings and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, which amounts to \$58.3 million, may be used to meet the City's ongoing obligations to citizens and creditors.

City of Harrisonburg's Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 103,530,541	\$ 96,287,704	\$ 24,118,922	\$ 33,434,906	\$ 127,649,463	\$ 129,722,610
Capital assets	255,304,317	253,176,437	94,176,539	98,305,164	349,480,856	351,481,601
Total assets	\$ 358,834,858	\$ 349,464,141	\$ 118,295,461	\$ 131,740,070	\$ 477,130,319	\$ 481,204,211
Current and other liabilities	\$ 40,681,947	\$ 40,965,706	\$ 2,418,959	\$ 3,169,024	\$ 43,100,906	\$ 44,134,730
Long-term liabilities	143,739,522	138,750,000	33,777,340	40,790,593	177,516,862	179,540,593
Total liabilities	\$ 184,421,469	\$ 179,715,706	\$ 36,196,299	\$ 43,959,617	\$ 220,617,768	\$ 223,675,323
Net assets:						
Invested in capital assets, net of related debt	\$ 136,256,502	\$ 132,778,540	\$ 61,531,423	\$ 63,773,381	\$ 197,787,925	\$ 196,551,921
Restricted	436,546	464,466	-	-	436,546	464,466
Unrestricted	37,720,341	36,505,429	20,567,739	24,007,072	58,288,080	60,512,501
Total net assets	\$ 174,413,389	\$ 169,748,435	\$ 82,099,162	\$ 87,780,453	\$ 256,512,551	\$ 257,528,888

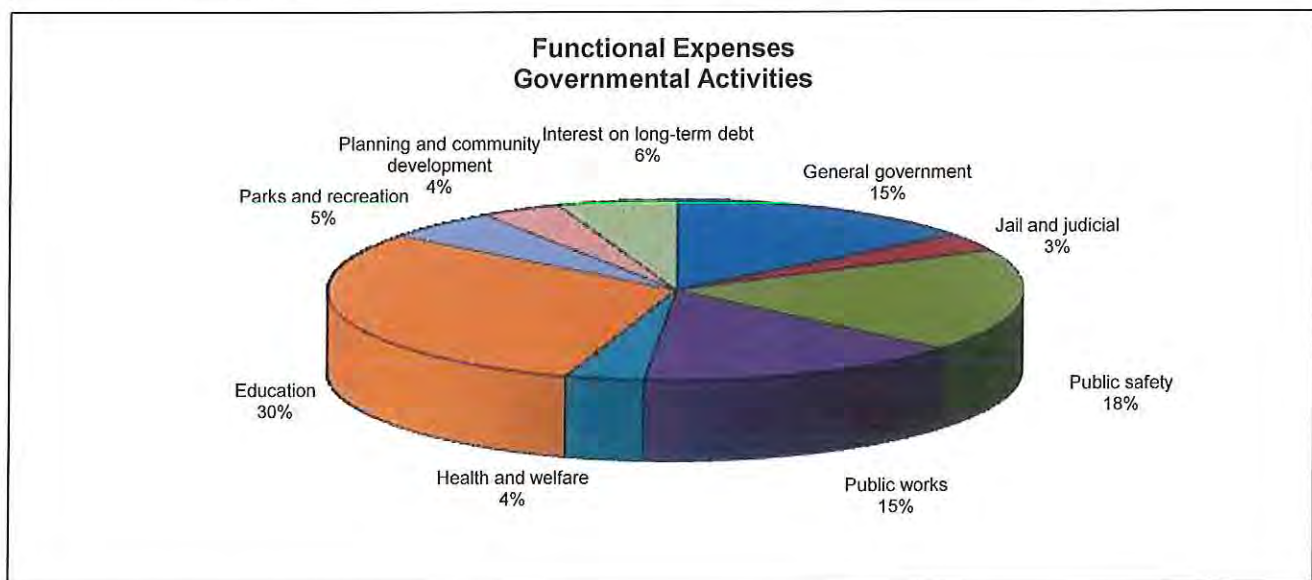
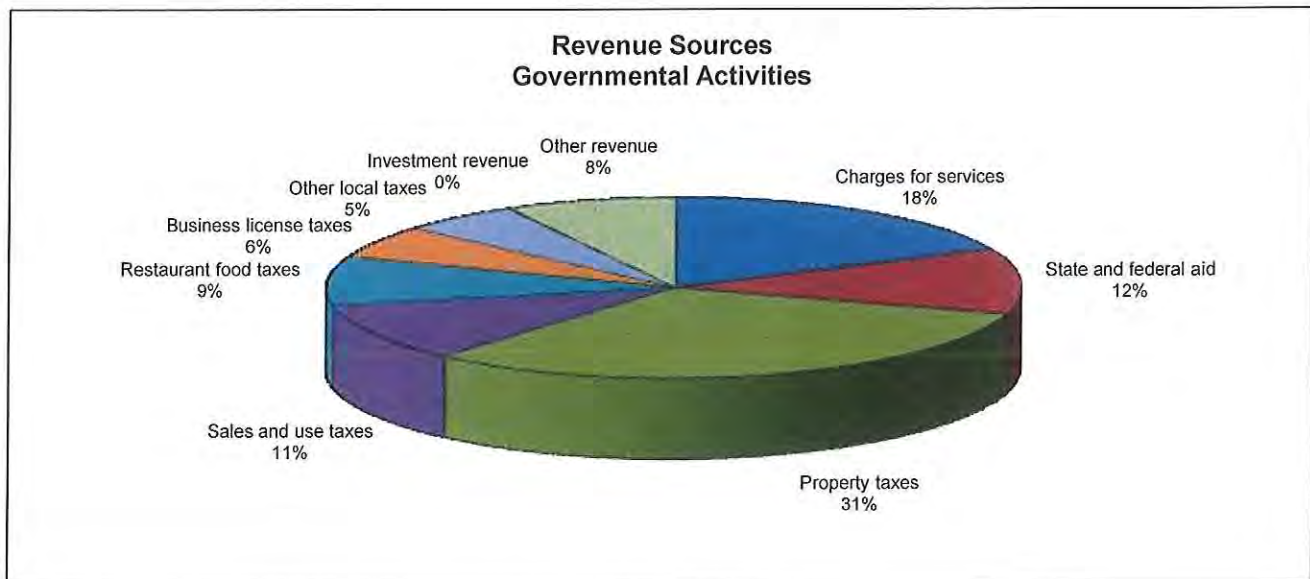
City of Harrisonburg's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 18,419,491	\$ 11,769,056	\$ 20,711,474	\$ 27,273,885	\$ 39,130,965	\$ 39,042,941
Operating grants and contributions	6,420,728	6,779,026	1,469,284	1,353,559	7,890,012	8,132,585
Capital grants and contributions	3,020,379	1,394,887	3,226,291	840,082	6,246,670	2,234,969
General revenues:						
Property taxes	31,997,146	31,465,340	-	-	31,997,146	31,465,340
Sales and use taxes	10,744,198	11,030,783	-	-	10,744,198	11,030,783
Restaurant food taxes	8,815,101	8,414,191	-	-	8,815,101	8,414,191
Business license taxes	5,932,606	5,587,085	-	-	5,932,606	5,587,085
Other local taxes	5,599,612	5,382,633	-	-	5,599,612	5,382,633
Grants and contributions not restricted to specific programs	3,423,474	3,520,574	-	-	3,423,474	3,520,574
Payment from component units	4,900,000	4,900,000	-	-	4,900,000	4,900,000
Investment revenue	68,365	87,557	32,121	52,446	100,486	140,003
Other revenue	2,265,535	4,254,403	1,308,949	1,215,028	3,574,484	5,469,431
Gain on disposal of capital assets	-	-	10,863	4,525	10,863	4,525
Total revenues	\$ 101,606,635	\$ 94,585,535	\$ 26,758,982	\$ 30,739,525	\$ 128,365,617	\$ 125,325,060
Expenses:						
General government						
administration	\$ 14,871,365	\$ 12,711,047	\$ -	\$ -	\$ 14,871,365	\$ 12,711,047
Jail and judicial administration	3,353,068	3,158,825	-	-	3,353,068	3,158,825
Public safety	18,759,038	18,414,704	-	-	18,759,038	18,414,704
Public works	15,430,666	11,384,626	-	-	15,430,666	11,384,626
Health and welfare	3,684,731	3,933,460	-	-	3,684,731	3,933,460
Education	30,965,228	27,641,213	-	-	30,965,228	27,641,213
Parks, recreation and cultural	5,319,618	5,279,763	-	-	5,319,618	5,279,763
Planning and community development	3,844,899	3,618,639	-	-	3,844,899	3,618,639
Interest on long-term debt	5,602,256	6,006,543	-	-	5,602,256	6,006,543
Water	-	-	5,398,401	5,014,952	5,398,401	5,014,952
Sewer	-	-	9,217,798	8,165,858	9,217,798	8,165,858
Public transportation	-	-	4,817,708	6,916,882	4,817,708	6,916,882
Steam plant/sanitation	-	-	6,670,472	9,999,432	6,670,472	9,999,432
Total expenses	\$ 101,830,869	\$ 92,148,820	\$ 26,104,379	\$ 30,097,124	\$ 127,935,248	\$ 122,245,944
Excess (deficiency) before transfers	\$ (224,234)	\$ 2,436,715	\$ 654,603	\$ 642,401	\$ 430,369	\$ 3,079,116
Special item	(1,446,706)	-	-	-	(1,446,706)	-
Transfers	6,335,894	484,233	(6,335,894)	(484,233)	-	-
Change in net assets	\$ 4,664,954	\$ 2,920,948	\$ (5,681,291)	\$ 158,168	\$ (1,016,337)	\$ 3,079,116
Net assets at beginning of year	169,748,435	166,827,487	87,780,453	87,622,285	257,528,888	254,449,772
Net assets at end of year	<u>\$ 174,413,389</u>	<u>\$ 169,748,435</u>	<u>\$ 82,099,162</u>	<u>\$ 87,780,453</u>	<u>\$ 256,512,551</u>	<u>\$ 257,528,888</u>

Governmental activities. Governmental activities increased the City's net assets by \$4.7 million. Key elements affecting governmental activities are as follows:

- Charges for services increased \$6.65 million (56.5 percent) due to the reclassification of refuse collection, land-fill tipping fees and school bus operations from business-type activities. Revenue from refuse collection and landfill tipping fees amounted to \$4.2 million and revenue from school bus operation amounted to \$2.2 million in the current year.
- Capital grants and contributions increased \$1.6 million mainly due to intergovernmental revenue reimbursements for the Stone Spring Road/Erickson Avenue construction project.

- Property tax revenue increased \$531,806 (1.7 percent) during the current year as a result of increased personal property tax collections.
- Restaurant food taxes increased \$400,910 (4.8 percent) as a result of improving economic activity.
- Other revenue decreased \$2 million as the result of a one-time \$2.3 million payment from the Virginia Public School Authority (VPSA) in the previous year.
- Expenses in the general government administration activity increased \$2.2 million (17 percent) primarily due to an increase in claim payments in the City's self-insured health insurance plan.
- Expenses in the public works activity increased \$4 million (35.5 percent) primarily due to the reclassification of refuse collection, recycling and landfill operations from business-type activities. Expenses from these operations amounted to \$2.8 million.
- Expenses in the education activity increased \$3.3 million (12 percent) primarily due to the reclassification of school bus operations from business-type activities. Expenses from school bus operations amounted to \$2.7 million.



Business-type activities. Business-type activities decreased the City's net assets by \$5.7 million. Key elements affecting business-type activities are as follows:

- Charges for services decreased \$6.6 million (24.1 percent) due to the reclassification of refuse collection, landfill tipping fees and school bus operations to governmental activities. Water charges for services were essential-

ly flat during the year while sewer charges for services increased \$582,850 (7.2 percent). Steam plant charges for services decreased approximately \$900,000 (16 percent).

- Capital grants and contributions increased \$2.4 million primarily due to the purchase of seven new transit buses which are largely funded from intergovernmental grants.
- Expenses in the sewer activity increased \$1 million (12.9 percent) primarily from increased contributions to the Harrisonburg-Rockingham Regional Sewer Authority.
- Expenses in the public transportation and sanitation (steam plant) activities decreased due to the reclassification of refuse collection, recycling, landfill and school bus operations to governmental activities.

Government-wide Financial Analysis (Component Units)

School Board activities. Net assets of the School Board increased \$181,084 during the year while remaining essentially flat in the previous year. School Board expenses increased \$2.1 million (3.7 percent) due to a general increase in instructional expenses. The School Board returned \$2.3 million to the City in unused funding while still receiving an additional \$713,669 in operating funds from the City compared to the previous year. State operating funding increased \$2.3 million due to increased enrollment. Federal funding decreased \$361,983 from a decrease in federal stimulus funding.

HEC activities. HEC's net assets decreased \$933,000 during the year, as compared to a \$2.1 million increase in the previous year. Operating revenues increased \$2 million (3.4 percent) during the current year, while expenses increased \$5.4 million (9.2 percent). The increase in expenses was due to an increased cost of electricity purchased. Only 2 percent of these increased costs were passed through to customers in the form of rate increases.

Financial Analysis of the Government's Funds

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

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

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted fund balance of the General Fund was \$30.3 million, while total fund balance was \$31.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures and other financing uses. Unrestricted fund balance represents 35.6 percent (29.5 percent in the prior year) of total General Fund expenditures and other financing uses (less debt refunding transactions), while total fund balance represents 37 percent (31.4 percent in the prior year) of that same amount.

Total fund balance in the General Fund increased \$6.25 million mainly from a \$2.5 million transfer from the Steam Plant Fund, which in turn was placed in a committed fund balance account, to fund a new landfill agreement with Rockingham County and the return of \$2.3 million in unused funding from the School Board. Other financial factors affecting the General Fund have been included in the above discussion of the City's governmental activities.

General Capital Projects Fund. The General Capital Projects Fund has a total fund balance of \$16.1 million, of which the entire amount is either restricted or committed for various projects. Revenue, including other financing sources, totaled \$14.5 million, of which \$5.6 million was intergovernmental revenue, \$6 million was the issuance of bonds and \$2.6 million was transfers from other funds. Intergovernmental revenue included \$5.5 million in funding from the state and federal government for the Stone Spring Road/Erickson Avenue improvement project. The \$6 million in proceeds from the issuance of bonds was for partially funding the Reservoir Street improvement project. The \$2.6 million in transfers from other funds included \$1.4 million from the Steam Plant Fund for expenditures associated with the closed City landfill and \$459,399 from the Public Transportation Fund to fund the City's portion of architecture/engineering costs of a new public transportation facility. Expenditures totaled \$11.3 million, of which

the most significant were Phase II and Phase III construction expenditures for the Stone Spring Road/Erickson Avenue improvement project and architecture/engineering for the new public transportation facility.

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

Water Fund. Net assets in the Water Fund decreased \$492,745 compared to an increase of \$162,677 in the previous year. Charges for services remained essentially flat due a small water rate increase and decreased water consumption, while total operating expenses increased \$366,591 (7.8 percent). One of the primary factors for the increase in operating expenses was several engineering studies associated with an asset management plan and an electrical usage study for pump stations.

Sewer Fund. Net assets in the Sewer Fund decreased \$1.1 million compared to a decrease of \$424,842 in the previous year. Charges for services increased \$582,850 (7.2 percent) due to a sewer authority rate increase, while total operating expenses increased \$1 million (12.6 percent). Increasing contributions to the Harrisonburg-Rockingham Regional Sewer Authority was the primary factor for the increase in operating expenses.

Public Transportation Fund. This fund currently reflects only the operations of the transit bus system, whereas in previous years, this fund also included the operations of the school bus system. Operating revenues for the transit bus system increased approximately \$120,000 (8.4 percent) mainly due to an increase in funding from James Madison University, while total operating expenses for the transit bus system increased approximately \$454,000 (10.5 percent). Expenses increased primarily due to an increase in fuel costs and maintenance and repair on buses and depreciation expense. Capital contributions increased \$3 million from the purchase of seven new transit buses which are largely funded by intergovernmental revenues. Nonoperating expenses include \$1.2 million in net transfers of long-term assets and liabilities associated with the reclassification of school bus operations to governmental activities in the government-wide financial statements.

Steam Plant Fund. In previous years, this fund was the Sanitation Fund and included refuse collection, recycling and landfill operations. These operations are now included in the General Fund. Operating revenues decreased approximately \$900,000 (16 percent) due to a decrease in tipping fee revenue due a general decrease in tonnage received into the steam plant, as well as, portions of the steam plant had been shut down for periods of time for equipment maintenance, while total operating expenses increased approximately \$216,000 (3.8 percent) primarily due to an increases maintenance expenses. Nonoperating revenues include \$1.1 million in net transfers of long-term assets and liabilities associated with the reclassification of refuse collection, recycling and landfill operations to governmental activities in the government-wide financial statements. Transfers out include \$2.5 million transferred to the General Fund to fund the City's landfill liability associated with a new Rockingham County landfill agreement and \$1.4 million transferred to the General Capital Projects Fund for funding of postclosure costs at the City's closed landfill.

General Fund Budgetary Highlights

Differences between the original and the final amended General Fund budget amounted to \$25 million, or 27.6 percent of the original budget, and can be briefly summarized as follows:

- \$22 million appropriated for a debt refunding transaction.
- \$1.6 million appropriated for prior year encumbrances.
- \$666,393 appropriated for renovations to the new School Board administration offices.
- \$482,813 appropriated for various fire department purposes including state and federal grants.
- \$142,706 appropriated for various police department purposes including state and federal grants.
- \$242,628 appropriated for additional funding to the Harrisonburg-Rockingham Social Services District.
- \$129,549 appropriated for a food service addition to the golf course clubhouse.
- \$70,526 appropriated for other purposes.
- \$331,207 in budgetary reductions for fund balance commitments associated with information technology and a new Rockingham County landfill agreement.

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

- Public works expenditures were under the final amended budget by approximately \$3.6 million. The variance was primarily the result of a delay in street repaving, sidewalk repair and capital outlay expenditures.
- Education expenditures were under the final amended budget by approximately \$2.3 million. The variance was due to the return of unused funds by the School Board.

Capital Asset and Debt Administration

Capital assets. At the end of the current fiscal year, the City's investment in capital assets for its governmental and business-type activities totaled \$349.5 million (net of accumulated depreciation). This investment in capital assets includes land, easements, buildings, improvements other than buildings, machinery and equipment, infrastructure (e.g., streets and bridges), JMU land and steam agreement (an intangible asset) and construction in progress. The City's total investment in capital assets for the current fiscal year decreased \$2 million.

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

- Land was donated to the City to be used for a bicycle and pedestrian trail between Westover Park and Thomas Harrison Middle School increasing governmental activities' land by \$700,000.
- Construction continued on the Stone Spring Road/Erickson Avenue Phase II improvement project increasing governmental activities' construction in progress by \$6.2 million.
- Construction began on the Stone Spring Road/Erickson Avenue Phase III improvement project increasing governmental activities' construction in progress by \$800,000.
- As the result of a new Rockingham County landfill agreement, the intangible asset from the old agreement was impaired decreasing intangible assets by \$2 million.
- Construction and engineering continued on the eastern source water line development project to the South Fork of the Shenandoah River increasing business-type activities' construction in progress by \$2 million.
- Construction was completed on a refractory rebuild for the two incinerators at the steam plant increasing business-type activities' improvements other than buildings by \$1.1 million.
- Purchased seven new transit buses increasing business-type activities' machinery and equipment by \$2.5 million.
- Land in the amount of \$502,800, buildings in the amount of \$578,394, machinery and equipment in the amount of \$2.2 million and intangible assets in the amount of \$2.1 million were transferred from business-type activities to governmental activities due the operational reclassifications mentioned earlier.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 46,823,529	\$ 45,557,062	\$ 442,295	\$ 945,095	\$ 47,265,824	\$ 46,502,157
Easements	899,066	899,066	333,687	333,187	1,232,753	1,232,253
Construction in progress	21,868,204	14,356,029	12,313,171	9,185,155	34,181,375	23,541,184
Buildings	89,076,805	94,063,401	8,338,698	9,205,290	97,415,503	103,268,691
Improvements other than buildings	8,318,876	8,629,053	13,065,918	12,423,139	21,384,794	21,052,192
Machinery and equipment	15,224,111	13,915,568	20,541,972	22,814,387	35,766,083	36,729,955
Intangibles:						
JMU agreement	-	-	238,902	265,447	238,902	265,447
County landfill agreement	-	-	-	2,114,906	-	2,114,906
Other	104,000	130,000	-	-	104,000	130,000
Infrastructure	72,989,726	75,626,258	38,901,896	41,018,558	111,891,622	116,644,816
Total capital assets	\$ 255,304,317	\$ 253,176,437	\$ 94,176,539	\$ 98,305,164	\$ 349,480,856	\$ 351,481,601

Additional information on the City's capital assets can be found in Note 7 on pages 43 through 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$177.5 million. Of this amount, \$162.1 million comprises debt backed by the full faith and credit of the City. \$239,994 of this amount is debt that is secured by a specified revenue source that is also backed by the full faith and credit of the City in the event these revenues are insufficient to make debt service payments. The City's total long-term debt decreased \$2 million during the current fiscal year.

Significant long-term debt events during the current fiscal year included the following:

- The issuance of \$5.9 million in general obligation bonds to partially fund the Reservoir Street improvement project in governmental activities.
- The issuance of \$22.7 million in general obligation bonds to current refund several outstanding bond issues for governmental and business-type activities. The City was able to reduce its total debt service payments on the old bonds by \$3.2 million.
- Compensated absences in the amount of \$261,996, postretirement healthcare benefits in the amount of \$200,989 and landfill closure costs in the amount of \$4,724,044 were transferred from business-type activities to governmental activities due the operational reclassifications mentioned earlier.

City of Harrisonburg's Long-term Debt Outstanding (net of premiums/discounts and deferred refunding charges)						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 129,469,015	\$ 128,931,460	\$ 32,405,122	\$ 34,061,921	\$ 161,874,137	\$ 162,993,381
General obligation revenue bonds	-	-	239,994	469,862	239,994	469,862
Capital leases	4,827,885	5,751,958	-	-	4,827,885	5,751,958
Compensated absences	3,073,941	2,796,736	696,729	1,003,845	3,770,670	3,800,581
Postretirement healthcare benefits	1,965,433	1,269,846	435,495	530,921	2,400,928	1,800,767
City landfill closure costs	1,705,283	-	-	1,665,315	1,705,283	1,665,315
County landfill obligation	2,697,965	-	-	3,058,729	2,697,965	3,058,729
Total long-term debt	\$ 143,739,522	\$ 138,750,000	\$ 33,777,340	\$ 40,790,593	\$ 177,516,862	\$ 179,540,593

During fiscal year 2012, the City's credit rating was upgraded to a AA bond rating from Standard and Poor's while a Aa2 bond rating from Moody's was maintained.

State statutes limit the amount of general obligation debt a governmental entity may incur to 10 percent of its total assessed real property valuation. The current debt limitation for the City is \$398.1 million of which \$234.4 million is available for use.

Additional information on the City's long-term debt can be found in Note 11 on pages 47 through 57 of this report.

Economic Factors and Next Year's Budgets and Rates

The approved \$91.6 million fiscal year 2013 General Fund budget included the use of approximately \$438,000 from unassigned fund balance and approximately \$314,000 from committed fund balance. The following were factors in the preparation and final approval of the fiscal year 2013 General Fund budget.

- The unemployment rate for the City in December 2011 was 6.6 percent, which was a decrease from a rate of 6.8 percent in December 2010. This rate was higher than the 5.9 percent state rate but still compares favorably to the 8.3 percent national rate in December 2011.
- Increased the real estate tax rate from \$0.59 to \$0.63 to offset an approximate 2 percent decline in assessed real estate values. This tax rate increase is anticipated to provide an additional \$1.1 million in revenue compared to fiscal year 2012.
- Increased the restaurant food tax rate from 6 percent to 6.5 percent. This tax rate increase is anticipated to provide an additional \$735,000 in revenue compared to fiscal year 2012.

- Increased the solid waste collection fee from \$10 to \$15 per month. This fee increase is anticipated to provide an additional \$700,000 in revenue compared to fiscal year 2012.
- No cost-of-living salary adjustments for City or School Board employees.
- Little or no growth in other tax revenue.

A water rate increase of \$0.07 per one thousand gallons was approved to provide continued funding for the financing of the construction of a waterline from the Shenandoah River.

A sewer authority rate increase of \$0.33 per one thousand gallons was approved to provide funding for the City's share of debt service for the Harrisonburg-Rockingham Regional Sewer Authority's \$90 million wastewater treatment plant expansion and increased operational costs associated with the expansion.

Requests for Information

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

**BASIC
FINANCIAL STATEMENTS**

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CITY OF HARRISONBURG, VIRGINIA
STATEMENT OF NET ASSETS
At June 30, 2012

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	HEC
Assets					
Cash and cash equivalents	\$ 42,669,431	\$ 22,656,925	\$ 65,326,356	\$ 6,556,274	\$ 6,457,373
Investments	-	-	-	-	11,500,000
Receivables (net of allowance for uncollectibles)	40,935,694	2,277,815	43,213,509	1,646,424	5,423,375
Due from primary government	-	-	-	-	163,797
Due from component unit	53,669	-	53,669	56,580	93,176
Internal balances	1,228,862	(1,228,862)	-	-	-
Inventory	1,714,597	-	1,714,597	104,885	1,713,101
Prepaid expenses	127,212	32,266	159,478	500,131	132,970
Loans receivable	9,583,080	-	9,583,080	-	-
Restricted assets	6,089,359	-	6,089,359	-	-
Bond issue costs	1,128,637	380,778	1,509,415	-	-
Capital assets:					
Capital assets, not being depreciated	69,590,799	13,089,153	82,679,952	5,611,429	5,469,976
Capital assets (net of accumulated depreciation)	185,713,518	81,087,386	266,800,904	26,980,329	55,356,887
Total assets	\$ 358,834,858	\$ 118,295,461	\$ 477,130,319	\$ 41,456,052	\$ 86,310,655
Liabilities					
Accounts payable	\$ 3,295,466	\$ 670,127	\$ 3,965,593	\$ 52,743	\$ 5,321,265
Accrued payroll	552,212	118,339	670,551	5,136,328	-
Accrued interest	2,278,608	486,241	2,764,849	-	-
Due to primary government	-	-	-	47,822	5,847
Due to component unit	91,004	72,793	163,797	93,176	56,580
Customer deposits	-	291,297	291,297	-	949,970
Unearned revenue	34,063,806	739,658	34,803,464	-	-
Other liabilities	354,079	40,504	394,583	-	412,346
Liabilities payable from restricted assets	46,772	-	46,772	-	-
Long-term liabilities:					
Due within one year	8,959,175	2,290,834	11,250,009	289,235	365,915
Due in more than one year	134,780,347	31,486,506	166,266,853	2,876,099	772,172
Total liabilities	\$ 184,421,469	\$ 36,196,299	\$ 220,617,768	\$ 8,495,403	\$ 7,884,095
Net assets					
Invested in capital assets (net of related debt)	\$ 136,256,502	\$ 61,531,423	\$ 197,787,925	\$ 32,591,758	\$ 60,826,863
Restricted for:					
Public safety	152,249	-	152,249	-	-
Debt service	284,297	-	284,297	-	-
Unrestricted	37,720,341	20,567,739	58,288,080	368,891	17,599,697
Total net assets	\$ 174,413,389	\$ 82,099,162	\$ 256,512,551	\$ 32,960,649	\$ 78,426,560

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

CITY OF HARRISONBURG, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 14,871,365	\$ 9,590,439	\$ 287,765	\$ -
Jail and judicial administration	3,353,068	417,063	-	-
Public safety	18,759,038	198,963	1,661,236	-
Public works	15,430,666	4,223,763	3,907,770	3,020,379
Health and welfare	3,684,731	-	-	-
Education	30,965,228	2,163,748	-	-
Parks, recreation and cultural	5,319,618	1,156,262	977	-
Planning and community development	3,844,899	669,253	562,980	-
Interest on long-term debt	5,602,256	-	-	-
Total governmental activities	\$ 101,830,869	\$ 18,419,491	\$ 6,420,728	\$ 3,020,379
Business-type activities:				
Water	\$ 5,398,401	\$ 5,803,549	\$ -	\$ 91,350
Sewer	9,217,798	8,631,508	-	44,200
Public transportation	4,817,708	1,558,556	1,469,284	3,075,631
Steam plant	6,670,472	4,717,861	-	15,110
Total business-type activities	\$ 26,104,379	\$ 20,711,474	\$ 1,469,284	\$ 3,226,291
Total primary government	\$ 127,935,248	\$ 39,130,965	\$ 7,890,012	\$ 6,246,670
Component units:				
School Board	\$ 59,583,422	\$ 1,812,317	\$ 15,041,598	\$ -
Harrisonburg Electric Commission (HEC)	63,762,303	62,250,717	-	507,813
Total component units	\$ 123,345,725	\$ 64,063,034	\$ 15,041,598	\$ 507,813

General revenues:

Property taxes
Sales and use taxes
Restaurant food taxes
Business license taxes
Other local taxes
Unrestricted grants and contributions
Unrestricted payment from primary government
Unrestricted payment from component units
Investment revenue
Other revenue
Gain on disposal of capital assets
Special item
Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

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

Net (Expense) Revenue and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	School Board	HEC	
\$ (4,993,161)	\$ -	\$ (4,993,161)	\$ -	\$ -	-
(2,936,005)	-	(2,936,005)	-	-	-
(16,898,839)	-	(16,898,839)	-	-	-
(4,278,754)	-	(4,278,754)	-	-	-
(3,684,731)	-	(3,684,731)	-	-	-
(28,801,480)	-	(28,801,480)	-	-	-
(4,162,379)	-	(4,162,379)	-	-	-
(2,612,666)	-	(2,612,666)	-	-	-
(5,602,256)	-	(5,602,256)	-	-	-
\$ (73,970,271)	\$ -	\$ (73,970,271)	\$ -	\$ -	-
\$ -	\$ 496,498	\$ 496,498	\$ -	\$ -	-
-	(542,090)	(542,090)	-	-	-
-	1,285,763	1,285,763	-	-	-
-	(1,937,501)	(1,937,501)	-	-	-
\$ -	\$ (697,330)	\$ (697,330)	\$ -	\$ -	-
\$ (73,970,271)	\$ (697,330)	\$ (74,667,601)	\$ -	\$ -	-
\$ -	\$ -	\$ -	\$ (42,729,507)	\$ -	-
-	-	-	-	(1,003,773)	-
\$ -	\$ -	\$ -	\$ (42,729,507)	\$ (1,003,773)	-
\$ 31,997,146	\$ -	\$ 31,997,146	\$ -	\$ -	-
10,744,198	-	10,744,198	-	-	-
8,815,101	-	8,815,101	-	-	-
5,932,606	-	5,932,606	-	-	-
5,599,612	-	5,599,612	-	-	-
3,423,474	-	3,423,474	18,923,832	-	-
-	-	-	23,706,046	-	-
4,900,000	-	4,900,000	-	-	-
68,365	32,121	100,486	1,605	70,591	-
2,265,535	1,308,949	3,574,484	279,108	-	-
-	10,863	10,863	-	-	-
(1,446,706)	-	(1,446,706)	-	-	-
6,335,894	(6,335,894)	-	-	-	-
\$ 78,635,225	\$ (4,983,961)	\$ 73,651,264	\$ 42,910,591	\$ 70,591	-
\$ 4,664,954	\$ (5,681,291)	\$ (1,016,337)	\$ 181,084	\$ (933,182)	-
169,748,435	87,780,453	257,528,888	32,779,565	79,359,742	-
\$ 174,413,389	\$ 82,099,162	\$ 256,512,551	\$ 32,960,649	\$ 78,426,560	-

