

FREDERICKSBURG, VIRGINIA

Comprehensive

Annual

Financial

Report . . .

*. . . for fiscal
year ended _____*

JUNE 30, 2012



CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i-vi
Organizational Chart	vii
Directory of Principal Officials	ix
GFOA Certificate of Achievement	xi
FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-15
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Assets	21
Exhibit 2 Statement of Activities	22-23
Fund Financial Statements:	
Exhibit 3 Balance Sheet—Governmental Funds	27
Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	28
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances— Governmental Funds	29
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
Exhibit 7 Statement of Net Assets—Proprietary Funds	31
Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Assets— Proprietary Funds	32
Exhibit 9 Statement of Cash Flows—Proprietary Funds	33
Exhibit 10 Statement of Fiduciary Net Assets	34
Exhibit 11 Statement of Changes in Fiduciary Net Assets—Private Purpose Trust Fund	35
Exhibit 12 Statement of Activities—Component Units	36-37
Notes to Financial Statements	39-79

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS: (CONTINUED)

	<u>Page</u>
FINANCIAL SECTION: (CONTINUED)	
<u>Required Supplementary Information:</u>	
Exhibit 13 Budgetary Comparison Schedule—General Fund	83-88
Exhibit 14 Schedule of Pension and OPEB Funding Progress	89
<u>Other Supplementary Information:</u>	
Exhibit 15 Budgetary Comparison Schedule—New Court Construction Fund	93
Exhibit 16 Combining Balance Sheet—Nonmajor Governmental Funds	94
Exhibit 17 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds	95
Exhibit 18 Combining Balance Sheet—Nonmajor Special Revenue Funds	96
Exhibit 19 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds	97
Exhibit 20 Combining Balance Sheet—Nonmajor Capital Projects Funds	98
Exhibit 21 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Capital Projects Funds	99
Exhibit 22 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Debt Service Funds	101
Exhibit 23 Combining Statement of Fiduciary Net Assets	102-103
Exhibit 24 Statement of Changes in Assets and Liabilities—Agency Funds	104-106
Exhibit 25 Revenues and Expenditures Budgetary Comparison Schedule for Nonmajor and Other Funds with Legally Adopted Budgets	107-111
Exhibit 26 Component Unit School Board—Combining Balance Sheet	112
Exhibit 27 Component Unit School Board—Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	113
Exhibit 28 Component Unit School Board—Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	114
Exhibit 29 Component Unit School Board—Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	115
Exhibit 30 Component Unit School Board—School Operating Fund—Revenues and Expenditures Budgetary Comparison Schedule	116
Exhibit 31 Component Unit School Board—Special School Fund—Revenues and Expenditures Budgetary Comparison Schedule	117
Exhibit 32 Component Unit School Board—School Capital Projects Funds—Revenues and Expenditures Budgetary Comparison Schedule	118

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2012

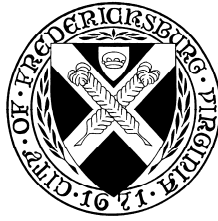
TABLE OF CONTENTS: (CONTINUED)

	<u>Page</u>
STATISTICAL SECTION	
Table 1 Net Assets by Component—Last Ten Fiscal Years	121
Table 2 Changes in Net Assets—Last Ten Fiscal Years	122-124
Table 3 Fund Balances of Governmental Funds—Last Ten Fiscal Years	125
Table 4 Changes in Fund Balances of Governmental Funds—Last Ten Fiscal Years	126
Table 5 General Governmental Tax Revenues by Source—Last Ten Fiscal Years	127
Table 6 Assessed Value and Estimated Actual Value of Taxable Property—Last Ten Fiscal Years	128
Table 7 Property Tax Rates—Last Ten Fiscal Years	129
Table 8 Principal Property Taxpayers—Current Year and the Period Nine Years Prior	130
Table 9 Property Tax Levies and Collections—Last Ten Fiscal Years	131
Table 10 Ratios of Outstanding Debt by Type—Last Ten Fiscal Years	132
Table 11 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita—Last Ten Fiscal Years	133
Table 12 Legal Debt Margin Information—Last Ten Fiscal Years	134
Table 13 Pledged-Revenue Coverage—Last Ten Fiscal Years	135
Table 14 Demographic and Economic Statistics—Last Ten Fiscal Years	136
Table 15 Principal Employers—Current Year and the Period Nine Years Prior	137
Table 16 Full-time Equivalent City Government Employees by Function—Last Ten Fiscal Years	138
Table 17 Operating Indicators by Function—Last Ten Fiscal Years	139-140
Table 18 Capital Asset Statistics by Function—Last Ten Fiscal Years	141-142
COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	143-144
Independent Auditors' 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	145-146
Schedule of Expenditures of Federal Awards	147-149
Notes to Schedule of Expenditures of Federal Awards	150
Schedule of Findings and Questioned Costs	151
Schedule of Prior Year Findings and Questioned Costs	152

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Beverly R. Cameron
City Manager

D. Mark Whitley
Assistant City Manager



City of Fredericksburg
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November 12, 2012

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Fredericksburg, Virginia (the “City”) for the fiscal year ended June 30, 2012.

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 government’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 complete and reliable in all material respects.

The City’s financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for 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 auditors’ report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City’s separately issued Single Audit Report.

GAAP require 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 compliment 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 auditors.

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is less than an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 25,691.

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

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and public education. The City also operates water, sewer, and transit systems and a parking garage. The City has entered into agreements with Spotsylvania County to utilize county water and sewer capacity in order to maximize these resources from a regional approach.

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

Higher education opportunities within the City are offered at the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, coeducational residential university with an enrollment of approximately 4,000 undergraduate students. The university offers over 40 different majors and programs of study as well as several different Master's degree programs.

Economic Condition and Outlook

The City's economy is based, to a large degree, on its strategic location along interstate 95 approximately halfway between Richmond, Virginia and Washington, D.C. The City enjoys two major commercial development centers, Central Park and Celebrate Virginia South. Central Park is the primary retail and dining component of the City and houses 2.5 million square feet of national big-box stores, restaurants, and smaller local businesses. Celebrate Virginia South is home to several hotels, the Fredericksburg Expo and Conference Center, and a Wegmans supermarket.

Economic Condition and Outlook: (Continued)

An emerging opportunity for economic growth rests with the University of Mary Washington Foundation's Eagle Village development project. This project involves transforming a 1950's era shopping center into the City's first mixed-use complex. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Phase II will also include a five-story Hyatt Place hotel, which is scheduled to open in September 2013. The hotel will feature 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel will be located between Mary Washington Hospital and the University of Mary Washington and provide visitors a convenient lodging option within the Route One corridor.

The City's nationally recognized 40-block Historic District is a significant component of the local economy. The "Old Town" District, with its historical attractions, antique shops, a variety of charming restaurants, specialty retail shops and beautifully restore homes, is an attractive tourist destination. While tourism has been a mainstay of the City's economy, commercial development and visionary downtown revitalization efforts continue to reflect economic potential for the City.

The City has experienced an economic turnaround the past couple fiscal years, as evidenced through an increase in receipts from such local tax revenue sources as sales tax, meals tax, and business license taxes. The City's strategic location at the center of one of the fastest growing regions in the Commonwealth, coupled with its expanding commercial centers, help to assure the City's economic foundation has stable traction moving forward.

Major Initiatives

During fiscal year 2012 the City continued to maintained its capacity to provide a high level of service to its residents in the form of major capital initiatives. The following narrative highlights the primary projects worked on during fiscal year 2012 as well as the major projects planned over the next several years.

The engineering phase for several transportation projects continued during the 2012 fiscal year. The majority of these projects involve updating traffic signal equipment while optimizing the operation of several traffic signals along the Route 3 and Route 1 corridors and the replacement of a span wire traffic signal with a mast arm signal at the intersection of William and Sophia Streets. The primary transportation project involves the replacement of the Fall Hill Avenue bridge over the Rappahannock Canal. This project includes increasing the bridge's load capacity while providing a connection point between the Rappahannock Canal bicycle and walking path with the future Rappahannock River Heritage Trail. Construction is scheduled to begin during fiscal year 2013 with the total cost of the project being approximately \$3,000,000.

Implementation of the City's comprehensive bicycle/foot trail plan, Fredericksburg Pathways, continued during fiscal year 2012. Fredericksburg Pathways is designed to improve the overall transportation system in and around the Fredericksburg area by developing a network of routes for bicycle and pedestrian traffic. These routes will reduce traffic congestion by providing non-motorized transportation and recreation connections between neighborhoods, shopping areas, and popular destinations. The engineering and design phase for two components of Fredericksburg Pathways, the Virginia Central Railway Trail and the Rappahannock River Heritage Trail, was completed during the

Major Initiatives: (Continued)

fiscal year. The construction phase of the Rappahannock River Heritage Trail began during FY 2012.

The upgrading of the Normandy Village, Fall Hill Avenue, and Snowden sewage pumping stations was completed during the fiscal year. This project involved building improvements and electrical and equipment upgrades. The project was completed at a total cost of \$1,162,434.

The most significant capital project for the City is the new courthouse construction project. The primary components of this project are the relocation of the Juvenile and Domestic Relations Court to the Executive Plaza building, the construction of a new 78,000-square-foot courthouse building, which will house the Circuit Court and the General District Court, and the renovation of the existing General District Court building for the potential permanent use of the Juvenile and Domestic Relations Court. Renovation work was completed at the Executive Plaza building during fiscal year 2012 at a cost of \$1,507,000. Construction on the new courthouse is scheduled to begin during fiscal year 2013. Renovation of the existing General District Court building will not take place until the new courthouse is completed, which is scheduled for 2014. The total cost of all three projects is approximately \$33,860,000.

Budgetary Control

The annual budget serves as the foundation for the City's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of the current fiscal year. After a required public hearing on the budget is held, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable. City Council must approve all budget revisions once the appropriation ordinance has been adopted. The annual budgets are prepared for all governmental funds, except for the Central Park Special Tax District Fund, and they are prepared by fund and department (e.g., police). All appropriations lapse at year-end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the New Court Construction Fund this comparison is presented in Exhibit 13 and Exhibit 15, respectively. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 25.

Financial Management Policy

The City's adopted Financial Management Policy establishes guidelines aimed at maintaining the financial health of the City. The Financial Management Policy identifies the unassigned General Fund balance as a source that will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. It established a goal of maintaining a 12 percent unassigned General Fund balance, but not less than 7 percent, of the actual General Fund revenues for the preceding fiscal year. This policy goal has proven to be a useful resource offering increased flexibility that has assisted the City in its efforts to direct its resources efficiently.

Long-Term Financial Planning

The City's Capital Improvements Plan is used as a tool to project future capital and financing needs over a five year period. The current Capital Improvements Plan calls for several major capital projects over the next several years with the primary project being the construction of a new courthouse building. To finance this project, the City issued \$36,665,000 in general obligation debt during fiscal year 2012, with \$2,945,000 being used towards refunding existing debt. The new courthouse building will be completed over the next couple fiscal years with the completion date scheduled for fiscal year 2014. Planned for fiscal year 2015 is a \$4,000,000 renovation of the Renwick building, which currently houses the Circuit Court, and \$12,800,000 for public education capital improvements comprised of \$9,000,000 for the renovation of the Old Walker Grant School and \$3,800,000 for HVAC replacement at Walker Grant Middle School. The City plans to finance these projects through the issuance of bonds. For fiscal year 2017 the City is planning several wastewater utility system enhancements at a cost of \$5,100,000, \$2,000,000 for further development of the Riverfront Park, \$1,200,000 to replace the bridge at Alum Springs Park, and \$3,000,000 for improvements to the Rappahannock Regional Library. Financing for these projects will be provided through a combination of bonds, grants, and local funding.

Cash Management Policies and Practices

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

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

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

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

Pension and Other Post-Employment Benefits

The City and Component Unit School Board participate in the Virginia Retirement System defined benefit pension plan. A description of the plan can be found in Note 11 in the Notes to Basic Financial Statements section of this report.

Pension and Other Post-Employment Benefits: (Continued)

The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. Related to these post-employment benefits, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The purpose of the Statement is to require the accrual and reporting of liabilities for the actuarially determined health insurance premiums the City will be paying for retirees. The City implemented GASB Statement No. 45 effective fiscal year 2009. A description of the City's post-employment benefits program can be found in Note 18 in the Notes to Basic Financial Statements section of this report.