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS
BALANCE SHEET
At June 30, 2012

Exhibit 3

	General Fund	General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 28,072,747	\$ 10,047,240	\$ 424,837	\$ 38,544,824
Receivables (net of allowance for uncollectibles)	38,736,496	2,116,410	77,963	40,930,869
Due from other funds	28,433	-	-	28,433
Due from component unit	-	-	47,822	47,822
Inventory	69,417	-	-	69,417
Prepaid expenditures	118,952	-	-	118,952
Advance to other funds	217,339	-	-	217,339
Loans receivable	9,567,700	-	15,380	9,583,080
Restricted assets	284,297	5,805,062	-	6,089,359
Total assets	\$ 77,095,381	\$ 17,968,712	\$ 566,002	\$ 95,630,095
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 989,073	\$ 1,143,336	\$ 47,236	\$ 2,179,645
Accrued payroll	413,485	-	126,040	539,525
Due to other funds	-	28,433	-	28,433
Due to component unit	89,391	-	943	90,334
Advance from other funds	-	-	38,510	38,510
Deferred revenue	43,730,468	659,429	95,788	44,485,685
Other liabilities	354,079	-	-	354,079
Liabilities payable from restricted assets	-	46,772	-	46,772
Total liabilities	\$ 45,576,496	\$ 1,877,970	\$ 308,517	\$ 47,762,983
Fund Balances:				
Nonspendable	\$ 780,708	\$ -	\$ -	\$ 780,708
Restricted	436,546	5,758,290	-	6,194,836
Committed	3,095,380	10,332,452	317,978	13,745,810
Assigned	1,671,329	-	-	1,671,329
Unassigned	25,534,922	-	(60,493)	25,474,429
Total fund balances	\$ 31,518,885	\$ 16,090,742	\$ 257,485	\$ 47,867,112
Total liabilities and fund balances	\$ 77,095,381	\$ 17,968,712	\$ 566,002	\$ 95,630,095

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

CITY OF HARRISONBURG, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
At June 30, 2012

Exhibit 4

Total fund balance of governmental funds (Exhibit 3)	\$ 47,867,112
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Certain revenues are not available to pay for current period expenditures and therefore are deferred in the funds.	10,913,020
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	254,626,972
Certain liabilities, including bonds and related accounts, are not payable from current financial resources and therefore are not reported in the funds.	(144,734,286)
Internal service funds are used by management to charge the costs of certain activities to other funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	<u>5,740,571</u>
Net assets of governmental activities (Exhibit 1)	\$ <u><u>174,413,389</u></u>

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

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2012

Exhibit 5

	General Fund	General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 32,180,329	\$ -	\$ -	\$ 32,180,329
Other local taxes	31,114,956	-	-	31,114,956
Permits, privilege fees and regulatory licenses	498,465	-	-	498,465
Fines and forfeitures	526,260	-	-	526,260
Use of money and property	156,535	14,843	221	171,599
Charges for services	5,630,835	-	2,144,363	7,775,198
Miscellaneous	2,002,299	4,000	8,229	2,014,528
Recovered costs	303,253	303,253	-	606,506
Payments from component units	4,900,000	-	-	4,900,000
Intergovernmental	9,254,237	5,581,163	508,847	15,344,247
Total revenues	<u>\$ 86,567,169</u>	<u>\$ 5,903,259</u>	<u>\$ 2,661,660</u>	<u>\$ 95,132,088</u>
Expenditures:				
Current:				
General government administration	\$ 4,003,007	\$ -	\$ -	\$ 4,003,007
Jail and judicial administration	3,056,108	-	-	3,056,108
Public safety	17,541,823	-	-	17,541,823
Public works	10,484,164	-	-	10,484,164
Health and welfare	3,662,866	-	-	3,662,866
Education	23,547,965	-	2,653,303	26,201,268
Parks, recreation and cultural	4,946,248	-	-	4,946,248
Planning and community development	3,164,774	-	566,916	3,731,690
Debt service:				
Principal retirement	7,054,192	-	-	7,054,192
Interest and fiscal charges	5,406,443	-	-	5,406,443
Bond issue costs	381,755	-	-	381,755
Capital projects	-	11,335,007	-	11,335,007
Total expenditures	<u>\$ 83,249,345</u>	<u>\$ 11,335,007</u>	<u>\$ 3,220,219</u>	<u>\$ 97,804,571</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 3,317,824</u>	<u>\$ (5,431,748)</u>	<u>\$ (558,559)</u>	<u>\$ (2,672,483)</u>
Other financing sources (uses):				
Long-term debt issued	\$ -	\$ 5,865,000	\$ -	\$ 5,865,000
Refunding debt issued	21,400,000	-	-	21,400,000
Premium on long-term debt issued	642,219	144,523	-	786,742
Payment for current bond refunding	(21,649,901)	-	-	(21,649,901)
Transfers in	4,867,135	2,590,014	822,468	8,279,617
Transfers out	(2,326,071)	-	-	(2,326,071)
Total other financing sources (uses)	<u>\$ 2,933,382</u>	<u>\$ 8,599,537</u>	<u>\$ 822,468</u>	<u>\$ 12,355,387</u>
Net change in fund balances	<u>\$ 6,251,206</u>	<u>\$ 3,167,789</u>	<u>\$ 263,909</u>	<u>\$ 9,682,904</u>
Fund balances at beginning of year	<u>25,267,679</u>	<u>12,922,953</u>	<u>(6,424)</u>	<u>38,184,208</u>
Fund balances at end of year	<u>\$ 31,518,885</u>	<u>\$ 16,090,742</u>	<u>\$ 257,485</u>	<u>\$ 47,867,112</u>

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

CITY OF HARRISONBURG, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Exhibit 6

Total net change in fund balances of governmental funds (Exhibit 5)	\$ 9,682,904
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Certain revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount is the net change in these revenues.	(1,227,168)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense.	804,625
The contribution (donation) of capital assets affects only the statement of activities. These transactions do not have an effect on current financial resources and, therefore, are not reported in governmental funds.	700,000
The transfer of capital assets to the School Board (component unit) affects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds.	(2,750,218)
The effect of the special item affects only the statement of activities. This transactions does not have an effect on current financial resources and, therefore, is not reported in governmental funds.	(1,446,706)
The transfer of certain net assets (capital assets and long-term liabilities) from other funds due to the reclassification of activities affects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds.	178,461
Other capital asset transactions	(81,545)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	723,760
Certain expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds. This amount is the net change in these expenses.	(497,622)
Internal service funds are used by management to charge the costs of certain activities to other funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	(1,421,537)
Change in net assets of governmental activities (Exhibit 2)	\$ <u>4,664,954</u>

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

GENERAL FUND

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

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 31,968,676	\$ 31,968,676	\$ 32,180,329	\$ 211,653
Other local taxes	30,478,246	30,478,246	31,114,956	636,710
Permits, privilege fees and regulatory licenses	573,175	573,175	498,465	(74,710)
Fines and forfeitures	601,000	601,000	526,260	(74,740)
Use of money and property	175,469	175,469	156,535	(18,934)
Charges for services	5,590,300	5,599,031	5,630,835	31,804
Miscellaneous	1,913,110	2,002,465	2,002,299	(166)
Recovered costs	-	303,253	303,253	-
Payments from component units	4,900,000	4,900,000	4,900,000	-
Intergovernmental	9,138,606	9,555,633	9,254,237	(301,396)
Total revenues	<u>\$ 85,338,582</u>	<u>\$ 86,156,948</u>	<u>\$ 86,567,169</u>	<u>\$ 410,221</u>
Expenditures:				
Current:				
General government administration	\$ 4,480,931	\$ 4,303,687	\$ 4,003,007	\$ 300,680
Jail and judicial administration	1,040,865	3,056,108	3,056,108	-
Public safety	17,495,968	18,175,920	17,541,823	634,097
Public works	13,102,554	14,095,606	10,484,164	3,611,442
Health and welfare	5,465,549	3,915,586	3,662,866	252,720
Education	25,200,043	25,866,436	23,547,965	2,318,471
Parks, recreation and cultural	5,031,095	5,211,706	4,946,248	265,458
Planning and community development	3,325,606	3,431,306	3,164,774	266,532
Debt service:				
Principal retirement	7,211,193	7,211,193	7,054,192	157,001
Interest and fiscal charges	5,760,135	5,760,135	5,406,443	353,692
Bond issue costs	-	392,318	381,755	10,563
Total expenditures	<u>\$ 88,113,939</u>	<u>\$ 91,420,001</u>	<u>\$ 83,249,345</u>	<u>\$ 8,170,656</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (2,775,357)</u>	<u>\$ (5,263,053)</u>	<u>\$ 3,317,824</u>	<u>\$ 8,580,877</u>
Other financing sources (uses):				
Refunding debt issued	\$ -	\$ 21,400,000	\$ 21,400,000	\$ -
Premium on long-term debt issued	-	642,219	642,219	-
Payment for current bond refunding	-	(21,649,901)	(21,649,901)	-
Transfers in	2,318,342	4,867,135	4,867,135	-
Transfers out	(2,481,077)	(2,531,418)	(2,326,071)	205,347
Total other financing sources (uses)	<u>\$ (162,735)</u>	<u>\$ 2,728,035</u>	<u>\$ 2,933,382</u>	<u>\$ 205,347</u>
Net change in fund balance	<u>\$ (2,938,092)</u>	<u>\$ (2,535,018)</u>	<u>\$ 6,251,206</u>	<u>\$ 8,786,224</u>
Fund balance at beginning of year			25,267,679	
Fund balance at end of year			<u>\$ 31,518,885</u>	

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

CITY OF HARRISONBURG, VIRGINIA
 PROPRIETARY FUNDS
 BALANCE SHEET
 At June 30, 2012

Exhibit 8

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Steam Plant Fund	Total	
Assets						
Current assets:						
Cash and cash equivalents	\$ 7,356,707	\$ 4,709,624	\$ 56,917	\$ 10,533,677	\$ 22,656,925	\$ 4,124,607
Receivables (net of allowance for uncollectibles)	656,335	944,970	8,258	226,733	1,836,296	4,825
Due from component unit	-	-	-	-	-	5,847
Due from other governments	-	-	441,519	-	441,519	-
Inventory	-	-	-	-	-	1,645,180
Prepaid expenses	2,890	1,802	16,779	10,795	32,266	8,260
Total current assets	<u>\$ 8,015,932</u>	<u>\$ 5,656,396</u>	<u>\$ 523,473</u>	<u>\$ 10,771,205</u>	<u>\$ 24,967,006</u>	<u>\$ 5,788,719</u>
Noncurrent assets:						
Bond issue costs	\$ 142,245	\$ -	\$ -	\$ 238,533	\$ 380,778	\$ -
Capital assets (net of accumulated depreciation)	46,852,853	23,614,812	6,386,859	17,322,015	94,176,539	677,345
Total noncurrent assets	<u>\$ 46,995,098</u>	<u>\$ 23,614,812</u>	<u>\$ 6,386,859</u>	<u>\$ 17,560,548</u>	<u>\$ 94,557,317</u>	<u>\$ 677,345</u>
Total assets	<u><u>\$ 55,011,030</u></u>	<u><u>\$ 29,271,208</u></u>	<u><u>\$ 6,910,332</u></u>	<u><u>\$ 28,331,753</u></u>	<u><u>\$ 119,524,323</u></u>	<u><u>\$ 6,466,064</u></u>
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 167,901	\$ 60,352	\$ 271,103	\$ 170,771	\$ 670,127	\$ 1,115,821
Accrued payroll	32,118	23,222	21,902	41,097	118,339	12,687
Accrued interest	171,436	-	-	314,805	486,241	-
Due to component unit	8,802	3,327	817	59,847	72,793	670
Advance from other funds	-	-	-	-	-	178,829
Customer deposits	291,297	-	-	-	291,297	-
Unearned revenue	419,650	289,200	-	30,808	739,658	491,141
Other liabilities	40,504	-	-	-	40,504	-
Compensated absences	109,722	63,209	57,934	52,796	283,661	42,481
Current portion of bonds payable	360,006	-	-	1,647,167	2,007,173	-
Total current liabilities	<u>\$ 1,601,436</u>	<u>\$ 439,310</u>	<u>\$ 351,756</u>	<u>\$ 2,317,291</u>	<u>\$ 4,709,793</u>	<u>\$ 1,841,629</u>
Noncurrent liabilities:						
Compensated absences	\$ 157,981	\$ 97,970	\$ 67,535	\$ 89,582	\$ 413,068	\$ 47,173
Postretirement healthcare benefits	140,833	109,381	65,270	120,011	435,495	65,553
Bonds payable	11,081,472	-	-	19,556,471	30,637,943	-
Total noncurrent liabilities	<u>\$ 11,380,286</u>	<u>\$ 207,351</u>	<u>\$ 132,805</u>	<u>\$ 19,766,064</u>	<u>\$ 31,486,506</u>	<u>\$ 112,726</u>
Total liabilities	<u>\$ 12,981,722</u>	<u>\$ 646,661</u>	<u>\$ 484,561</u>	<u>\$ 22,083,355</u>	<u>\$ 36,196,299</u>	<u>\$ 1,954,355</u>
Net assets:						
Invested in capital assets (net of related debt)	\$ 35,411,375	\$ 23,614,812	\$ 6,386,859	\$ (3,881,623)	\$ 61,531,423	\$ 677,345
Unrestricted	<u>6,617,933</u>	<u>5,009,735</u>	<u>38,912</u>	<u>10,130,021</u>	<u>21,796,601</u>	<u>3,834,364</u>
Total net assets	<u>\$ 42,029,308</u>	<u>\$ 28,624,547</u>	<u>\$ 6,425,771</u>	<u>\$ 6,248,398</u>	<u>\$ 83,328,024</u>	<u>\$ 4,511,709</u>
Total liabilities and net assets	<u><u>\$ 55,011,030</u></u>	<u><u>\$ 29,271,208</u></u>	<u><u>\$ 6,910,332</u></u>	<u><u>\$ 28,331,753</u></u>		<u><u>\$ 6,466,064</u></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(1,228,862)	
Net assets of business-type activities (Exhibit 1)					\$ 82,099,162	

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

CITY OF HARRISONBURG, VIRGINIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2012

Exhibit 9

	Enterprise Funds					
	Water Fund	Sewer Fund	Public Transportation Fund	Steam Plant Fund	Total	Internal Service Funds
Operating revenues:						
Charges for services	\$ 5,731,845	\$ 8,628,608	\$ 1,558,556	\$ 4,621,686	\$ 20,540,695	\$ 16,524,494
Connection fees	71,704	2,900	-	-	74,604	-
Total operating revenues	<u>\$ 5,803,549</u>	<u>\$ 8,631,508</u>	<u>\$ 1,558,556</u>	<u>\$ 4,621,686</u>	<u>\$ 20,615,299</u>	<u>\$ 16,524,494</u>
Operating expenses:						
Personal services	\$ 1,381,282	\$ 963,400	\$ 1,606,028	\$ 1,118,020	\$ 5,068,730	\$ 616,090
Fringe benefits	480,063	385,625	399,877	442,025	1,707,590	223,165
Purchased services	377,206	65,556	102,143	987,047	1,531,952	614,573
Internal services	241,443	244,492	1,118,842	46,068	1,650,845	2,223
Other charges	479,125	135,848	237,772	1,415,795	2,268,540	798,993
Materials and supplies	325,545	75,257	25,797	262,104	688,703	52,615
Contributions to regional sewer authority	-	5,976,669	-	-	5,976,669	-
Depreciation and amortization	1,778,849	1,330,958	1,276,919	1,594,573	5,981,299	29,801
Cost of inventory issued	-	-	-	-	-	3,487,779
Claims related charges	-	-	-	-	-	12,540,667
Total operating expenses	<u>\$ 5,063,513</u>	<u>\$ 9,177,805</u>	<u>\$ 4,767,378</u>	<u>\$ 5,865,632</u>	<u>\$ 24,874,328</u>	<u>\$ 18,365,906</u>
Operating income (loss)	<u>\$ 740,036</u>	<u>\$ (546,297)</u>	<u>\$ (3,208,822)</u>	<u>\$ (1,243,946)</u>	<u>\$ (4,259,029)</u>	<u>\$ (1,841,412)</u>
Nonoperating revenues (expenses):						
Intergovernmental revenue	\$ -	\$ -	\$ 1,469,284	\$ -	\$ 1,469,284	\$ -
Connection application fees	230,134	492,550	-	-	722,684	-
Miscellaneous revenue	25,110	38	66,117	-	91,265	12,507
Reimbursement of bond payment	-	-	-	591,175	591,175	-
Investment revenue	10,578	6,618	219	14,706	32,121	6,005
Interest expense	(245,933)	-	-	(786,642)	(1,032,575)	-
Gain on disposal of capital assets	500	3,485	6,878	-	10,863	-
Transfer of long-term assets and liabilities	-	-	(1,236,617)	1,058,156	(178,461)	-
Total nonoperating revenues (expenses)	<u>\$ 20,389</u>	<u>\$ 502,691</u>	<u>\$ 305,881</u>	<u>\$ 877,395</u>	<u>\$ 1,706,356</u>	<u>\$ 18,512</u>
Income (loss) before contributions and transfers	<u>\$ 760,425</u>	<u>\$ (43,606)</u>	<u>\$ (2,902,941)</u>	<u>\$ (366,551)</u>	<u>\$ (2,552,673)</u>	<u>\$ (1,822,900)</u>
Capital contributions	91,350	44,200	3,075,631	15,110	3,226,291	-
Transfers in	-	-	426,830	558,843	985,673	203,887
Transfers out	<u>(1,344,520)</u>	<u>(1,100,934)</u>	<u>(711,094)</u>	<u>(3,986,558)</u>	<u>(7,143,106)</u>	<u>-</u>
Change in net assets	<u>\$ (492,745)</u>	<u>\$ (1,100,340)</u>	<u>\$ (111,574)</u>	<u>\$ (3,779,156)</u>	<u>\$ (5,483,815)</u>	<u>\$ (1,619,013)</u>
Net assets at beginning of year	<u>42,522,053</u>	<u>29,724,887</u>	<u>6,537,345</u>	<u>10,027,554</u>		<u>6,130,722</u>
Net assets at end of year	<u>\$ 42,029,308</u>	<u>\$ 28,624,547</u>	<u>\$ 6,425,771</u>	<u>\$ 6,248,398</u>		<u>\$ 4,511,709</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(197,476)</u>	
Change in net assets of business-type activities (Exhibit 2)					<u>\$ (5,681,291)</u>	

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

CITY OF HARRISONBURG, VIRGINIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2012

Exhibit 10
 Page 1

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Steam Plant Fund	Total	
Cash flows from operating activities:						
Receipts from customers	\$ 5,672,116	\$ 8,496,766	\$ 1,558,572	\$ 4,684,516	\$ 20,411,970	\$ 4,232,815
Receipts from premiums	-	-	-	-	-	11,904,031
Receipts from other sources	28,860	249	61,584	-	90,693	11,156
Receipts from customer deposits	171,750	-	-	-	171,750	-
Payments to employees	(1,432,567)	(982,227)	(1,689,877)	(1,205,904)	(5,310,575)	(650,976)
Payments for fringe benefits	(442,904)	(341,729)	(379,040)	(412,824)	(1,576,497)	(203,573)
Payments to vendors	(1,179,135)	(276,142)	(335,847)	(2,539,751)	(4,330,875)	(4,726,631)
Payments for internal services	(241,443)	(244,492)	(1,118,841)	(46,068)	(1,650,844)	(2,223)
Payments to other governmental units	-	(5,976,669)	-	-	(5,976,669)	-
Payments to refund customer deposits	(153,949)	-	-	-	(153,949)	-
Payments for claims related charges	-	-	-	-	-	(12,402,248)
Net cash provided by (used for) operating activities	\$ 2,422,728	\$ 675,756	\$ (1,903,449)	\$ 479,969	\$ 1,675,004	\$ (1,837,649)
Cash flows from noncapital financing activities:						
Operating grants	\$ -	\$ -	\$ 1,363,262	\$ -	\$ 1,363,262	\$ -
Transfers in	-	-	426,830	764,190	1,191,020	175,736
Transfers out	(1,344,520)	(1,100,934)	(734,399)	(4,027,783)	(7,207,636)	-
Interfund loan	-	-	-	-	-	(6,879)
Net cash provided by (used for) noncapital financing activities	\$ (1,344,520)	\$ (1,100,934)	\$ 1,055,693	\$ (3,263,593)	\$ (4,653,354)	\$ 168,857
Cash flows from capital and related financing activities:						
Capital grants	\$ -	\$ -	\$ 2,890,825	\$ -	\$ 2,890,825	\$ -
Capital contributions	-	-	-	15,110	15,110	-
Connection application fees	129,700	208,550	-	-	338,250	-
Payment from JMU for long-term debt	-	-	-	595,815	595,815	-
Proceeds from sale of capital assets	500	3,485	6,878	-	10,863	-
Proceeds from long-term debt	1,365,981	-	-	-	1,365,981	-
Bond issue costs paid	(23,645)	-	-	-	(23,645)	-
Principal paid on long-term debt	(369,599)	-	-	(1,664,668)	(2,034,267)	-
Interest paid on long-term debt	(380,356)	-	-	(754,468)	(1,134,824)	-
Payment for current bond refunding	(1,337,467)	-	-	-	(1,337,467)	-
Purchase and construction of capital assets	(1,987,225)	(753,944)	(3,042,732)	(1,075,633)	(6,859,534)	(8,995)
Net cash used for capital and related financing activities	\$ (2,602,111)	\$ (541,909)	\$ (145,029)	\$ (2,883,844)	\$ (6,172,893)	\$ (8,995)
Cash flows from investing activities:						
Interest received	\$ 10,586	\$ 6,623	\$ 220	\$ 14,720	\$ 32,149	\$ 6,009
Net cash provided by investing activities	\$ 10,586	\$ 6,623	\$ 220	\$ 14,720	\$ 32,149	\$ 6,009
Net decrease in cash and cash equivalents	\$ (1,513,317)	\$ (960,464)	\$ (992,565)	\$ (5,652,748)	\$ (9,119,094)	\$ (1,671,778)
Cash and cash equivalents:						
Beginning	8,870,024	5,670,088	1,049,482	16,186,425	31,776,019	5,796,385
Ending	\$ 7,356,707	\$ 4,709,624	\$ 56,917	\$ 10,533,677	\$ 22,656,925	\$ 4,124,607

(continued)

CITY OF HARRISONBURG, VIRGINIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2012

Exhibit 10
 Page 2

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Public Transportation Fund	Steam Plant Fund	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 740,036	\$ (546,297)	\$ (3,208,822)	\$ (1,243,946)	\$ (4,259,029)	\$ (1,841,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation and amortization	1,778,849	1,330,958	1,276,919	1,594,573	5,981,299	29,801
Connection fees	(71,704)	(2,900)	-	-	(74,604)	-
Miscellaneous revenue	28,860	249	61,584	-	90,693	11,156
Change in assets and liabilities:						
· (Increase) decrease in:						
Accounts receivable	(37,628)	(131,842)	17	32,022	(137,431)	910
Due from component unit	-	-	-	-	-	544
Inventory	-	-	-	-	-	166,493
Prepaid expenses	8,970	12,236	4,661	12,729	38,596	3,527
Increase (decrease) in:						
Accounts payable	2,964	1,260	33,541	135,600	173,365	202,183
Accrued payroll	(48,385)	(31,876)	(84,209)	(50,755)	(215,225)	(22,941)
Due to component unit	2,600	(772)	(13)	(11,428)	(9,613)	(285)
Customer deposits	17,801	-	-	-	17,801	-
Unearned revenue	-	-	-	30,808	30,808	(389,103)
Other liabilities	(22,100)	-	-	-	(22,100)	-
Compensated absences	(6,847)	11,591	(5,984)	(43,879)	(45,119)	(14,611)
Postretirement healthcare benefits	29,312	33,149	18,857	24,245	105,563	16,089
Net cash provided by (used for) operating activities	\$ 2,422,728	\$ 675,756	\$ (1,903,449)	\$ 479,969	\$ 1,675,004	\$ (1,837,649)
Non - cash capital and related financing activities:						
Additions to capital assets:						
Contributed by developers	\$ 91,350	\$ 44,200	\$ -	\$ -	\$ 135,550	\$ -
Purchase and construction on account	107,534	52,743	217,556	-	377,833	-
Capitalized interest	174,431	-	-	14,353	188,784	-
Reductions to capital assets:						
Transfers related to fund activities reclassification	-	-	1,488,453	3,873,217	5,361,670	-

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

CITY OF HARRISONBURG, VIRGINIA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
At June 30, 2012

Exhibit 11

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 3,349,143
Receivables	114,312
Prepaid items	<u>47,368</u>
Total assets	\$ <u>3,510,823</u>
Liabilities	
Accounts payable	\$ 26,775
Accrued payroll	35,519
Amounts held for others	<u>3,448,529</u>
Total liabilities	\$ <u>3,510,823</u>

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

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-wide and Fund Financial Statements

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recorded as receivables when assessed, net of allowances for uncollectible amounts, and as revenue when the property taxes become available. Sales, restaurant food, admission and amusement, hotel and motel, franchise license, and utility taxes are recognized as receivables and revenue upon collection by the merchant or utility since the taxes are generally remitted in time to be used as a current financial resource for the payment of obligations incurred during the year. Property and other taxes not collected or remitted within 60 days after year-end are reflected as deferred revenue.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

Public Transportation Fund – This fund accounts for the activities of the City's transit bus operations.

Steam Plant Fund – This fund accounts for the activities of the City's steam plant operations.

Additionally, the City reports the following fund types:

Special revenue funds account for the administration of the community development block grant, operations of the school bus system and the administration of a revolving loan program.

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the General Capital Projects Fund, which adopts a project-length budget, and the Community Development Block Grant Fund, which adopts a grant-length budget. Formal budgetary integration is employed in all funds as a management control device during the year except for the Health Insurance Fund, an internal service fund, and all agency funds.

Prior to May 1, the City Manager submits to the City Council a balanced proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. Prior to June 30, the City Council holds public hearings to obtain citizen comments, and a final budget is legally enacted through the passage of an Appropriation Ordinance. All budget data presented is the original budget and the final budget as of June 30, 2012.

Note 1. Summary of Significant Accounting Policies (continued)

The appropriated budget places legal restrictions on expenditures at the fund level. The City Manager is authorized to transfer budgeted amounts within funds as may best meet the needs and interests of the City. The City may increase total appropriations at the fund level through approval of City Council. Supplemental appropriations were made during the year in the General Fund totaling \$26,006,304, of which \$22,042,219 involved a current refunding bond issue. Supplemental appropriations that exceed one percent of the budget require a public hearing prior to approval. Appropriations lapse at June 30, except for capital projects funds and the Community Development Block Grant Fund.

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

E. Assets, Liabilities and Net Assets or Fund Equity

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

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

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

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

4. Property taxes. Property taxes are levied as of January 1 on property values assessed annually. The last effective general real property reassessment was January 1, 2012. Property taxes attach as an enforceable lien on property as of January 1, but are not collected until the following fiscal year. Real estate taxes are due and collectible twice a year, on December 5 and June 5. Personal property taxes are due and collectible annually on December 5. The portion of the tax receivable that is not collected within 60 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of ten percent of the tax is assessed after the applicable payment date. Interest at an annual rate of ten percent is charged on delinquent real estate property tax accounts beginning January 1 and July 1. Interest at an annual rate of four percent is charged on delinquent personal property tax accounts beginning January 1.

The City calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2012 amounted to \$859,360.

Note 1. Summary of Significant Accounting Policies (continued)

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

6. Restricted assets. The City has cash, investments and receivables presented on the balance sheet as restricted for specific purposes. These restrictions limit the use of these funds based on debt service reserve requirements associated with a capital lease agreement and bond construction accounts.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized for fiscal year 2012 in the Water and Steam Plant Funds was \$174,431 and \$14,353, respectively.

Unless otherwise noted, depreciation for capital assets is computed over the following useful lives using the straight-line method.

Buildings	40 years
Improvements other than buildings	10-50 years
Machinery and equipment	2-30 years
Infrastructure	20-40 years
James Madison University land and steam agreement	25 years

8. School Board Capital Assets. Under current legislation enacted by the Commonwealth of Virginia, local governments have a "tenancy in common" with the School Board whenever the locality incurs "on-behalf" debt for school property. In order to match the capital asset with the related debt, the legislation permits the City to report the portion of the school property related to the outstanding financial obligation in the primary government. As principal is repaid, capital assets equal to the amount of principal debt reduction will be removed from the primary government's financial statements and reported in the School Board's financial statements. The School Board retains authority and responsibility over the operation and control of the property. The City transferred \$2,750,218 in net capital assets to the School Board during the current year on the government-wide statement of activities.

9. Unearned revenue/deferred revenue. Under the accrual basis of accounting, unearned revenue is recorded when asset recognition criteria have been met, but revenue recognition criteria have not been met. Under the modified accrual basis of accounting, deferred revenue is recorded when asset recognition criteria (measurable) have been met, but the revenue is not available to pay for the liabilities of the current period.

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

12. Fund balance. In the fund financial statements, the City may report certain fund balance amounts as nonspendable, restricted, committed, assigned or unassigned. *Nonspendable fund balance* consists of amounts that cannot be spent because they are either not in spendable form such as inventories or prepaid items or amounts that are legally or contractually required to be maintained intact. *Restricted fund balance* is a constraint on fund balance that is externally imposed such as by creditors or grantors or imposed by law or enabling legislation for a specific purpose. *Committed fund balance* is a constraint imposed by formal action of City Council, as the highest level of decision making authority, for a specific purpose and may only be modified or rescinded by formal action of City Council. *Assigned fund balance* is a constraint imposed at a lower level of decision making authority for a specific purpose and only reflects the City's intent to expend funds for a specific purpose. Assigned fund balance also includes encumbrances reappropriated in the subsequent fiscal year by City Council and amounts used to balance the subsequent year's budget. There has been no formal policy established for any official to assign fund balance for specific purposes. *Unassigned fund balance* consists of amounts not assigned to other funds and that has not been restricted, committed or assigned for specific purposes within the same fund.

The City considers restricted fund balance to be spent first when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. When unrestricted amounts are available for use, the City will first use committed, then assigned and finally unassigned fund balance when an expenditure is incurred.

The City's formally adopted General Fund minimum fund balance policy requires unassigned fund balance to be equal to no less than 12 percent of the total General Fund budget at the end of each fiscal year plus an additional four percent for liquidity purposes resulting in a total target amount of 16 percent of the General Fund budget.

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

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

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

A reconciliation between the total fund balance as reported in the governmental fund balance sheet and net assets of governmental activities as reported in the government-wide statement of net assets is provided on Exhibit 4. One

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

element of that reconciliation explains that "Certain liabilities, including bonds and related accounts, are not payable from current financial resources and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ (129,691,533)
Bond issue premiums/discounts (net)	(1,126,469)
Deferred charge for bond issue costs	1,128,637
Deferred charge for bond refunding	1,348,987
Capital leases	(4,827,885)
Compensated absences (not including internal service funds)	(2,984,287)
Postretirement healthcare benefits (not including internal service funds)	(1,899,880)
Landfill closure and postclosure	(1,705,283)
County landfill contractual obligation	(2,697,965)
Accrued interest	<u>(2,278,608)</u>
Net adjustment	\$ <u>(144,734,286)</u>

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

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

Capital outlay	\$ 9,771,627
Depreciation expense (not including internal service funds)	<u>(8,967,002)</u>
Net adjustment	\$ <u>804,625</u>

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

Debt issued	\$ (27,265,000)
Deferred charge for bond issue costs on debt issued	486,696
Deferred charge for bond issue premiums on debt issued	(786,742)
Payment for current bond refunding	21,649,901
Principal payments	7,054,192
Amortization of bond premiums/discounts (net)	47,742
Amortization of bond issue costs	(53,102)
Amortization of deferred bond refunding charges	(89,009)
Interest expense included in bond refunding	<u>(320,918)</u>
Net adjustment	\$ <u>723,760</u>

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

Another element of that reconciliation states that "Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds." The details of this difference are as follows:

Compensated absences (not including internal service funds)	\$ (29,821)
Postretirement healthcare benefits (not including internal service funds)	(478,509)
Landfill closure and postclosure	(150,628)
Accrued interest	<u>161,336</u>
Net adjustment	<u>\$ (497,622)</u>

Note 3. Deposits and Investments

Deposits. The entire bank balances of the City and its component units were covered by the Federal Depository Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks and savings institutions holding public deposits in excess of the amounts insured by 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 amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered insured or fully collateralized. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by financial institutions.

Investments. *Interest rate risk.* In accordance with the City's investment policy, the City manages its exposure to declines in fair values by investing only in securities maturing in three years or less from the time of purchase. As of June 30, 2012, there were no securities subject to interest rate risk.

Credit risk. Statutes authorize the City and its component units to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, the LGIP and SNAP. The City's investment policy does not further limit these investment choices. As of June 30, 2012, all City investments in external investment pools and money market funds were rated AAAM by Standard & Poor's.

The following is a summary of deposit and investment balances at June 30, 2012.

	Primary Government	Component Units		Total
		School Board	HEC	
Investments:				
Local Government Investment Pool (LGIP)	\$ 65,811,456	\$ 6,319,827	\$ 541	\$ 72,131,824
State Non-Arbitrage Pool (SNAP)	5,805,062	-	-	5,805,062
U.S. Treasury Money Market Fund	284,297	-	-	284,297
Certificates of Deposit	-	-	5,500,000	5,500,000
Money Market Account	-	-	6,000,000	6,000,000
Deposits	<u>2,846,533</u>	<u>236,447</u>	<u>6,454,532</u>	<u>9,537,512</u>
Total deposits and investments	<u>\$ 74,747,348</u>	<u>\$ 6,556,274</u>	<u>\$ 17,955,073</u>	<u>\$ 99,258,695</u>

Note 4. Receivables

The following is a summary of receivables at June 30, 2012.

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	HEC
Property taxes receivable	\$ 35,335,992	\$ -	\$ 35,335,992	\$ -	\$ -
Other taxes receivable	1,387,152	-	1,387,152	-	-
Accounts receivable	293,646	1,875,021	2,168,667	-	5,423,375
Other receivables	259,082	32,855	291,937	257,726	-
Due from other governments:					
Commonwealth of Virginia	3,606,830	43,957	3,650,787	1,085,911	-
Federal Government	912,352	397,562	1,309,914	302,787	-
Allowance for uncollectibles	(859,360)	(71,580)	(930,940)	-	-
Total	\$ 40,935,694	\$ 2,277,815	\$ 43,213,509	\$ 1,646,424	\$ 5,423,375

Note 5. Restricted Assets

The following is a summary of restricted assets at June 30, 2012.

	Governmental Activities
Cash and cash equivalents:	
Bond construction account	\$ 5,805,062
Debt service reserve account (capital lease payments)	284,297
Total	\$ 6,089,359

Note 6. Loans Receivable

The following is a summary of loans receivable at June 30, 2012.

Borrowing Entity/Loan Number	Loan Date	Term (in years)	Interest Rate	Balance	Current Portion
HRHA*	December 6, 2011	17.5	3.19%	\$ 6,035,000	\$ 265,000
HRHA*	October 24, 2006	26.5	4.21%	3,157,700	96,600
Massanutten Regional Library	May 15, 2000	n/a	0.0%	375,000	-
Total General Fund				\$ 9,567,700	\$ 361,600
2012-02	December 28, 2011	4	4.5%	\$ 4,068	\$ 1,162
2012-01	March 14, 2012	4	4.5%	11,312	2,834
Total Business Loan Program Fund				\$ 15,380	\$ 3,996
Total Governmental Activities				\$ 9,583,080	\$ 365,596

*Harrisonburg Redevelopment and Housing Authority

Note 7. Capital Assets

Primary Government

The following is a summary of the changes in capital assets of the governmental activities for fiscal year 2012.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 45,557,062	\$ 1,266,467	\$ -	\$ 46,823,529
Easements	899,066	-	-	899,066
Construction in progress	14,356,029	8,438,231	(926,056)	21,868,204
Capital assets, not being depreciated	<u>\$ 60,812,157</u>	<u>\$ 9,704,698</u>	<u>\$ (926,056)</u>	<u>\$ 69,590,799</u>
Capital assets, being depreciated:				
Buildings	\$ 116,837,111	\$ 906,831	\$ (3,341,450)	\$ 114,402,492
Improvements other than buildings	12,067,901	158,112	-	12,226,013
Machinery and equipment	25,920,583	6,889,110	(442,302)	32,367,391
Intangibles	130,000	3,409,217	(3,409,217)	130,000
Infrastructure	134,584,017	844,511	-	135,428,528
Capital assets, being depreciated	<u>\$ 289,539,612</u>	<u>\$ 12,207,781</u>	<u>\$ (7,192,969)</u>	<u>\$ 294,554,424</u>
Less accumulated depreciation:				
Buildings	\$ (22,773,710)	\$ (3,143,209)	\$ 591,232	\$ (25,325,687)
Improvements other than buildings	(3,438,848)	(468,289)	-	(3,907,137)
Machinery and equipment	(12,005,015)	(5,580,567)	442,302	(17,143,280)
Intangibles	-	(1,517,087)	1,491,087	(26,000)
Infrastructure	(58,957,759)	(3,481,043)	-	(62,438,802)
Accumulated depreciation	<u>\$ (97,175,332)</u>	<u>\$ (14,190,195)</u>	<u>\$ 2,524,621</u>	<u>\$ (108,840,906)</u>
Capital assets, being depreciated (net)	<u>\$ 192,364,280</u>	<u>\$ (1,982,414)</u>	<u>\$ (4,668,348)</u>	<u>\$ 185,713,518</u>

The above total for additions to accumulated depreciation does not agree with the total depreciation by function/programs of governmental activities shown below by \$5,193,392. This difference represents accumulated depreciation on capital assets transferred from business-type activities, including the reclassifications described in Note 30.

Depreciation expense was charged to function/programs of governmental activities as follows:

General government administration	\$ 41,113
Jail and judicial administration	296,960
Public safety	1,288,650
Public works	4,315,901
Health and welfare	21,865
Education	2,178,502
Parks, recreation and culture	691,642
Planning and community development	132,369
Internal service funds (allocated to various functions)	29,801
Total governmental activities depreciation expense	<u>\$ 8,996,803</u>

Note 7. Capital Assets (continued)

The primary government has included in the preceding schedule land in the amount of \$113,878, buildings in the amount of \$11,704,921 (\$4,952,726 in accumulated depreciation) and machinery and equipment in the amount of \$5,939,144 (\$767,117 in accumulated depreciation) that are associated with capital lease obligations.

The following is a summary of the changes in capital assets of the business-type activities for fiscal year 2012.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 945,095	\$ -	\$ (502,800)	\$ 442,295
Easements	333,187	500	-	333,687
Construction in progress	9,185,155	4,145,766	(1,017,750)	12,313,171
Capital assets, not being depreciated	<u>\$ 10,463,437</u>	<u>\$ 4,146,266</u>	<u>\$ (1,520,550)</u>	<u>\$ 13,089,153</u>
Capital assets, being depreciated:				
Buildings	\$ 13,487,479	\$ -	\$ (906,830)	\$ 12,580,649
Improvements other than buildings	18,608,000	1,097,946	-	19,705,946
Machinery and equipment	50,201,225	2,891,051	(6,192,445)	46,899,831
Intangibles:				
JMU land and steam agreement	2,041,898	-	-	2,041,898
Rockingham County landfill agreement	3,409,217	-	(3,409,217)	-
Infrastructure	74,931,749	135,550	-	75,067,299
Capital assets, being depreciated	<u>\$ 162,679,568</u>	<u>\$ 4,124,547</u>	<u>\$ (10,508,492)</u>	<u>\$ 156,295,623</u>
Less accumulated depreciation:				
Buildings	\$ (4,282,189)	\$ (288,198)	\$ 328,436	\$ (4,241,951)
Improvements other than buildings	(6,184,861)	(455,167)	-	(6,640,028)
Machinery and equipment	(27,386,838)	(2,965,611)	3,994,590	(26,357,859)
Intangibles:				
JMU land and steam agreement	(1,776,451)	(26,545)	-	(1,802,996)
Rockingham County landfill agreement	(1,294,311)	-	1,294,311	-
Infrastructure	(33,913,191)	(2,252,212)	-	(36,165,403)
Accumulated depreciation	<u>\$ (74,837,841)</u>	<u>\$ (5,987,733)</u>	<u>\$ 5,617,337</u>	<u>\$ (75,208,237)</u>
Capital assets, being depreciated (net)	<u>\$ 87,841,727</u>	<u>\$ (1,863,186)</u>	<u>\$ (4,891,155)</u>	<u>\$ 81,087,386</u>

The above total for additions to accumulated depreciation does not agree with the total depreciation by function/programs of business-type activities shown below by \$38,049. This difference represents accumulated depreciation on capital assets transferred from governmental activities.

Depreciation expense was charged to function/programs of business-type activities as follows:

Water	\$ 1,772,050
Sewer	1,330,958
Public transportation	1,276,919
Steam plant	1,569,757
Total business-type activities depreciation expense	<u>\$ 5,949,684</u>

Note 7. Capital Assets (continued)

The following is a summary of the changes in capital assets of the City's component units for fiscal year 2012.

Component Unit – School Board:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 5,611,429	\$ -	\$ -	\$ 5,611,429
Construction in progress	-	1,679,150	(1,679,150)	-
Capital assets, not being depreciated	<u>\$ 5,611,429</u>	<u>\$ 1,679,150</u>	<u>\$ (1,679,150)</u>	<u>\$ 5,611,429</u>
Capital assets, being depreciated:				
Buildings	\$ 36,944,926	\$ 5,020,600	\$ -	\$ 41,965,526
Improvements other than buildings	95,168	-	-	95,168
Machinery and equipment	4,814,538	122,237	-	4,936,775
Capital assets, being depreciated	<u>\$ 41,854,632</u>	<u>\$ 5,142,837</u>	<u>\$ -</u>	<u>\$ 46,997,469</u>
Less accumulated depreciation:				
Buildings	\$ (15,593,839)	\$ (1,581,222)	\$ -	\$ (17,175,061)
Improvements other than buildings	(22,971)	(4,759)	-	(27,730)
Machinery and equipment	(2,475,307)	(339,042)	-	(2,814,349)
Accumulated depreciation	<u>\$ (18,092,117)</u>	<u>\$ (1,925,023)</u>	<u>\$ -</u>	<u>\$ (20,017,140)</u>
Capital assets, being depreciated (net)	<u>\$ 23,762,515</u>	<u>\$ 3,217,814</u>	<u>\$ -</u>	<u>\$ 26,980,329</u>

Component Unit – HEC:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 2,939,056	\$ 155,451	\$ -	\$ 3,094,507
Construction in progress	1,416,589	2,724,557	(1,765,677)	2,375,469
Capital assets, not being depreciated	<u>\$ 4,355,645</u>	<u>\$ 2,880,008</u>	<u>\$ (1,765,677)</u>	<u>\$ 5,469,976</u>
Capital assets, being depreciated:				
Buildings	\$ 2,780,332	\$ 9,239	\$ -	\$ 2,789,571
Machinery and equipment	6,011,263	87,702	(412)	6,098,553
Infrastructure	105,735,627	1,872,565	(379,863)	107,228,329
Capital assets, being depreciated	<u>\$ 114,527,222</u>	<u>\$ 1,969,506</u>	<u>\$ (380,275)</u>	<u>\$ 116,116,453</u>
Less accumulated depreciation:				
Buildings	\$ (1,705,928)	\$ (73,915)	\$ -	\$ (1,779,843)
Machinery and equipment	(5,640,851)	(156,117)	-	(5,796,968)
Infrastructure	(49,820,713)	(3,684,529)	322,487	(53,182,755)
Accumulated depreciation	<u>\$ (57,167,492)</u>	<u>\$ (3,914,561)</u>	<u>\$ 322,487</u>	<u>\$ (60,759,566)</u>
Capital assets, being depreciated (net)	<u>\$ 57,359,730</u>	<u>\$ (1,945,055)</u>	<u>\$ (57,788)</u>	<u>\$ 55,356,887</u>

Note 8. Interfund Balances

The General Fund has an advance to other funds in the amount \$217,339. This amount is comprised of loans to the Community Development Block Grant Fund and Central Stores Fund in the amounts of \$38,510 and \$178,829, respectively. The purpose of these loans is to eliminate year end cash and cash equivalents deficit balances.

Note 9. Interfund Transfers

Interfund transfers are generally used to subsidize the operations and programs of certain funds, except for a \$459,399 transfer from the Public Transportation Fund to the General Capital Projects Fund for funding related to a new transportation facility. The transfers from the Steam Plant Fund totaling \$3,986,558 were related to landfill closure funding associated with the fund reclassification of landfill activities. Finally, a \$223,544 transfer from the Public Transportation Fund to other governmental funds was for initial funding of a new nonmajor special revenue fund related to the reclassification of school bus operations. The following is a summary of interfund transfers for the year ended June 30, 2012.

Transfer in	Transfer out					Total
	General Fund	Water Fund	Sewer Funds	Public Transportation Fund	Steam Plant Funds	
General Fund	\$ -	\$ 1,228,226	\$ 1,090,116	\$ -	\$ 2,548,793	\$ 4,867,135
General Capital Projects Fund	692,850	-	-	459,399	1,437,765	2,590,014
Other Governmental Funds	598,924	-	-	223,544	-	822,468
Public Transportation Fund	426,830	-	-	-	-	426,830
Steam Plant Fund	558,843	-	-	-	-	558,843
Internal Service Funds	48,624	116,294	10,818	28,151	-	203,887
Total	<u>\$ 2,326,071</u>	<u>\$ 1,344,520</u>	<u>\$ 1,100,934</u>	<u>\$ 711,094</u>	<u>\$ 3,986,558</u>	<u>\$ 9,469,177</u>

Note 10. Unearned Revenue/Deferred Revenue

The following is a summary of unearned and deferred revenue at June 30, 2012.

	Governmental Activities				Total
	General Fund	General Capital Projects Fund	Other Governmental Funds	Internal Service Funds	
Property taxes billed in fiscal year 2013	\$ 33,478,015	\$ -	\$ -	\$ -	\$ 33,478,015
Advance collection of parking leases	56,250	-	-	-	56,250
Golf course season passes	38,400	-	-	-	38,400
Health insurance premiums	-	-	-	491,141	491,141
Total unearned revenue	<u>\$ 33,572,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 491,141</u>	<u>\$ 34,063,806</u>
Total unearned revenue	\$ 33,572,665	\$ -	\$ -	\$ 491,141	\$ 34,063,806
Uncollected property tax billings	697,673	-	-	-	697,673
Other local taxes	50,375	-	-	-	50,375
Reimbursement from Housing Authority	129,827	-	-	-	129,827
Intergovernmental	72,344	659,429	61,023	-	792,796
Loans receivable	9,192,700	-	15,380	-	9,208,080
Other deferred revenue	14,884	-	19,385	-	34,269
Total deferred revenue	<u>\$ 43,730,468</u>	<u>\$ 659,429</u>	<u>\$ 95,788</u>	<u>\$ 491,141</u>	<u>\$ 44,976,826</u>

Note 10. Unearned Revenue/Deferred Revenue (continued)

Unearned revenue for business-type activities in the amount of \$739,658 represents connection application fees for which the services had not been provided as of year-end and other customer overpayments. This amount is comprised of \$419,650 in the Water Fund, \$289,200 in the Sewer Fund and \$30,808 in the Steam Plant Fund.

Note 11. Long-term Liabilities**Primary Government**

The following is a summary of the debt service requirements for the long-term liabilities of the governmental activities as of June 30, 2012.

Year Ending June 30,	General Obligation Bonds		Capital Leases		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 6,510,247	\$ 5,111,062	\$ 966,354	\$ 194,347	\$ 7,476,601	\$ 5,305,409
2014	6,231,477	4,872,295	1,010,142	149,370	7,241,619	5,021,665
2015	6,214,363	4,649,891	490,060	102,469	6,704,423	4,752,360
2016	6,441,959	4,412,652	510,329	81,652	6,952,288	4,494,304
2017	6,675,682	4,161,565	437,000	61,382	7,112,682	4,222,947
2018-2022	33,473,132	16,848,008	1,414,000	81,065	34,887,132	16,929,073
2023-2027	37,774,673	9,469,538	-	-	37,774,673	9,469,538
2028-2032	22,750,000	3,198,413	-	-	22,750,000	3,198,413
2033-2035	3,620,000	162,650	-	-	3,620,000	162,650
Total	<u>\$ 129,691,533</u>	<u>\$ 52,886,074</u>	<u>\$ 4,827,885</u>	<u>\$ 670,285</u>	<u>\$ 134,519,418</u>	<u>\$ 53,556,359</u>

The following is a summary of the debt service requirements for the long-term liabilities of the business-type activities as of June 30, 2012.

Year Ending June 30,	General Obligation Bonds		General Obligation Revenue Bonds		Total Business-type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,872,535	\$ 1,053,956	\$ 240,000	\$ 5,400	\$ 2,112,535	\$ 1,059,356
2014	2,442,483	990,285	-	-	2,442,483	990,285
2015	2,511,174	923,518	-	-	2,511,174	923,518
2016	2,570,565	853,247	-	-	2,570,565	853,247
2017	2,159,256	789,615	-	-	2,159,256	789,615
2018-2022	10,148,729	2,823,543	-	-	10,148,729	2,823,543
2023-2027	7,392,485	1,213,706	-	-	7,392,485	1,213,706
2028-2032	3,149,333	519,897	-	-	3,149,333	519,897
2033-2037	1,414,333	49,500	-	-	1,414,333	49,500
2038-2040	113,600	-	-	-	113,600	-
Total	<u>\$ 33,774,493</u>	<u>\$ 9,217,267</u>	<u>\$ 240,000</u>	<u>\$ 5,400</u>	<u>\$ 34,014,493</u>	<u>\$ 9,222,667</u>

Note 11. Long-term Liabilities (continued)

The following is a summary of the changes to the long-term liabilities of the governmental activities for fiscal year 2012.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 129,885,635	\$ 27,265,000	\$ (27,459,102)	\$ 129,691,533	\$ 6,510,247
Bond premiums/discounts (net)	387,469	786,742	(47,742)	1,126,469	64,861
Deferred bond refunding charges	(1,341,644)	(995,078)	987,735	(1,348,987)	(71,284)
Total bonds payable	\$ 128,931,460	\$ 27,056,664	\$ (26,519,109)	\$ 129,469,015	\$ 6,503,824
Capital leases	5,751,958	-	(924,073)	4,827,885	966,354
Compensated absences	2,796,736	1,880,067	(1,602,862)	3,073,941	1,402,298
Postretirement healthcare benefits	1,269,846	1,022,734	(327,147)	1,965,433	-
City landfill closure costs	-	4,874,672	(3,169,389)	1,705,283	86,699
County landfill contractual obligation	-	2,697,965	-	2,697,965	-
Governmental activities long-term debt	<u>\$ 138,750,000</u>	<u>\$ 37,532,102</u>	<u>\$ (32,542,580)</u>	<u>\$ 143,739,522</u>	<u>\$ 8,959,175</u>

Long-term liabilities for governmental activities are generally liquidated by the General Fund. The Internal Service Funds are consolidated into the governmental activities in the government-wide financial statements. Accordingly, long-term liabilities for these funds are included as part of the above totals. At June 30, 2012, \$89,654 and \$65,553 of compensated absences and postretirement healthcare benefits, respectively, are included in the above amounts for these internal service funds.

The following is a summary of the changes to the long-term liabilities of the business-type activities for fiscal year 2012.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 35,570,877	\$ 1,325,000	\$ (3,121,384)	\$ 33,774,493	\$ 1,872,535
General obligation revenue bonds	470,000	-	(230,000)	240,000	240,000
Bond premiums/discounts (net)	1,281,805	40,982	(97,961)	1,224,826	99,252
Deferred bond refunding charges	(2,790,899)	(7,729)	204,425	(2,594,203)	(204,614)
Total bonds payable	\$ 34,531,783	\$ 1,358,253	\$ (3,244,920)	\$ 32,645,116	\$ 2,007,173
Compensated absences	1,003,845	345,382	(652,498)	696,729	283,661
Postretirement healthcare benefits	530,921	175,388	(270,814)	435,495	-
Landfill closure and postclosure costs	4,724,044	-	(4,724,044)	-	-
Business-type activities long-term debt	<u>\$ 40,790,593</u>	<u>\$ 1,879,023</u>	<u>\$ (8,892,276)</u>	<u>\$ 33,777,340</u>	<u>\$ 2,290,834</u>

The following is the detail for the long-term liabilities of the governmental activities as of June 30, 2012.

General Obligation Bonds:

\$10,000,000 School Bonds (Virginia Public School Authority), Series 1992B, issued December 17, 1992, maturing annually with interest payable semi-annually:

Bonds bearing interest at 5.85% maturing on December 15, 2012	\$ <u>305,000</u>
Subtotal	\$ <u>305,000</u>

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

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

Bonds bearing interest at 6.225% maturing on July 15, 2012	\$ 215,000
Bonds bearing interest at 6.300% maturing on July 15, 2013	220,000
Subtotal	<u>\$ 435,000</u>

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

Bonds bearing interest at 4.600% maturing on July 15, 2012	\$ 100,000
Bonds bearing interest at 4.725% maturing on July 15, 2013	100,000
Bonds bearing interest at 4.725% maturing on July 15, 2014	100,000
Bonds bearing interest at 5.100% maturing on July 15, 2015	100,000
Bonds bearing interest at 5.100% maturing on July 15, 2016	100,000
Bonds bearing interest at 5.100% maturing on July 15, 2017	100,000
Bonds bearing interest at 5.225% maturing on July 15, 2018	100,000
Bonds bearing interest at 5.225% maturing on July 15, 2019	100,000
Subtotal	<u>\$ 800,000</u>

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

Bonds bearing interest at 5.600% maturing on July 15, 2012	\$ 255,000
Bonds bearing interest at 5.600% maturing on July 15, 2013	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2014	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2015	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2016	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2017	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2018	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2019	255,000
Bonds bearing interest at 5.600% maturing on July 15, 2020	255,000
Subtotal	<u>\$ 2,295,000</u>

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

Bonds bearing interest at 5.100% maturing on July 15, 2012	\$ 1,465,000
Bonds bearing interest at 5.100% maturing on July 15, 2013	1,540,000
Bonds bearing interest at 4.600% maturing on July 15, 2014	1,620,000
Bonds bearing interest at 4.850% maturing on July 15, 2015	1,695,000
Bonds bearing interest at 4.850% maturing on July 15, 2016	1,780,000
Bonds bearing interest at 4.850% maturing on July 15, 2017	1,870,000
Bonds bearing interest at 4.850% maturing on July 15, 2018	1,960,000
Bonds bearing interest at 4.975% maturing on July 15, 2019	2,060,000
Bonds bearing interest at 5.100% maturing on July 15, 2020	2,165,000

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 5.100% maturing on July 15, 2021	2,280,000
Bonds bearing interest at 5.100% maturing on July 15, 2022	2,400,000
Bonds bearing interest at 5.100% maturing on July 15, 2023	2,525,000
Bonds bearing interest at 5.100% maturing on July 15, 2024	2,660,000
Bonds bearing interest at 5.100% maturing on July 15, 2025	2,795,000
Bonds bearing interest at 5.100% maturing on July 15, 2026	<u>2,945,000</u>
Subtotal	<u>\$ 31,760,000</u>

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

Bonds bearing interest at 4.375% maturing on July 15, 2012	<u>\$ 410,000</u>
Subtotal	<u>\$ 410,000</u>

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

Bonds bearing interest at 3.55% maturing on July 15, 2012	\$ 314,915
Bonds bearing interest at 3.55% maturing on July 15, 2013	326,094
Bonds bearing interest at 3.55% maturing on July 15, 2014	337,671
Bonds bearing interest at 3.55% maturing on July 15, 2015	349,658
Bonds bearing interest at 3.55% maturing on July 15, 2016	362,071
Bonds bearing interest at 3.55% maturing on July 15, 2017	374,924
Bonds bearing interest at 3.55% maturing on July 15, 2018	388,234
Bonds bearing interest at 3.55% maturing on July 15, 2019	402,016
Bonds bearing interest at 3.55% maturing on July 15, 2020	416,288
Bonds bearing interest at 3.55% maturing on July 15, 2021	431,066
Bonds bearing interest at 3.55% maturing on July 15, 2022	446,369
Bonds bearing interest at 3.55% maturing on July 15, 2023	462,215
Bonds bearing interest at 3.55% maturing on July 15, 2024	478,624
Bonds bearing interest at 3.55% maturing on July 15, 2025	<u>495,615</u>
Subtotal	<u>\$ 5,585,760</u>

\$50,000,000 Public Improvement Bonds, Series 2006, issued October 25, 2006, maturing annually with interest payable semi-annually:

Bonds bearing interest at 4.000% maturing on February 1, 2013	\$ 1,380,000
Bonds bearing interest at 4.000% maturing on February 1, 2014	1,435,000
Bonds bearing interest at 5.000% maturing on February 1, 2015	1,495,000
Bonds bearing interest at 5.125% maturing on February 1, 2016	1,570,000
Bonds bearing interest at 4.000% maturing on February 1, 2017	1,650,000
Bonds bearing interest at 3.750% maturing on February 1, 2018	1,715,000
Bonds bearing interest at 4.000% maturing on February 1, 2019	1,780,000
Bonds bearing interest at 4.000% maturing on February 1, 2020	1,850,000
Bonds bearing interest at 4.000% maturing on February 1, 2021	1,925,000
Bonds bearing interest at 4.100% maturing on February 1, 2022	2,000,000
Bonds bearing interest at 4.100% maturing on February 1, 2023	2,080,000

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 4.125% maturing on February 1, 2024	2,170,000
Bonds bearing interest at 4.125% maturing on February 1, 2025	2,255,000
Bonds bearing interest at 4.125% maturing on February 1, 2026	2,350,000
Bonds bearing interest at 4.125% maturing on February 1, 2027	2,445,000
Bonds bearing interest at 4.250% maturing on February 1, 2028	2,550,000
Bonds bearing interest at 4.250% maturing on February 1, 2029	2,655,000
Bonds bearing interest at 4.250% maturing on February 1, 2030	2,770,000
Bonds bearing interest at 4.250% maturing on February 1, 2031	2,885,000
Bonds bearing interest at 4.250% maturing on February 1, 2032	3,010,000
Bonds bearing interest at 4.250% maturing on February 1, 2033	<u>3,140,000</u>
Subtotal	<u>\$ 45,110,000</u>

\$1,125,000 Public Safety Refunding Bonds (Virginia Resources Authority Pooled Financing Program), Series 2009A, issued June 17, 2009, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.125% maturing on October 1, 2012	\$ 80,000
Bonds bearing interest at 3.125% maturing on October 1, 2013	80,000
Bonds bearing interest at 4.419% maturing on October 1, 2014	85,000
Bonds bearing interest at 4.792% maturing on October 1, 2015	90,000
Bonds bearing interest at 4.809% maturing on October 1, 2016	95,000
Bonds bearing interest at 5.125% maturing on October 1, 2017	100,000
Bonds bearing interest at 5.125% maturing on October 1, 2018	105,000
Bonds bearing interest at 4.839% maturing on October 1, 2019	105,000
Bonds bearing interest at 4.852% maturing on October 1, 2020	110,000
Bonds bearing interest at 3.951% maturing on October 1, 2021	<u>115,000</u>
Subtotal	<u>\$ 965,000</u>

\$9,515,000 Public Improvement Bonds, Series 2010A, issued August 11, 2010, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.000% maturing on July 15, 2012	\$ 370,000
Bonds bearing interest at 2.000% maturing on July 15, 2013	380,000
Bonds bearing interest at 2.000% maturing on July 15, 2014	385,000
Bonds bearing interest at 2.000% maturing on July 15, 2015	395,000
Bonds bearing interest at 2.000% maturing on July 15, 2016	405,000
Bonds bearing interest at 4.000% maturing on July 15, 2017	415,000
Bonds bearing interest at 4.000% maturing on July 15, 2018	430,000
Bonds bearing interest at 2.500% maturing on July 15, 2019	445,000
Bonds bearing interest at 3.000% maturing on July 15, 2020	460,000
Bonds bearing interest at 3.000% maturing on July 15, 2021	470,000
Bonds bearing interest at 3.000% maturing on July 15, 2022	485,000
Bonds bearing interest at 3.000% maturing on July 15, 2023	500,000
Bonds bearing interest at 3.125% maturing on July 15, 2024	515,000
Bonds bearing interest at 3.250% maturing on July 15, 2025	535,000
Bonds bearing interest at 3.375% maturing on July 15, 2026	550,000
Bonds bearing interest at 3.500% maturing on July 15, 2027	570,000

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 3.500% maturing on July 15, 2028	590,000
Bonds bearing interest at 3.625% maturing on July 15, 2029	615,000
Bonds bearing interest at 3.750% maturing on July 15, 2030	<u>635,000</u>
Subtotal	<u>\$ 9,150,000</u>

\$5,691,105 Public Improvement Refunding Bonds, Series 2010B, issued August 11, 2010, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.000% maturing on July 15, 2012	\$ 80,332
Bonds bearing interest at 2.000% maturing on July 15, 2013	325,383
Bonds bearing interest at 3.000% maturing on July 15, 2014	331,692
Bonds bearing interest at 2.000% maturing on July 15, 2015	342,301
Bonds bearing interest at 3.000% maturing on July 15, 2016	348,611
Bonds bearing interest at 3.000% maturing on July 15, 2017	360,622
Bonds bearing interest at 5.000% maturing on July 15, 2018	371,839
Bonds bearing interest at 3.000% maturing on July 15, 2019	310,236
Bonds bearing interest at 4.000% maturing on July 15, 2020	322,247
Bonds bearing interest at 4.000% maturing on July 15, 2021	335,660
Bonds bearing interest at 3.000% maturing on July 15, 2022	348,372
Bonds bearing interest at 3.000% maturing on July 15, 2023	360,383
Bonds bearing interest at 3.125% maturing on July 15, 2024	368,095
Bonds bearing interest at 3.250% maturing on July 15, 2025	120,000
Bonds bearing interest at 3.375% maturing on July 15, 2026	125,000
Bonds bearing interest at 3.375% maturing on July 15, 2027	125,000
Bonds bearing interest at 3.500% maturing on July 15, 2028	130,000
Bonds bearing interest at 3.625% maturing on July 15, 2029	140,000
Bonds bearing interest at 3.750% maturing on July 15, 2030	140,000
Bonds bearing interest at 4.000% maturing on July 15, 2031	145,000
Bonds bearing interest at 4.000% maturing on July 15, 2032	155,000
Bonds bearing interest at 4.000% maturing on July 15, 2033	160,000
Bonds bearing interest at 4.000% maturing on July 15, 2034	<u>165,000</u>
Subtotal	<u>\$ 5,610,773</u>

\$27,265,000 Public Improvement and Refunding Bonds, Series 2011, issued December 6, 2011, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.000% maturing on August 1, 2012	\$ 1,535,000
Bonds bearing interest at 2.000% maturing on August 1, 2013	1,570,000
Bonds bearing interest at 2.000% maturing on August 1, 2014	1,605,000
Bonds bearing interest at 2.000% maturing on August 1, 2015	1,645,000
Bonds bearing interest at 2.000% maturing on August 1, 2016	1,680,000
Bonds bearing interest at 2.000% maturing on August 1, 2017	1,120,000
Bonds bearing interest at 4.000% maturing on August 1, 2018	1,165,000
Bonds bearing interest at 3.000% maturing on August 1, 2019	1,215,000
Bonds bearing interest at 4.000% maturing on August 1, 2020	1,265,000
Bonds bearing interest at 4.000% maturing on August 1, 2021	1,315,000
Bonds bearing interest at 3.000% maturing on August 1, 2022	1,370,000
Bonds bearing interest at 3.000% maturing on August 1, 2023	<u>1,415,000</u>

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 3.000% maturing on August 1, 2024	1,475,000
Bonds bearing interest at 3.000% maturing on August 1, 2025	1,525,000
Bonds bearing interest at 3.125% maturing on August 1, 2026	1,575,000
Bonds bearing interest at 3.250% maturing on August 1, 2027	1,640,000
Bonds bearing interest at 3.375% maturing on August 1, 2028	1,705,000
Bonds bearing interest at 3.500% maturing on August 1, 2029	1,670,000
Bonds bearing interest at 3.625% maturing on August 1, 2030	380,000
Bonds bearing interest at 3.625% maturing on August 1, 2031	395,000
Subtotal	<u>\$ 27,265,000</u>
Total General Obligation Bonds	<u><u>\$ 129,691,533</u></u>

Capital Leases:

\$1,066,000 lease agreement with the Harrisonburg Redevelopment and Housing Authority effective August 24, 1995 with principal and interest payable semi-annually.