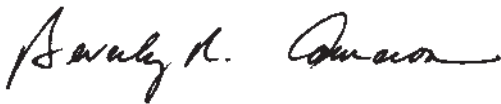
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the twenty-second consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements

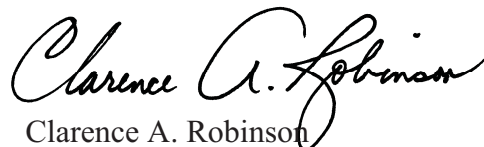
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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

Sincerely,



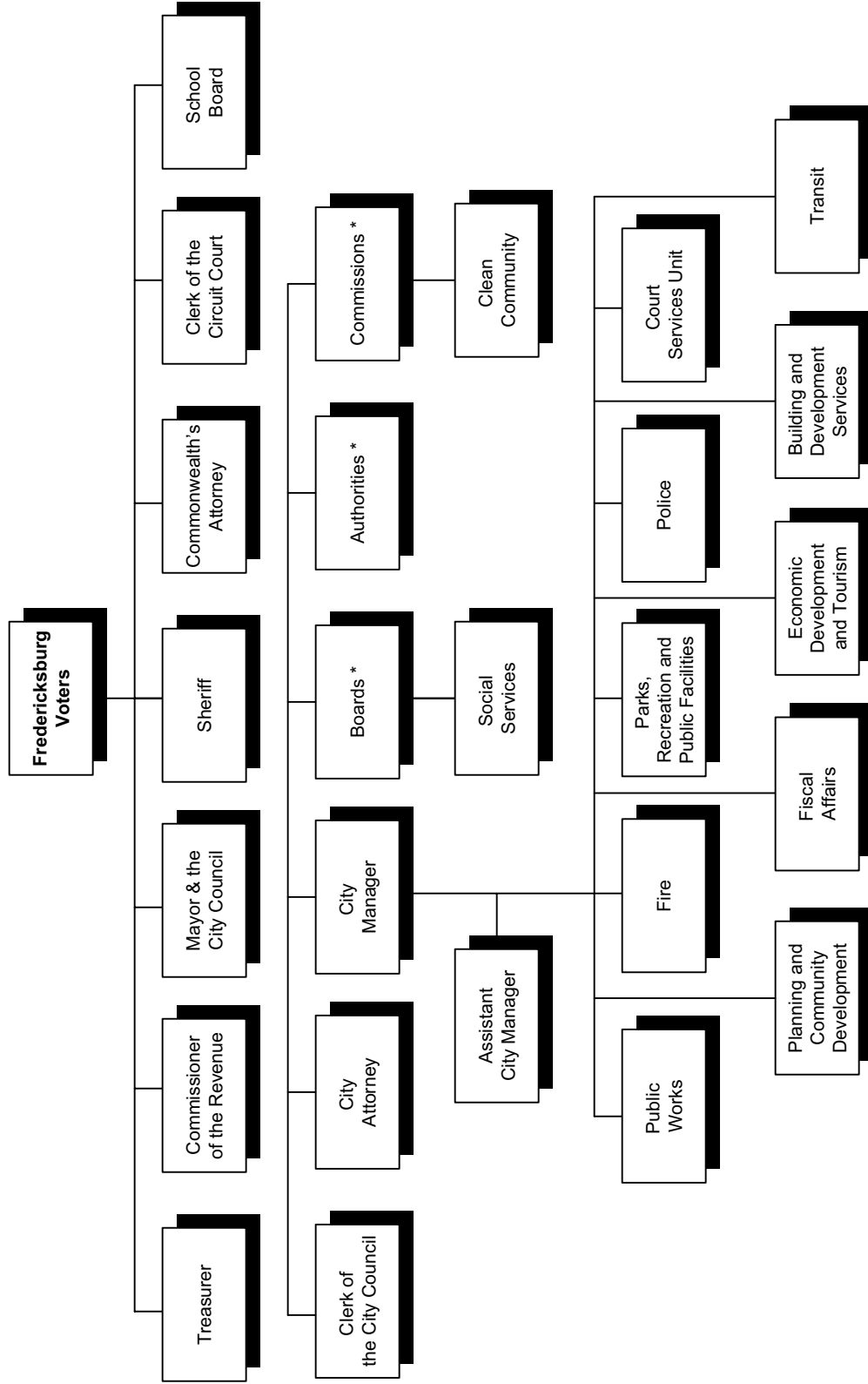
Beverly R. Cameron
City Manager



Clarence A. Robinson
Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



* The City Council appoints citizens to 35 authorities, boards and commissions.

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2012

CITY COUNCIL

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

CONSTITUTIONAL OFFICERS

Sharron S. Mitchell	Clerk of the Circuit Court
Lois B. Jacob	Commissioner of the Revenue
LaBravia J. Jenkins	Commonwealth Attorney
Paul W. Higgs	Sheriff
G. M. Haney	Treasurer

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

Jarvis E. Bailey	Chairman, At-Large
Barbara A. Miller-Richards	Vice Chairperson, Ward 2
Michael J. Gillenwater	At-Large
Patricia B. Green	Ward 1
Jannan W. Holmes	Ward 3
Malvina Rollins Kay	Ward 4

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dr. David G. Melton	Superintendent
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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fredericksburg
Virginia

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



Christopher P. Moynell

President

Jeffrey R. Emen

Executive Director

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City of Fredericksburg, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fredericksburg, Virginia'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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof 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 12, 2012, on our consideration of the City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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, budgetary comparison information, and schedule of pension and OPEB funding progress 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 management's discussion and analysis and schedule of funding progress 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 management's discussion and analysis and schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fredericksburg, Virginia's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and 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 combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Robinson, Turner, Cox Associates

Fredericksburg, Virginia
November 12, 2012

Management's Discussion and Analysis

As management of the City of Fredericksburg, Virginia (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 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 i-vi of this report.

Financial Highlights

- Total net assets for governmental activities were \$107,335,741 at the end of fiscal year 2012. This figure is based on assets totaling \$212,493,828 and liabilities of \$105,158,087. Of the total net asset amount, \$27,061,221 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for business-type activities were \$57,468,989 at the end of fiscal year 2012. The largest portion of this total is related to the water and sewer enterprise operations, valued at \$39,462,935.
- Total net assets for the primary government totaled \$164,804,730. Current assets were \$95,937,716 as compared to total current liabilities of \$18,528,020. The resulting net working capital of \$77,409,696 represents a favorable liquidity position for the City.
- Total net assets for the Component Unit School Board at the end of the fiscal year were \$18,033,386. Of this total, \$16,201,385 represents investment in capital assets, net of related debt.
- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was \$20,225,801, or 30.5% of total General Fund expenditures amount of \$66,370,170.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2012 unassigned General Fund balance was 27.2% of the fiscal year 2011 General Fund revenue total of \$74,311,179.
- General Fund revenues increased \$5,967,485 or 8.0% as compared to the preceding fiscal year. This represents an increase from the 2.9% revenue growth experienced in fiscal year 2011.
- General Fund expenditures increased \$3,058,389 or 4.8% as compared to the preceding fiscal year. This represents the first year-over-year increase since fiscal year 2008.
- Governmental activities general obligation bond debt increased by \$30,878,874. During fiscal year 2012 the City issued \$36,665,000 of general obligation debt to finance the construction of a new courthouse building and to refund general obligation bonds totaling \$2,945,000. Business-type activities general obligation and revenue bond debt decreased by \$2,049,703.

Overview of the Financial Statements

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

Overview of the Financial Statements: (Continued)

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

The *statements of net assets* present 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 events giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include a Water Fund, a Sewer Fund, a Transit Fund, and a Parking Garage Fund.

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

The government-wide financial statements can be found on pages 21-23 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Overview of the Financial Statements: (Continued)

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund and the New Court Construction Fund, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and New Court Construction Fund. A budgetary comparison statement has been provided for each of these two funds to demonstrate budgetary compliance.

The basic governmental fund financial statements can be found on pages 27-30 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the functions presented as *business-type activities* in government-wide financial statements. The City uses enterprise funds to account for its water, wastewater, transit, and parking garage operations.

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

The basic proprietary fund financial statement can be found on pages 31-33 of this report.

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

The basic fiduciary fund financial statements can be found on pages 34 and 35 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-79 of this report.

Government-wide Financial Analysis

Statement of Net Assets:

Under GASB 34, governmental entities are required to report on their net asset condition. The Statement of Net Assets presents the value of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets exceeded liabilities by \$164,804,730 at the close of fiscal year 2012.

A large portion of the City's net assets, \$120,582,230 or 73.2%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The \$44,222,500 balance of *unrestricted net assets* may be used to meet the City's ongoing obligations to citizens and creditors.

Government-wide Financial Analysis: (Continued)

Statement of Net Assets: (Continued)

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

The following table presents the condensed Statement of Net Assets:

TABLE 1 Summary of Net Assets As of June 30, 2012 (in millions)								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 12	FY 11	FY 12	FY 11	FY 12	FY 11	FY 12	FY 11
Assets:								
Current and other assets	\$ 74.60	\$ 38.05	\$ 21.34	\$ 21.60	\$ 95.94	\$ 59.65	\$ 8.74	\$ 9.20
Capital assets	<u>137.90</u>	<u>136.20</u>	<u>59.90</u>	<u>60.39</u>	<u>197.80</u>	<u>196.59</u>	<u>16.20</u>	<u>15.61</u>
Total assets	\$ 212.50	\$ 174.25	\$ 81.24	\$ 81.99	\$ 293.74	\$ 256.24	\$ 24.94	\$ 24.81
Liabilities:								
Current and other liabilities	\$ 12.69	\$ 11.92	\$ 5.84	\$ 5.97	\$ 18.53	\$ 17.89	\$ 4.23	\$ 4.29
Long-term liabilities	<u>92.47</u>	<u>58.76</u>	<u>17.93</u>	<u>20.00</u>	<u>110.40</u>	<u>78.76</u>	<u>1.57</u>	<u>1.39</u>
Total Liabilities	\$ 105.16	\$ 70.68	\$ 23.77	\$ 25.97	\$ 128.93	\$ 96.65	\$ 5.80	\$ 5.68
Net assets:								
Invested in capital assets, net of related debt	\$ 80.27	\$ 80.51	\$ 40.31	\$ 39.55	\$ 120.58	\$ 120.06	\$ 16.20	\$ 15.61
Unrestricted	<u>27.06</u>	<u>23.06</u>	<u>17.16</u>	<u>16.47</u>	<u>44.22</u>	<u>39.53</u>	<u>2.94</u>	<u>3.52</u>
Total net assets	\$ 107.33	\$ 103.57	\$ 57.47	\$ 56.02	\$ 164.80	\$ 159.59	\$ 19.14	\$ 19.13

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

Government-wide Financial Analysis: (Continued)

Changes in Net Assets:

Governmental Activities

The net assets of the governmental activities increased by \$3,766,760 as compared to the \$138,598 decrease in the previous fiscal year and resulted in a total net assets position of \$107,335,741. This represents the first increase in net assets since fiscal year 2007. Governmental activities revenues increased \$3,703,404 or 5.6% during fiscal year 2012 with general property taxes increasing \$2,642,294 or 8.5% as compared to fiscal year 2011. Revenues from local sources exhibited an increase of \$1,026,554 or 3.4% during the fiscal year, which represents the largest increase since fiscal year 2006. Governmental expenses increased \$2,303,854 or 2.8% during the fiscal year; however, this increase was offset by an additional \$2,482,741 in program revenues which were received for operating and capital grants during the fiscal year. The most notable increases in expenses occurred for education, which increased \$866,615 in response to rising operating costs related to higher student enrollment, and interest on long-term debt, which increased \$643,703 as additional interest expense was recognized for the 2011A general obligation bonds.

Business-type Activities

The net assets of the business-type activities increased \$1,445,199 to a total net asset position of \$57,468,989. Much of this increase took place in the Transit Fund with the receipt of \$763,564 of federal and state capital grants for the construction of a new training and maintenance facility and the replacement of buses.

The water and wastewater operations experienced a modest increase in net assets with the Water Fund and Wastewater Fund increasing \$303,842 and \$174,706, respectively. As in prior fiscal years, pressures on operating revenues to keep pace with operating expenses continued in fiscal year 2012. In response to rising costs for operations and maintenance, the City increased water and sewer consumption rates 2.7% and 3.6%, respectively, for fiscal year 2012. This had a favorable result as revenue from water and sewer fees increased 4.4% and 5.0%, respectively. However, the increase in revenue was negated as operating expenses in the Water Fund grew 14.6% and operating expenses in the sewer fund rose 7.7%, resulting in an operating loss in both funds. Revenue received for water and wastewater availability and connection fees were large enough to absorb the operating deficit and provide the modest increase to net assets.