Lease bearing interest at 6.08% maturing August 24, 2012 and February 26, 2013	\$ 74,354
Lease bearing interest at 6.08% maturing August 24, 2013 and February 26, 2014	79,142
Lease bearing interest at 6.08% maturing August 24, 2014 and February 26, 2015	84,060
Lease bearing interest at 6.08% maturing August 24, 2015 and February 26, 2016	89,329
Subtotal	<u>\$ 326,885</u>

\$6,152,500 lease agreement with the Harrisonburg Redevelopment and Housing Authority effective May 1, 1998, maturing annually with interest payable semi-annually.

Lease bearing interest at 5.00% maturing on June 20, 2013	\$ 515,000
Lease bearing interest at 5.00% maturing on June 20, 2014	540,000
Subtotal	<u>\$ 1,055,000</u>

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

Lease bearing interest at 3.76% maturing on December 1, 2012	\$ 377,000
Lease bearing interest at 3.76% maturing on December 1, 2013	391,000
Lease bearing interest at 3.76% maturing on December 1, 2014	406,000
Lease bearing interest at 3.76% maturing on December 1, 2015	421,000
Lease bearing interest at 3.76% maturing on December 1, 2016	437,000
Lease bearing interest at 3.76% maturing on December 1, 2017	454,000
Lease bearing interest at 3.76% maturing on December 1, 2018	471,000
Lease bearing interest at 3.76% maturing on December 1, 2019	489,000
Subtotal	<u>\$ 3,446,000</u>
Total Capital Leases	<u><u>\$ 4,827,885</u></u>

Note 11. Long-term Liabilities (continued)

The following is the detail for the long-term liabilities of the business-type activities as of June 30, 2012.

General Obligation Bonds:

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

Bonds bearing interest at 4.375% maturing on July 15, 2012	\$ 1,085,000
Subtotal	\$ 1,085,000

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

Bonds bearing interest at 3.6250% maturing on October 1, 2012	\$ 410,000
Bonds bearing interest at 3.6250% maturing on October 1, 2013	420,000
Bonds bearing interest at 3.6250% maturing on October 1, 2014	435,000
Bonds bearing interest at 4.4766% maturing on October 1, 2015	455,000
Subtotal	\$ 1,720,000

\$1,000,000 Bonds, Series 2008, issued August 21, 2008, maturing annually with interest payable semi-annually:

Bonds bearing interest at 3.65% maturing on August 21, 2012	\$ 100,000
Bonds bearing interest at 3.65% maturing on August 21, 2013	100,000
Bonds bearing interest at 3.65% maturing on August 21, 2014	100,000
Bonds bearing interest at 3.65% maturing on August 21, 2015	100,000
Bonds bearing interest at 3.65% maturing on August 21, 2016	100,000
Bonds bearing interest at 3.65% maturing on August 21, 2017	100,000
Bonds bearing interest at 3.65% maturing on August 21, 2018	100,000
Subtotal	\$ 700,000

\$1,136,000 Water Bonds, Series 2009 (Virginia Resources Authority Drinking Water State Revolving Fund), issued November 20, 2009, maturing semi-annually:

Bonds bearing interest at 0% maturing on August 1, 2012 and February 1, 2013	\$ 37,867
Bonds bearing interest at 0% maturing on August 1, 2013 and February 1, 2014	37,866
Bonds bearing interest at 0% maturing on August 1, 2014 and February 1, 2015	37,866
Bonds bearing interest at 0% maturing on August 1, 2015 and February 1, 2016	37,866
Bonds bearing interest at 0% maturing on August 1, 2016 and February 1, 2017	37,867
Bonds bearing interest at 0% maturing on August 1, 2017 and February 1, 2018	37,867
Bonds bearing interest at 0% maturing on August 1, 2018 and February 1, 2019	37,867
Bonds bearing interest at 0% maturing on August 1, 2019 and February 1, 2020	37,866
Bonds bearing interest at 0% maturing on August 1, 2020 and February 1, 2021	37,866
Bonds bearing interest at 0% maturing on August 1, 2021 and February 1, 2022	37,867
Bonds bearing interest at 0% maturing on August 1, 2022 and February 1, 2023	37,867

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

Bonds bearing interest at 0% maturing on August 1, 2023 and February 1, 2024	37,867
Bonds bearing interest at 0% maturing on August 1, 2024 and February 1, 2025	37,867
Bonds bearing interest at 0% maturing on August 1, 2025 and February 1, 2026	37,867
Bonds bearing interest at 0% maturing on August 1, 2026 and February 1, 2027	37,867
Bonds bearing interest at 0% maturing on August 1, 2027 and February 1, 2028	37,867
Bonds bearing interest at 0% maturing on August 1, 2028 and February 1, 2029	37,867
Bonds bearing interest at 0% maturing on August 1, 2029 and February 1, 2030	37,866
Bonds bearing interest at 0% maturing on August 1, 2030 and February 1, 2031	37,866
Bonds bearing interest at 0% maturing on August 1, 2031 and February 1, 2032	37,867
Bonds bearing interest at 0% maturing on August 1, 2032 and February 1, 2033	37,867
Bonds bearing interest at 0% maturing on August 1, 2033 and February 1, 2034	37,867
Bonds bearing interest at 0% maturing on August 1, 2034 and February 1, 2035	37,866
Bonds bearing interest at 0% maturing on August 1, 2035 and February 1, 2036	37,866
Bonds bearing interest at 0% maturing on August 1, 2036 and February 1, 2037	37,867
Bonds bearing interest at 0% maturing on August 1, 2037 and February 1, 2038	37,867
Bonds bearing interest at 0% maturing on August 1, 2038 and February 1, 2039	37,867
Bonds bearing interest at 0% maturing on August 1, 2039 and February 1, 2040	37,866
Subtotal	<u>\$ 1,060,266</u>

\$28,063,895 Public Improvement Refunding Bonds, Series 2010B, issued August 11, 2010, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.000% maturing on July 15, 2012	\$ 179,668
Bonds bearing interest at 2.000% maturing on July 15, 2013	1,824,617
Bonds bearing interest at 3.000% maturing on July 15, 2014	1,878,308
Bonds bearing interest at 2.000% maturing on July 15, 2015	1,917,699
Bonds bearing interest at 3.000% maturing on July 15, 2016	1,961,389
Bonds bearing interest at 3.000% maturing on July 15, 2017	2,014,378
Bonds bearing interest at 5.000% maturing on July 15, 2018	2,103,161
Bonds bearing interest at 3.000% maturing on July 15, 2019	1,704,764
Bonds bearing interest at 4.000% maturing on July 15, 2020	1,762,753
Bonds bearing interest at 4.000% maturing on July 15, 2021	1,829,340
Bonds bearing interest at 3.000% maturing on July 15, 2022	1,891,628
Bonds bearing interest at 3.000% maturing on July 15, 2023	1,949,617
Bonds bearing interest at 3.125% maturing on July 15, 2024	2,006,905
Bonds bearing interest at 3.250% maturing on July 15, 2025	470,000
Bonds bearing interest at 3.375% maturing on July 15, 2026	480,000
Bonds bearing interest at 3.375% maturing on July 15, 2027	500,000
Bonds bearing interest at 3.500% maturing on July 15, 2028	520,000
Bonds bearing interest at 3.625% maturing on July 15, 2029	535,000
Bonds bearing interest at 3.750% maturing on July 15, 2030	555,000
Bonds bearing interest at 4.000% maturing on July 15, 2031	575,000
Bonds bearing interest at 4.000% maturing on July 15, 2032	600,000
Bonds bearing interest at 4.000% maturing on July 15, 2033	625,000
Subtotal	<u>\$ 27,884,227</u>

Note 11. Long-term Liabilities (continued)

General Obligation Bonds (continued):

\$1,325,000 Public Improvement and Refunding Bonds, Series 2011, issued December 6, 2011, maturing annually with interest payable semi-annually:

Bonds bearing interest at 2.000% maturing on August 1, 2012	\$ 60,000
Bonds bearing interest at 2.000% maturing on August 1, 2013	60,000
Bonds bearing interest at 2.000% maturing on August 1, 2014	60,000
Bonds bearing interest at 2.000% maturing on August 1, 2015	60,000
Bonds bearing interest at 2.000% maturing on August 1, 2016	60,000
Bonds bearing interest at 2.000% maturing on August 1, 2017	65,000
Bonds bearing interest at 4.000% maturing on August 1, 2018	65,000
Bonds bearing interest at 3.000% maturing on August 1, 2019	70,000
Bonds bearing interest at 4.000% maturing on August 1, 2020	70,000
Bonds bearing interest at 4.000% maturing on August 1, 2021	75,000
Bonds bearing interest at 3.000% maturing on August 1, 2022	75,000
Bonds bearing interest at 3.000% maturing on August 1, 2023	80,000
Bonds bearing interest at 3.000% maturing on August 1, 2024	80,000
Bonds bearing interest at 3.000% maturing on August 1, 2025	85,000
Bonds bearing interest at 3.125% maturing on August 1, 2026	85,000
Bonds bearing interest at 3.250% maturing on August 1, 2027	90,000
Bonds bearing interest at 3.375% maturing on August 1, 2028	90,000
Bonds bearing interest at 3.500% maturing on August 1, 2029	95,000
Subtotal	\$ <u>1,325,000</u>
Total General Obligation Bonds	\$ <u><u>33,774,493</u></u>

General Obligation Revenue Bonds:

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

Bonds bearing interest at 4.500% maturing on July 15, 2012	\$ <u>240,000</u>
Subtotal	\$ <u>240,000</u>
Total General Obligation Revenue Bonds	\$ <u><u>240,000</u></u>

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

In June 2004, the City and James Madison University (JMU) entered into a revised and amended agreement concerning the sale and purchase of steam and chilled water from the City owned resource recovery facility. This facility produces steam and chilled water to meet all the heating and cooling needs of JMU's College of Integrated Science and Technology, as well as other buildings. To the extent that the City continues to operate this facility, JMU has agreed to annually reimburse the City for the annual debt service payments on the City's \$4,260,000 Series 2004 Solid Waste Disposal System Refunding Bonds and on the City's \$1,000,000 Series 2008 General Obligation Bonds. The current year reimbursements for debt service payments on these bonds totaled \$595,815. The total outstanding balance of the two bond issues at June 30, 2012 was \$2,420,000.

Note 11. Long-term Liabilities (continued)

In October 2006, the City issued \$50 million in general obligation public improvement bonds, of which \$3.5 million was issued on behalf of and loaned to the Harrisonburg Redevelopment and Housing Authority (Authority) for the purpose of renovating public housing units owned by the Authority. The Authority has agreed to reimburse the City for its share of the principal and interest payments on the City's \$50 million bond issue as the debt service payments come due. As of June 30, 2012, the outstanding balance of the loan is \$3,157,700.

In December 2011, the City issued \$28.6 million in general obligation public improvement and refunding bonds, of which \$6 million was issued on behalf of and loaned to the Harrisonburg Redevelopment and Housing Authority (Authority) for the purpose of renovating public housing units owned by the Authority. The Authority has agreed to reimburse the City for its share of the principal and interest payments on the City's \$28.6 million bond issue as the debt service payments come due. As of June 30, 2012, the outstanding balance of the loan is \$6,035,000.

Component Unit – School Board

At June 30, 2012, the School Board had \$3,165,334 in long-term liabilities outstanding. This long-term liability is comprised of \$858,283 in compensated absences, of which \$289,235 is due within one year and \$2,307,051 in postretirement healthcare benefits, of which the entire amount is due in more than one year.

Component Unit – HEC

At June 30, 2012, HEC had \$1,138,087 in long-term liabilities outstanding. This long-term liability is comprised of \$365,915 in compensated absences, of which the entire amount is due within one year and \$772,172 in postretirement health care benefits, of which the entire amount is due in more than one year.

The Harrisonburg Electric Commission has a \$1 million unsecured line of credit at a rate equal to LIBOR plus 1.4 percent. There were no borrowings against this line of credit during fiscal year 2012.

Note 12. Capital Lease Agreements

Jail and Judicial Complex Lease Agreement. In May 1998, the City and the County of Rockingham (County) entered into a restated and amended lease agreement with the Harrisonburg Redevelopment and Housing Authority (Authority). Pursuant to the terms of this lease, the Authority sold a bond issue for \$12,305,000 entitled "Public Facility Lease Revenue Refunding Bonds (Rockingham County and City of Harrisonburg Project) Series of 1998." The proceeds of this bond issue were used to refund bonds previously issued by the Authority in 1991 that were used to construct a joint jail and judicial complex. The bonds are limited obligations of the Authority payable solely from certain rent payments to be made by the City and the County and from certain funds established for the project under the agreement. The obligations of the City and County to make rent payments will be subject to annual appropriation by the City Council and the County Board of Supervisors, neither of which shall be under any legal obligation to make such appropriation. Neither the bonds nor the lease agreement constitutes a pledge of the full faith and credit or taxing power of the City or County, however, it is considered a capital lease.

Social Services and Health Department Lease Agreement. In August 1995, the City and the County of Rockingham (County) entered into a lease agreement with the Harrisonburg Redevelopment and Housing Authority (Authority). Pursuant to the terms of this lease, the Authority sold a bond issue for \$2,665,000 entitled "Public Facility Lease Revenue Bond (Rockingham County and City of Harrisonburg Project)." The proceeds of this bond issue were used to renovate and equip a building for combined Social Services and Health Departments. The bonds are limited obligations of the Authority payable solely from certain rent payments to be made by the City and the County. The obligations of the City and County to make rent payments will be subject to annual appropriation by the City Council and the County Board of Supervisors, neither of which shall be under any legal obligation to make such appropriation. Neither the bonds nor the lease agreement constitutes a pledge of the full faith and credit or taxing power of the City or County, however, it is considered a capital lease.

Note 13. Series 2003, 2009A and 2009B Bonds Advance Refunded and Defeased

In December 2011, as part of a \$28.6 million bond issue, the City issued \$22,725,000 in Series 2011 General Obligation Public Improvement Refunding Bonds with an average interest rate of 3.15 percent to current refund certain outstanding debt. The net proceeds of \$22,987,368 (after payment of \$405,400 in issuance costs) were used to current refund the following bond issues:

Series 2003 Public Improvement General Obligation Refunding Bonds. The City refunded \$2,848,100 of outstanding Series 2003 Bonds with an average interest rate of 3.17 percent. The refunding bonds were issued to current refund the Series 2003 Bonds, and as a result, these bonds were removed from the City's outstanding debt.

Series 2009A Public Improvement General Obligation Bonds. The City refunded \$13,923,000 of outstanding 2009A Series Bonds with an average interest rate of 4.45 percent. The refunding bonds were issued to current refund the Series 2009A Bonds, and as a result, these bonds were removed from the City's outstanding debt.

Series 2009B General Obligation Refunding Bonds. The City refunded \$5,875,000 of outstanding 2009B General Obligation Bonds with an average interest rate of 4.45 percent. The refunding bonds were issued to current refund the Series 2009B Bonds, and as a result, these bonds were removed from the City's outstanding debt.

The current refunding resulted in the reacquisition price exceeding the net carrying amount of the old debt by \$1,002,807. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized through fiscal year 2030. The City current refunded the Series 2003, 2009A and 2009B Bonds to reduce its total debt service payments over the next 18 years by \$3,214,230 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$2,537,891.

Note 14. Series 2002A and 2002B Bonds Advance Refunded and Defeased

In August 2010, the City partially refunded and defeased in substance its Series 2002A Public Safety and Steam Plant General Obligation Bonds and its 2002B Water General Obligation Revenue Bonds (old bonds). This defeasance was accomplished by placing the proceeds of the new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities of the old bonds are not included in the City's outstanding debt. On June 30, 2012, \$29,350,000 of the old bonds outstanding were considered defeased.

Note 15. Conduit Debt

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

As of June 30, 2012, there were three series of Industrial Development Authority Revenue Bonds and 14 series of Redevelopment and Housing Authority Revenue Bonds outstanding, with an aggregate principal amount of \$219 million and \$118.2 million respectively.

Note 16. Fund Balance

The following is a summary of amounts that are reported on the governmental funds balance sheet identified as nonspendable, restricted, committed or assigned fund balance at June 30, 2012.

	General Fund	General Capital Projects Fund	Other Governmental Funds	Total
Nonspendable:				
Inventory	\$ 69,417	\$ -	\$ -	\$ 69,417
Prepaid expenditures	118,952	-	-	118,952
Advance to other funds	217,339	-	-	217,339
Loans receivable	375,000	-	-	375,000
Total nonspendable fund balance	<u>\$ 780,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 780,708</u>
Restricted for:				
Public safety	\$ 152,249	\$ -	\$ -	\$ 152,249
Public works	-	5,758,290	-	5,758,290
Debt service	284,297	-	-	284,297
Total restricted fund balance	<u>\$ 436,546</u>	<u>\$ 5,758,290</u>	<u>\$ -</u>	<u>\$ 6,194,836</u>
Committed to:				
General government administration	\$ 80,000	\$ -	\$ -	\$ 80,000
Public works	2,697,965	10,018,363	-	12,716,328
Education	-	76,576	295,409	371,985
Parks and recreation	3,494	230,181	-	233,675
Planning and community development	-	7,332	22,569	29,901
Debt service	313,921	-	-	313,921
Total committed fund balance	<u>\$ 3,095,380</u>	<u>\$ 10,332,452</u>	<u>\$ 317,978</u>	<u>\$ 13,745,810</u>
Assigned to:				
General government administration	\$ 38,556	\$ -	\$ -	\$ 38,556
Public safety	22,233	-	-	22,233
Public works	810,565	-	-	810,565
Parks and recreation	46,793	-	-	46,793
Planning and community development	1,330	-	-	1,330
Subsequent years' expenditures	751,852	-	-	751,852
Total assigned fund balance	<u>\$ 1,671,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,671,329</u>

Note 17. Harrisonburg Redevelopment and Housing Authority Agreements

One Court Square. In December 2004, the City entered into a support agreement with the Harrisonburg Redevelopment and Housing Authority (Authority) whereby the Authority purchased and planned to renovate an office building in the downtown area. The building was originally intended to serve as an incubator to attract telecommunication and other technology firms to the City by providing leaseable office space to qualifying businesses and has been renovated by the Authority for use by the School Board for administration offices. Pursuant to the agreement, the Authority incurred \$2 million in debt to finance the original project with final maturity occurring in December 2014. The City and the Authority have an informal agreement that ownership of the building will be transferred to the City when the Authority retires the debt in its entirety. As of June 30, 2012, the outstanding balance of the Authority's debt was \$614,056.

Note 17. Harrisonburg Redevelopment and Housing Authority Agreements (continued)

The City has agreed to a non-binding moral obligation pledge to pay all operating expenses for the project, including debt service, to the extent that revenues from any leases are insufficient to pay these expenses. In fiscal year 2012, the City made payments totaling \$253,623 to the Authority for this project.

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

The City has agreed to a non-binding moral obligation pledge to pay all operating expenses for the project, including debt service, to the extent that the revenue from the lease is insufficient to pay these expenses. In fiscal year 2012, the City made payments totaling \$67,668 to the Authority for this project.

Note 18. Defined Benefit Pension Plan

Plan Description. The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Employees earn one month of service credit for each month they are employed and their employer is paying into the VRS. Employees are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan. VRS administers two defined benefit plans for local government employees.

Plan 1. Employees hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 50 with at least 30 years of service credit or age 65 with at least five years of service credit. Employees may retire with a reduced benefit as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit.

Plan 2. Employees hired or rehired after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. Employees may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Hazardous duty employees. Under both plans, eligible hazardous duty employees (police officers and firefighters) are eligible for an unreduced benefit beginning at age 50 with at least 25 years of service credit or age 60 with at least five years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 10 years of service credit. All other provisions of the employee's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation (AFC) multiplied by the employee's total service credit. Under Plan 1, AFC is the average of the employee's 36 consecutive months of highest compensation. Under Plan 2, AFC is the average of the employee's 60 consecutive months of highest compensation. The retirement multiplier is 1.7 percent for non-hazardous duty employees and 1.85 percent for eligible hazardous duty employees. In addition, eligible hazardous employees receive a monthly benefit supplement if they retire prior to age 65. At retirement, employees can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for employees electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Note 18. Defined Benefit Pension Plan (continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed five percent. Under Plan 2, the COLA cannot exceed six percent. During years of no inflation or deflation, the COLA is zero percent. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or obtained by writing to the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy. Employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute five percent of their annual reported compensation to the VRS. This five percent employee contribution has been assumed by the employer. In addition, the City, the City of Harrisonburg School Board (School Board) and the Harrisonburg Electric Commission (HEC), are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by statute and approved by the VRS Board of Trustees. The City and HEC's contribution rate for the fiscal year ended 2012 was 9.79 percent of annual covered payroll. The School Board non-professional employees' contribution rate for the fiscal year ended 2012 was 4.79 percent of annual covered payroll. The School Board professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended 2012 was 6.33 percent of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the fiscal years ending June 30, 2012, 2011, and 2010 were \$1,889,912, \$1,114,949, and \$1,771,261, respectively, and were equal to the required contributions for each year.

Annual Pension Cost. For fiscal year 2012, the City of Harrisonburg and HEC's annual pension cost of \$2,344,226 was equal to the required and actual contributions. The School Board's non-professional employees annual pension cost of \$85,458 was equal to the required and actual contributions. The required contribution for fiscal year 2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year (3.50 percent to 4.75 percent per year for local law enforcement officers and firefighters), (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5 percent. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City, HEC and the School Board's non-professional employees unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis within a period of 20 years. The following is the annual pension cost, the percentage of annual pension cost contributed to VRS and the net pension obligation for fiscal year 2012 and the preceding two fiscal years.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City of Harrisonburg and HEC Employees:			
2012	\$ 2,344,226	100%	\$ -
2011	2,345,165	100%	-
2010	2,414,092	100%	-
School Board Non-Professional Employees:			
2012	\$ 85,458	100%	\$ -
2011	83,557	100%	-
2010	92,785	100%	-

Note 18. Defined Benefit Pension Plan (continued)

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the plan for City and HEC employees was 73.28 percent funded. The actuarial accrued liability for benefits was \$115,022,577, and the actuarial value of assets was \$84,286,282, resulting in an unfunded actuarial accrued liability (UAAL) of \$30,736,275. The covered payroll (annual payroll of the active employees covered by the plan) was \$25,093,369 and the ratio of UAAL to the covered payroll was 122.49 percent.

As of June 30, 2011, the most recent actuarial valuation date, the plan for the School Board non-professional employees was 91.83 percent funded. The actuarial accrued liability for benefits was \$6,050,297, and the actuarial value of assets was \$5,555,694, resulting in an unfunded actuarial accrued liability (FAAL) of \$494,603. The covered payroll (annual payroll of the active employees covered by the plan) was \$1,735,294 and the ratio of FAAL to the covered payroll was 28.5 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 19. Postretirement Healthcare Benefits

Plan Description

City of Harrisonburg. The City provides certain healthcare benefits for retired employees through the City of Harrisonburg Postretirement Healthcare Benefit Plan (Plan). The plan is administered through a single-employer defined benefit plan and is considered other postemployment benefits (OPEB). The Plan provides for an option to eligible retirees and their eligible dependents to continue their coverage in the same health insurance program available to all City employees at the active employee rates. Eligible retirees must be 50 years of age and meet the Virginia Retirement System requirements for service or disability retirement. Retirees must have at least 15 years of consecutive eligible service with the City immediately prior to retirement. Also, retirees must have participated in the City's health insurance program for a minimum of five years immediately prior to retirement. The benefit ends upon the retiree's eligibility for Medicare coverage. These benefit provisions are established and may be amended by the Harrisonburg City Council through the City's Human Resources Policy Manual. The Plan does not issue a publicly available financial report.

School Board. The Harrisonburg City School Board provides certain healthcare benefits for retired employees through the Harrisonburg City School Board Postretirement Healthcare Benefit Plan (Plan). The plan is administered through a single-employer defined benefit plan and is considered other postemployment benefits (OPEB). The Plan provides for an option to eligible retirees and their eligible dependents to continue their coverage in the same health insurance program available to all School Board employees at the active employee rates. Eligible retirees must be 50 years of age and meet the Virginia Retirement System requirements for service or disability retirement. Retirees must have at least ten years of cumulative eligible service with the School Board with a minimum of five years immediately prior to retirement. Depending on the number of years of eligible service, the retiree may remain on the plan for a maximum of fifteen years but in all instances the benefit ends upon the retiree's eligibility for Medicare coverage. These benefit provisions are established and may be amended by the Harrisonburg City School Board through the School Board's Human Resources Policy Manual. The Plan does not issue a publicly available financial report.

Funding Policy

City of Harrisonburg. The contribution requirements of the retirees and the City are established and may be amended by the Harrisonburg City Council through the City's Human Resources Policy Manual. The City currently pays for these benefits on a pay-as-you-go basis. Under the current plan, the City contributes \$10 for each full year of service up to a maximum of \$350 towards the retiree's monthly premium. The retiree must contribute the remaining monthly premium amount.

Note 19. Postretirement Healthcare Benefits (continued)

School Board. The contribution requirements of the retirees and the School Board are established and may be amended by the Harrisonburg City School Board through the School Board's Human Resources Policy Manual. The School Board currently pays for these benefits on a pay-as-you-go basis. Under the current plan, the School Board contributes an amount equal to 70 percent of the monthly premium for the coverage selected by the retiree. The retiree must contribute the remaining monthly premium amount.

Annual OPEB Cost and Net OPEB Obligation

The following are the components of the annual OPEB cost (expense) for the current year, the amount actually contributed to the plans and changes in the net OPEB obligation for the City and School Board.

	Primary Government	School Board
Annual required contribution	\$ 1,000,077	\$ 1,304,185
Interest on the net OPEB obligation	72,031	69,773
Adjustment to the annual required contribution	(74,975)	(72,624)
Annual OPEB cost (expense)	\$ 997,133	\$ 1,301,334
Contributions made	(396,972)	(738,613)
Increase in the net OPEB obligation	\$ 600,161	\$ 562,721
Net OPEB obligation at beginning of year	1,800,767	1,744,330
Net OPEB obligation at end of year	\$ 2,400,928	\$ 2,307,051

The following is the annual OPEB cost, the percentage of annual OPEB cost contributed to the plans and the net OPEB obligation for fiscal year 2012 and the preceding two fiscal years for the City and School Board.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City of Harrisonburg:			
2012	\$ 997,133	39.8%	\$ 2,400,928
2011	965,143	37.6%	1,800,767
2010	919,694	35.5%	1,198,703
School Board:			
2012	\$ 1,301,334	56.8%	\$ 2,307,051
2011	1,098,995	50.5%	1,744,330
2010	1,050,660	45.2%	1,199,990

Funded Status and Funding Progress

City of Harrisonburg. As of July 1, 2011, the most recent actuarial valuation date, the plan had not been funded. The actuarial accrued liability for benefits was \$10,164,551. There were no plan assets resulting in an unfunded actuarial accrued liability (UAAL) of \$10,164,551. The covered payroll (annual payroll of the active employees covered by the plan) was \$21,193,426 and the ratio of UAAL to the covered payroll was 47.96 percent.

School Board. As of July 1, 2011, the most recent actuarial valuation date, the plan had not been funded. The actuarial accrued liability for benefits was \$12,150,967. There were no plan assets resulting in an unfunded actuarial accrued liability (UAAL) of \$12,150,967. The covered payroll (annual payroll of the active employees covered by the plan) was \$31,640,526 and the ratio of UAAL to the covered payroll was 38.4 percent.

Note 19. Postretirement Healthcare Benefits (continued)

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 revision 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

City of Harrisonburg. In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return and an annual healthcare cost trend rate (inflation rate) of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 7 years. The unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over an initial 30 year period. The remaining amortization period at the end of the current fiscal year is 26 years.

School Board. In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 7 years. The unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over an initial 30 year period. The remaining amortization period at the end of the current fiscal year is 26 years.

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 the 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.

Component Unit – HEC

The Harrisonburg Electric Commission (HEC) provides certain health care benefits for employees who retire from HEC. Further information on the plan is included in HEC's separately issued financial statements.

Note 20. Transactions with Component Units

For the year ended June 30, 2012, the City's General Fund made cash payments to the School Board, a component unit, totaling \$23,078,410. These payments are made in equal monthly installments for the purpose of funding the School Board's operating budget.

For the year ended June 30, 2012, the Harrisonburg Electric Commission, a component unit, made cash payments to the City's General Fund totaling \$4,900,000. These payments are made in equal monthly installments for the purpose of funding the General Fund budget.

Note 21. Landfill Closure and Postclosure Care Costs

In accordance with state and federal laws and regulations, the City is required to perform certain maintenance and monitoring functions at the City's closed landfill site for 30 years after the date of closure. The City closed its landfill in 1994. \$1,705,283 of the amount reported as landfill closure and postclosure care liability at June 30, 2012 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of the landfill. Included in the total liability is an additional \$667,881 for groundwater remediation. These amounts are based on current year costs. Actual costs ultimately may differ due to inflation, changes in technology, or changes in regulations. The City plans to fund its landfill closure and postclosure care costs with available funds from the General Fund and General Capital Projects Fund.

Note 22. Rockingham County Landfill Liability Agreement

Effective January 1, 2012, the City entered into a new agreement with Rockingham County (County) associated with solid waste activities of the two localities. As part of the agreement, the City will be considered a customer of the County landfill and will no longer make capital contributions for landfill expansion and other capital expenditures. The agreement also caps the City's recognized share of the County's closure and postclosure care costs as of the date of the agreement. Pursuant to the agreement, the City has recorded a \$2,697,965 contractual obligation to the County and has committed fund balance in the same amount in the General Fund.

Note 23. Commitments

The City has a construction contract outstanding for Phase II of a project to connect and improve Stone Spring Road and Erickson Avenue. The contract totals \$21.7 million, of which \$17.7 million had been expended as of June 30, 2012. This contract is a commitment of the General Capital Projects Fund and is being financed through transfers from the General Fund, federal and state intergovernmental revenue and previously issued bonds.

The City has a construction contract outstanding for Phase III of a project to connect and improve Stone Spring Road and Erickson Avenue. The contract totals \$5.2 million, of which \$775,670 had been expended as of June 30, 2012. This contract is a commitment of the General Capital Projects Fund and is being financed through state intergovernmental revenue.

The following is a summary of significant encumbrances at June 30, 2012.

	General Fund	General Capital Projects Fund	Total
Street repaving program	\$ 639,894	\$ -	\$ 639,894
Traffic signal	108,836	-	108,836
Engineering design at Ramblewood Athletic Complex	31,220	-	31,220
Stone Spring Road/Erickson Avenue construction project	-	5,195,019	5,195,019
Other purposes	139,527	179,462	318,989
Total encumbrances	\$ 919,477	\$ 5,374,481	\$ 6,293,958

There were no existing encumbrances in the other governmental funds.

Note 24. Intangible Assets

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

Note 25. Subsequent Events

On November 27, 2012, City Council approved the issuance of \$8 million in general obligation bonds to finance a portion of the construction of a new Public Transportation facility. The bonds will be issued and the closing transaction will occur on or before December 7, 2012.

Note 26. Joint Ventures

Harrisonburg-Rockingham Regional Sewer Authority. The City, Rockingham County, and the towns of Bridgewater, Dayton and Mt. Crawford have entered into a contract with the Harrisonburg-Rockingham Regional Sewer Authority (Authority), whereby the Authority agrees to operate a sewage disposal system for the participating municipalities. The municipalities have an ongoing financial responsibility based on an agreement to make annual contributions to the Authority for operations and maintenance based on their respective usage of the system. The municipalities also agree to make contributions to the Authority for debt service. In fiscal year 2012, the City's contributions totaled \$5,976,669 of which \$2,791,091 was for operations, \$2,853,933 was for debt service and \$331,645 was for capital purposes. These contributions are made from the Sewer Fund. The City does not have an ongoing financial interest in the Authority since it does not have access to the Authority's resources or surpluses, nor is it liable for the Authority's debts or deficits. To obtain a copy of the audited financial statements, contact the Authority at P.O. Box 8, 856 North River Road, Mt. Crawford, Virginia 22841.

The Authority has \$70.5 million of total debt outstanding at June 30, 2012. The City's share of the required principal and interest payments for the Authority's bond issues can be projected as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 1,646,829	\$ 1,164,629	\$ 2,811,458
2014	1,704,054	1,107,064	2,811,118
2015	1,762,448	1,048,096	2,810,544
2016	1,829,438	982,097	2,811,535
2017	1,897,676	912,076	2,809,752
2018-2022	10,614,074	3,424,943	14,039,017
2023-2027	7,841,177	1,765,083	9,606,260
2028-2031	6,301,638	421,961	6,723,599
Total	\$ 33,597,334	\$ 10,825,949	\$ 44,423,283

Note 26. Joint Ventures (continued)

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>
Current assets	\$ 2,057,275	\$ 3,666,049	\$ (1,608,774)
Restricted assets	3,460,468	2,941,871	518,597
Capital assets	99,823,076	103,332,477	(3,509,401)
Other assets	<u>832,184</u>	<u>862,024</u>	<u>(29,840)</u>
Total assets	<u>\$ 106,173,003</u>	<u>\$ 110,802,421</u>	<u>\$ (4,629,418)</u>
Current liabilities	\$ 2,157,157	\$ 3,638,198	\$ (1,481,041)
Liabilities payable from restricted assets	2,342,269	2,236,974	105,295
Long-term liabilities	<u>66,815,817</u>	<u>70,014,734</u>	<u>(3,198,917)</u>
Total liabilities	<u>\$ 71,315,243</u>	<u>\$ 75,889,906</u>	<u>\$ (4,574,663)</u>
Net assets	<u>\$ 34,857,760</u>	<u>\$ 34,912,515</u>	<u>\$ (54,755)</u>

Harrisonburg-Rockingham Emergency Communications Center. The City and Rockingham County (County) entered into an agreement that created the Harrisonburg-Rockingham Emergency Communications Center (HRECC), whereby the HRECC operates a joint emergency operations center and a joint two-way radio communications system. The City and County have an ongoing financial responsibility in that the City and County have agreed to equally provide any necessary funding for the HRECC. In fiscal year 2012, the City's contributions totaled \$1,444,254. These contributions are made from the General Fund. The City and County have equal undivided interests in any property purchased or used by the HRECC. To obtain a copy of the audited financial statements, contact the City of Harrisonburg Finance Department, 345 South Main Street, Harrisonburg, Virginia 22801.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>
Current assets	\$ 3,394,837	\$ 3,324,853	\$ 69,984
Capital assets	<u>2,630,932</u>	<u>2,839,740</u>	<u>(208,808)</u>
Total assets	<u>\$ 6,025,769</u>	<u>\$ 6,164,593</u>	<u>\$ (138,824)</u>
Current liabilities	\$ 59,787	\$ 159,655	\$ (99,868)
Long-term liabilities	<u>344,680</u>	<u>278,598</u>	<u>66,082</u>
Total liabilities	<u>\$ 404,467</u>	<u>\$ 438,253</u>	<u>\$ (33,786)</u>
Net assets	<u>\$ 5,621,302</u>	<u>\$ 5,726,340</u>	<u>\$ (105,038)</u>

Note 27. Jointly Governed Organizations

Harrisonburg-Rockingham Social Services District (District). The District was established by the City and the County of Rockingham (County) to provide social services for the residents of the City and County. Both the City and County appoint one member each to the governing board. The District is a separate legal entity and is a discretely presented component unit of the County. The City contributed \$2,897,880 to the District for the year ended June 30, 2012.

Note 27. Jointly Governed Organizations (continued)

Shenandoah Valley Juvenile Center Commission (Commission). The Commission was established to provide a regional juvenile detention home. The Commission currently serves the Cities of Harrisonburg, Staunton, Waynesboro and Lexington, Virginia and the Counties of Augusta, Rockingham and Rockbridge, Virginia. The governing body is composed of one member appointed by each participating locality. The Commission is a separate legal entity with no participating locality having a voting majority. The Commission is perpetual and no participating locality has access to its resources or surpluses, nor is any participant liable for the Commission's debts or deficits. The City contributed \$260,245 to the Commission for the year ended June 30, 2012.

Note 28. Related Organization

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

Note 29. Risk Management

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

The City is self-insured for health insurance purposes and has retained Anthem Blue Cross and Blue Shield to administer the program. The City currently reports these activities in the Health Insurance Fund, which is an internal service fund. This fund serves the City, primary government; Harrisonburg School Board and Harrisonburg Electric Commission, component units. Other external agencies also participate in the health insurance program including Harrisonburg-Rockingham Emergency Communications Center, Harrisonburg-Rockingham Community Services Board, Harrisonburg-Rockingham Regional Sewer Authority, Harrisonburg-Rockingham Alcohol Safety Action Program, Harrisonburg Redevelopment and Housing Authority, Harrisonburg Downtown Renaissance and the Massanutten Regional Library. This fund accounts for the health insurance activities of the aforementioned entities but does not constitute a transfer of risk from the City. Significant claims, over \$150,000, are covered by commercial insurance.

The City records an estimated liability for indemnity health care claims. Claims liabilities are based on estimates of the ultimate cost of reported claims, related claim adjustment expenses and an estimate for claims incurred but not reported (IBNR) based on historical experience. The following represents the change in approximate aggregate liabilities for the fund from July 1, 2010 to June 30, 2012:

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2012	\$ 797,930	\$ 12,543,254	\$ 12,404,835	\$ 936,349
2011	680,125	10,519,326	10,401,521	797,930

Note 30. Fund and Government-wide Activities Reclassifications

Public Transportation Fund. Effective July 1, 2011, the activities of the City operated school bus system were removed from the Public Transportation Fund (an enterprise fund) to a new nonmajor special revenue fund entitled School Transportation Fund. The school bus system activities are now included as governmental activities in the government-wide financial statements. In conjunction with this reclassification, \$223,544 in net financial resources were transferred to the School Transportation Fund in the fund financial statements and \$1,236,617 in net economic resources (capital assets and long-term liabilities) were transferred to governmental activities on the statement of activities from business-type activities.

Steam Plant Fund. Effective July 1, 2011, the activities of the City's refuse collection, landfill and recycling operations were removed from a previously entitled Sanitation Fund (an enterprise fund) to the General Fund. The Sanitation Fund was renamed the Steam Plant Fund to reflect the operations of the steam plant which were previously part of the Sanitation Fund. The refuse collection, landfill and recycling activities are now included as governmental activities in the government-wide financial statements. In conjunction with this reclassification, \$205,347 in net financial resources were transferred to the General Fund in the fund financial statements and \$1,058,156 in net economic resources (capital assets and long-term liabilities) were transferred to business-type activities on the statement of activities from governmental activities.

Note 31. Special Item

Effective January 1, 2012, the City entered into a new agreement with Rockingham County (County) associated with solid waste activities of the two localities. As part of the agreement, the City will be considered a customer of the County landfill and will no longer make capital contributions for landfill expansion and other capital expenditures. In previous years, these contributions were considered intangible capital assets. The agreement also caps the City's recognized liability for closure costs associated with the active cell. The special item reported in the amount of \$1.4 million under governmental activities on the statement of activities represents the net effect of the impairment of the capital asset and the new reduced liability for closure costs of the active cell as the result of the new agreement.

Note 32. Contingent Liabilities

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

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

Note 33. Fund Balance Deficit

The Community Development Block Grant Fund, a special revenue fund, had a deficit fund balance of \$60,493 as of June 30, 2012. This fund is an expenditure driven reimbursement grant from the Federal Government. The deficit is the result of certain reimbursements occurring after the City's 60-day availability policy for revenue recognition as described in Note 1 of the financial statements. Amounts received after the availability period are reported as deferred revenue.

Note 34. Restatement of Beginning Net Assets

The beginning net assets of the School Board, a component unit, have been restated by \$795,964. The purpose of this restatement is to correct the reporting of certain accrued employee benefit expenses in the previous fiscal year. The following is a summary of restatements made to the beginning net assets at June 30, 2011.

Net assets at the beginning of year, as previously reported	\$ 33,575,529
Correction of prior year prepaid expenses	(301,848)
Correction of prior year accrued payroll expenses	<u>(494,116)</u>
Net assets at the beginning of year, as restated	\$ <u>32,779,565</u>

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement establishes financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined in GASB Concept Statement No.4, *Elements of Financial Statements*. Concept Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of net position. This statement amends the net asset reporting requirements in all previous pronouncements by renaming this residual amount as net position, rather than net assets. The provisions of the statement are effective for fiscal year 2013 and will have an effect on certain reporting presentations in the City's financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of the statement are effective for fiscal year 2014 and will have an effect on certain reporting presentations in the City's financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This statement improves accounting and financial reporting for governmental financial reporting entities by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of the statement are effective for fiscal year 2014 and management has not yet determined the effect, if any, it will have on the City's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This statement establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures of pension plans. This statement identifies the methods and assumptions that should be used for the various calculations of a pension plan. This statement also establishes note disclosure and required supplementary information requirements for employer reporting of pension plans. The provisions of the statement are effective for fiscal year 2015 and will have a material effect on the City's financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF HARRISONBURG, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Exhibit 12

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Lia- bility (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Harrisonburg and Harrisonburg Electric Commission Defined Benefit Pension Plan (Virginia Retirement System)						
June 30, 2011	\$ 84,286,282	\$ 115,022,557	\$ 30,736,275	73.28%	\$ 25,093,369	122.49%
June 30, 2010	82,356,705	109,854,111	27,497,406	74.97%	25,648,340	107.21%
June 30, 2009	80,770,770	98,633,810	17,863,040	81.89%	25,741,526	69.39%
City of Harrisonburg School Board Defined Benefit Pension Plan (Virginia Retirement System)						
June 30, 2011	\$ 5,555,694	\$ 6,050,297	\$ 494,603	91.83%	\$ 1,735,294	28.50%
June 30, 2010	5,398,199	5,736,323	338,124	94.11%	1,763,475	19.17%
June 30, 2009	5,312,010	5,194,889	(117,121)	102.25%	1,739,318	(6.73%)
City of Harrisonburg Postretirement Healthcare Benefit Plan						
July 1, 2011	\$ -	\$ 10,164,551	\$ 10,164,551	0.00%	\$ 21,193,426	47.96%
July 1, 2010	-	9,437,811	9,437,811	0.00%	21,212,679	44.49%
July 1, 2009	-	8,853,278	8,853,278	0.00%	21,634,700	40.92%
City of Harrisonburg School Board Postretirement Healthcare Benefit Plan						
July 1, 2011	\$ -	\$ 12,150,967	\$ 12,150,967	0.00%	\$ 31,640,526	38.40%
July 1, 2010	-	10,335,676	10,335,676	0.00%	30,114,574	34.32%
July 1, 2009	-	9,771,679	9,771,679	0.00%	30,117,052	32.45%
Harrisonburg Electric Commission Postretirement Healthcare Benefit Plan						
July 1, 2011	\$ -	\$ 772,172	\$ 772,172	0.00%	\$ 2,798,787	27.59%
July 1, 2010	-	772,172	772,172	0.00%	2,798,787	27.59%
July 1, 2009	-	755,941	755,941	0.00%	2,688,337	28.12%

CITY OF HARRISONBURG, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

Note 1. Defined Benefit Pension Plans

The assumptions used for the June 30, 2011 actuarial valuation reflects a change in benefit provisions for the addition of Plan 2 members. Members hired after June 30, 2010 are considered Plan 2 members. The assumptions also reflect an increase in the amortization period of the unfunded actuarial accrued liability from 20 to 30 years to phase in the impact of the lower investment return adopted in the June 30, 2010 actuarial valuation. The amortization period will decrease by one each year until reaching 20 years.

The assumptions used for the June 30, 2010 actuarial valuation reflects a change in the investment rate of return. The investment rate of return assumption was lowered from 7.5 percent to 7 percent.

The assumptions used for the June 30, 2009 actuarial valuation reflects a change in the asset valuation method. The method used in prior valuations was a five-year smoothed market value of assets, but with a corridor of not less than 80 percent or more than 120 percent of the market value of assets. This corridor has been suspended for this valuation. The assumptions also reflect a change in economic and demographic assumptions, which include an increase in the rates of withdrawals, a decrease in the rates of disability retirements and a change in the rates of service retirements.

Note 2. Postretirement Healthcare Benefit Plan

The assumptions used in the July 1, 2011 actuarial valuation for the School Board reflects a change in plan benefits for employees that retire after July 1, 2014.

**OTHER
SUPPLEMENTARY INFORMATION**

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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to 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.

Community Development Block Grant Fund - This fund accounts for the administration of the community development block grant funds received from the Federal Government.

School Transportation Fund - This fund accounts for the operations of the City's school bus system. Financing is provided by payments for services from the Harrisonburg City School Board. Funding is a committed revenue source and is used only for the operations of the school bus system.

Business Loan Program Fund - This fund accounts for the administration of the Harrisonburg Business Loan Program which is a revolving loan program. This program provides microloans to qualifying local businesses. Financing originally has been provided by the Federal Government along with additional funding from the City.

CITY OF HARRISONBURG, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
At June 30, 2012

Exhibit A-1

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	School Transportation Fund	Business Loan Program Fund	
Assets				
Cash and cash equivalents	\$ -	\$ 402,307	\$ 22,530	\$ 424,837
Receivables	74,457	3,467	39	77,963
Due from component unit	-	47,822	-	47,822
Loans receivable	-	-	15,380	15,380
Total assets	<u>\$ 74,457</u>	<u>\$ 453,596</u>	<u>\$ 37,949</u>	<u>\$ 566,002</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 34,178	\$ 13,058	\$ -	\$ 47,236
Accrued payroll	1,239	124,801	-	126,040
Due to component unit	-	943	-	943
Advance from other funds	38,510	-	-	38,510
Deferred revenue	61,023	19,385	15,380	95,788
Total liabilities	<u>\$ 134,950</u>	<u>\$ 158,187</u>	<u>\$ 15,380</u>	<u>\$ 308,517</u>
Fund Balances:				
Committed	\$ -	\$ 295,409	\$ 22,569	\$ 317,978
Unassigned	(60,493)	-	-	(60,493)
Total fund balances	<u>\$ (60,493)</u>	<u>\$ 295,409</u>	<u>\$ 22,569</u>	<u>\$ 257,485</u>
Total liabilities and fund balances	<u>\$ 74,457</u>	<u>\$ 453,596</u>	<u>\$ 37,949</u>	<u>\$ 566,002</u>

CITY OF HARRISONBURG, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS

Exhibit A-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2012

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Community Development Block Grant Fund	School Transportation Fund	Business Loan Program Fund	
Revenues:				
Use of money and property	\$ -	\$ 200	\$ 21	\$ 221
Charges for services	-	2,144,363	-	2,144,363
Miscellaneous	-	6,556	1,673	8,229
Intergovernmental	496,347	-	12,500	508,847
Total revenues	\$ 496,347	\$ 2,151,119	\$ 14,194	\$ 2,661,660
Expenditures:				
Current:				
Education	\$ -	\$ 2,653,303	\$ -	\$ 2,653,303
Planning and community development	550,416	-	16,500	566,916
Total expenditures	\$ 550,416	\$ 2,653,303	\$ 16,500	\$ 3,220,219
Deficiency of revenues under expenditures	\$ (54,069)	\$ (502,184)	\$ (2,306)	\$ (558,559)
Other financing sources:				
Transfers in	\$ -	\$ 797,593	\$ 24,875	\$ 822,468
Total other financing sources	\$ -	\$ 797,593	\$ 24,875	\$ 822,468
Net change in fund balances	\$ (54,069)	\$ 295,409	\$ 22,569	\$ 263,909
Fund balances at beginning of year	(6,424)	-	-	(6,424)
Fund balances at end of year	\$ (60,493)	\$ 295,409	\$ 22,569	\$ 257,485

SCHOOL TRANSPORTATION FUND

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

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 200	\$ 200
Charges for services	2,027,183	2,077,183	2,144,363	67,180
Miscellaneous	35,774	35,774	6,556	(29,218)
Total revenues	\$ 2,062,957	\$ 2,112,957	\$ 2,151,119	\$ 38,162
Expenditures:				
Current:				
Education	\$ 2,602,006	\$ 2,687,006	2,653,303	\$ 33,703
Total expenditures	\$ 2,602,006	\$ 2,687,006	\$ 2,653,303	\$ 33,703
Deficiency of revenues under expenditures	\$ (539,049)	\$ (574,049)	\$ (502,184)	\$ 71,865
Other financing sources:				
Transfers in	\$ 539,049	\$ 574,049	\$ 797,593	\$ 223,544
Total other financing sources	\$ 539,049	\$ 574,049	\$ 797,593	\$ 223,544
Net change in fund balance	\$ -	\$ -	\$ 295,409	\$ 295,409
Fund balance at beginning of year			-	
Fund balance at end of year			\$ 295,409	

BUSINESS LOAN PROGRAM FUND

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

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 21	\$ 21
Miscellaneous	-	-	1,673	1,673
Intergovernmental	-	99,500	12,500	(87,000)
Total revenues	\$ -	\$ 99,500	\$ 14,194	\$ (85,306)
Expenditures:				
Current:				
Planning and community development	\$ -	\$ 124,375	16,500	\$ 107,875
Total expenditures	\$ -	\$ 124,375	\$ 16,500	\$ 107,875
Deficiency of revenues under expenditures	\$ -	\$ (24,875)	\$ (2,306)	\$ 22,569
Other financing sources:				
Transfers in	\$ -	\$ 24,875	\$ 24,875	\$ -
Total other financing sources	\$ -	\$ 24,875	\$ 24,875	\$ -
Net change in fund balance	\$ -	\$ -	\$ 22,569	\$ 22,569
Fund balance at beginning of year			-	
Fund balance at end of year			\$ 22,569	

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Internal Service Funds

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

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

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

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

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET
At June 30, 2012

Exhibit B-1

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 254,642	\$ -	\$ 3,869,965	\$ 4,124,607
Receivables	4,825	-	-	4,825
Due from component unit	5,847	-	-	5,847
Inventory	444,195	1,200,985	-	1,645,180
Prepaid expenses	8,260	-	-	8,260
Total current assets	<u>\$ 717,769</u>	<u>\$ 1,200,985</u>	<u>\$ 3,869,965</u>	<u>\$ 5,788,719</u>
Noncurrent assets:				
Capital assets (net of accumulated depreciation)	\$ 39,853	\$ 637,492	\$ -	\$ 677,345
Total noncurrent assets	<u>\$ 39,853</u>	<u>\$ 637,492</u>	<u>\$ -</u>	<u>\$ 677,345</u>
Total assets	<u><u>\$ 757,622</u></u>	<u><u>\$ 1,838,477</u></u>	<u><u>\$ 3,869,965</u></u>	<u><u>\$ 6,466,064</u></u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 157,623	\$ 21,849	\$ 936,349	\$ 1,115,821
Accrued payroll	10,970	1,717	-	12,687
Due to component unit	335	335	-	670
Advances from other funds	-	178,829	-	178,829
Unearned revenue	-	-	491,141	491,141
Compensated absences	38,251	4,230	-	42,481
Total current liabilities	<u>\$ 207,179</u>	<u>\$ 206,960</u>	<u>\$ 1,427,490</u>	<u>\$ 1,841,629</u>
Noncurrent liabilities:				
Compensated absences	\$ 42,576	\$ 4,597	\$ -	\$ 47,173
Postretirement healthcare benefits	57,886	7,667	-	65,553
Total noncurrent liabilities	<u>\$ 100,462</u>	<u>\$ 12,264</u>	<u>\$ -</u>	<u>\$ 112,726</u>
Total liabilities	<u>\$ 307,641</u>	<u>\$ 219,224</u>	<u>\$ 1,427,490</u>	<u>\$ 1,954,355</u>
Net assets:				
Invested in capital assets	\$ 39,853	\$ 637,492	\$ -	\$ 677,345
Unrestricted	410,128	981,761	2,442,475	3,834,364
Total net assets	<u>\$ 449,981</u>	<u>\$ 1,619,253</u>	<u>\$ 2,442,475</u>	<u>\$ 4,511,709</u>
Total liabilities and net assets	<u><u>\$ 757,622</u></u>	<u><u>\$ 1,838,477</u></u>	<u><u>\$ 3,869,965</u></u>	<u><u>\$ 6,466,064</u></u>

INTERNAL SERVICE FUNDS

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

For the Year Ended June 30, 2012

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Operating revenues:				
Charges for services	\$ 3,398,767	\$ 832,594	\$ 12,293,133	\$ 16,524,494
Total operating revenues	\$ 3,398,767	\$ 832,594	\$ 12,293,133	\$ 16,524,494
Operating expenses:				
Personal services	\$ 541,250	\$ 74,840	\$ -	\$ 616,090
Fringe benefits	196,903	26,262	-	223,165
Purchased services	61,032	9,611	543,930	614,573
Internal services	1,093	1,130	-	2,223
Other charges	25,785	12,011	761,197	798,993
Materials and supplies	51,026	1,589	-	52,615
Depreciation	8,272	21,529	-	29,801
Cost of inventory issued	2,620,066	867,713	-	3,487,779
Claims related charges	-	-	12,540,667	12,540,667
Total operating expenses	\$ 3,505,427	\$ 1,014,685	\$ 13,845,794	\$ 18,365,906
Operating income (loss)	\$ (106,660)	\$ (182,091)	\$ (1,552,661)	\$ (1,841,412)
Nonoperating revenues:				
Miscellaneous revenue	\$ 12,507	\$ -	\$ -	\$ 12,507
Investment revenue	281	-	5,724	6,005
Total nonoperating revenues	\$ 12,788	\$ -	\$ 5,724	\$ 18,512
Income (loss) before transfers	\$ (93,872)	\$ (182,091)	\$ (1,546,937)	\$ (1,822,900)
Transfers in	68,662	135,225	-	203,887
Change in net assets	\$ (25,210)	\$ (46,866)	\$ (1,546,937)	\$ (1,619,013)
Net assets at beginning of year	475,191	1,666,119	3,989,412	6,130,722
Net assets at end of year	\$ 449,981	\$ 1,619,253	\$ 2,442,475	\$ 4,511,709

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Exhibit B-3
Page 1

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 3,400,221	\$ 832,594	\$ -	\$ 4,232,815
Receipts from premiums	-	-	11,904,031	11,904,031
Receipts other sources	11,156	-	-	11,156
Payments to employees	(572,712)	(78,264)	-	(650,976)
Payments for fringe benefits	(179,179)	(24,394)	-	(203,573)
Payments to vendors	(2,564,351)	(857,152)	(1,305,128)	(4,726,631)
Payments for internal services	(1,093)	(1,130)	-	(2,223)
Payments for claims related charges	-	-	(12,402,248)	(12,402,248)
Net cash provided by (used for) operating activities	\$ 94,042	\$ (128,346)	\$ (1,803,345)	\$ (1,837,649)
Cash flows from noncapital financing activities:				
Transfers in	\$ 40,511	\$ 135,225	\$ -	\$ 175,736
Interfund loan	-	(6,879)	-	(6,879)
Net cash provided by noncapital financing activities	\$ 40,511	\$ 128,346	\$ -	\$ 168,857
Cash flows from capital and related financing activities:				
Purchase and construction of capital assets	\$ (8,995)	-	-	\$ (8,995)
Net cash used for capital and related financing activities	\$ (8,995)	-	-	\$ (8,995)
Cash flows from investing activities:				
Interest received	\$ 281	-	\$ 5,728	\$ 6,009
Net cash provided by investing activities	\$ 281	-	\$ 5,728	\$ 6,009
Net increase (decrease) in cash and cash equivalents	\$ 125,839	\$ -	\$ (1,797,617)	\$ (1,671,778)
Cash and cash equivalents:				
Beginning	128,803	-	5,667,582	5,796,385
Ending	\$ 254,642	\$ -	\$ 3,869,965	\$ 4,124,607

(continued)

CITY OF HARRISONBURG, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Exhibit B-3
Page 2

	Central Garage Fund	Central Stores Fund	Health Insurance Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (106,660)	\$ (182,091)	\$ (1,552,661)	\$ (1,841,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	8,272	21,529	-	29,801
Miscellaneous revenue	11,156	-	-	11,156
Change in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	910	-	-	910
Due from component unit	544	-	-	544
Inventory	118,504	47,989	-	166,493
Prepaid expenses	3,035	492	-	3,527
Increase (decrease) in:				
Accounts payable	77,707	(13,943)	138,419	202,183
Accrued payroll	(20,379)	(2,562)	-	(22,941)
Due to component unit	(5)	(280)	-	(285)
Unearned revenue	-	-	(389,103)	(389,103)
Compensated absences	(13,491)	(1,120)	-	(14,611)
Postretirement healthcare benefits	14,449	1,640	-	16,089
Net cash provided by (used for) operating activities	\$ <u>94,042</u>	\$ <u>(128,346)</u>	\$ <u>(1,803,345)</u>	\$ <u>(1,837,649)</u>

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Agency Funds

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

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

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

Emergency Communications Center Fund - This fund accounts for assets held by the City for the Harrisonburg-Rockingham Emergency Communications Center (HRECC). The City acts as the fiscal agent for the HRECC.