Overall, the Water and Sewer Funds have experienced an eroding net asset position the past few years. Minimal rate increases along with efforts to control the day-to-day operating expenses have provided some help in stabilizing the financial position of these funds. However, with ongoing needs for capital improvements and ever growing pressures to control operating expenses, the City has recognized the need for a comprehensive increase to various utility rates and fees. Effective July 1, 2012, the City Council approved an ordinance to increase bi-monthly water and wastewater consumption rates 9.47% and 5.75%, respectively. The ordinance also provides for a restructuring of availability and connection fees which transitions to a graduated fee structure based on meter size.

Component Units

The net assets of the School Board were \$18,033,386. Capital assets, net of related debt, comprised the majority of this amount.

Government-wide Financial Analysis: (Continued)

Changes in Net Assets: (Continued)

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

<p style="text-align: center;">TABLE 2 Changes in Net Assets For the Fiscal Year ended June 30, 2012 (in millions)</p>								
	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 12	FY 11	FY 12	FY 11	FY 12	FY 11	FY 12	FY 11
Revenues:								
Program Revenues:								
Charges for services	\$ 3.44	\$ 3.64	\$ 7.09	\$ 6.68	\$ 10.53	\$ 10.32	\$ 0.91	\$ 1.11
Operating grants and contributions	11.76	10.16	5.49	6.62	17.25	16.78	38.47	37.61
Capital grants and contributions	1.73	0.84	0.76	0.87	2.49	1.71	-	-
General Revenues:								
Property taxes	33.90	31.25	-	-	33.90	31.25	-	-
Other local taxes	31.31	30.29	0.73	0.77	32.04	31.06	-	0.07
Grants not restricted	3.74	3.91	-	-	3.74	3.91	-	-
Use of property	0.11	0.16	-	-	0.11	0.16	-	-
Investment earnings	0.32	0.28	0.09	0.07	0.41	0.35	0.01	0.02
Miscellaneous	0.51	0.29	0.60	0.45	1.11	0.74	0.18	0.08
Total Revenues	\$ 86.82	\$ 80.82	\$ 14.76	\$ 15.46	\$ 101.58	\$ 96.28	\$ 39.57	\$ 38.89
Expenses:								
General government	\$ 5.83	\$ 5.41	\$ -	\$ -	\$ 5.83	\$ 5.41	\$ -	\$ -
Judicial administration	3.88	3.61	-	-	3.88	3.61	-	-
Public safety	19.32	19.94	-	-	19.32	19.94	-	-
Public works	10.90	10.71	-	-	10.90	10.71	-	-
Health and welfare	6.79	6.80	-	-	6.79	6.80	-	-
Education	27.25	26.38	-	-	27.25	26.38	39.03	36.74
Parks, recreation, and cultural	4.34	4.03	-	-	4.34	4.03	-	-
Community development	2.15	1.93	-	-	2.15	1.93	0.53	0.23
Interest	3.19	2.54	-	-	3.19	2.54	-	-
Water	-	-	2.88	2.52	2.88	2.52	-	-
Sewer	-	-	5.26	4.98	5.26	4.98	-	-
Transit	-	-	4.10	3.89	4.10	3.89	-	-
Parking	-	-	0.48	0.46	0.48	0.46	-	-
Total Expenses	\$ 83.65	\$ 81.35	\$ 12.72	\$ 11.85	\$ 96.37	\$ 93.20	\$ 39.56	\$ 36.97
Excess (deficiency) of revenues over expenses before transfers	\$ 3.17	\$ (0.53)	\$ 2.04	\$ 3.61	\$ 5.21	\$ 3.08	\$ 0.01	\$ 1.92
Transfers	0.60	0.39	(0.60)	(0.39)	-	-	-	-
Change in net assets	\$ 3.77	\$ (0.14)	\$ 1.44	\$ 3.22	\$ 5.21	\$ 3.08	\$ 0.01	\$ 1.92

Financial Analysis of the City's Governmental Funds

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

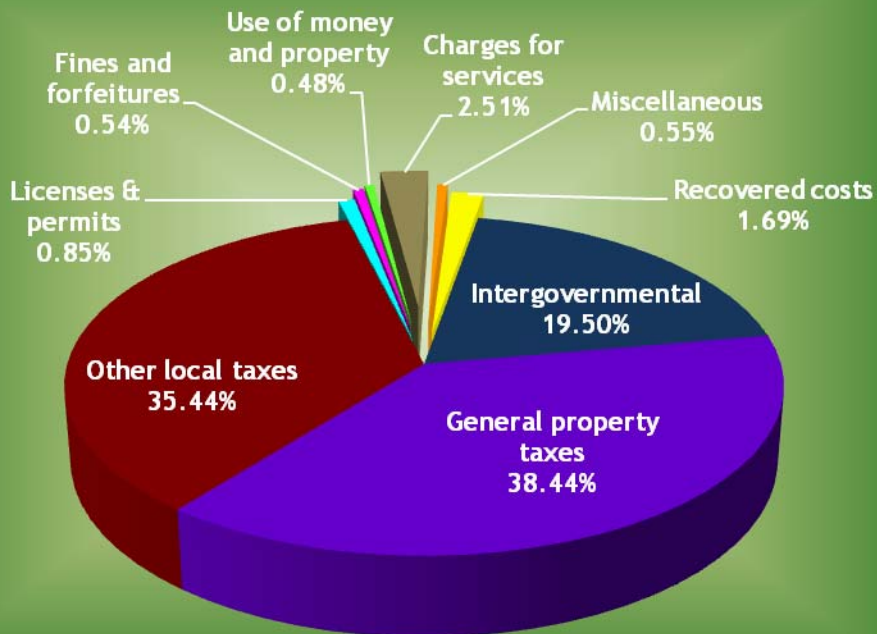
Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2012 and 2011 is presented below:

TABLE 3
Governmental Funds - Revenues

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Percentage of Total Revenues FY 2012</u>	<u>Increase (Decrease) from FY 2011</u>
General property taxes	\$ 33,961,795	\$ 31,240,415	38.44%	\$ 2,721,380
Other local taxes	31,311,578	30,285,024	35.44%	1,026,554
Licenses and permits	748,371	945,035	0.85%	(196,664)
Fines and forfeitures	479,355	586,421	0.54%	(107,066)
Use of money and property	426,375	441,779	0.48%	(15,404)
Charges for services	2,216,814	2,104,997	2.51%	111,817
Miscellaneous	485,647	257,448	0.55%	228,199
Recovered costs	1,491,448	1,004,106	1.69%	487,342
Intergovernmental	17,224,690	14,712,214	19.50%	2,512,476
Totals	\$ 88,346,073	\$ 81,577,439	100.00%	\$ 6,768,634

FY2012 GOVERNMENTAL FUNDS - REVENUES



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

Revenues: (Continued)

The City's total revenues from governmental activities were \$88,346,073 in fiscal year 2012, an increase of \$6,768,634 as compared to fiscal year 2011. A significant portion of the increase occurred as general property tax revenue rose \$2,721,380 or 8.7%. The growth in general property tax revenue occurred as real estate tax receipts increased \$2,035,840 or 8.8% in response to a rate increase from \$.68 to \$.72, per \$100 of assessed value. The percentage of general property taxes as a share of governmental revenue, particularly in the General Fund, has been rising as the growth in other revenues, most notably sales tax and other local taxes, has generally flattened out the last few fiscal years. The rate increase provided the necessary funds for maintenance costs which were deferred as a result of the economic downturn and the increased transfer to the School Board.

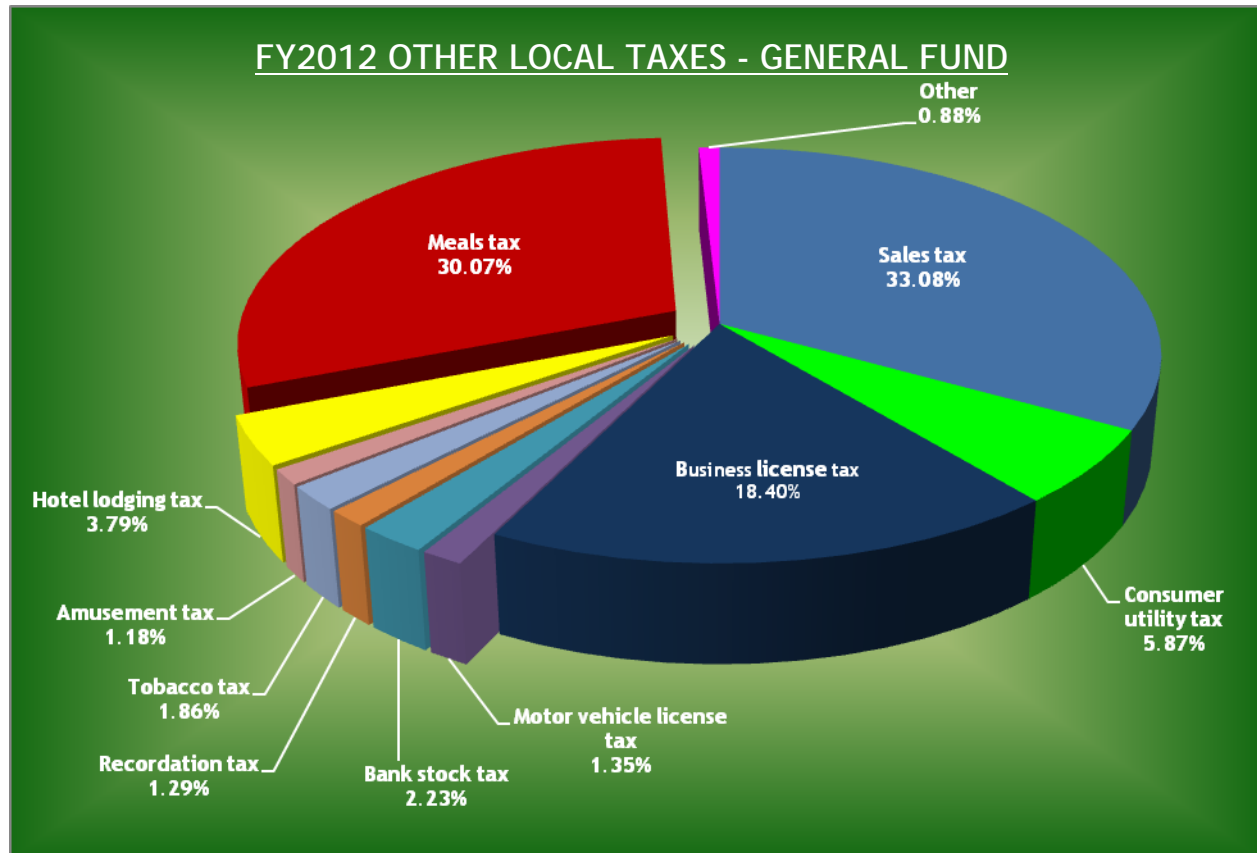
Intergovernmental revenue increased \$2,512,476 during fiscal year 2012 as the City received a one-time payment of \$2,010,619 from the Virginia Department of Transportation as reimbursement for debt service costs incurred by the City related to the construction of Cowan Boulevard. These funds were accounted for in the General Fund.

Other local tax revenue continues to be one of the most significant sources of revenues supporting governmental activities. This revenue source, which in recent years has accounted for approximately 37% of total governmental revenues, had an overall increase for the second consecutive fiscal year. The impact of this increase was felt greatest in the General Fund where 99.6% of these revenues were accounted for during fiscal year 2012. The following table reflects other local tax revenue for the General Fund for fiscal years 2012 and 2011:

<p style="text-align: center;">TABLE 4 <u>Other Local Taxes - General Fund</u></p>				
	<u>FY 2012</u>	<u>FY 2011</u>	<u>Percentage of Total Revenues FY 2012</u>	<u>Increase (Decrease) from FY 2011</u>
Sales and use tax	\$ 10,311,633	\$ 10,191,895	33.08%	\$ 119,738
Consumer utility tax	1,831,083	1,644,628	5.87%	186,455
Business license tax	5,735,557	5,538,312	18.40%	197,245
Motor vehicle license tax	421,393	429,626	1.35%	(8,233)
Bank stock tax	696,511	777,521	2.23%	(81,010)
Recordation tax	402,018	468,241	1.29%	(66,223)
Tobacco tax	578,303	554,701	1.86%	23,602
Amusement tax	368,842	341,693	1.18%	27,149
Hotel lodging tax	1,182,500	1,175,244	3.79%	7,256
Meals tax	9,373,302	8,842,347	30.07%	530,955
Other	272,492	188,898	0.88%	83,594
Totals	\$ 31,173,634	\$ 30,153,106	100.00%	\$ 1,020,528

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

Revenues: (Continued)



Since the economic downturn various sources of local tax revenue have experienced a flattening, or in some cases, a declining growth rate. A reversal of this trend occurred in fiscal year 2012 as other local taxes increased \$1,020,528 or 3.4%. A majority of the tax sources enjoyed a favorable variance as compared to fiscal year 2011. The primary contributor to the increase was meals tax, which rose 6.0% during the fiscal year.

Expenditures:

Expenditures for governmental funds in fiscal year 2012 totaled \$88,810,084, an increase of \$9,204,291 from the preceding year. This increase represents a reversal of a trend which started in fiscal year 2008 to reduce overall expenditures in response to the economic downturn and the resulting decrease in revenues. The revenue increases experienced during fiscal year 2012 allowed the City the opportunity to increase overall spending, particularly for capital additions and improvements.

The most notable increases in expenditures took place in the education and capital projects areas, which increased \$900,008 and \$6,594,433, respectively. Education expenditures increased as additional funding was needed to pay for growing operating costs related to increased student enrollment.

The increase in capital projects spending took place primarily in the Public Works and New Court Construction capital funds, which experienced expenditure increases of \$2,146,972 and \$4,264,254, respectively. The increase to the Public Works Capital Fund is primarily the result of spending \$1,149,890 for preliminary engineering and design for the eventual replacement of the Fall Hill Avenue Bridge over Interstate 95, \$928,563 for the purchase of land related to the Riverfront Park project, and \$720,234 for the pavement rehabilitation program. Total expenditures in the New Court Capital Fund totaled \$4,319,860. Of this total, \$1,026,555 was for land purchased for the site of the new courthouse building, \$1,590,000 for preliminary construction costs and site preparation, which involved demolition of the Juvenile and Domestic Relations Court building, and \$1,507,000 for the renovation of the Executive Plaza building for relocation of the Juvenile and Domestic Relations Court.

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

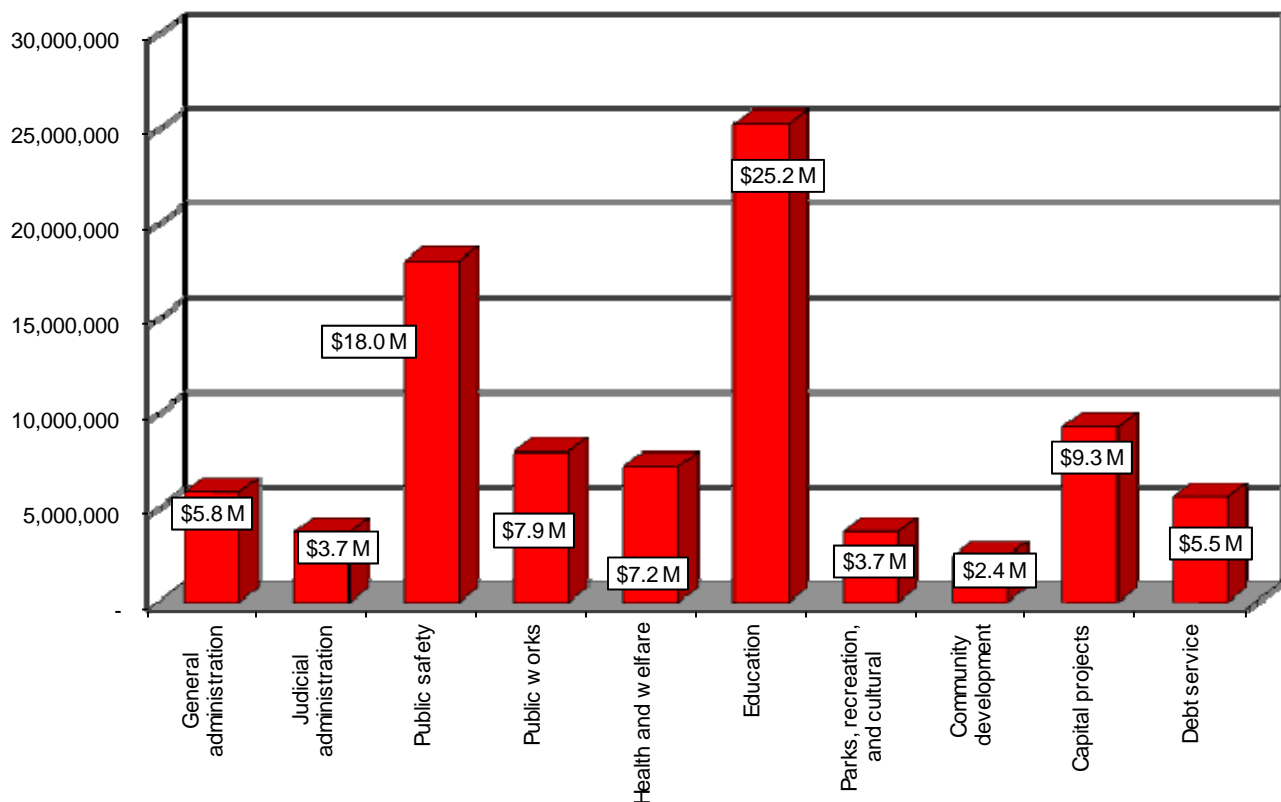
Expenditures: (Continued)

Excluding the increase in the education and capital projects areas discussed above, only minor increases or decreases in expenditure activity occurred in the other the functional areas within the General Fund and Special Revenue Funds.

TABLE 5
Governmental Funds - Expenditures

	FY 2012	FY 2011	Percentage of Total Expenditures FY 2012	Increase (Decrease) from FY 2011
General administration	\$ 5,785,583	\$ 5,034,113	6.51%	\$ 751,470
Judicial administration	3,707,295	3,347,017	4.17%	360,278
Public safety	18,006,243	18,154,890	20.28%	(148,647)
Public works	7,932,048	7,430,631	8.93%	501,417
Health and welfare	7,181,433	7,136,173	8.09%	45,260
Education	25,243,849	24,343,841	28.43%	900,008
Parks, recreation, and cultural	3,733,260	3,389,943	4.20%	343,317
Community development	2,416,979	2,255,173	2.72%	161,806
Capital projects	9,269,823	2,675,390	10.44%	6,594,433
Debt service	5,533,571	5,838,622	6.23%	(305,051)
Totals	\$ 88,810,084	\$ 79,605,793	100.00%	\$ 9,204,291

FY 2012 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2012, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

Total final General Fund budgeted expenditures increased \$2,291,278 for fiscal year 2012. Total final General Fund budgeted revenues decreased \$461,005 for fiscal year 2012.

Actual General Fund expenditures were \$66,370,170 versus the final budgeted expenditures totaling \$67,646,035. This resulted in a favorable variance of \$1,275,865. All functional areas had a favorable variance, with general government administration, public safety, and public works experiencing the most significant variance of \$367,398, \$335,256 and \$270,789, respectively.

Actual General Fund revenues were \$80,278,664 compared to final budgeted revenues totaling \$72,996,310. This resulted in a favorable variance of \$7,282,354. The majority of the variance occurred with general property taxes, other local taxes, and revenue from the Commonwealth which had favorable variances of \$1,977,945, \$2,695,534, and \$2,028,138, respectively. Revenue from the use of money and property had an unfavorable variance of \$147,995 as earnings rates on money market and other investments remained at record low levels.

Capital Asset and Debt Administration

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

<p>TABLE 6 Change in Capital Assets City Governmental Funds</p>			
	<p>Balance June 30, 2011</p>	<p>Net Additions/ Deletions</p>	<p>Balance June 30, 2012</p>
Capital assets not being depreciated:			
Land	\$ 18,510,917	\$ 1,955,118	\$ 20,466,035
Construction in progress	1,509,751	3,306,401	4,816,152
Other capital assets:			
Land improvements	9,551,503	247,924	9,799,427
Buildings and building improvements	30,961,104	1,771,760	32,732,864
Joint tenancy assets	41,405,000	(1,330,000)	40,075,000
Machinery, equipment, and vehicles	15,158,982	814,523	15,973,505
Infrastructure	72,532,076	660,127	73,192,203
Accumulated depreciation	(53,431,486)	(5,727,671)	(59,159,157)
Totals	\$ 136,197,847	\$ 1,698,182	\$ 137,896,029

Capital Asset and Debt Administration: (Continued)

Capital Assets: (Continued)

The net increase in capital assets during the fiscal year was \$1,698,182. The capital asset activity was slowed the past few fiscal years in response to budget constraints dictated by the unfavorable economic environment. The increase in revenues in the General Fund and the capital projects funds during fiscal year 2012 provided the City an opportunity to address equipment replacements and improvements to infrastructure and buildings which were deferred in prior years. The City also engaged in several capital projects, with the most significant being a new courthouse building. Some of the more notable increases to capital assets were \$1,955,118 towards the acquisition of land, \$3,097,000 for construction costs related to the new courthouse building, \$814,500 for equipment and vehicle purchases, and \$2,139,000 for road and bridge improvements.

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

Long-term Debt

The City is authorized to issue general obligation bonds to finance general capital improvement projects. These bonds are secured by a pledge of the City's full faith and credit. The City is currently rated AA+ by Fitch Investors Services, Aa2 by Moody's Investors Services and AA by Standard and Poor's Investor Services.

The primary increase to long-term debt during fiscal year 2012 was the issuance of \$36,665,000 general obligation bonds, Series 2011A, to finance the new courthouse building and to refund \$2,945,000 general obligation refunding bonds, Series 2001A. A \$725,000 note payable to the Economic Development Authority of Fredericksburg for the acquisition of land also occurred in fiscal year 2012.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2012 the City's outstanding long-term indebtedness amount totaled \$106,084,912. After adjustments to reflect the revenue bonded debt of \$1,609,765, the remaining long-term debt of \$104,475,147 is far below the legal debt limit of \$216,056,402.

The table below shows a summary of the City's long-term debt outstanding for fiscal years 2012 and 2011:

TABLE 7 Long Term Debt As of June 30, 2012						
	Governmental Activities		Business-type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
General obligation bonds	\$ 45,999,500	\$ 13,790,626	\$ 17,675,647	\$ 18,696,521	\$ 63,675,147	\$ 32,487,147
General obligation school bonds	40,075,000	41,405,000	-	-	40,075,000	41,405,000
Revenue Bonds	-	-	1,609,765	2,638,594	1,609,765	2,638,594
Note Payable	725,000	-	-	-	725,000	-
Total long-term debt	<u>\$ 86,799,500</u>	<u>\$ 55,195,626</u>	<u>\$ 19,285,412</u>	<u>\$ 21,335,115</u>	<u>\$ 106,084,912</u>	<u>\$ 76,530,741</u>

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

Economic Factors

The City government continues to maintain a stable financial condition as reflected by the financial statements and schedules in this report. In recent years the City has been faced with immense budgetary challenges as revenues declined in response to deteriorating economic conditions and expanding regional competition in commercial retail development in neighboring localities. A considerable reduction in expenditures over the past several years has helped to neutralize the budgetary impacts of diminishing revenues. However, beginning in fiscal year 2011 and continuing during fiscal year 2012, revenues have experienced a moderate upward trend. This is mostly attributable to the City's diverse economic foundation and the development and expansion of major commercial centers.

A potential source for future economic growth opportunities and community revitalization continues to center around the 2,400 acre mega-development known as Celebrate Virginia and its primary retail shopping and dining component, Central Park. Started in 1995, Central Park now includes 2.2 million square feet of leased retail space housing many national big-box stores, restaurants, and smaller local businesses. Opportunities for growth related revenues such as property taxes and various local taxes are anticipated as Celebrate Virginia continues to develop.

Another source for future economic growth is the University of Mary Washington Foundation's Eagle Village development project. This project will be developed over four phases and centers around the redevelopment of a 1960's-era strip shopping center. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Phase II will also include a five-story Hyatt Place hotel, which is scheduled to open in September 2013. The hotel will feature 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel will be located between Mary Washington Hospital and the University of Mary Washington and provide visitors a convenient lodging option within the Route One corridor.