AGENCY FUNDS

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

At June 30, 2012

	Juvenile Crime Control Fund	Industrial Development Authority Fund	Emergency Communications Center Fund	Total
Assets				
Cash and cash equivalents	\$ 22,640	\$ 93,346	\$ 3,233,157	\$ 3,349,143
Receivables	-	-	114,312	114,312
Prepaid items	-	-	47,368	47,368
Total assets	<u>\$ 22,640</u>	<u>\$ 93,346</u>	<u>\$ 3,394,837</u>	<u>\$ 3,510,823</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 26,775	\$ 26,775
Accrued payroll	2,507	-	33,012	35,519
Amounts held for others	20,133	93,346	3,335,050	3,448,529
Total liabilities	<u>\$ 22,640</u>	<u>\$ 93,346</u>	<u>\$ 3,394,837</u>	<u>\$ 3,510,823</u>

CITY OF HARRISONBURG, VIRGINIA
 AGENCY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 For the Year Ended June 30, 2012

Exhibit C-2
 Page 1

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>Juvenile Crime Control Fund</u>				
Assets:				
Cash and cash equivalents	\$ 16,720	\$ 89,537	\$ 83,617	\$ 22,640
Prepaid items	874	-	874	-
Total assets	\$ 17,594	\$ 89,537	\$ 84,491	\$ 22,640
Liabilities:				
Accounts payable	\$ 5	\$ -	\$ 5	\$ -
Accrued payroll	3,671	2,507	3,671	2,507
Amounts held for others	13,918	89,537	83,322	20,133
Total liabilities	\$ 17,594	\$ 92,044	\$ 86,998	\$ 22,640
<u>Industrial Development Authority Fund</u>				
Assets:				
Cash and cash equivalents	\$ 82,024	\$ 11,669	\$ 347	\$ 93,346
Total assets	\$ 82,024	\$ 11,669	\$ 347	\$ 93,346
Liabilities:				
Amounts held for others	\$ 82,024	\$ 11,669	\$ 347	\$ 93,346
Total liabilities	\$ 82,024	\$ 11,669	\$ 347	\$ 93,346
<u>Emergency Communications Center Fund</u>				
Assets:				
Cash and cash equivalents	\$ 2,895,572	\$ 3,759,806	\$ 3,422,221	\$ 3,233,157
Receivables	368,235	117,343	371,266	114,312
Prepaid items	61,046	47,368	61,046	47,368
Total assets	\$ 3,324,853	\$ 3,924,517	\$ 3,854,533	\$ 3,394,837
Liabilities:				
Accounts payable	\$ 79,406	\$ 26,775	\$ 79,406	\$ 26,775
Accrued payroll	80,249	33,012	80,249	33,012
Amounts held for others	3,165,198	3,508,914	3,339,062	3,335,050
Total liabilities	\$ 3,324,853	\$ 3,568,701	\$ 3,498,717	\$ 3,394,837

(continued)

CITY OF HARRISONBURG, VIRGINIA
 AGENCY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 For the Year Ended June 30, 2012

Exhibit C-2
 Page 2

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>Total - All Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 2,994,316	\$ 3,861,012	\$ 3,506,185	\$ 3,349,143
Receivables	368,235	117,343	371,266	114,312
Prepaid items	61,920	47,368	61,920	47,368
Total assets	\$ 3,424,471	\$ 4,025,723	\$ 3,939,371	\$ 3,510,823
Liabilities:				
Accounts payable	\$ 79,411	\$ 26,775	\$ 79,411	\$ 26,775
Accrued payroll	83,920	35,519	83,920	35,519
Amounts held for others	3,261,140	3,610,120	3,422,731	3,448,529
Total liabilities	\$ 3,424,471	\$ 3,672,414	\$ 3,586,062	\$ 3,510,823

Discretely Presented Component Unit – School Board

General Fund

School Fund - This fund accounts for the operations of the School Board's elementary, middle and high schools not accounted for and reported in other funds.

Special Revenue Fund

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

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

Capital Projects Fund

Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities and other capital assets other than those financed by proprietary funds and trust funds.

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

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
BALANCE SHEET
At June 30, 2012

Exhibit D-1

	School Fund	School Nutrition Fund	School Capital Projects Fund	Totals
Assets				
Cash and cash equivalents	\$ 5,372,068	\$ 1,184,206	\$ -	\$ 6,556,274
Receivables	1,375,061	271,363	-	1,646,424
Due from component unit	56,580	-	-	56,580
Inventory	-	104,885	-	104,885
Prepaid expenditures	495,131	5,000	-	500,131
Total assets	<u>\$ 7,298,840</u>	<u>\$ 1,565,454</u>	<u>\$ -</u>	<u>\$ 8,864,294</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 33,562	\$ 19,181	\$ -	\$ 52,743
Accrued payroll	5,022,808	113,520	-	5,136,328
Due to primary government	47,822	-	-	47,822
Due to component unit	93,176	-	-	93,176
Deferred revenue	5,916	-	-	5,916
Total liabilities	<u>\$ 5,203,284</u>	<u>\$ 132,701</u>	<u>\$ -</u>	<u>\$ 5,335,985</u>
Fund Balances:				
Nonspendable:				
Inventory	\$ -	\$ 104,885	\$ -	\$ 104,885
Prepaid expenditures	495,131	5,000	-	500,131
Assigned to:				
Instruction	61,453	-	-	61,453
Operations and maintenance	29,097	-	-	29,097
Technology	27,046	-	-	27,046
Subsequent years' expenditures	900,000	-	-	900,000
Unassigned	582,829	1,322,868	-	1,905,697
Total fund balances	<u>\$ 2,095,556</u>	<u>\$ 1,432,753</u>	<u>\$ -</u>	<u>\$ 3,528,309</u>
Total liabilities and fund balances	<u>\$ 7,298,840</u>	<u>\$ 1,565,454</u>	<u>\$ -</u>	<u>\$ 8,864,294</u>

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
At June 30, 2012

Exhibit D-2

Total fund balance of governmental funds (Exhibit D-1)	\$ 3,528,309
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Certain revenues are not available to pay for current period expenditures and therefore are deferred in the funds.	5,916
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	32,591,758
Long-term liabilities, and related accounts, are not payable from current financial resources and therefore are not reported in the funds.	<u>(3,165,334)</u>
Net assets of governmental activities (Exhibit 1)	\$ <u>32,960,649</u>

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2012

Exhibit D-3

	School Fund	School Nutrition Fund	School Capital Projects Fund	Totals
Revenues:				
Use of money and property	\$ 27,174	\$ 1,605	\$ -	\$ 28,779
Charges for services	1,269,523	542,794	-	1,812,317
Miscellaneous	298,409	23,200	-	321,609
Payment from primary government	22,881,572	-	824,474	23,706,046
Intergovernmental	29,099,643	2,244,290	-	31,343,933
Total revenues	<u>\$ 53,576,321</u>	<u>\$ 2,811,889</u>	<u>\$ 824,474</u>	<u>\$ 57,212,684</u>
Expenditures:				
Current:				
Instruction	\$ 42,090,155	\$ -	\$ -	\$ 42,090,155
Administration, attendance and health	3,222,764	-	-	3,222,764
Pupil transportation	2,146,181	-	-	2,146,181
Operations and maintenance	4,497,023	-	-	4,497,023
Food services	-	2,652,978	-	2,652,978
Technology	2,845,095	27,871	-	2,872,966
Capital projects	-	-	1,971,546	1,971,546
Total expenditures	<u>\$ 54,801,218</u>	<u>\$ 2,680,849</u>	<u>\$ 1,971,546</u>	<u>\$ 59,453,613</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,224,897)</u>	<u>\$ 131,040</u>	<u>\$ (1,147,072)</u>	<u>\$ (2,240,929)</u>
Fund balances at beginning of year	<u>3,320,453</u>	<u>1,301,713</u>	<u>1,147,072</u>	<u>5,769,238</u>
Fund balances at end of year	<u>\$ 2,095,556</u>	<u>\$ 1,432,753</u>	<u>\$ -</u>	<u>\$ 3,528,309</u>

Note: Restatement of Beginning Fund Balance

The School Board has decreased the beginning fund balance of the School Fund and School Nutrition Fund by \$760,876 and \$35,088, respectively. The purpose of this restatement is to correct the reporting of certain accrued employee benefit expenditures in the previous fiscal year.

CITY OF HARRISONBURG, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Exhibit D-4

Total net change in fund balances of governmental funds (Exhibit D-3) \$ (2,240,929)

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

Certain revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount is the net change in these revenues. (198,396)

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

Capital outlay expenditures	\$ 1,801,387	
Depreciation expense	<u>(1,333,791)</u>	
Net adjustment	\$ <u>467,596</u>	467,596

Certain expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds. This amount is the net change in these expenses. (597,405)

The transfer of capital assets between the primary government and the School Board affects only the statement of activities. These transfers do not have an effect on current financial resources and, therefore, are not reported in governmental funds. 2,750,218

Change in net assets of governmental activities (Exhibit 2) \$ 181,084

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

Exhibit D-5

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 10,000	\$ 10,000	\$ 27,174	\$ 17,174
Charges for services	1,220,679	1,220,679	1,269,523	48,844
Miscellaneous	88,042	88,042	298,409	210,367
Payment from primary government	25,200,043	25,200,043	22,881,572	(2,318,471)
Intergovernmental	28,027,125	28,204,143	29,099,643	895,500
Total revenues	\$ 54,545,889	\$ 54,722,907	\$ 53,576,321	\$ (1,146,586)
Expenditures:				
Current:				
Instruction	\$ 42,422,156	\$ 42,077,091	42,090,155	\$ (13,064)
Administration, attendance and health	3,127,892	3,142,843	3,222,764	(79,921)
Pupil transportation	2,054,434	2,155,506	2,146,181	9,325
Operations and maintenance	4,482,178	4,606,477	4,497,023	109,454
Technology	2,459,229	2,829,736	2,845,095	(15,359)
Total expenditures	\$ 54,545,889	\$ 54,811,653	\$ 54,801,218	\$ 10,435
Deficiency of revenues under expenditures	\$ -	\$ (88,746)	\$ (1,224,897)	\$ (1,136,151)
Fund balance at beginning of year			3,320,453	
Fund balance at end of year			\$ 2,095,556	

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

SCHOOL NUTRITION FUND

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

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 1,605	\$ 1,605
Charges for services	551,675	551,675	542,794	(8,881)
Recovered costs	-	-	23,200	23,200
Intergovernmental	1,968,695	1,983,645	2,244,290	260,645
Total revenues	<u>\$ 2,520,370</u>	<u>\$ 2,535,320</u>	<u>\$ 2,811,889</u>	<u>\$ 276,569</u>
Expenditures:				
Current:				
Food services	\$ 2,497,370	\$ 2,510,320	\$ 2,652,978	\$ (142,658)
Technology	23,000	25,000	27,871	(2,871)
Total expenditures	<u>\$ 2,520,370</u>	<u>\$ 2,535,320</u>	<u>\$ 2,680,849</u>	<u>\$ (145,529)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,040</u>	<u>\$ 131,040</u>
Fund balance at beginning of year			<u>1,301,713</u>	
Fund balance at end of year			<u>\$ 1,432,753</u>	

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Other Supplementary Schedules

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

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

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
Page 1

Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Primary Government:			
General Fund:			
General property taxes:			
Real property taxes	\$ 23,183,072	\$ 23,164,064	\$ (19,008)
Real and personal public service corporation property taxes	320,000	305,419	(14,581)
Personal property taxes	6,404,294	6,636,271	231,977
Mobile home taxes	6,310	7,613	1,303
Machinery and tools taxes	1,825,000	1,800,539	(24,461)
Penalties and interest	230,000	266,423	36,423
Total general property taxes	\$ 31,968,676	\$ 32,180,329	\$ 211,653
Other local taxes:			
Local sales and use taxes	\$ 11,110,746	\$ 10,744,198	\$ (366,548)
Consumer utility taxes	1,130,000	1,071,465	(58,535)
Business license taxes	5,550,000	5,932,606	382,606
Motor vehicle license taxes	700,000	759,588	59,588
Bank stock taxes	560,000	543,099	(16,901)
Taxes on recordation and wills	400,000	273,405	(126,595)
Tobacco taxes	726,000	768,267	42,267
Admission and amusement taxes	205,000	178,371	(26,629)
Hotel and motel room taxes	1,650,000	1,838,184	188,184
Restaurant food taxes	8,245,000	8,833,426	588,426
Short-term rental taxes	78,000	61,237	(16,763)
Public right-of-way use fee	123,500	111,110	(12,390)
Total other local taxes	\$ 30,478,246	\$ 31,114,956	\$ 636,710
Permits, privilege fees and regulatory licenses:			
Animal licenses	\$ 6,500	\$ 4,114	\$ (2,386)
Permits and other licenses	566,675	494,351	(72,324)
Total permits, privilege fees and regulatory licenses	\$ 573,175	\$ 498,465	\$ (74,710)
Fines and forfeitures:			
Circuit court fines	\$ 560,000	\$ 417,063	\$ (142,937)
Parking fines	41,000	40,187	(813)
Drug forfeiture	-	69,010	69,010
Total fines and forfeitures	\$ 601,000	\$ 526,260	\$ (74,740)
Use of money and property:			
Use of money	\$ 60,000	\$ 47,296	\$ (12,704)
Use of property	115,469	109,239	(6,230)
Total use of money and property	\$ 175,469	\$ 156,535	\$ (18,934)

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
Page 2

Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
General Fund: (continued)			
Charges for services:			
Charges for sanitation and waste removal	\$ 4,250,000	\$ 4,214,019	\$ (35,981)
Charges for law enforcement and traffic control	30,731	38,189	7,458
Charges for parking	137,200	134,715	(2,485)
Charges for rescue services	136,000	87,650	(48,350)
Charges for parks and recreation	396,100	454,068	57,968
Charges for golf course	649,000	702,194	53,194
Total charges for services	\$ 5,599,031	\$ 5,630,835	\$ 31,804
Miscellaneous:			
Payments in lieu of taxes:			
Electric plant and equipment	\$ 348,404	\$ 348,404	\$ -
Service charge on tax exempt property	23,000	52,457	29,457
Debt service reimbursement from HRHA	715,162	608,622	(106,540)
Donations - JMU & EMU	130,000	130,000	-
Donations	109,484	100,580	(8,904)
Other miscellaneous	676,415	762,236	85,821
Total miscellaneous	\$ 2,002,465	\$ 2,002,299	\$ (166)
Recovered costs:			
Payment from Harrisonburg-Rockingham ECC	\$ 303,253	\$ 303,253	\$ -
Total recovered costs	\$ 303,253	\$ 303,253	\$ -
Payments from component units:			
Payment from Harrisonburg Electric Commission	\$ 4,900,000	\$ 4,900,000	\$ -
Total payments from component units	\$ 4,900,000	\$ 4,900,000	\$ -
Intergovernmental:			
Revenue from the Commonwealth:			
Non-categorical aid:			
Railroad rolling stock taxes	\$ 12,425	\$ 15,216	\$ 2,791
Mobile home titling taxes	3,300	2,700	(600)
Tax on deeds (grantor tax)	162,808	82,230	(80,578)
Personal property tax reimbursement	1,522,583	1,522,583	-
Communication sales and use taxes	1,735,000	1,651,465	(83,535)
Auto rental taxes	155,000	121,824	(33,176)
Animal friendly license plate	750	600	(150)
Total non-categorical aid	\$ 3,591,866	\$ 3,396,618	\$ (195,248)
Categorical aid:			
Shared expenses:			
Commissioner of the revenue	\$ 130,730	\$ 127,869	\$ (2,861)
Treasurer	107,548	105,694	(1,854)
Medical examiner fees	-	-	-
Registrar	33,418	39,039	5,621
Total shared expenses	\$ 271,696	\$ 272,602	\$ 906

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
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Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
General Fund: (continued)			
Intergovernmental: (continued)			
Revenue from the Commonwealth: (continued)			
Other categorical aid:			
Enhancing stream health grant	\$ -	\$ 1,555	\$ 1,555
Hazardous materials grant	9,000	10,000	1,000
Fire programs fund	127,008	142,786	15,778
Four-for-life	21,857	27,134	5,277
Litter control grant	7,700	5,660	(2,040)
Spay and neuter funds	119	65	(54)
Presidential primary reimbursement	-	11,123	11,123
State aid to localities, police	1,356,388	1,235,911	(120,477)
Street and highway maintenance	3,765,000	3,900,641	135,641
Total other categorical aid	\$ 5,287,072	\$ 5,334,875	\$ 47,803
Total categorical aid	\$ 5,558,768	\$ 5,607,477	\$ 48,709
Total revenue from the Commonwealth	\$ 9,150,634	\$ 9,004,095	\$ (146,539)
Revenue from the Federal Government:			
Categorical aid:			
Homeland security grant	\$ 351,237	\$ 172,848	\$ (178,389)
DMV grant	27,367	41,577	14,210
Justice assistance grant	7,927	13,209	5,282
Polling place accessibility grant	-	4,040	4,040
Recreational trails program grant	18,468	18,468	-
Total revenue from the Federal Government	\$ 404,999	\$ 250,142	\$ (154,857)
Total intergovernmental	\$ 9,555,633	\$ 9,254,237	\$ (301,396)
Total General Fund	\$ 86,156,948	\$ 86,567,169	\$ 410,221
Special Revenue Funds:			
Community Development Block Grant Fund:			
Intergovernmental:			
Revenue from the Federal Government:			
Non-categorical aid:			
Community Development Block Grant	\$ 1,025,318	\$ 496,347	\$ (528,971)
Total revenue from the Federal Government	\$ 1,025,318	\$ 496,347	\$ (528,971)
Total intergovernmental	\$ 1,025,318	\$ 496,347	\$ (528,971)
Total Community Development Block Grant Fund	\$ 1,025,318	\$ 496,347	\$ (528,971)

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
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Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
School Transportation Fund:			
Use of money and property	\$ -	\$ 200	\$ 200
Charges for services	2,077,183	2,144,363	67,180
Miscellaneous	35,774	6,556	(29,218)
Total School Transportation Fund	\$ 2,112,957	\$ 2,151,119	\$ 38,162
Business Loan Program Fund:			
Use of money and property	\$ -	\$ 21	\$ 21
Miscellaneous	-	1,673	1,673
Intergovernmental:			
Revenue from the Federal Government:			
Categorical aid:			
USDA rural business enterprise grant	99,500	12,500	(87,000)
Total revenue from the Federal Government	\$ 99,500	\$ 12,500	\$ (87,000)
Total intergovernmental	\$ 99,500	\$ 12,500	\$ (87,000)
Total Business Loan Program Fund	\$ 99,500	\$ 14,194	\$ (85,306)
Total Special Revenue Funds	\$ 3,237,775	\$ 2,661,660	\$ (576,115)
Capital Projects Fund:			
General Capital Projects Fund:			
Use of money and property	\$ 10,321	\$ 14,843	\$ 4,522
Miscellaneous	4,000	4,000	-
Recovered costs	-	303,253	303,253
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
Conservation/natural resources grant	1,469	1,469	-
VDOT bridge reimbursement	608,934	663,887	54,953
VDOT revenue sharing	1,099,926	1,183,287	83,361
VDOT recreation access funds	75,000	-	(75,000)
VDOT capital projects revenue bonds	11,000,000	622,763	(10,377,237)
Total revenue from the Commonwealth	\$ 12,785,329	\$ 2,471,406	\$ (10,313,923)

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
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Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
Capital Projects Fund: (continued)			
General Capital Projects Fund: (continued)			
Intergovernmental: (continued)			
Revenue from the Federal Government:			
Categorical aid:			
Safe route to schools grant	\$ 752,002	\$ 45,735	\$ (706,267)
Transportation enhancement grant	220,465	16,858	(203,607)
Hazard elimination grant	100,000	-	(100,000)
Street and highway construction	1,937,134	3,047,164	1,110,030
Total revenue from the Federal Government	\$ 3,009,601	\$ 3,109,757	\$ 100,156
Total intergovernmental	\$ 15,794,930	\$ 5,581,163	\$ (10,213,767)
Total General Capital Projects Fund	\$ 15,809,251	\$ 5,903,259	\$ (9,905,992)
Total Capital Projects Fund	\$ 15,809,251	\$ 5,903,259	\$ (9,905,992)
Grand Total Revenues (Primary Government)	\$ 105,203,974	\$ 95,132,088	\$ (10,071,886)
Component Unit - School Board:			
School Fund:			
Use of money and property	\$ 10,000	\$ 27,174	\$ 17,174
Charges for services	1,220,679	1,269,523	48,844
Miscellaneous	88,042	298,409	210,367
Payment from primary government	25,200,043	22,881,572	(2,318,471)
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
Share of state sales tax	4,321,328	4,440,543	119,215
Basic school aid	10,883,225	11,733,070	849,845
State standard of quality funds	2,194,963	2,362,020	167,057
Fringe benefits	1,642,153	1,669,974	27,821
At risk	1,216,461	1,255,960	39,499
Primary class size	805,299	829,088	23,789
Technology initiative	258,000	258,000	-
English as second language	1,034,023	931,945	(102,078)
Regional tuition programs (special education)	814,246	918,065	103,819
Other state funds	222,167	333,153	110,986
Total categorical aid	\$ 23,391,865	\$ 24,731,818	\$ 1,339,953
Total revenue from the Commonwealth	\$ 23,391,865	\$ 24,731,818	\$ 1,339,953

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 1
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Fund, Major and Minor Revenue Sources	Final Budget	Actual	Variance Positive (Negative)
Component Unit - School Board: (continued)			
School Fund: (continued)			
Intergovernmental: (continued)			
Revenue from the Federal Government:			
Categorical aid:			
Title I	\$ 1,634,210	\$ 1,438,748	\$ (195,462)
Special education	1,024,248	1,020,377	(3,871)
Education technology	335,925	31,964	(303,961)
Title III	240,129	226,931	(13,198)
ESEA - Title II Part A	229,955	60,260	(169,695)
American recovery and reinvestment act (ARRA)	1,188,811	1,424,709	235,898
Other federal funds	159,000	164,836	5,836
Total revenue from the Federal Government	\$ 4,812,278	\$ 4,367,825	\$ (444,453)
Total intergovernmental	\$ 28,204,143	\$ 29,099,643	\$ 895,500
Total School Fund	\$ 54,722,907	\$ 53,576,321	\$ (1,146,586)
School Nutrition Fund:			
Use of money and property	\$ -	\$ 1,605	\$ 1,605
Charges for services	551,675	542,794	(8,881)
Miscellaneous	-	23,200	23,200
Intergovernmental:			
Revenue from the Commonwealth:			
Categorical aid:			
School food program	67,265	65,485	(1,780)
Total categorical aid	\$ 67,265	\$ 65,485	\$ (1,780)
Total revenue from the Commonwealth	\$ 67,265	\$ 65,485	\$ (1,780)
Revenue from the Federal Government:			
Categorical aid:			
School food program	\$ 1,916,380	\$ 2,041,495	\$ 125,115
USDA donated food	-	137,310	137,310
Total revenue from the Federal Government	\$ 1,916,380	\$ 2,178,805	\$ 262,425
Total intergovernmental	\$ 1,983,645	\$ 2,244,290	\$ 260,645
Total School Nutrition Fund	\$ 2,535,320	\$ 2,811,889	\$ 276,569
School Capital Projects Fund:			
Payment from primary government	\$ 824,474	\$ 824,474	\$ -
Total School Capital Projects Fund	\$ 824,474	\$ 824,474	\$ -
Grand Total Revenues (Component Unit - School Board)	\$ 58,082,701	\$ 57,212,684	\$ (870,017)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 1

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Positive (Negative)
Primary Government:			
General Fund:			
General government administration:			
Legislative:			
City Council	\$ 166,152	\$ 161,500	\$ 4,652
Total legislative	\$ 166,152	\$ 161,500	\$ 4,652
General and financial administration:			
City manager	\$ 431,582	\$ 429,820	\$ 1,762
City attorney	173,172	163,272	9,900
Human resources	237,416	235,004	2,412
Independent auditor	27,050	22,650	4,400
Commissioner of the revenue	417,610	359,696	57,914
Assessors	287,556	280,646	6,910
Equalization	2,875	2,350	525
Treasurer	496,616	470,359	26,257
Finance	462,754	421,720	41,034
Information technology	1,230,031	1,104,041	125,990
Purchasing agent	134,908	132,405	2,503
Dues to municipal league	34,437	33,434	1,003
Reserve for contingencies	5,305	-	5,305
Total general and financial administration	\$ 3,941,312	\$ 3,655,397	\$ 285,915
Board of elections:			
Registrar	\$ 196,223	\$ 186,110	\$ 10,113
Total board of elections	\$ 196,223	\$ 186,110	\$ 10,113
Total general government administration	\$ 4,303,687	\$ 4,003,007	\$ 300,680
Jail and judicial administration:			
Joint expenditures with Rockingham County	\$ 3,056,108	\$ 3,056,108	\$ -
Total jail and judicial administration	\$ 3,056,108	\$ 3,056,108	\$ -
Public safety:			
Law enforcement and traffic control:			
Administration	\$ 773,804	\$ 763,348	\$ 10,456
Operations	3,164,128	3,131,278	32,850
Criminal investigations	1,079,382	1,043,810	35,572
Support services	1,864,808	1,743,492	121,316
Gang task force	164,186	111,421	52,765
Special operations	1,073,768	1,003,606	70,162
Total law enforcement and traffic control	\$ 8,120,076	\$ 7,796,955	\$ 323,121

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 2

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
General Fund: (continued)			
Public safety: (continued)			
Fire and rescue services:			
Administration	\$ 498,858	\$ 486,670	\$ 12,188
Suppression	5,714,396	5,713,354	1,042
Prevention	357,006	351,301	5,705
Training	215,297	213,092	2,205
Total fire and rescue services	<u>\$ 6,785,557</u>	<u>\$ 6,764,417</u>	<u>\$ 21,140</u>
Correction and detention:			
City operated institutions	\$ 82,500	\$ 60,103	\$ 22,397
Total correction and detention	<u>\$ 82,500</u>	<u>\$ 60,103</u>	<u>\$ 22,397</u>
Inspections:			
Building	\$ 630,164	\$ 620,652	\$ 9,512
Total inspections	<u>\$ 630,164</u>	<u>\$ 620,652</u>	<u>\$ 9,512</u>
Other protection:			
Public safety building	\$ 366,697	\$ 341,962	\$ 24,735
Child safety alliance	39,348	31,285	8,063
Animal control	316,504	296,822	19,682
Coroner	1,000	-	1,000
Emergency services	389,820	185,373	204,447
Harrisonburg-Rockingham ECC	1,444,254	1,444,254	-
Total other protection	<u>\$ 2,557,623</u>	<u>\$ 2,299,696</u>	<u>\$ 257,927</u>
Total public safety	<u>\$ 18,175,920</u>	<u>\$ 17,541,823</u>	<u>\$ 634,097</u>
Public works:			
Maintenance of highways, streets, bridges and sidewalks:			
General engineering	\$ 905,956	\$ 864,167	\$ 41,789
Highway and street maintenance	6,188,031	4,581,691	1,606,340
Street lights	531,844	516,734	15,110
Snow and ice removal	318,271	186,918	131,353
Traffic engineering	1,463,783	1,158,758	305,025
Highway and street beautification	276,192	228,810	47,382
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 9,684,077</u>	<u>\$ 7,537,078</u>	<u>\$ 2,146,999</u>
Sanitation and waste removal:			
Street and road cleaning	\$ 418,996	\$ 392,093	\$ 26,903
Refuse collection	902,551	747,722	154,829
City landfill	122,326	96,645	25,681
Recycling	997,197	656,815	340,382
Insect and rodent control	41,236	6,174	35,062
County landfill	1,572,073	793,789	778,284
Total sanitation and waste removal	<u>\$ 4,054,379</u>	<u>\$ 2,693,238</u>	<u>\$ 1,361,141</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 3

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
General Fund: (continued)			
Public works: (continued)			
Maintenance of general buildings and grounds:			
General properties	\$ 357,150	\$ 253,848	\$ 103,302
Total maintenance of general buildings and grounds	\$ 357,150	\$ 253,848	\$ 103,302
Total public works	\$ 14,095,606	\$ 10,484,164	\$ 3,611,442
Health and welfare:			
Health:			
Local health department	\$ 386,762	\$ 376,670	\$ 10,092
Total health	\$ 386,762	\$ 376,670	\$ 10,092
Mental health and mental retardation:			
Community services board	\$ 300,394	\$ 300,394	\$ -
Total mental health and mental retardation	\$ 300,394	\$ 300,394	\$ -
Welfare/social services:			
Tax relief for the elderly and disabled veterans	\$ 87,922	\$ 87,922	\$ -
Joint expenditures with Rockingham County	3,140,508	2,897,880	242,628
Total welfare/social services	\$ 3,228,430	\$ 2,985,802	\$ 242,628
Total health and welfare	\$ 3,915,586	\$ 3,662,866	\$ 252,720
Education:			
Payment to Harrisonburg City School Board	\$ 25,866,436	\$ 23,547,965	\$ 2,318,471
Total education	\$ 25,866,436	\$ 23,547,965	\$ 2,318,471
Parks, recreation and culture:			
Parks and recreation:			
Administration	\$ 1,097,419	\$ 1,036,605	\$ 60,814
Parks	903,628	895,869	7,759
Recreation centers and playgrounds	518,531	490,690	27,841
National guard armory	91,716	77,520	14,196
Simms continuing education center	346,252	284,370	61,882
Westover pool	417,075	407,983	9,092
Athletics	408,470	379,486	28,984
Blacks run greenway	56,624	51,665	4,959
Golf course grounds management	668,595	619,197	49,398
Golf course clubhouse management	703,396	702,863	533
Total parks and recreation	\$ 5,211,706	\$ 4,946,248	\$ 265,458
Total parks, recreation and culture	\$ 5,211,706	\$ 4,946,248	\$ 265,458

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 4

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
General Fund: (continued)			
Planning and community development:			
Planning:			
Planning	\$ 207,746	\$ 202,395	\$ 5,351
Zoning administrator	141,456	141,338	118
Board of zoning appeals	7,606	5,981	1,625
Economic development	623,508	501,694	121,814
Downtown renaissance	189,408	186,086	3,322
Tourism and visitors services	382,196	382,105	91
Downtown parking services	226,760	178,134	48,626
Total planning	<u>\$ 1,778,680</u>	<u>\$ 1,597,733</u>	<u>\$ 180,947</u>
Community development:			
Massanutten Regional Library	\$ 431,412	\$ 431,412	\$ -
Regional Juvenile Detention Home	260,245	260,245	-
Shenandoah Valley Airport	67,923	67,923	-
Harrisonburg First Tee	64,225	64,225	-
Court Square Theater	60,000	60,000	-
Boys and Girls Club	53,105	53,105	-
Blue Ridge Community College	46,484	46,484	-
Other contributions	669,232	583,647	85,585
Total community development	<u>\$ 1,652,626</u>	<u>\$ 1,567,041</u>	<u>\$ 85,585</u>
Total planning and community development	<u>\$ 3,431,306</u>	<u>\$ 3,164,774</u>	<u>\$ 266,532</u>
Debt service:			
Principal retirement	\$ 7,211,193	\$ 7,054,192	\$ 157,001
Interest and fiscal charges	5,760,135	5,406,443	353,692
Bond issue costs	392,318	381,755	10,563
Total debt service	<u>\$ 13,363,646</u>	<u>\$ 12,842,390</u>	<u>\$ 521,256</u>
Total General Fund	<u>\$ 91,420,001</u>	<u>\$ 83,249,345</u>	<u>\$ 8,170,656</u>
Special Revenue Funds:			
Community Development Block Grant Fund:			
Planning and community development:			
Community development:			
Community development block grant	\$ 1,025,318	\$ 550,416	\$ 474,902
Total community development	<u>\$ 1,025,318</u>	<u>\$ 550,416</u>	<u>\$ 474,902</u>
Total planning and community development	<u>\$ 1,025,318</u>	<u>\$ 550,416</u>	<u>\$ 474,902</u>
Total Community Development Block Grant Fund	<u>\$ 1,025,318</u>	<u>\$ 550,416</u>	<u>\$ 474,902</u>

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 5

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Positive (Negative)
Primary Government: (continued)			
Special Revenue Funds: (continued)			
School Transportation Fund:			
Education:			
School bus services	\$ 2,464,326	\$ 2,455,676	\$ 8,650
Field trips and charters	222,680	197,627	25,053
Total education	\$ 2,687,006	\$ 2,653,303	\$ 33,703
Total School Transportation Fund	\$ 2,687,006	\$ 2,653,303	\$ 33,703
Business Loan Program Fund:			
Planning and community development:			
Community development:			
Revolving loan program	\$ 124,375	\$ 16,500	\$ 107,875
Total community development	\$ 124,375	\$ 16,500	\$ 107,875
Total planning and community development	\$ 124,375	\$ 16,500	\$ 107,875
Total Business Loan Program Fund	\$ 124,375	\$ 16,500	\$ 107,875
Total Special Revenue Funds	\$ 3,836,699	\$ 3,220,219	\$ 616,480
Capital Projects Fund:			
General Capital Projects Fund:			
Capital projects	\$ 39,477,581	\$ 11,335,007	\$ 28,142,574
Total General Capital Projects Fund	\$ 39,477,581	\$ 11,335,007	\$ 28,142,574
Total Capital Projects Fund	\$ 39,477,581	\$ 11,335,007	\$ 28,142,574
Grand Total Expenditures (Primary Government)	\$ 134,734,281	\$ 97,804,571	\$ 36,929,710
Component Unit - School Board:			
School Fund:			
Education:			
Instruction	\$ 42,077,091	\$ 42,090,155	\$ (13,064)
Administration, attendance and health	3,142,843	3,222,764	(79,921)
Pupil transportation	2,155,506	2,146,181	9,325
Operations and maintenance	4,606,477	4,497,023	109,454
Technology	2,829,736	2,845,095	(15,359)
Total education	\$ 54,811,653	\$ 54,801,218	\$ 10,435
Total School Fund	\$ 54,811,653	\$ 54,801,218	\$ 10,435

(continued)

CITY OF HARRISONBURG, VIRGINIA
GOVERNMENTAL FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2012

Schedule 2
Page 6

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Component Unit - School Board: (continued)			
School Nutrition Fund:			
Education:			
Food services	\$ 2,510,320	\$ 2,652,978	\$ (142,658)
Technology	25,000	27,871	(2,871)
Total education	\$ 2,535,320	\$ 2,680,849	\$ (145,529)
Total School Nutrition Fund	\$ 2,535,320	\$ 2,680,849	\$ (145,529)
School Capital Projects Fund:			
Capital projects	\$ 2,124,620	\$ 1,971,546	\$ 153,074
Total School Capital Projects Fund	\$ 2,124,620	\$ 1,971,546	\$ 153,074
Grand Total Expenditures (Component Unit - School Board)	\$ 59,471,593	\$ 59,453,613	\$ 17,980

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STATISTICAL SECTION

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

Financial Trends. Tables 1 through 5 contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity. Tables 6 through 9 present information to help the reader assess the factors affecting the City's ability to generate property tax revenue which is the City's most significant local revenue source.