The City's nationally recognized 40-block Historic District continues to be a major component of the local economy. The Historic "Old Town" District, with its major historical attractions, antique shops, a variety of charming restaurants, specialty retail shops and beautifully restored homes, is an attractive tourist destination. While tourism has been a mainstay of the City's economy, commercial development and visionary downtown revitalization efforts continue to reflect economic potential for the City.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Assets

At June 30, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Economic Development Authority
Assets:					
Cash and cash equivalents	\$ 68,724,435	\$ 18,215,752	\$ 86,940,187	\$ 5,764,771	\$ 385,349
Receivables, net of allowance for uncollectibles	1,493,814	1,329,329	2,823,143	7,918	-
Notes receivable	-	-	-	-	725,000
Due from other governments	4,030,605	985,444	5,016,049	1,675,247	-
Inventory, at cost	29,841	182,664	212,505	-	-
Prepaid expenses	319,104	170	319,274	183,807	-
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	626,558	626,558	-	-
Capital assets:					
Land, construction in progress and other	25,282,187	2,746,567	28,028,754	497,679	-
Other capital assets, net of accumulated depreciation	112,613,842	57,155,343	169,769,185	15,703,706	-
Capital assets, net	\$ 137,896,029	\$ 59,901,910	\$ 197,797,939	\$ 16,201,385	\$ -
Total assets	\$ 212,493,828	\$ 81,241,827	\$ 293,735,655	\$ 23,833,128	\$ 1,110,349
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 2,324,956	\$ 722,622	\$ 3,047,578	\$ 606,759	\$ -
Accrued liabilities	2,487,115	323,369	2,810,484	3,087,509	-
Unearned revenue	1,729,279	1,969,308	3,698,587	-	-
Amounts held for others	1,257,984	-	1,257,984	-	-
Liabilities payable from restricted assets	-	626,558	626,558	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,916,109	115,326	2,031,435	540,663	-
Revenue bonds payable	-	1,064,107	1,064,107	-	-
General obligation bonds payable	2,971,126	1,020,161	3,991,287	-	-
Due in more than one year:					
Compensated absences	1,174,389	60,484	1,234,873	499,073	-
Net OPEB obligation payable	3,823,312	360,971	4,184,283	1,065,738	-
Revenue bonds payable	-	545,658	545,658	-	-
Notes payable	725,000	-	725,000	-	-
General obligation bonds payable	85,946,002	16,964,274	102,910,276	-	-
Accrued landfill postclosure costs	802,815	-	802,815	-	-
Total liabilities	\$ 105,158,087	\$ 23,772,838	\$ 128,930,925	\$ 5,799,742	\$ -
Net Assets:					
Invested in capital assets, net of related debt	\$ 80,274,520	\$ 40,307,710	\$ 120,582,230	\$ 16,201,385	\$ -
Unrestricted	27,061,221	17,161,279	44,222,500	1,832,001	1,110,349
Total net assets	\$ 107,335,741	\$ 57,468,989	\$ 164,804,730	\$ 18,033,386	\$ 1,110,349

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 5,833,003	\$ 82,624	\$ 264,749	\$ -
Judicial administration	3,879,790	214,894	827,581	-
Public safety	19,316,975	1,943,884	1,677,136	105,000
Public works	10,898,437	743,145	4,376,087	1,436,261
Health and welfare	6,790,459	-	4,607,668	-
Education	27,249,752	-	-	-
Parks, recreation and cultural	4,340,912	459,848	5,000	-
Community development	2,154,832	145	-	184,206
Interest on long-term debt	3,186,127	-	-	-
Total governmental activities	<u>\$ 83,650,287</u>	<u>\$ 3,444,540</u>	<u>\$ 11,758,221</u>	<u>\$ 1,725,467</u>
Business-type activities				
Water	\$ 2,884,071	\$ 2,448,425	\$ 821,743	\$ -
Sewer	5,256,052	4,013,111	1,553,214	-
Transit	4,097,929	368,072	3,118,264	763,564
Parking	476,315	261,991	-	-
Total business-type activities	<u>\$ 12,714,367</u>	<u>\$ 7,091,599</u>	<u>\$ 5,493,221</u>	<u>\$ 763,564</u>
Total Primary Government	<u><u>\$ 96,364,654</u></u>	<u><u>\$ 10,536,139</u></u>	<u><u>\$ 17,251,442</u></u>	<u><u>\$ 2,489,031</u></u>
Component Units				
Fredericksburg City Public Schools	\$ 39,027,762	\$ 639,936	\$ 12,218,421	\$ -
Fredericksburg Economic Development Authority	532,768	267,304	-	-
Total Component Units	<u><u>\$ 39,560,530</u></u>	<u><u>\$ 907,240</u></u>	<u><u>\$ 12,218,421</u></u>	<u><u>\$ -</u></u>

General Revenues

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumer utility taxes

Business license taxes

Hotel/lodging taxes

Meals taxes

Other local taxes

Payment from City of Fredericksburg:

Education

Grants and contributions not restricted to specific programs

Use of property

Interest and investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, 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				
Governmental Activities	Business-Type Activities	Total	Component Units	
\$ (5,485,630)	\$ -	\$ (5,485,630)	\$ -	
(2,837,315)	-	(2,837,315)	-	
(15,590,955)	-	(15,590,955)	-	
(4,342,944)	-	(4,342,944)	-	
(2,182,791)	-	(2,182,791)	-	
(27,249,752)	-	(27,249,752)	-	
(3,876,064)	-	(3,876,064)	-	
(1,970,481)	-	(1,970,481)	-	
(3,186,127)	-	(3,186,127)	-	
<u>\$ (66,722,059)</u>	<u>\$ -</u>	<u>\$ (66,722,059)</u>	<u>\$ -</u>	
\$ -	\$ 386,097	\$ 386,097	\$ -	
-	310,273	310,273	-	
-	151,971	151,971	-	
-	(214,324)	(214,324)	-	
<u>\$ -</u>	<u>\$ 634,017</u>	<u>\$ 634,017</u>	<u>\$ -</u>	
<u>\$ (66,722,059)</u>	<u>\$ 634,017</u>	<u>\$ (66,088,042)</u>	<u>\$ -</u>	
			\$ (26,169,405)	
			(265,464)	
			<u>\$ (26,434,869)</u>	
\$ 33,896,976	\$ -	\$ 33,896,976	\$ -	
10,311,633	-	10,311,633	-	
1,831,083	-	1,831,083	-	
5,735,557	-	5,735,557	-	
1,182,500	-	1,182,500	-	
9,373,302	-	9,373,302	-	
2,877,503	726,653	3,604,156	-	
-	-	-	26,247,228	
3,741,002	-	3,741,002	-	
109,102	-	109,102	-	
317,273	85,668	402,941	15,215	
512,888	598,861	1,111,749	186,366	
600,000	(600,000)	-	-	
<u>\$ 70,488,819</u>	<u>\$ 811,182</u>	<u>\$ 71,300,001</u>	<u>\$ 26,448,809</u>	
\$ 3,766,760	\$ 1,445,199	\$ 5,211,959	\$ 13,940	
103,568,981	56,023,790	159,592,771	19,129,795	
<u>\$ 107,335,741</u>	<u>\$ 57,468,989</u>	<u>\$ 164,804,730</u>	<u>\$ 19,143,735</u>	

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Fund Financial Statements

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Balance Sheet
Governmental Funds
At June 30, 2012

	General	New Court Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 26,308,859	\$ 33,083,229	\$ 9,473,790	\$ 68,865,878
Receivables (net of allowances for uncollectibles):				
Property taxes	906,809	-	-	906,809
Accounts	81,069	-	-	81,069
Accrued revenue	389,820	5,392	110,724	505,936
Inventory, at cost	29,841	-	-	29,841
Prepays	319,104	-	-	319,104
Due from other governments	2,840,162	-	1,190,443	4,030,605
Total assets	<u>\$ 30,875,664</u>	<u>\$ 33,088,621</u>	<u>\$ 10,774,957</u>	<u>\$ 74,739,242</u>
LIABILITIES AND EQUITY				
Liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 141,443	\$ 141,443
Accounts payable	907,561	871,619	545,776	2,324,956
Accrued liabilities	579,862	67,625	50,275	697,762
Amounts held for others	1,257,984	-	-	1,257,984
Deferred revenue	2,257,974	-	27,168	2,285,142
Total liabilities	<u>\$ 5,003,381</u>	<u>\$ 939,244</u>	<u>\$ 764,662</u>	<u>\$ 6,707,287</u>
Equity:				
Fund balance:				
Nonspendable	\$ 348,945	\$ -	\$ -	\$ 348,945
Restricted	-	-	243,980	243,980
Committed	5,004,661	29,776,351	3,878,147	38,659,159
Assigned	292,876	2,373,026	5,888,168	8,554,070
Unassigned	20,225,801	-	-	20,225,801
Total equity	<u>\$ 25,872,283</u>	<u>\$ 32,149,377</u>	<u>\$ 10,010,295</u>	<u>\$ 68,031,955</u>
Total liabilities and equity	<u>\$ 30,875,664</u>	<u>\$ 33,088,621</u>	<u>\$ 10,774,957</u>	<u>\$ 74,739,242</u>

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2012

Total fund balances for governmental funds (Exhibit 3)	\$	68,031,955
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Total net assets reported for governmental activities in the statement of net assets is different because:

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

Land	\$	20,466,035	
Construction in progress		4,816,152	
Land improvements, net of accumulated depreciation		7,860,354	
Buildings and improvements, net of accumulated depreciation		21,721,824	
Joint tenancy assets, net of accumulated depreciation		35,307,202	
Infrastructure, net of accumulated depreciation		40,970,197	
Machinery, vehicles, and equipment, net of accumulated depreciation		<u>6,754,265</u>	
 Total capital assets			 137,896,029

Some of the City's property and other taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as deferred revenue in the funds

555,863

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

Accrued interest on debt	\$	(1,789,353)	
Bonds and notes payable		(86,799,500)	
Premium on long-term debt, net of accumulated amortization		(2,842,628)	
Landfill postclosure cost liability		<u>(802,815)</u>	(92,234,296)
 Compensated absences not reported as fund liabilities			 (3,090,498)
 Net OPEB obligation not reported as fund liabilities			 <u>(3,823,312)</u>
 Total net assets of governmental activities (Exhibits 1 and 2)			 \$ <u><u>107,335,741</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General Fund	New Court Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 33,961,795	\$ -	\$ -	\$ 33,961,795
Other local taxes	31,173,634	-	137,944	31,311,578
Permits, privilege fees and regulatory licenses	742,096	-	6,275	748,371
Fines and forfeitures	439,594	-	39,761	479,355
Use of money and property	146,755	53,676	225,944	426,375
Charges for services	2,110,803	55,101	50,910	2,216,814
Miscellaneous	139,409	-	346,238	485,647
Recovered costs	1,015,992	-	475,456	1,491,448
Intergovernmental:				
Revenue from the Commonwealth	10,513,798	-	2,831,384	13,345,182
Revenue from the Federal Government	34,788	-	3,844,720	3,879,508
Total revenues	\$ 80,278,664	\$ 108,777	\$ 7,958,632	\$ 88,346,073
Expenditures				
Current:				
General government administration	\$ 5,785,583	\$ -	\$ -	\$ 5,785,583
Judicial administration	3,593,776	-	113,519	3,707,295
Public safety	17,662,202	-	344,041	18,006,243
Public works	7,932,048	-	-	7,932,048
Health and welfare	940,299	-	6,241,134	7,181,433
Education - local community college and other	5,750	-	-	5,750
Education - public school system	25,238,099	-	-	25,238,099
Parks, recreation and cultural	3,644,106	-	89,154	3,733,260
Community development	1,568,307	-	848,672	2,416,979
Capital projects	-	4,319,680	4,950,143	9,269,823
Debt service:				
Principal payments	-	-	2,857,891	2,857,891
Interest and fiscal charges	-	-	2,675,680	2,675,680
Total expenditures	\$ 66,370,170	\$ 4,319,680	\$ 18,120,234	\$ 88,810,084
Excess (deficiency) of revenues over expenditures	\$ 13,908,494	\$ (4,210,903)	\$ (10,161,602)	\$ (464,011)
Other financing sources (uses)				
Issuance of refunding bonds	\$ -	\$ -	\$ 2,469,101	\$ 2,469,101
Payment to refunded bonds escrow agent	-	-	(2,592,336)	(2,592,336)
Long-term debt issued	-	33,860,000	-	33,860,000
Long-term notes payable issued	-	-	725,000	725,000
Bond premium	-	1,496,304	263,759	1,760,063
Proceeds from the sale of capital assets	27,241	-	-	27,241
Transfers in	1,039,774	-	8,575,382	9,615,156
Transfers out	(8,442,382)	-	(572,774)	(9,015,156)
Total other financing sources (uses)	\$ (7,375,367)	\$ 35,356,304	\$ 8,868,132	\$ 36,849,069
Net change in fund balance	\$ 6,533,127	\$ 31,145,401	\$ (1,293,470)	\$ 36,385,058
Fund balance, beginning of year	19,339,156	1,003,976	11,303,765	31,646,897
Fund balance, end of year	\$ 25,872,283	\$ 32,149,377	\$ 10,010,295	\$ 68,031,955