Debt Capacity. Tables 10 through 12 present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. The City does not have any overlapping debt.

Demographic and Economic Information. Tables 13 and 14 offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time with other governments.

Operating Information. Tables 15 through 17 contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

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

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

Table 1

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities										
Invested in capital assets, net of related debt	\$ 136,256,502	\$ 132,778,540	\$ 134,630,600	\$ 136,515,744	\$ 132,202,885	\$ 125,843,397	\$ 135,003,446	\$ 120,370,317	\$ 117,904,477	\$ 117,143,440
Restricted ^a	436,546	464,466	459,667	345,524	961,442	1,039,017	1,304,291	1,119,024	766,544	905,353
Unrestricted ^b	37,720,341	36,505,429	31,737,220	32,029,616	40,774,314	36,167,946	21,859,603	24,597,079	23,302,565	20,723,167
Total governmental activities net assets	\$ 174,413,389	\$ 169,748,435	\$ 166,827,487	\$ 168,890,884	\$ 173,938,641	\$ 163,050,360	\$ 158,167,340	\$ 146,066,420	\$ 141,973,586	\$ 138,771,960
Business-type activities										
Invested in capital assets, net of related debt	\$ 61,531,423	\$ 63,773,381	\$ 64,272,566	\$ 63,946,619	\$ 55,215,398	\$ 54,121,109	\$ 49,644,177	\$ 49,759,377	\$ 49,213,863	\$ 50,858,770
Restricted ^a	-	-	-	-	-	-	-	-	444,437	452,716
Unrestricted	20,567,739	24,007,072	23,349,719	23,104,614	22,819,366	21,189,184	22,849,797	21,189,878	20,915,553	17,141,694
Total business-type activities net assets ^c	\$ 82,099,162	\$ 87,780,453	\$ 87,622,285	\$ 87,051,233	\$ 78,034,764	\$ 75,310,293	\$ 72,493,974	\$ 70,949,255	\$ 70,573,853	\$ 68,453,170
Primary government										
Invested in capital assets, net of related debt	\$ 197,787,925	\$ 196,551,921	\$ 198,903,166	\$ 200,462,363	\$ 187,418,283	\$ 179,964,506	\$ 184,647,623	\$ 170,129,694	\$ 167,118,340	\$ 168,002,210
Restricted	436,546	464,466	459,667	345,524	961,442	1,039,017	1,304,291	1,119,024	1,210,981	1,358,069
Unrestricted	58,288,080	60,512,501	55,086,939	55,134,230	63,593,680	57,357,130	44,709,400	45,786,957	44,218,118	37,864,851
Total primary government net assets	\$ 256,512,551	\$ 257,528,888	\$ 254,449,772	\$ 255,942,117	\$ 251,973,405	\$ 238,360,653	\$ 230,661,314	\$ 217,035,675	\$ 212,547,439	\$ 207,225,130

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

^bFor 2007, the increase in governmental activities' unrestricted net assets and the decrease in invested in capital assets was due to the sale of the old Harrisonburg High School complex to James Madison University.

^cIn 2007, the City increased the business-type activities' beginning net assets within the basic financial statements. The information in this table prior to 2007 are the unadjusted amounts.

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

Table 2

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses:										
Governmental activities:										
General government administration	\$ 14,871,365	\$ 12,711,047	\$ 12,693,219	\$ 12,735,815	\$ 11,767,148	\$ 10,607,363	\$ 9,494,062	\$ 8,659,789	\$ 8,095,033	\$ 7,285,396
Jail and judicial administration	3,353,068	3,158,825	2,689,276	3,012,592	2,521,878	2,695,536	2,247,160	1,720,208	1,411,339	1,463,027
Public safety	18,759,038	18,414,704	17,934,535	18,518,912	16,446,587	16,122,159	14,598,247	13,385,735	12,308,346	10,483,000
Public works	15,430,866	11,384,626	10,924,418	11,935,693	10,621,521	11,140,416	10,280,042	8,932,355	9,570,485	8,654,789
Health and welfare	3,684,731	3,933,460	3,911,386	4,369,125	3,764,612	3,130,065	2,571,383	2,318,720	2,157,251	1,939,214
Education	30,965,228	27,641,213	28,735,066	31,253,898	25,922,982	25,341,757	24,630,393	21,784,772	20,351,713	21,325,763
Parks, recreation and cultural ^a	5,319,618	5,279,763	5,100,351	5,379,470	5,103,321	4,692,190	4,458,904	2,781,327	2,636,326	2,551,774
Planning and community development ^b	3,844,899	3,618,639	3,867,423	4,032,505	4,125,103	5,265,157	2,970,408	2,426,890	1,526,341	1,368,001
Interest on long-term debt	5,602,256	6,006,543	6,131,512	5,860,753	6,078,904	5,612,049	4,368,265	3,869,356	3,898,786	4,042,808
Business-type activities:										
Water	5,398,401	5,014,952	5,118,820	5,359,913	4,951,007	4,560,390	4,034,516	3,805,703	3,362,062	3,506,917
Sewer	9,217,798	8,165,858	7,391,517	6,772,876	6,413,266	5,717,556	5,075,967	4,872,836	4,870,754	4,457,413
Public transportation	4,817,708	6,916,882	6,767,823	6,817,081	6,042,341	5,538,155	5,070,888	4,635,925	4,162,232	3,882,258
Steam plant/sanitation ^{c,d}	6,670,472	9,999,432	9,878,225	10,809,914	11,162,477	10,604,466	10,446,049	8,764,331	5,795,311	9,620,247
Public parking	-	-	-	-	-	-	175,050	208,084	208,202	200,964
Golf course ^a	-	-	-	-	-	-	-	1,416,361	1,338,559	1,430,431
Total expenses	\$ 127,935,248	\$ 122,245,944	\$ 121,143,571	\$ 126,658,487	\$ 114,921,147	\$ 111,027,259	\$ 100,421,434	\$ 89,593,392	\$ 81,692,740	\$ 82,212,002
Program revenues:										
Governmental activities:										
Charges for services:										
General government administration	\$ 9,590,439	\$ 9,266,743	\$ 9,478,806	\$ 8,620,160	\$ 7,913,474	\$ 7,067,373	\$ 6,845,784	\$ 6,591,292	\$ 6,408,739	\$ 5,136,588
Jail and judicial administration	417,063	553,923	504,223	493,611	432,767	380,856	517,689	604,029	563,954	400,247
Public works	4,223,763	-	-	-	-	-	-	-	-	-
Education	2,163,748	-	-	-	-	-	-	-	-	-
Parks, recreation and cultural	1,156,262	1,103,317	1,042,513	1,063,064	1,003,942	775,673	787,786	278,415	235,998	232,074
Other activities	868,216	845,073	686,775	1,055,627	1,278,101	768,070	548,215	441,843	109,456	427,509
Operating grants and contributions	6,420,728	6,779,026	6,537,125	6,931,438	6,620,432	7,163,982	6,566,639	6,204,915	5,700,106	5,010,255
Capital grants and contributions ^{e,f}	3,020,379	1,394,887	1,105,400	4,827,882	5,540,980	3,996,228	71,267	622,947	115,122	505,800
Business-type activities:										
Charges for services:										
Water	5,803,549	5,793,929	5,414,295	5,727,877	6,024,104	5,424,741	5,263,336	4,802,169	4,690,818	4,558,073
Sewer	8,631,508	8,047,117	6,746,325	6,377,771	6,080,893	5,572,991	5,148,993	4,916,716	4,744,819	4,741,882
Public transportation	1,558,556	3,573,754	3,153,152	3,290,998	2,906,147	2,667,281	2,236,842	2,139,596	2,139,596	1,951,396
Steam plant/sanitation	4,717,861	9,859,085	9,867,232	10,158,755	9,023,207	8,006,673	7,483,560	6,544,948	5,289,201	4,466,694
Other activities	-	-	-	-	-	-	178,530	752,842	717,992	664,239
Operating grants and contributions	1,469,284	1,353,559	1,496,827	1,444,903	1,242,498	1,140,883	1,198,685	966,231	912,114	910,460
Capital grants and contributions ^a	3,226,291	840,082	2,176,754	8,458,276	1,684,705	2,201,180	2,571,747	1,824,444	1,041,271	675,965
Total program revenues	\$ 59,267,647	\$ 49,410,495	\$ 48,211,427	\$ 58,450,362	\$ 49,751,250	\$ 45,166,031	\$ 39,650,153	\$ 36,787,633	\$ 32,669,186	\$ 29,681,182
Net (expense) revenue:										
Governmental activities	\$ (73,970,271)	\$ (72,205,851)	\$ (72,632,344)	\$ (74,106,921)	\$ (63,562,360)	\$ (64,454,510)	\$ (60,281,484)	\$ (51,135,711)	\$ (48,822,245)	\$ (47,401,299)
Business-type activities	(697,330)	(629,598)	(299,800)	5,998,796	(1,607,537)	(1,406,718)	(489,797)	(1,660,048)	(201,309)	(5,129,521)
Total net (expense) revenue	\$ (74,667,601)	\$ (72,835,449)	\$ (72,932,144)	\$ (68,408,125)	\$ (65,169,897)	\$ (65,861,228)	\$ (60,771,281)	\$ (52,795,759)	\$ (49,023,554)	\$ (52,530,820)

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

Table 2

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General revenues and other changes in net assets:										
Governmental activities:										
General revenues:										
Property taxes	\$ 31,997,146	\$ 31,465,340	\$ 30,867,419	\$ 29,049,768	\$ 27,484,833	\$ 23,731,628	\$ 20,248,223	\$ 18,235,771	\$ 18,120,703	\$ 17,387,139
Sales and use taxes	10,744,198	11,030,783	10,487,699	11,053,388	11,772,450	11,695,874	11,421,441	10,739,589	9,747,138	8,629,363
Restaurant food taxes ^h	8,815,101	8,414,191	8,001,430	8,095,857	8,021,419	7,673,364	7,091,567	6,723,886	6,351,607	4,882,551
Business license taxes	5,932,606	5,587,085	5,571,597	6,072,551	6,196,857	6,042,082	5,728,339	5,306,290	5,013,674	4,771,569
Other local taxes ⁱ	5,599,812	5,382,633	5,274,469	5,275,971	5,515,800	6,572,592	7,201,363	6,503,792	6,488,977	4,862,829
Unrestricted grants and contributions	3,423,474	3,520,574	3,465,825	3,488,042	3,768,406	2,754,072	1,832,499	1,729,433	1,904,575	2,037,354
Unrestricted payment from component units	4,900,000	4,900,000	4,800,000	4,800,000	4,800,000	4,793,875	4,400,000	4,100,000	3,800,000	3,600,000
Investment revenue ^j	68,365	87,557	151,425	658,303	2,644,259	3,534,382	1,363,309	752,552	568,770	939,030
Other revenue ^k	2,265,535	4,254,403	1,570,827	1,202,291	1,447,468	1,486,856	1,872,657	879,680	1,062,402	1,766,000
Gain on sale of capital asset	-	-	-	238,903	-	-	-	535,732	-	-
Special item ^{l,m,n}	(1,446,706)	-	-	-	4,109,942	2,183,062	11,005,846	-	-	-
Transfers	6,335,894	484,233	378,256	(875,910)	(1,386,572)	(1,130,257)	197,160	(258,180)	(1,013,975)	(396,406)
Business-type activities:										
General revenues:										
Investment revenue	32,121	52,446	79,908	505,917	1,101,241	1,403,613	1,082,397	609,291	376,714	993,067
Other revenue	1,308,949	1,215,028	1,167,345	1,927,746	1,844,195	1,034,676	1,149,279	1,167,979	931,303	609,147
Gain on disposal of capital assets	10,863	4,525	1,855	8,100	-	-	-	-	-	-
Transfers	(6,335,894)	(484,233)	(378,256)	875,910	1,386,572	1,130,257	(197,160)	258,180	1,013,975	396,406
Total general revenues and other changes in net assets	\$ 73,651,264	\$ 75,914,565	\$ 71,439,799	\$ 72,376,837	\$ 78,686,870	\$ 72,906,076	\$ 74,396,920	\$ 57,283,995	\$ 54,345,863	\$ 50,478,049
Change in net assets:										
Governmental activities	\$ 4,664,954	\$ 2,920,948	\$ (2,063,397)	\$ (5,047,757)	\$ 10,792,502	\$ 4,883,020	\$ 12,080,920	\$ 4,112,834	\$ 3,201,626	\$ 1,078,130
Business-type activities	(5,681,291)	158,168	571,052	9,016,469	2,724,471	2,161,828	1,544,719	375,402	2,120,683	(3,130,901)
Total change in net assets	\$ (1,016,337)	\$ 3,079,116	\$ (1,492,345)	\$ 3,968,712	\$ 13,516,973	\$ 7,044,848	\$ 13,625,639	\$ 4,488,236	\$ 5,322,309	\$ (2,052,771)

^aFor 2006, the increase in parks and recreation activity expenses reflected a reporting change for the operations of the golf course. Prior to 2006, the golf course was reported as a business-type activity.

^bFor 2007, the increase in the planning and community development activity expenses reflected the recognition of a loan guarantee associated with the Lucy F. Simms Continuing Education Center renovation project.

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

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

^eFor 2007, the increase in capital grants and contributions reflected the City's initial participation in the Virginia Urban Construction Initiative Program. The City received \$3.4 million in 2007 from this program of which \$2.5 million was a one-time payment.

^fFor 2010, the decrease in capital grants and contributions reflected decreasing right-of-way and easement purchases associated with the Stone Spring Road/Erickson Avenue improvement project which were eligible for federal and state funding.

^gFor 2009, the increase in capital grants and contributions reflected \$4.5 million in intergovernmental funding for the purchase of new transit buses and contributions of \$2.4 million in water and sewer lines from developers.

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

ⁱFor 2004, the City enacted a tobacco tax.

^jFor 2009, the decrease in investment revenue was the result of a decrease in idle funds available for investing from unexpended bond proceeds and lower interest rates.

^kFor 2011, the increase in other revenue was the result of a one-time payment of \$2.3 million from the Virginia Public School Authority which refinanced its Series 2001C Bonds of which the City was a participant.

^lFor 2006, the School Board transferred the old Harrisonburg High School complex to the City resulting in a special item.

^mFor 2007, the City sold the old Harrisonburg High School complex to James Madison University resulting in a special item.

ⁿFor 2008, the City sold land on Port Republic Road to James Madison University resulting in a special item.

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CITY OF HARRISONBURG, VIRGINIA
FUND BALANCES (GOVERNMENTAL FUNDS)
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 3

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Fund										
Nonspendable	\$ 780,708	\$ 1,055,286	\$ 838,087	\$ 772,046	\$ 609,960	\$ 611,347	\$ 873,061	\$ 375,000	\$ 748,700	\$ 1,324,693
Restricted ^a	436,546	464,466	459,667	345,524	959,650	1,037,225	1,059,596	5,248,969	574,755	429,450
Committed ^b	3,095,380	860,879	1,297,212	1,879,300	2,344,663	3,311,602	31,700	31,700	47,431	77,431
Assigned ^{c,d}	1,671,329	4,175,696	1,096,324	175,380	5,620,402	4,754,769	2,059,387	2,641,228	2,285,041	3,020,412
Unassigned	25,534,922	18,711,352	16,273,005	16,363,415	15,747,798	14,711,182	10,729,138	11,157,528	12,001,670	10,596,315
Total general fund	\$ 31,518,885	\$ 25,267,679	\$ 19,964,295	\$ 19,535,665	\$ 25,282,473	\$ 24,426,125	\$ 14,752,882	\$ 19,454,425	\$ 15,657,597	\$ 15,448,301
All other governmental funds										
Nonspendable	\$ -	\$ 531	\$ -	\$ -	\$ -	\$ -	\$ 7,534	\$ -	\$ 273,449	\$ 394,982
Restricted ^a	5,758,290	4,128,472	772,478	9,365,288	2,134,402	25,913,479	4,364,535	6,110,398	13,209,321	33,162,818
Committed	10,650,430	8,794,481	8,811,974	7,704,596	11,911,533	14,087,497	4,817,016	7,082,034	7,504,863	6,471,198
Unassigned, reported in:										
Special revenue funds	(60,493)	(6,955)	(122,388)	(43,201)	(15,513)	-	-	-	-	-
Total all other governmental funds	\$ 16,348,227	\$ 12,916,529	\$ 9,462,064	\$ 17,026,663	\$ 14,030,422	\$ 40,000,976	\$ 9,189,085	\$ 13,192,432	\$ 20,987,633	\$ 40,028,998

Notes: Any significant increases or decreases for 2012 are explained in Management's Discussion and Analysis. Certain prior year balances have been reclassified to reflect current financial reporting (2003-2010).

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

^bFor 2007, the increase in general fund committed fund balance was the result of the proceeds from the sale of the old Harrisonburg High School complex to James Madison University being committed for debt service on the old high school's existing outstanding debt.

^cFor 2009, the decrease in general fund assigned fund balance was the result of fund balance not being used to balance the subsequent year's budget and less encumbrances being reappropriated in fiscal year 2010.

^dFor 2011, the increase in general fund assigned fund balance was the result of approximately \$2.9 million of fund balance being used to balance the subsequent year's budget.

^eThe increases and decreases in other governmental funds' restricted fund balance are the result of bond proceeds that are used for various capital project purposes.

CITY OF HARRISONBURG, VIRGINIA
CHANGES IN FUND BALANCES (GOVERNMENTAL FUNDS)
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 4

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
General property taxes	\$ 32,180,329	\$ 31,525,525	\$ 31,009,074	\$ 28,997,708	\$ 27,048,821	\$ 23,716,424	\$ 20,151,128	\$ 18,083,460	\$ 18,331,474	\$ 17,664,091
Other local taxes	31,114,956	30,439,292	29,295,439	30,439,109	31,533,497	31,976,274	31,493,067	29,240,984	27,544,279	23,210,201
Permits, privilege fees and regulatory licenses	498,465	561,431	354,076	848,149	1,099,610	552,074	503,149	403,621	333,288	390,820
Fines and forfeitures	526,260	626,169	598,904	570,997	518,259	504,928	517,689	604,029	563,954	400,247
Use of money and property ^{a,b}	171,599	188,084	197,844	662,621	2,523,091	3,675,662	2,227,982	785,874	683,526	1,309,574
Charges for services	7,775,198	1,377,980	1,193,264	1,193,156	1,098,841	842,690	811,677	292,843	252,891	261,442
Miscellaneous ^c	2,014,528	4,159,989	1,540,896	1,700,774	1,733,883	1,001,438	882,152	955,799	1,022,722	1,494,156
Recovered costs	606,506	-	-	-	217,422	1,198,496	1,266,205	1,670,896	870,207	485,348
Payments from component units	4,900,000	4,900,000	4,800,000	4,800,000	4,800,000	4,793,875	4,400,000	4,100,000	3,800,000	3,600,000
Intergovernmental ^d	15,344,247	16,254,692	13,499,776	13,628,264	13,191,514	12,771,940	7,703,658	7,760,161	6,953,417	7,123,215
Total revenues	\$ 95,132,088	\$ 90,033,162	\$ 82,489,273	\$ 82,840,778	\$ 83,764,938	\$ 81,033,501	\$ 69,956,707	\$ 63,897,667	\$ 60,355,758	\$ 55,939,094
Expenditures:										
Current:										
General government administration	\$ 4,003,007	\$ 3,612,654	\$ 3,494,629	\$ 3,454,035	\$ 3,533,956	\$ 3,195,490	\$ 2,902,847	\$ 2,689,218	\$ 2,460,537	\$ 2,241,589
Jail and judicial administration	3,056,108	2,861,864	2,392,315	2,715,571	2,224,918	2,398,575	1,975,668	1,929,277	1,696,498	1,192,269
Public safety	17,541,823	17,180,648	17,033,885	18,351,114	16,282,631	15,906,087	14,266,182	13,202,723	12,672,049	10,552,139
Public works ^a	10,484,164	7,324,180	7,085,021	8,643,955	8,314,632	7,911,328	11,167,310	6,096,761	6,548,826	5,829,360
Health and welfare	3,662,866	3,911,595	3,889,521	4,347,260	3,742,747	3,108,200	2,549,518	2,296,855	2,135,386	1,917,348
Education	26,201,268	22,992,077	23,993,390	24,627,567	22,960,156	22,299,274	21,622,750	19,193,377	18,667,629	19,167,629
Parks, recreation and cultural ^f	4,946,248	4,685,460	4,590,497	4,819,348	4,832,776	4,852,311	4,488,905	2,686,375	2,763,595	2,693,787
Planning and community development ^g	3,731,690	3,342,151	3,739,296	4,112,650	6,046,145	3,564,027	3,206,577	3,014,724	2,118,465	1,352,651
Debt service:										
Principal retirement	7,054,192	6,568,187	6,144,985	5,852,898	4,594,087	4,885,030	4,202,660	4,156,753	3,130,078	3,907,176
Interest and fiscal charges ^h	5,406,443	5,846,542	5,776,747	5,879,099	6,732,755	4,167,115	4,255,457	3,863,973	3,687,224	4,191,172
Bond issuance costs	381,755	77,341	-	58,379	-	-	-	-	-	29,839
Payment to advanced refunding escrow	-	-	-	520,040	-	-	-	-	-	-
Capital projects ⁱ	11,335,007	12,888,316	11,668,260	15,865,369	35,015,071	32,370,731	6,744,259	21,094,715	28,078,487	14,601,540
Total expenditures	\$ 97,804,571	\$ 91,291,015	\$ 89,808,346	\$ 99,247,485	\$ 114,279,874	\$ 104,658,168	\$ 77,382,133	\$ 80,224,751	\$ 83,958,774	\$ 67,676,499
Excess (deficiency) of revenues over (under) expenditures	\$ (2,672,483)	\$ (1,257,853)	\$ (7,319,073)	\$ (16,406,707)	\$ (30,514,936)	\$ (23,624,667)	\$ (7,425,426)	\$ (16,327,084)	\$ (23,603,016)	\$ (11,737,405)

CITY OF HARRISONBURG, VIRGINIA
CHANGES IN FUND BALANCES (GOVERNMENTAL FUNDS)
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 4

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Other financing sources (uses):										
Long-term debt issued or incurred ¹	\$ 5,865,000	9,515,000	\$ -	\$ 13,480,500	\$ -	\$ 50,000,000	\$ -	\$ 13,390,000	\$ 5,905,000	\$ 1,759,345
Refunding debt issued	21,400,000	5,691,105	-	7,377,000	-	-	-	-	-	5,616,300
Premium on long-term debt issued	786,742	362,907	-	99,617	-	-	-	-	30,769	-
Discount on long-term debt issued	-	-	-	-	-	(176,698)	-	-	(9,211)	-
Payment to bond refunding escrow agent	-	(5,847,247)	-	(7,412,601)	-	-	-	-	-	(5,586,461)
Payment for current bond refunding	(21,649,901)	-	-	-	-	-	-	-	-	-
Transfers in	8,279,617	2,890,945	2,780,092	4,713,939	6,622,370	17,534,802	5,660,761	4,782,750	3,657,540	4,492,749
Transfers out	(2,326,071)	(2,597,008)	(2,596,988)	(4,602,315)	(8,218,306)	(18,945,703)	(6,940,225)	(5,844,039)	(4,813,151)	(4,898,937)
Total other financing sources (uses)	\$ 12,355,387	10,015,702	183,104	13,656,140	(1,595,936)	48,412,401	(1,279,464)	12,328,711	4,770,947	1,382,996
Special item:										
Sale of capital asset ²	\$ -	-	-	7,000,000	15,897,400	-	-	-	-	-
Net change in fund balances	\$ 9,682,904	8,757,849	(7,135,969)	4,249,433	(16,413,472)	24,787,734	(8,704,890)	(3,998,373)	(18,832,069)	(10,354,409)
Debt service as a percentage of noncapital expenditures	14.26%	14.84%	14.75%	13.88%	14.37%	12.65%	13.00%	13.92%	12.62%	15.57%

Notes: Any significant increases or decreases for 2012 are explained in Management's Discussion and Analysis. Any significant increases or decreases in general property taxes and other local taxes revenue are provided in Table 5.

¹For 2006, the increase in the use of money and property was the result of a rental payment from James Madison University for the lease of the old high school complex.

²For 2009, the decrease in the use of money and property was the result of a decrease in idle funds available for investing from unexpended bond proceeds and lower interest rates.

³For 2011, the increase in miscellaneous revenue was the result of a one-time payment of \$2.3 million from the Virginia Public School Authority which refinanced its Series 2001C Bonds of which the City was a participant.

⁴For 2007, the increase in intergovernmental revenue reflected the City's initial participation in the Virginia Urban Construction Initiative Program. The City received \$3.4 million of which \$2.5 million was a one-time payment.

⁵For 2006, the increase in public works expenditures was the result of the purchase of land on Port Republic Road.

⁶For 2006, the increase in parks and recreation expenditures reflected a reporting change for the operations of the golf course. Prior to 2006, the golf course was reported as an enterprise fund.

⁷For 2008, the increase in planning and community development expenditures reflected the payment of a loan guarantee associated with the Lucy F. Simms Continuing Education Center renovation project.

⁸For 2008, the increase in debt service interest expenditures was the result of the first interest payment on bonds issued for the construction of an elementary/middle school complex and related road improvements.

⁹For the period 2003 through 2005 and again in 2007 through 2008, the City had various major construction projects in progress including the new high school and an elementary middle school complex.

¹⁰For 2007, the amount for long-term debt issued was the result of bonds issued for the construction of a new elementary/middle school complex and related infrastructure.

¹¹For 2007, the City sold the old Harrisonburg High School complex to James Madison University.

¹²For 2008, the City sold land on Port Republic Road to James Madison University.

CITY OF HARRISONBURG, VIRGINIA
TAX REVENUES BY SOURCE
Last Ten Fiscal Years
(modified accrual basis of accounting)

Table 5

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General property taxes										
Real estate taxes ^a	\$ 23,164,064	\$ 22,871,691	\$ 22,471,813	\$ 20,253,878	\$ 18,794,716	\$ 14,614,206	\$ 14,082,477	\$ 12,159,177	\$ 11,969,561	\$ 11,288,356
Real and personal public service corporation property taxes	305,419	311,567	315,297	290,145	296,523	257,361	288,174	314,038	345,127	391,553
Personal property taxes ^b	6,636,271	6,227,915	6,002,949	6,481,657	6,135,629	6,903,578	3,967,554	3,663,731	3,759,559	3,628,528
Mobile home taxes	7,613	7,568	6,976	6,779	6,642	7,958	7,036	9,397	8,040	8,106
Machinery and tools taxes	1,800,539	1,849,859	1,918,964	1,769,620	1,571,168	1,713,458	1,634,123	1,730,900	2,052,925	2,123,228
Penalties and interest	266,423	256,925	293,075	195,629	244,143	219,863	171,764	206,217	196,262	224,320
Total general property taxes	\$ 32,180,329	\$ 31,525,525	\$ 31,009,074	\$ 28,997,708	\$ 27,048,821	\$ 23,716,424	\$ 20,151,128	\$ 18,083,460	\$ 18,331,474	\$ 17,664,091
Other local taxes										
Local sales and use taxes	\$ 10,744,198	\$ 11,030,783	\$ 10,487,699	\$ 11,053,388	\$ 11,772,450	\$ 11,695,874	\$ 11,421,441	\$ 10,739,589	\$ 9,747,138	\$ 8,629,363
Consumer utility taxes ^c	1,071,465	1,079,982	1,063,641	1,059,448	1,053,085	1,489,300	1,878,219	1,849,330	1,788,124	1,779,697
Business license taxes	5,932,606	5,587,085	5,571,597	6,072,551	6,208,829	6,044,898	5,745,193	5,274,648	5,013,674	4,771,569
Franchise license taxes ^d	-	-	-	-	-	167,399	304,159	285,736	279,204	263,211
Motor vehicle license taxes	759,588	667,392	698,446	708,619	723,115	736,579	502,226	504,105	497,052	485,653
Bank stock taxes	543,099	577,159	556,236	487,649	362,690	481,402	501,430	389,143	329,333	357,430
Taxes on recordation and wills	273,405	381,220	311,749	380,766	598,229	595,283	746,064	521,520	358,406	292,595
Tobacco taxes ^e	768,267	700,232	759,637	794,917	868,029	878,952	882,623	967,983	1,303,021	-
Admission and amusement taxes	178,371	182,473	198,641	195,222	195,197	172,964	169,701	164,417	178,760	167,925
Hotel and motel room taxes	1,838,184	1,634,615	1,505,247	1,536,035	1,599,097	1,533,589	1,429,097	1,262,314	1,182,250	940,032
Restaurant food taxes ^a	8,833,426	8,403,911	8,001,668	8,037,199	8,027,404	7,671,308	7,099,944	6,711,580	6,351,607	4,882,551
Emergency telephone service taxes ^c	-	-	-	-	-	401,181	669,166	431,884	378,655	483,364
Short-term rental taxes	61,237	59,244	17,778	-	-	-	-	-	-	-
Public right-of-way use fee	111,110	135,196	123,100	113,315	125,372	107,545	143,804	138,735	137,055	156,811
Total other local taxes	\$ 31,114,956	\$ 30,439,292	\$ 29,295,439	\$ 30,439,109	\$ 31,533,497	\$ 31,976,274	\$ 31,493,067	\$ 29,240,984	\$ 27,544,279	\$ 23,210,201

Notes: Any significant increases or decreases for 2012 are explained in Management's Discussion and Analysis.

^aFor 2008, the increase in real estate taxes was the result of an increase in real property assessments.

^bFor 2007, the increase in personal property taxes was the result of an increase in personal property tax rate.

^cFor 2008, the decrease in these various other local taxes was the result of the state enacting the communications sales and use tax. This state tax replaced various local taxes with each locality in the state receiving a predetermined percentage of the total communications sales and use tax which is now considered an intergovernmental revenue.

^dFor 2004, the City enacted a tobacco tax.

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

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

Table 6

Fiscal Year	Real Estate ¹			Personal Property				Total Assessed Values	Total Direct Tax Rate
	Residential	Commercial/Industrial	Public Service Corporations ⁴	Personal Property ²	Machinery and Tools ³	Mobile Homes ¹	Public Service Corporations ⁴		
2012	\$ 2,543,042,004	\$ 1,388,078,371	\$ 50,092,960	\$ 315,996,800	\$ 89,852,200	\$ 1,142,200	\$ 329,028	\$ 4,388,533,563	\$ 0.76
2011	2,510,853,924	1,364,937,892	50,956,726	305,187,900	91,009,800	1,188,000	364,071	4,324,498,313	0.76
2010	2,454,130,651	1,333,884,176	50,623,169	298,874,400	95,937,200	1,200,100	487,596	4,235,137,292	0.76
2009	2,275,254,580	1,173,035,128	48,074,787	318,429,100	86,797,005	1,152,400	213,409	3,902,956,409	0.78
2008	2,111,233,782	1,094,534,067	47,220,357	302,216,554	83,446,563	1,245,100	273,687	3,640,170,110	0.79
2007	1,528,652,129	828,541,876	40,459,620	287,097,150	85,627,100	1,300,700	294,465	2,771,973,040	0.91
2006	1,473,033,038	808,066,456	45,930,020	275,969,700	82,172,500	1,217,300	339,674	2,686,728,688	0.80
2005	1,306,273,698	666,253,010	50,610,910	253,980,570	94,040,800	1,255,800	294,118	2,372,708,906	0.82
2004	1,279,709,666	645,047,950	53,862,258	263,080,560	100,386,700	1,264,400	250,109	2,343,601,643	0.83
2003	1,217,171,818	597,049,770	55,213,438	252,204,750	120,401,100	1,380,700	239,938	2,243,661,514	0.84

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

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

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

Table 7

Fiscal Year	Real Estate			Personal Property					Total Direct Tax Rate
	Residential	Commercial/Industrial	Public Service Corporations	Business Equipment	Machinery and Tools	Mobile Homes	Public Service Corporations	Other¹	
2012	\$ 0.59	\$ 0.59	\$ 0.59	\$ 2.00	\$ 2.00	\$ 0.59	\$ 3.00	\$ 3.00	\$ 0.76
2011	0.59	0.59	0.59	2.00	2.00	0.59	3.00	3.00	0.76
2010	0.59	0.59	0.59	2.00	2.00	0.59	3.00	3.00	0.76
2009	0.59	0.59	0.59	2.00	2.00	0.59	3.00	3.00	0.78
2008	0.59	0.59	0.59	2.00	2.00	0.59	3.00	3.00	0.79
2007	0.62	0.62	0.62	3.00	2.00	0.62	3.00	3.00	0.91
2006	0.62	0.62	0.62	2.00	2.00	0.62	2.00	2.00	0.80
2005	0.62	0.62	0.62	2.00	2.00	0.62	2.00	2.00	0.82
2004	0.62	0.62	0.62	2.00	2.00	0.62	2.00	2.00	0.83
2003	0.62	0.62	0.62	2.00	2.00	0.62	2.00	2.00	0.84

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

Notes: The City does not set property tax rates by various components such as by operations and debt services and has not included this information in the above table. The City does not have any overlapping governments and has not included this information in the above table. ¹Other personal property includes business vehicles.

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

Table 8

Property Taxpayer	Fiscal Year 2012			Fiscal Year 2003		
	Property Taxes	Rank	Percent of Total Property Taxes	Property Taxes	Rank	Percent of Total Property Taxes
American Campus Communities, Inc.	\$ 392,784	1	1.23%	\$ -	-	-
Tenneco Inc.	370,116	2	1.16%	480,160	1	2.54%
Packaging Corporation of America	333,420	3	1.04%	214,303	5	1.13%
R.R. Donnelley & Sons Company	331,738	4	1.04%	325,960	3	1.73%
Copper Beech Townhome Communities, LLC	329,781	5	1.03%	-	-	-
Graham Packaging Company, LP	314,421	6	0.99%	207,552	6	1.10%
Montebello Packaging, Inc.	254,409	7	0.80%	-	-	-
Simon Property Group, Inc.	248,806	8	0.78%	166,103	9	-
George's Foods, LLC	230,732	9	0.72%	-	-	-
Virginia Mennonite Retirement Community	200,669	10	0.63%	-	-	-
IntraPac Corporation	-	-	-	339,755	2	1.80%
LB&J Limited	-	-	-	231,430	4	1.23%
Verizon Communications Inc.	-	-	-	196,485	7	1.04%
Pilgrims Pride Corporation	-	-	-	178,036	8	0.94%
Reddy Ice Corporation	-	-	-	164,632	10	0.87%
Total	\$ 3,006,876		9.42%	\$ 2,504,416		12.38%

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

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

Table 9

Fiscal Year	Taxes Levied for the		Adjustments	Total Adjusted Levy	Collected within the			Collections in Subsequent Years	Total Collections to Date	
	Fiscal Year (Original Levy)	Fiscal Year			Fiscal Year of the Levy		Amount		Percentage of Levy	
					Amount	Percentage of Levy				Amount
2012	\$	31,917,343	\$	-	\$	31,164,825	97.64%	\$	31,164,825	97.64%
2011		31,326,231	(5,109)	31,321,122		30,500,885	97.37%	509,083	31,009,968	98.99%
2010		30,809,804	(19,655)	30,790,149		29,834,014	96.83%	674,156	30,508,170	99.08%
2009		29,095,900	1,961	29,097,861		28,136,769	96.70%	724,680	28,861,449	99.19%
2008		27,221,485	(23,778)	27,197,707		26,384,561	96.93%	629,725	27,014,286	99.33%
2007		23,722,324	(22,059)	23,700,265		22,950,373	96.75%	575,876	23,526,249	99.27%
2006		21,683,449	68,944	21,752,393		21,076,071	97.20%	504,826	21,580,897	99.21%
2005		19,595,631	13,467	19,609,098		18,925,288	96.58%	416,473	19,341,761	98.64%
2004		19,617,311	(60,565)	19,556,746		19,080,972	97.27%	348,168	19,429,140	99.35%
2003		18,890,133	9,448	18,899,581		18,103,663	95.84%	671,087	18,774,750	99.34%

Notes: From 2003-2006, the Commonwealth of Virginia directly reimbursed localities a percentage of certain personal property taxes when the locality collected the taxpayer share of the tax. These reimbursements are included in current year collections and collections in subsequent years. Beginning in 2007, the Commonwealth of Virginia began funding a pre-determined amount to each locality not dependent on when the locality collected the taxpayers share. These reimbursements are not included in current year collections.

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

Table 10

Type of debt	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities:										
General obligation bonds ^{a,b,c}	\$ 129,469,015	\$ 128,931,460	\$ 124,852,870	\$ 130,064,515	\$ 115,949,601	\$ 119,643,460	\$ 73,438,431	\$ 76,778,898	\$ 72,785,854	\$ 71,747,779
General obligation revenue bonds ^{b,d}	-	-	-	-	6,186,488	6,258,756	6,321,024	6,343,292	-	-
Notes payable	-	-	-	-	-	-	400,000	400,000	3,297,307	916,785
Capital leases	4,827,885	5,751,958	6,635,404	7,480,465	8,287,363	9,058,940	9,797,450	10,575,685	5,373,206	5,888,681
State literary fund loans	-	-	-	-	-	-	11,825	23,650	35,475	101,900
Business-type activities:										
General obligation bonds ^e	32,405,122	34,061,921	26,528,271	26,886,976	25,743,287	26,968,098	28,152,909	29,292,721	29,586,475	29,839,303
General obligation revenue bonds ^{d,e}	239,994	469,862	9,392,103	9,598,939	9,800,776	9,992,612	10,179,448	10,356,284	16,868,680	16,862,785
Notes payable	-	-	-	-	-	-	-	-	128,527	426,346
Total primary government	\$ 166,942,016	\$ 169,215,201	\$ 167,408,648	\$ 174,030,895	\$ 165,967,515	\$ 171,921,866	\$ 128,301,087	\$ 133,770,530	\$ 128,075,524	\$ 125,783,579
Percentage of personal income ¹	10.38%	11.23%	11.53%	12.23%	12.27%	13.41%	10.74%	11.88%	11.78%	12.24%
Per capita ¹	\$ 3,260	\$ 3,419	\$ 3,423	\$ 3,792	\$ 3,667	\$ 3,809	\$ 2,915	\$ 3,098	\$ 2,969	\$ 2,925

Notes: The City does not have any overlapping governments and has not included this information in the above table. Details regarding the City's outstanding debt can be found in the notes to the financial statements.
¹See Table 13 for personal income and population data.

^aFor 2009, the City issued \$13.5 million in general obligation bonds for various capital project purposes.

^bFor 2009, the City issued \$6.25 million in general obligation bonds to advance refund \$6.16 million in general obligation revenue bonds.

^cFor 2007, the City issued \$50 million in general obligation bonds, of which \$46.5 million was issued for the construction of an elementary/middle school complex and related infrastructure.

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

^eFor 2011, the City issued \$28.1 million in general obligation bonds to advance refund \$17.7 million in general obligation bonds and \$8.78 million in general obligation revenue bonds.

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

Table 11

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General obligation bonds ^{a,b,c,d}	\$ 161,874,137	\$ 162,993,382	\$ 151,381,141	\$ 156,951,491	\$ 141,692,888	\$ 146,611,558	\$ 101,591,340	\$ 106,071,619	\$ 102,372,329	\$ 101,587,082
Total	\$ 161,874,137	\$ 162,993,382	\$ 151,381,141	\$ 156,951,491	\$ 141,692,888	\$ 146,611,558	\$ 101,591,340	\$ 106,071,619	\$ 102,372,329	\$ 101,587,082
Percentage of assessed real property value ¹	4.07%	4.15%	3.94%	4.49%	4.36%	6.11%	4.37%	5.24%	5.17%	5.43%
Per capita ²	\$ 3,161	\$ 3,293	\$ 3,085	\$ 3,420	\$ 3,131	\$ 3,248	\$ 2,308	\$ 2,457	\$ 2,373	\$ 2,362

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. There are no restricted net assets for debt service available for the repayment of principal on bonded debt.
¹See Table 6 for assessed real property data. ²See Table 13 for population data.

^aFor 2009, the City issued \$13.5 million in general obligation bonds for various capital project purposes.

^bFor 2009, the City issued \$6.25 million in general obligation bonds to advance refund \$6.16 million in general obligation revenue bonds.

^cFor 2007, the City issued \$50 million in general obligation bonds, of which \$46.5 million was issued for the construction of an elementary/middle school complex and related infrastructure.

^dFor 2011, the City issued \$28.1 million in general obligation bonds to advance refund \$17.7 million in general obligation revenue bonds.

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt limit	\$ 398,121,334	\$ 392,674,854	\$ 383,863,800	\$ 349,636,450	\$ 325,298,821	\$ 239,765,363	\$ 232,702,951	\$ 202,313,762	\$ 197,861,987	\$ 186,943,503
Total debt applicable to limit	163,706,026	165,926,512	162,043,877	167,937,695	158,497,695	163,765,205	119,311,725	124,081,150	123,383,909	120,646,331
Legal debt margin	\$ 234,415,308	\$ 226,748,342	\$ 221,819,923	\$ 181,698,755	\$ 166,801,126	\$ 76,000,158	\$ 113,391,226	\$ 78,232,612	\$ 74,478,078	\$ 66,297,172
Total debt applicable to the limit as percentage of debt limit ^a	41.12%	42.26%	42.21%	48.03%	48.72%	68.30%	51.27%	61.33%	62.36%	64.54%
Legal Debt Margin Calculation for Fiscal Year 2012										
Total assessed value of taxed real property	\$ 3,981,213,335									
Debt limit (10% of total assessed value)	\$ 398,121,334									
Debt applicable to limit:										
General obligation bonds	163,466,026									
General obligation revenue bonds	240,000									
Legal debt margin	\$ 234,415,308									

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

^a For 2007, the City issued a total of \$50 million in debt to finance various projects. See Table 10 for a further explanation of the projects financed.

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

Table 13

Fiscal Year	Population ¹	Personal Income (in thousands)	Per Capita Personal Income ²	School Enrollment ³	Unemployment Rate Percentage ⁴
2012	51,208	\$ 1,608,034	\$ 31,402	4,709	7.0
2011	49,491	1,507,050	30,451	4,513	7.4
2010	48,914	1,452,550	29,696	4,323	7.6
2009	45,889	1,423,018	31,010	4,241	5.6
2008	45,255	1,352,672	29,890	4,363	3.4
2007	45,138	1,282,280	28,408	4,356	2.8
2006	44,008	1,194,773	27,149	4,347	3.4
2005	43,178	1,125,910	26,076	4,088	4.0
2004	43,137	1,086,966	25,198	4,028	3.7
2003	43,001	1,027,294	23,890	4,026	3.7

Sources: ¹ Estimated by the City's Department of Planning and Community Development for 2003-2009 and 2011-2012. United States Census Bureau for 2010. ² Bureau of Economic Analysis, United States Department of Commerce. Amounts for 2003-2011 have been adjusted based upon the latest available data. Data for 2012 has been estimated based on per capita personal income trends for the previous ten years. ³ City of Harrisonburg School Board. ⁴ Virginia Employment Commission. The unemployment rate is an annual average. The rates for 2010-2011 have been adjusted based upon the latest available data.

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

Table 14

Employers	Fiscal Year 2012			Fiscal Year 2003		
	Approximate Employees	Rank	Percent of Total City Emp- loyment	Employees	Rank	Percent of Total City Emp- loyment
James Madison University	>999	1	> 3.31%	>999	1	n/a
Harrisonburg City Public Schools	500 - 999	2	1.65% - 3.31%	500 - 999	5	n/a
Aramark Campus LLC	500 - 999	3	1.65% - 3.31%	-	-	n/a
Rosetta Stone Inc.	500 - 999	4	1.65% - 3.31%	-	-	n/a
City of Harrisonburg	500 - 999	5	1.65% - 3.31%	500 - 999	6	n/a
Tenneco Inc.	500 - 999	6	1.65% - 3.31%	500 - 999	4	n/a
George's Chicken, LLC	500 - 999	7	1.65% - 3.31%	250 - 499	7	n/a
Wal-Mart Stores, Inc.	250 - 499	8	0.83% - 1.65%	500 - 999	3	n/a
Virginia Mennonite Retirement Community	250 - 499	9	0.83% - 1.65%	250 - 499	9	n/a
Packaging Corporation of America	100 - 249	10	0.33% - 0.83%	-	-	n/a
Rockingham Memorial Hospital	-	-	-	>999	2	n/a
Graham Packaging Company, LP	-	-	-	250 - 499	8	n/a
IntraPac Corporation	-	-	-	250 - 499	10	n/a
Total City Employment	31,416			n/a		

Source: Virginia Employment Commission.

Notes: "n/a" means that the information is not available.

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

Table 15

Function	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General government administration	45.5	45.4	45.7	46.1	43.9	41.8	39.0	37.9	37.0	35.1
Public safety:										
Police ^a	107.4	108.5	108.8	110.8	107.8	101.6	101.8	97.7	100.4	94.8
Fire ^a	80.7	80.8	80.5	79.8	76.8	72.3	71.5	68.5	68.2	65.0
Other ^b	13.0	13.0	13.0	13.0	12.0	12.0	11.5	10.2	22.0	22.0
Public works ^c	102.2	72.6	73.1	76.2	74.3	74.2	66.7	66.0	66.0	62.9
Education ^c	38.8	-	-	-	-	-	-	-	-	-
Parks, recreation and cultural	75.9	75.6	70.7	71.2	70.6	69.4	66.8	65.6	66.7	63.1
Planning and community development ^d	17.8	18.8	19.1	19.4	17.2	18.8	11.9	11.7	10.6	11.3
Water	32.6	33.1	33.2	33.2	31.4	30.1	29.7	29.7	29.6	28.6
Sewer	22.2	23.8	23.7	23.7	22.6	23.3	22.9	22.9	22.9	21.9
Public transportation ^{e,g}	49.8	87.8	87.1	86.4	78.6	79.8	79.2	76.4	77.1	67.7
Steam plant/sanitation ^{e,f}	31.0	56.9	60.9	61.5	60.9	56.9	56.9	55.0	54.0	46.8
Central garage	15.8	14.7	14.7	15.4	15.8	13.0	13.0	13.0	13.0	13.0
Central stores	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.0	2.0
Total	634.7	633.0	632.5	638.7	613.9	595.2	571.9	555.6	568.5	534.2

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

Notes: Full-time equivalent amounts are budgeted positions.

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

^bFor 2005, the decrease for other public safety reflects the transfer of employees to the Harrisonburg-Rockingham Emergency Communications Center.

^cIn 2012, the City reclassified school bus employees into a separate activity from public transportation and refuse collection, recycling and landfill employees from sanitation into public works.

^dFor 2007, the increase for planning and community development reflects the creation of a tourism and visitors services division.

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

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

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

Table 16

Function	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police										
Calls answered	33,021	41,070	43,634	40,321	26,658	28,232	30,901	34,059	33,987	30,839
Traffic citations	6,268	9,359	8,437	8,177	5,326	6,295	7,144	9,796	8,825	7,101
Fire										
Calls answered	4,789	4,514	4,473	4,381	4,314	3,991	4,088	3,994	3,763	3,606
Inspections	2,135	1,868	1,927	1,983	1,218	1,387	1,472	1,623	1,296	1,198
Public works										
Streets repaved (total miles)	5.58	5.47	6.90	9.47	10.42	7.47	4.88	4.17	4.13	10.22
Materials recycled (tons)	757.8	827.8	722.6	1,048.3	942.3	1,234.2	1,847.3	1,353.9	n/a	n/a
Parks and recreation										
Pool admissions	52,489	47,417	48,304	43,872	41,229	30,736	42,633	42,710	47,718	45,153
Rounds of golf played	27,068	21,906	20,812	21,896	21,024	19,235	20,311	20,636	20,458	18,271
Planning and community development										
Building permits issued	810	739	748	961	1,747	829	1,039	958	893	896
Water										
Daily consumption (millions of gallons)	5.36	5.44	5.17	5.38	5.50	5.40	5.35	5.15	5.14	4.96
New customer connections	40	151	110	528	509	347	435	262	272	267
Sewer										
Daily consumption (millions of gallons)	4.29	4.33	4.20	4.12	3.95	4.26	4.36	4.16	4.11	n/a
New customer connections	8	132	8	13	36	52	46	42	33	22
Public transportation										
Transit bus passengers	2,535,828	2,063,301	1,862,500	1,709,558	1,489,770	1,492,276	1,380,851	1,150,587	1,040,010	993,823
Steam plant										
Avg. daily steam plant intake (tons) ^a	111.7	138.5	149.6	148.3	130.4	128.5	145.6	117.5	48.3	44.6

Source: Various City of Harrisonburg departments.

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

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

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

Table 17

Function	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police										
Police stations	3	3	3	3	3	3	3	3	3	4
Patrol units (including motorcycles)	48	46	47	43	43	42	40	n/a	n/a	n/a
Fire										
Fire stations	4	4	4	4	4	4	4	4	4	4
Fire trucks	13	13	13	13	12	12	13	12	12	12
Public works:										
Streets (centerline miles)	137.92	137.92	137.92	135.34	134.07	134.07	132.62	132.62	132.62	132.62
Refuse collection trucks	7	7	7	7	6	6	6	6	6	6
Recycling collection trucks	3	3	3	3	3	4	4	4	4	4
Parks, recreation and cultural										
Parks (including athletic facilities)	12	12	12	11	11	10	10	10	10	10
Parks acreage	877	877	877	869	869	869	869	869	869	869
Golf course acreage	215	215	215	215	215	215	201	201	201	201
Water:										
Water lines (linear feet)	1,555,811	1,523,193	1,467,840	1,469,084	1,443,140	1,441,109	1,432,761	1,332,055	1,324,896	1,268,051
Storage capacity (millions of gallons) ^a	25.25	25.25	25.25	23.25	38.25	33.25	33.25	27.95	27.95	27.95
Sewer:										
Sewer lines (linear feet)	1,078,563	1,075,233	1,071,840	1,063,710	1,018,647	1,007,810	999,431	1,042,286	1,012,041	939,037
Public transportation:										
Transit buses	42	36	36	36	36	31	33	n/a	n/a	n/a
Steam plant										
Steam plant capacity (tons per day) ^b	200	200	200	200	200	200	200	200	200	100

Source: Various City of Harrisonburg departments.

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

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

^aIn 2008, the City completed construction of a new 5 million gallon water tank on Ramblewood Road.

^aIn 2009, the City took out of service a 15 million gallon reservoir on Tower Street in preparations for constructing a new water tank.

^aIn 2010, the City completed construction of a new 8 million gallon water tank on Tower Street and took out of service a 6 million gallon reservoir on Tower Street.

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

COMPLIANCE SECTION

This part of the City's comprehensive annual financial report is intended to demonstrate the City's compliance with various state and federal legal matters, as well as, compliance with federal grant funding requirements. It is prepared in conformity with the provisions of the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) A-133.

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

Honorable Members of City Council
City of Harrisonburg, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisonburg, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2012. 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*, from opinions issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of the City of Harrisonburg, Virginia, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 or corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Item 12-1 to be a significant deficiency in internal control over financial reporting.** 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Item 12-3.**

We noted certain matters that we reported to the City's management in a separate letter dated November 28, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Honorable Members of City Council
City of Harrisonburg, Virginia

Compliance

We have audited the compliance of the City of Harrisonburg, Virginia with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Harrisonburg, Virginia complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as Item 12-2.

Internal Control over Compliance

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

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2012

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION
OF PRIOR YEAR MAJOR FEDERAL AWARD PROGRAMS AUDIT FINDINGS**

Honorable Members of City Council
City of Harrisonburg, Virginia

We reviewed the prior year report during the course of this audit to determine if the City of Harrisonburg, Virginia has implemented adequate corrective action with respect to previously reported audit findings. As noted in the Summary Schedule of Prior Year Findings the prior year single audit disclosed two findings with regard to a major federal award program. We did not detect similar findings in the current year.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 28, 2012

CITY OF HARRISONBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2012

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

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Education

Highway Maintenance Funds

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

CITY OF HARRISONBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Program:</u>	<u>CFDA #</u>
Child Nutrition Cluster – National School Breakfast Program	10.553
Child Nutrition Cluster – National School Lunch Program	10.555
State Fiscal Stabilization Funds – ARRA	84.394
Federal Transit Cluster – Capital Investment Grants	20.500
Federal Transit Cluster – Formula Grants	20.507
Federal Transit Cluster – Formula Grants - ARRA	20.507

8. The **threshold** for distinguishing Type A and B programs was **\$439,926**.
9. The City was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: Bank Reconciliation (Significant Deficiency)

Condition:

Due to a retirement during the year, the bank and investment account reconciliations were prepared for part of the year by the Director of Finance who has access to perform cash disbursements. The bank and investment statements were not reviewed prior to the reconciliation nor were the reconciliations reviewed after completion.

Recommendation:

We recommend that a knowledgeable individual receive, open, and review the bank and investment statements prior to the reconciliation. The reconciliation should be performed by an individual that does not have access to cash receipts or disbursements. We also recommend the reconciliations be reviewed for accuracy and completeness on a timely basis by a knowledgeable individual.

Management's Response:

The auditee concurs with this recommendation.

CITY OF HARRISONBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

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

12-2: Federal Transit – CFDA 20.507

Condition:

In a sample of twenty-five expenditures, one expenditure, for \$10.75, was requested for reimbursement but was determined to be not allowable.

Recommendation:

Reimbursement requests should only include qualifying expenses. Contributions and other non-operating costs should be allocated to other departments when recorded in the system.

Management's Response:

The auditee concurs with the finding.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-3: Highway Maintenance Work Orders

Condition:

In a sample of 20 work orders, we noted three where the street name was not included so street eligibility was unable to be determined. One work order in the sample included a street that was not listed on the eligible street listing. Another work order in the sample did not include material costs in the work order total.

Recommendation:

Procedures should be implemented to ensure that all work is performed on eligible streets and that all work orders are properly completed.

Management's Response:

The auditee concurs with the recommendation.

CITY OF HARRISONBURG, VIRGINIA

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2012

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

11-1: Title I – CFDA 84.010

Condition:

In a sample of 25 expenditures, three were noted where the amount requested for reimbursement did not agree with the expenditure recorded. The City schools requested a net amount of \$271.10 less than the actual expenditures.

Recommendation:

The employee submitting the reimbursement requests should review the general ledger detail to ensure amounts requested are accurate. The Excel spreadsheet prepared by the payroll clerk should also be reviewed for accuracy.

Current Status:

We did not detect a similar finding in the current year.

11-2: Highway Construction – CFDA 20.205

Condition:

In a sample of ten expenditures, five reimbursement requests were filed prior to checks being issued to pay invoices.

Recommendation:

Reimbursement requests should only be submitted after the qualifying expenses have been paid.

Current Status:

We did not detect a similar finding in the current year.

CITY OF HARRISONBURG, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Page 1

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Department of Agriculture:		
Direct payments:		
Rural Business Enterprise Grants	10.769	\$ 12,500
Pass-through payments:		
Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	540,254
National School Lunch Program	10.555	1,459,205
Child Nutrition Discretionary Grants Limited Availability	10.579	12,757
Fresh Fruit and Vegetable Program	10.582	29,279
Department of Agriculture and Consumer Services:		
National School Lunch Program (Commodities) (part of Child Nutrition Cluster)	10.555	<u>132,571</u>
Total Department of Agriculture		\$ 2,186,566
Department of Housing and Urban Development:		
Direct payments:		
CDBG - Entitlement Grants Cluster:		
Entitlement Grants	14.218	\$ <u>550,416</u>
Total Department of Housing and Urban Development		\$ 550,416
Department of Justice:		
Direct payments:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	\$ <u>13,210</u>
Total Department of Justice		\$ 13,210
Department of Transportation:		
Direct payments:		
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	\$ 62,411
Federal Transit - Formula Grants	20.507	2,153,064
Federal Transit - Formula Grants - ARRA	20.507	1,622,651
Pass-through payments:		
Department of Transportation:		
Highway Planning and Construction	20.205	3,349,664
Harrisonburg-Rockingham Metropolitan Planning Organization:		
Metropolitan Transportation Planning	20.505	36,000
Department of Motor Vehicles:		
Alcohol Open Container Requirements	20.607	37,339
Highway Safety Cluster:		
Child Safety and Child Booster Seats Incentive Grants	20.613	<u>12,511</u>
Total Department of Transportation		\$ 7,273,640

(continued)

CITY OF HARRISONBURG, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Page 2

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Education:		
Pass-through payments:		
Department of Education:		
Title I Grants to Local Educational Agencies	84.010	\$ 1,443,613
Title I Grants to Local Educational Agencies, Recovery Act	84.389	70,222
Career and Technical Education - Basic Grants to States	84.048	92,578
Education Technology State Grants	84.318	31,964
English Language Acquisition Grants	84.365	226,931
Improving Teacher Quality State Grants	84.367	60,260
Educational Technology State Grants, Recovery Act	84.386	227,993
State Fiscal Stabilization Fund (SFSF) - Educational State Grants, Recovery Act	84.394	779,788
Education Jobs Fund	84.410	255,630
Special Education Cluster:		
Grants to States	84.027	992,764
Grants to States, Recovery Act	84.391	82,916
Preschool Grants	84.173	27,613
Preschool Grants, Recovery Act	84.392	3,296
Total Department of Education		\$ 4,295,568
Department of Health and Human Services:		
Pass-through payments:		
State Board of Elections		
Voting Access for Individuals with Disabilities - Grants to States	93.617	\$ 4,040
Total Department of Health and Human Services		\$ 4,040
Department of Homeland Security:		
Direct payments:		
Assistance to Firefighters Grant	97.044	\$ 89,749
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	19,797
Pass-through payments:		
Department of Emergency Management:		
Interoperable Emergency Communications	97.055	59,904
State Homeland Security Program (SHSP)	97.073	99,069
Total Department of Homeland Security		\$ 268,519
Department of Defense:		
Direct payments:		
JROTC Funds	12.VA 170853	\$ 72,257
Total Department of Defense		\$ 72,257
Total expenditures of federal awards		\$ 14,664,216

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

CITY OF HARRISONBURG, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

Note 1. Basis of Presentation

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

Note 2. Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed as determined by the U.S. Department of Agriculture. At June 30, 2012, the School Board, a component unit, had food commodities totaling \$56,002 in inventory.

Note 3. Subrecipients

The City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Expended</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 215,707
Educational Technology State Grants	84.318	15,280
Educational Technology State Grants, Recovery Act-ARRA	84.386	208,800
Interoperable Emergency Communications	97.055	59,904
State Homeland Security Program (SHSP)	97.073	34,470

Note 4. Loan Programs

Included in prior year schedules were loan proceeds obtained through the Virginia Water Supply Revolving Fund in the total amount of \$1,136,000. The following is the federal award program and the outstanding balance on the loan at June 30, 2012:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Outstanding Loan Amount</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 1,060,266