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit 5) \$ 36,385,058

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

Capital outlays	\$ 8,983,149	
Depreciation	<u>(6,280,939)</u>	2,702,210

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (1,004,028)

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

(64,819)

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

Debt issued:		
General obligation bonds	\$ (33,860,000)	
Notes payable	(725,000)	
Refunding bonds	(2,469,101)	
Premium on debt issued	(1,760,063)	
Amortization of premium on long-term debt	107,889	
Repayments of long-term debt:		
General obligation bonds	<u>5,450,227</u>	(33,256,048)

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

Compensated absences	\$ 141,968	
Net OPEB obligation payable	(500,429)	
Accrued interest on bonds and loans	(618,336)	
Accrued landfill postclosure costs	<u>(18,816)</u>	
Net adjustment		(995,613)

Change in net assets of governmental activities (Exhibit 2) \$ 3,766,760

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

Statement of Net Assets
 Proprietary Funds
 At June 30, 2012

ASSETS	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 7,787,754	\$ 4,541,751	\$ 5,780,233	\$ 106,014	\$ 18,215,752
Accounts receivable, net of allowance for uncollectibles	494,569	809,823	-	-	1,304,392
Accrued revenue	4,903	4,222	4,222	11,590	24,937
Inventory, at cost	143,838	38,826	-	-	182,664
Prepaid expenses	85	85	-	-	170
Due from other governments	-	88,714	576,910	319,820	985,444
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	626,558	-	-	-	626,558
Total current assets	\$ 9,057,707	\$ 5,483,421	\$ 6,361,365	\$ 437,424	\$ 21,339,917
Capital Assets:					
Land	\$ 701,345	\$ 114,880	\$ 550,686	\$ 782,125	\$ 2,149,036
Construction in progress	96,436	92,130	408,965	-	597,531
Dams and reservoirs	663,536	-	-	-	663,536
Buildings and systems	16,072,973	39,129,182	5,972,012	6,513,766	67,687,933
Furniture, machinery and equipment	367,090	2,605,900	3,450,205	208,330	6,631,525
Intangible assets	4,745,283	1,556,496	-	-	6,301,779
Total property, plant and equipment	\$ 22,646,663	\$ 43,498,588	\$ 10,381,868	\$ 7,504,221	\$ 84,031,340
Less: Accumulated depreciation	(7,464,498)	(13,578,833)	(2,221,115)	(864,984)	(24,129,430)
Capital assets, net	\$ 15,182,165	\$ 29,919,755	\$ 8,160,753	\$ 6,639,237	\$ 59,901,910
Total assets	\$ 24,239,872	\$ 35,403,176	\$ 14,522,118	\$ 7,076,661	\$ 81,241,827
LIABILITIES AND NET ASSETS					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 418,395	\$ 251,647	\$ 45,543	\$ 7,037	\$ 722,622
Accrued liabilities	6,974	16,655	31,287	701	55,617
Interest payable	11,390	256,362	-	-	267,752
Compensated absences, current portion	30,630	62,476	22,220	-	115,326
Unearned revenue, current portion	18,559	55,912	-	-	74,471
Revenue bonds payable, current portion	-	1,064,107	-	-	1,064,107
General obligation bonds payable, current portion	237,510	600,790	-	181,861	1,020,161
Current liabilities payable from restricted assets:					
Customer deposits	626,558	-	-	-	626,558
Total current liabilities	\$ 1,350,016	\$ 2,307,949	\$ 99,050	\$ 189,599	\$ 3,946,614
Noncurrent liabilities:					
Unearned revenue, noncurrent portion	\$ -	\$ 1,894,837	\$ -	\$ -	\$ 1,894,837
Compensated absences, noncurrent portion	18,774	11,025	30,685	-	60,484
Net OPEB obligation	93,712	162,586	96,622	8,051	360,971
Revenue bonds payable, noncurrent portion	-	545,658	-	-	545,658
General obligation bonds payable, noncurrent portion	1,391,204	12,404,352	-	3,168,718	16,964,274
Total noncurrent liabilities	\$ 1,503,690	\$ 15,018,458	\$ 127,307	\$ 3,176,769	\$ 19,826,224
Total liabilities	\$ 2,853,706	\$ 17,326,407	\$ 226,357	\$ 3,366,368	\$ 23,772,838
Net assets:					
Invested in capital assets, net of related debt	\$ 13,553,451	\$ 15,304,848	\$ 8,160,753	\$ 3,288,658	\$ 40,307,710
Unrestricted	7,832,715	2,771,921	6,135,008	421,635	17,161,279
Total net assets	\$ 21,386,166	\$ 18,076,769	\$ 14,295,761	\$ 3,710,293	\$ 57,468,989

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

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Operating revenues:					
Charges for services	\$ 2,448,425	\$ 4,013,111	\$ 368,072	\$ 261,991	\$ 7,091,599
Operating expenses:					
Personal services	\$ 338,327	\$ 842,888	\$ 1,981,210	\$ 97,358	\$ 3,259,783
Fringe benefits	200,440	427,751	441,224	21,254	1,090,669
Contractual services	1,625,006	1,387,173	321,922	30,568	3,364,669
Other operating expenses	173,687	491,546	844,511	37,049	1,546,793
Depreciation expense	470,304	1,437,278	509,062	144,164	2,560,808
Total operating expenses	\$ 2,807,764	\$ 4,586,636	\$ 4,097,929	\$ 330,393	\$ 11,822,722
Total operating income (loss)	\$ (359,339)	\$ (573,525)	\$ (3,729,857)	\$ (68,402)	\$ (4,731,123)
Nonoperating revenues (expenses):					
Interest income	\$ 19,983	\$ 25,719	\$ 19,983	\$ 19,983	\$ 85,668
Gasoline tax receipts	-	-	408,821	317,832	726,653
Availability/connection fees	821,743	1,491,553	-	-	2,313,296
Miscellaneous	197,762	138,714	261,860	525	598,861
State and local grant funds	-	-	1,932,995	-	1,932,995
Federal grant funds	-	61,661	1,185,269	-	1,246,930
Interest expense	(76,307)	(669,416)	-	(145,922)	(891,645)
Total nonoperating revenues (expenses)	\$ 963,181	\$ 1,048,231	\$ 3,808,928	\$ 192,418	\$ 6,012,758
Income (loss) before contributions and transfers	\$ 603,842	\$ 474,706	\$ 79,071	\$ 124,016	\$ 1,281,635
Capital grants and contributions:					
State and local grant funds	\$ -	\$ -	\$ 137,214	\$ -	\$ 137,214
Federal grant funds	-	-	626,350	-	626,350
Total capital grants and contributions	\$ -	\$ -	\$ 763,564	\$ -	\$ 763,564
Transfers:					
Transfers out	\$ (300,000)	\$ (300,000)	\$ -	\$ -	\$ (600,000)
Change in net assets	\$ 303,842	\$ 174,706	\$ 842,635	\$ 124,016	\$ 1,445,199
Net assets, beginning of year	21,082,324	17,902,063	13,453,126	3,586,277	56,023,790
Net assets, end of year	\$ 21,386,166	\$ 18,076,769	\$ 14,295,761	\$ 3,710,293	\$ 57,468,989

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

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Cash flows from operating activities:					
Receipts from customers	\$ 2,425,532	\$ 5,976,969	\$ 316,257	\$ 266,457	\$ 8,985,215
Other miscellaneous receipts	197,762	138,714	670,681	318,357	1,325,514
Payments to suppliers	(1,764,247)	(1,926,171)	(1,215,573)	(76,983)	(4,982,974)
Payments to and for employees	(542,143)	(1,263,728)	(2,409,240)	(119,640)	(4,334,751)
Net cash provided by (used in) operating activities	\$ 316,904	\$ 2,925,784	\$ (2,637,875)	\$ 388,191	\$ 993,004
Cash flows from noncapital financing activities:					
Availability and connection fees	\$ 821,743	\$ 1,491,553	\$ -	\$ -	\$ 2,313,296
State, federal and local grant funds	-	61,661	3,118,264	-	3,179,925
Transfers	(300,000)	(300,000)	-	-	(600,000)
Net cash provided by (used in) noncapital financing activities	\$ 521,743	\$ 1,253,214	\$ 3,118,264	\$ -	\$ 4,893,221
Cash flows from investing activities:					
Interest income	\$ 19,983	\$ 25,719	\$ 19,983	\$ 19,983	\$ 85,668
Cash flows from capital and related financing activities:					
Purchase of capital assets	\$ (13,682)	\$ (1,276,899)	\$ (797,492)	\$ -	\$ (2,088,073)
Disposal of capital assets	-	14,916	-	-	14,916
State, federal and local grant funds	-	-	763,564	-	763,564
Proceeds from issuance of debt	207,261	128,637	-	-	335,898
Payment to refunded bonds escrow agent	(224,821)	(139,536)	-	-	(364,357)
Principal payment on debt	(273,271)	(1,632,354)	-	(173,955)	(2,079,580)
Interest paid on debt	(54,769)	(677,021)	-	(145,922)	(877,712)
Net cash provided by (used in) capital and related financing activities	\$ (359,282)	\$ (3,582,257)	\$ (33,928)	\$ (319,877)	\$ (4,295,344)
Increase (decrease) in cash and cash equivalents for the year	\$ 499,348	\$ 622,460	\$ 466,444	\$ 88,297	\$ 1,676,549
Cash and cash equivalents (including restricted), beginning of year	7,914,964	3,919,291	5,313,789	17,717	17,165,761
Cash and cash equivalents (including restricted), end of year	\$ 8,414,312	\$ 4,541,751	\$ 5,780,233	\$ 106,014	\$ 18,842,310
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (359,339)	\$ (573,525)	\$ (3,729,857)	\$ (68,402)	\$ (4,731,123)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	470,304	1,437,278	509,062	144,164	2,560,808
Other miscellaneous receipts	197,762	138,714	670,681	318,357	1,325,514
Changes in assets and liabilities:					
Accounts receivable	(21,422)	(40,390)	-	-	(61,812)
Inventory	(10,939)	(3,703)	-	-	(14,642)
Accrued revenue	690	778	756	1,912	4,136
Prepaid expenses	(35)	(35)	-	-	(70)
Due from other governments	-	2,059,382	(52,571)	2,554	2,009,365
Accounts payable	50,825	(20,276)	(40,850)	(9,366)	(19,667)
Accrued liabilities	(5,405)	(23,438)	(8,290)	(701)	(37,834)
Net OPEB obligation	12,589	23,081	12,589	1,049	49,308
Unearned revenue	(3,141)	(55,912)	-	-	(59,053)
Compensated absences	(15,965)	(16,170)	605	(1,376)	(32,906)
Deposits payable from restricted assets	980	-	-	-	980
Net cash provided by (used in) operating activities	\$ 316,904	\$ 2,925,784	\$ (2,637,875)	\$ 388,191	\$ 993,004

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

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

Statement of Fiduciary Net Assets
At June 30, 2012

	Agency Funds	Private Purpose Trust Funds
Assets:		
Cash and cash equivalents	\$ 766,847	\$ 1,766,175
Accounts receivable	120,887	16,365
Prepaid items	18,368	-
Capital assets:		
Machinery and equipment, net of accumulated depreciation	-	19,420
Total assets	\$ 906,102	\$ 1,801,960
Liabilities:		
Reconciled overdraft	\$ 8,555	\$ -
Accounts payable	30,617	624
Accrued liabilities	12,439	5,060
Amounts held for others	854,491	-
Total liabilities	\$ 906,102	\$ 5,684
Net Assets:		
Held in trust for land conservation (see Note 1)	\$ -	\$ 1,796,276

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

Statement of Changes in Fiduciary Net Assets
 Private Purpose Trust Fund
 Year Ended June 30, 2012

Additions:

Contributions:

Contributions	\$	26,000
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Investment income:

Interest earned on investments		<u>10,130</u>
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Total additions	\$	<u>36,130</u>
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Deductions:

Payments for property management	\$	<u>71,007</u>
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Net decrease in plan assets	\$	(34,877)
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Net assets held in trust for land conservation:

Balance, beginning of year		<u>1,831,153</u>
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Balance, end of year	\$	<u><u>1,796,276</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities

Component Units

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
School Board				
Education	\$ 39,027,762	\$ 639,936	\$ 12,218,421	\$ -
Economic Development Authority				
Community development	532,768	267,304	-	-
Total component units	\$ 39,560,530	\$ 907,240	\$ 12,218,421	\$ -
General revenues				
Payment from/(to) City of Fredericksburg				
Interest and investment earnings				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Assets		
School Board	Economic Development Authority	Totals
\$ (26,169,405)	\$ -	\$ (26,169,405)
-	(265,464)	(265,464)
\$ (26,169,405)	\$ (265,464)	\$ (26,434,869)
\$ 26,242,127	\$ 5,101	\$ 26,247,228
-	15,215	15,215
186,366	-	186,366
\$ 26,428,493	\$ 20,316	\$ 26,448,809
\$ 259,088	\$ (245,148)	\$ 13,940
17,774,298	1,355,497	19,129,795
\$ 18,033,386	\$ 1,110,349	\$ 19,143,735

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CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2012

Note 1—Summary of Significant Accounting Policies:

Narrative Profile

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

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

A. Financial Reporting Entity

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

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

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

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

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

A. Financial Reporting Entity: (Continued)

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

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

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$2,855,352 in operating and other funds to the Center in 2012.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1,180,000 in operating funds to the Library in 2012.

c. Rappahannock Regional Solid Waste Management Board

The Rappahannock Regional Solid Waste Management Board is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The County of Stafford and the City provide some financial support for the Board and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. No one locality contributes more than 50% of the Board's funding. The Board provides solid waste disposal services to its participating localities through user fees based on each locality's amount of solid waste processed by the Board.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

d. Rappahannock Area Community Services Board

The Board was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of \$191,325 to the Board in 2012.

e. Rappahannock Area Agency on Aging

The Agency was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$7,880 in operating grants to the Agency in 2012.

f. George Washington Regional Commission

The Commission was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$21,470 in operating grants to the Commission in 2012.

g. Rappahannock Juvenile Detention Center

The Center was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$231,210 to the Center in 2012.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

The Home was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$46,139 in operating funds to the Home in 2012.

i. Stafford Regional Airport Commission

The Commission was created by Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$21,429 in operating funds to the Commission in 2012.

Obtaining of Financial Statements for Jointly Governed Organizations

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

B. Government-Wide and Fund Financial Statements

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

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

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. If applicable, internal service charges are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

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

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2012.

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

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

1. Governmental Funds:

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

- a. General Fund - The General Fund is the primary operating fund of the City and accounts for and reports all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds - Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds include the following funds:

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

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

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

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

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

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

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

2. Proprietary Funds:

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

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

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

CASA Program Fund - This fund accounts for the revenue and expenditures of the Rappahannock Area Court-Appointed Special Advocate Program.

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

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

Forfeited Asset Sharing Program Fund - This fund accounts for revenue and expenditures of the Forfeited Asset Sharing Program.

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

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

3. Fiduciary Funds (Trust and Agency Funds): (Continued)

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

Special Revenue Fund: Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special School Fund is a special revenue fund.

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

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

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

b. Economic Development Authority:

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

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

C. Basis of Accounting

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

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

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

D. Budgets and Budgetary Accounting: (Continued)

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2012. Budgetary and appropriation control is maintained at the department level. Encumbrances outstanding at year-end are reappropriated in the following fiscal year.

There were no additional appropriations that would have a material effect on the financial statements at June 30, 2012.

E. Cash and Cash Equivalents

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

F. Investments

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

Investments are stated at fair value.

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2012, the allowance totaled \$1,720,248 with \$1,349,798 in the General Fund and \$370,450 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Expenses

Prepaid expenses are reported on the consumption method.

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

J. Capital Assets

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

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

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

Buildings	10 to 50 years
Equipment	4 to 10 years
Water and wastewater systems	30 to 50 years
Intangible Assets	30 to 50 years

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2012.

K. Compensated Absences

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

L. Use of Estimates

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

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

M. Retirement Plan

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

N. Unbilled Revenue

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

O. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Amortization expense for fiscal year ended June 30, 2012 was \$107,889 and \$29,877 for the governmental and business-type activities, respectively.

P. Long-term Obligations

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

Q. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

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

Q. Fund Equity: (Continued)

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

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

	General Fund	New Court Construction Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ 29,841	\$ -	\$ -	\$ 29,841
Prepays	319,104	-	-	319,104
Total Nonspendable Fund Balance	\$ 348,945	\$ -	\$ -	\$ 348,945
Restricted:				
Courthouse maintenance	\$ -	\$ -	\$ 243,980	\$ 243,980
Committed:				
Social services	\$ -	\$ -	\$ 266,126	\$ 266,126
Comprehensive services	-	-	181,721	181,721
Cowan Boulevard debt service	-	-	662,519	662,519
Homeland security	-	-	166,425	166,425
Public works construction projects	-	-	586,415	586,415
Public facilities construction projects	-	-	1,469,962	1,469,962
Grant related projects	-	-	544,979	544,979
New court construction project	-	29,776,351	-	29,776,351
Street maintenance	37,544	-	-	37,544
Economic development and tourism	42,475	-	-	42,475
Planning	40,175	-	-	40,175
Future capital projects	3,789,255	-	-	3,789,255
Health insurance claims	950,000	-	-	950,000
Other purposes	145,212	-	-	145,212
Total Committed Fund Balance	\$ 5,004,661	\$ 29,776,351	\$ 3,878,147	\$ 38,659,159
Assigned:				
Public works construction projects	\$ -	\$ -	\$ 3,646,638	\$ 3,646,638
Public facilities construction projects	-	-	630,176	630,176
Public safety construction projects	-	-	1,611,354	1,611,354
Riverfront Park debt service	250,000	-	-	250,000
New court construction project	-	2,373,026	-	2,373,026
Other purposes	42,876	-	-	42,876
Total Assigned Fund Balance	\$ 292,876	\$ 2,373,026	\$ 5,888,168	\$ 8,554,070
Unassigned Fund Balance	\$ 20,225,801	\$ -	\$ -	\$ 20,225,801
Total Fund Balances	\$ 25,872,283	\$ 32,149,377	\$ 10,010,295	\$ 68,031,955

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 2—Deposits and Investments:

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

Investments - Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments) - The City’s investments at June 30, 2012 were held by the City or in the City’s name by the City’s custodial banks; except \$19,355,680 of U.S. Agency investments, \$3,873,453 of U.S. Treasuries, and \$5,158,676 of Corporate Debt investments, where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

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

The City’s rated debt investments as of June 30, 2012 were rated by Standard and Poor’s or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	AAAm	AA+	AA	AA-
U.S. Agencies	\$ -	\$ 19,355,680	\$ -	\$ -
U.S. Treasuries	-	3,873,453	-	-
Corporate Debt	-	1,780,675	1,002,389	2,375,612
Municipal/Public Bonds	-	-	890,122	-
Virginia State Non-Arbitrage Program	34,722,621	-	-	-
Money Market Mutual Fund	21,966,160	-	-	-
Total	\$ 56,688,781	\$ 25,009,808	\$ 1,892,511	\$ 2,375,612

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 2—Deposits and Investments: (Continued)

Interest Rate Risk

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

Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years
U.S. Agencies	\$ 19,355,680	\$ 3,003,024	\$ 16,352,656
U.S. Treasuries	3,873,453	-	3,873,453
Municipal/Public Bonds	890,122	-	890,122
Corporate Debt	5,158,676	1,120,161	4,038,515
Total	<u>\$ 29,277,931</u>	<u>\$ 4,123,185</u>	<u>\$ 25,154,746</u>

External Investment Pool

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

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

Note 3—Real and Personal Property Tax Data:

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2012 consist of the following:

Primary Government:

	Governmental Activities					Business-Type Activities
	General	New Court Construction	Special Revenue	Capital Projects	Total	
Property taxes	\$ 2,234,907	\$ -	\$ -	\$ -	\$ 2,234,907	\$ -
Circuit court	54,996	-	-	-	54,996	-
Water charges	-	-	-	-	-	664,265
Wastewater charges	-	-	-	-	-	1,010,577
EMS fees	161,264	-	-	-	161,264	-
Refuse disposal fees	102,069	-	-	-	102,069	-
Investment earnings	16,887	-	-	50,661	67,548	16,888
Other	157,373	5,392	59,576	487	222,828	8,049
Total	\$ 2,727,496	\$ 5,392	\$ 59,576	\$ 51,148	\$ 2,843,612	\$ 1,699,779
Allowance for uncollectibles	(1,349,798)	-	-	-	(1,349,798)	(370,450)
Net receivables	<u>\$ 1,377,698</u>	<u>\$ 5,392</u>	<u>\$ 59,576</u>	<u>\$ 51,148</u>	<u>\$ 1,493,814</u>	<u>\$ 1,329,329</u>

Component Units and Fiduciary Activities:

	School Board	Fiduciary Activities
Other	\$ 7,918	\$ 137,252
Total	\$ 7,918	\$ 137,252
Allowance for uncollectibles	-	-
Net receivables	<u>\$ 7,918</u>	<u>\$ 137,252</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 5—Due From Other Governmental Units:

	Governmental Activities				Business- Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	\$ 1,699,560	\$ -	\$ -	\$ 1,699,560	\$ -	\$ -
Telecommunication sales tax	150,980	-	-	150,980	-	-
PPTRA	676,647	-	-	676,647	-	-
Comprehensive Services Act	-	364,714	-	364,714	-	-
Shared expenses and grants	125,119	-	-	125,119	-	-
Virginia Department of Rail and Public Transportation	-	-	-	-	9,586	-
Virginia Department of Transportation	-	-	218,685	218,685	-	-
Virginia Department of Emergency Management	1,454	-	1,509	2,963	-	-
Virginia Information Technology Agency	10,535	-	-	10,535	-	-
Virginia Department of Rehabilitative Services	-	-	-	-	68	-
Virginia Department of Criminal Justice Services	-	50,564	-	50,564	-	-
Recordation taxes	31,223	-	-	31,223	-	-
Excess Clerk's fees	-	-	-	-	-	-
Noncategorical aid	2,813	-	-	2,813	-	-
Department of Health	14,023	-	-	14,023	-	-
Department of Fire Programs	-	9,174	-	9,174	-	-
Social services grants	-	363,298	-	363,298	-	-
Federal government:						
Community Development Block Grant	-	32,211	-	32,211	-	-
Transit grants	-	-	-	-	103,183	-
Criminal justice grants	3,504	23,216	-	26,720	-	-
Motor vehicle grants	-	2,072	-	2,072	-	-
Interest subsidy	-	-	-	-	23,123	-
Others:						
Potomac and Rappahannock Transportation Commission	119,748	-	125,000	244,748	728,641	-
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	65,591	-
County of Stafford	-	-	-	-	-	3,000
County of King George	4,356	-	-	4,356	28,452	-
County of Caroline	-	-	-	-	26,800	-
Town of Warrenton	200	-	-	200	-	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	461,919
Federal pass-through:						
School funds	-	-	-	-	-	897,509
Federal government:						
Head Start	-	-	-	-	-	312,819
Total	\$ 2,840,162	\$ 845,249	\$ 345,194	\$ 4,030,605	\$ 985,444	\$ 1,675,247

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2012:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	\$ 893,215
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	308,095
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	645,000
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	1,885,791
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,507,256
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	511,025
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	592,000
Transfers to the Public Safety Construction Fund to fund building improvements and related costs	233,000
Transfers to the General Fund for various programs	1,039,774
Total transfers	<u>\$ 9,615,156</u>

Reconciliation of transfers:

Transfers in from governmental funds	\$ 9,015,156
Transfers from enterprise funds to governmental funds	600,000
Total transfers	<u>\$ 9,615,156</u>

Component Unit School Board:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 7—Capital Assets:

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

Primary Government:

Governmental Activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 18,510,917	\$ 1,955,118	\$ -	\$ 20,466,035
Construction in progress:				
Infrastructure	\$ 569,509	\$ 1,479,039	\$ 317	\$ 2,048,231
Land improvements	633,923	289,361	-	923,284
Buildings	306,319	3,302,972	1,764,654	1,844,637
Total construction in progress	\$ 1,509,751	\$ 5,071,372	\$ 1,764,971	\$ 4,816,152
Total capital assets not being depreciated	\$ 20,020,668	\$ 7,026,490	\$ 1,764,971	\$ 25,282,187
Other capital assets:				
Land improvements	\$ 9,551,503	\$ 247,924	\$ -	\$ 9,799,427
Buildings and improvements	30,961,104	1,771,760	-	32,732,864
Joint tenancy assets	41,405,000	-	1,330,000	40,075,000
Infrastructure	72,532,076	660,127	-	73,192,203
Machinery, equipment and vehicles	15,158,982	1,041,819	227,296	15,973,505
Total other capital assets	\$ 169,608,665	\$ 3,721,630	\$ 1,557,296	\$ 171,772,999
Accumulated depreciation:				
Land improvements	\$ 1,607,932	\$ 331,141	\$ -	\$ 1,939,073
Buildings and improvements	10,047,302	963,738	-	11,011,040
Joint tenancy assets	4,091,895	1,001,875	325,972	4,767,798
Infrastructure	29,349,287	2,872,719	-	32,222,006
Machinery, equipment and vehicles	8,335,070	1,111,466	227,296	9,219,240
Total accumulated depreciation	\$ 53,431,486	\$ 6,280,939	\$ 553,268	\$ 59,159,157
Other capital assets, net	\$ 116,177,179	\$ (2,559,309)	\$ 1,004,028	\$ 112,613,842
Net capital assets	\$ 136,197,847	\$ 4,467,181	\$ 2,768,999	\$ 137,896,029
Depreciation is allocated to:				
General government administration		\$ 204,663		
Judicial administration		135,092		
Public safety		1,163,999		
Health and welfare		80,718		
Education		1,001,875		
Public works		3,146,731		
Parks and recreation		537,171		
Community development		10,690		
Total		\$ 6,280,939		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 7—Capital Assets: (Continued)

Business-Type Activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 2,149,036	\$ -	\$ -	\$ 2,149,036
Construction in progress	372,491	399,945	174,905	597,531
Total capital assets not being depreciated	\$ 2,521,527	\$ 399,945	\$ 174,905	\$ 2,746,567
Other capital assets:				
Buildings and systems	\$ 66,851,613	\$ 1,185,161	\$ 348,841	\$ 67,687,933
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	6,301,779	-	-	6,301,779
Furniture, machinery and equipment	6,075,096	677,873	121,444	6,631,525
Total other capital assets	\$ 79,892,024	\$ 1,863,034	\$ 470,285	\$ 81,284,773
Accumulated depreciation:				
Buildings and systems	\$ 18,086,001	\$ 1,799,983	\$ 348,841	\$ 19,537,143
Dams and reservoirs	103,047	13,270	-	116,317
Intangible assets	1,095,846	146,789	-	1,242,635
Furniture, machinery and equipment	2,739,097	600,766	106,528	3,233,335
Total accumulated depreciation	\$ 22,023,991	\$ 2,560,808	\$ 455,369	\$ 24,129,430
Other capital assets, net	\$ 57,868,033	\$ (697,774)	\$ 14,916	\$ 57,155,343
Net capital assets	\$ 60,389,560	\$ (297,829)	\$ 189,821	\$ 59,901,910
Depreciation is allocated to:				
Water operations		\$ 470,304		
Wastewater operations		1,437,278		
Parking garage operations		144,164		
Transit operations		509,062		
Total		\$ 2,560,808		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 472,679	\$ -	\$ -	\$ 472,679
Construction in progress	25,000	-	-	25,000
Total capital assets not being depreciated	<u>\$ 497,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 497,679</u>
Other capital assets:				
Land improvements	\$ 123,253	\$ -	\$ -	\$ 123,253
Buildings and improvements	23,734,667	1,394,510	-	25,129,177
Machinery, equipment and vehicles	<u>3,318,580</u>	<u>423,318</u>	<u>28,600</u>	<u>3,713,298</u>
Total other capital assets	<u>\$ 27,176,500</u>	<u>\$ 1,817,828</u>	<u>\$ 28,600</u>	<u>\$ 28,965,728</u>
Accumulated depreciation:				
Land improvements	\$ 55,247	\$ 6,163	\$ -	\$ 61,410
Buildings and improvements	9,897,890	944,834	-	10,842,724
Machinery, equipment and vehicles	<u>2,106,852</u>	<u>279,636</u>	<u>28,600</u>	<u>2,357,888</u>
Total accumulated depreciation	<u>\$ 12,059,989</u>	<u>\$ 1,230,633</u>	<u>\$ 28,600</u>	<u>\$ 13,262,022</u>
Other capital assets, net	<u>\$ 15,116,511</u>	<u>\$ 587,195</u>	<u>\$ -</u>	<u>\$ 15,703,706</u>
Net capital assets	<u>\$ 15,614,190</u>	<u>\$ 587,195</u>	<u>\$ -</u>	<u>\$ 16,201,385</u>
Depreciation allocated to education		<u>\$ 1,230,633</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 8—Deferred/Unearned Revenue:

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

Government-wide Statements	
Governmental Activities	Business-Type Activities

Unearned property tax revenue:

Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year. \$ 1,658,957 \$ -

County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity. - 1,950,749

Other 70,322 18,559

Total unearned revenue \$ 1,729,279 \$ 1,969,308

Balance Sheet
Governmental Funds

Deferred property tax revenue:

Deferred revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures. \$ 555,863

Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year. 1,658,957

Other 70,322

Total deferred revenue \$ 2,285,142

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 9—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	\$ 13,790,626	\$ 36,329,101	\$ 4,120,227	\$ 45,999,500	\$ 1,309,885
General obligation school bonds	41,405,000	-	1,330,000	40,075,000	1,395,000
Add: Unamortized bond premium	1,190,454	1,760,063	107,889	2,842,628	266,241
Notes payable	-	725,000	-	725,000	-
Landfill postclosure costs	783,999	18,816	-	802,815	-
Compensated absences	3,232,466	1,862,161	2,004,129	3,090,498	1,916,109
Net OPEB obligation payable	<u>3,322,883</u>	<u>1,233,861</u>	<u>733,432</u>	<u>3,823,312</u>	<u>-</u>
Total	<u>\$ 63,725,428</u>	<u>\$ 41,929,002</u>	<u>\$ 8,295,677</u>	<u>\$ 97,358,753</u>	<u>\$ 4,887,235</u>
Long-term obligations payable from business activities:					
General obligation bonds	\$ 18,696,521	\$ 335,899	\$ 1,356,773	\$ 17,675,647	\$ 991,115
Add: Unamortized bond premium	338,664	-	29,877	308,787	29,046
Virginia Resources Authority revenue bonds	2,638,594	-	1,028,829	1,609,765	1,064,107
Compensated absences	208,716	106,662	139,568	175,810	115,326
Net OPEB obligation payable	<u>311,663</u>	<u>121,577</u>	<u>72,268</u>	<u>360,972</u>	<u>-</u>
Total	<u>\$ 22,194,158</u>	<u>\$ 564,138</u>	<u>\$ 2,627,315</u>	<u>\$ 20,130,981</u>	<u>\$ 2,199,594</u>
Total primary government	<u>\$ 85,919,586</u>	<u>\$ 42,493,140</u>	<u>\$ 10,922,992</u>	<u>\$ 117,489,734</u>	<u>\$ 7,086,829</u>
Component Unit School Board:					
Long-term obligations payable from component unit School Board activities:					
Compensated absences	\$ 1,018,715	\$ 550,753	\$ 529,732	\$ 1,039,736	\$ 540,663
Net OPEB obligation payable	<u>900,835</u>	<u>458,603</u>	<u>293,700</u>	<u>1,065,738</u>	<u>-</u>
Total component unit School Board	<u>\$ 1,919,550</u>	<u>\$ 1,009,356</u>	<u>\$ 823,432</u>	<u>\$ 2,105,474</u>	<u>\$ 540,663</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 9—Long-term Obligations: (Continued)

The schedule below shows principal and interest requirements through maturity for all outstanding debt at June 30, 2012:

Year Ending June 30,	General Obligation Debt		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,696,000	\$ 4,614,021	\$ 1,064,107	\$ 45,763	-	\$ 21,750
2014	4,585,000	4,377,717	545,658	9,276	-	21,750
2015	4,744,000	4,183,535	-	-	725,000	10,875
2016	4,417,000	3,990,152	-	-	-	-
2017	4,605,000	3,800,195	-	-	-	-
2018	4,803,000	3,598,835	-	-	-	-
2019	4,495,000	3,386,692	-	-	-	-
2020	4,690,000	3,174,438	-	-	-	-
2021	4,910,000	2,946,570	-	-	-	-
2022	5,140,000	2,707,412	-	-	-	-
2023	5,175,000	2,470,388	-	-	-	-
2024	5,415,000	2,235,557	-	-	-	-
2025	5,655,000	1,983,733	-	-	-	-
2026	5,910,000	1,722,219	-	-	-	-
2027	5,355,000	1,467,842	-	-	-	-
2028	5,595,000	1,219,415	-	-	-	-
2029	4,990,000	979,887	-	-	-	-
2030	5,215,000	748,477	-	-	-	-
2031	1,550,000	588,350	-	-	-	-
2032	1,610,000	530,069	-	-	-	-
2033	1,670,000	468,569	-	-	-	-
2034	1,735,000	403,641	-	-	-	-
2035	1,810,000	327,037	-	-	-	-
2036	1,900,000	238,925	-	-	-	-
2037	1,990,000	146,538	-	-	-	-
2038	2,090,147	49,638	-	-	-	-
	<u>\$ 103,750,147</u>	<u>\$ 52,359,852</u>	<u>\$ 1,609,765</u>	<u>\$ 55,039</u>	<u>\$ 725,000</u>	<u>\$ 54,375</u>

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 9—Long-term Obligations: (Continued)

At June 30, 2012, the City's long-term obligations consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
Primary Government:					
General obligation bonds:					
2001A General Obligation Refunding Bonds	2001	2013	3.875%	\$ 725,000	\$ 725,000
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	40,075,000	1,395,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	8,475,000	460,000
2007E General Obligation Bonds	2008	2028	3.5-5.0%	9,270,147	410,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	2,765,000	466,000
2010A General Obligation Bonds	2010	2030	6.07%	970,000	-
2010B General Obligation Bonds	2010	2028	5.6-5.9%	1,735,000	-
2010C General Obligation Bonds	2010	2023	2.0-4.0%	3,070,000	240,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	36,665,000	-
Total general obligation bonds				<u>\$ 103,750,147</u>	<u>\$ 3,696,000</u>
Revenue bonds:					
Virginia Resources Authority Wastewater Bonds	1992	2014	3.40%	<u>\$ 1,609,765</u>	<u>\$ 1,064,107</u>
Unamortized bond premium:					
2004A General Obligation School Bonds				\$ 1,038,261	\$ 99,576
2007E General Obligation Bonds				192,625	20,104
2010 General Obligation Bonds				160,466	13,566
2011 General Obligation Bonds				<u>1,760,063</u>	<u>162,041</u>
Total unamortized bond premium				<u>\$ 3,151,415</u>	<u>\$ 295,287</u>
Note payable	2012	2015	3.0%	<u>\$ 725,000</u>	<u>\$ -</u>
Compensated absences				<u>\$ 3,266,308</u>	<u>\$ 2,031,435</u>
Net OPEB obligation payable				<u>\$ 4,184,284</u>	<u>\$ -</u>
Landfill postclosure costs				<u>\$ 802,815</u>	<u>\$ -</u>
Total primary government				<u><u>\$ 117,489,734</u></u>	<u><u>\$ 7,086,829</u></u>
Component Unit School Board:					
Compensated absences				<u>\$ 1,039,736</u>	<u>\$ 540,663</u>
Net OPEB obligation payable				<u>\$ 1,065,738</u>	<u>\$ -</u>
Total component unit School Board				<u><u>\$ 2,105,474</u></u>	<u><u>\$ 540,663</u></u>

The City's general long-term obligations are guaranteed by the full faith and credit of the City. The Virginia Resources Authority Bonds are guaranteed by the Wastewater enterprise fund revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 9—Long-term Obligations: (Continued)

Conduit debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2012 totaled approximately \$284,086,409. The City has no responsibility for the repayment of these debt obligations.

Federal Arbitrage Regulations:

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

Note 10—Compensated Absences:

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

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

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

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012	Current Portion
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 3,232,466	\$ 1,862,161	\$ 2,004,129	\$ 3,090,498	\$ 1,916,109
Business-type activities	208,716	106,662	139,568	175,810	115,326
Total primary government	\$ 3,441,182	\$ 1,968,823	\$ 2,143,697	\$ 3,266,308	\$ 2,031,435
Component Unit School Board	1,018,715	550,753	529,732	1,039,736	540,663
Total	\$ 4,459,897	\$ 2,519,576	\$ 2,673,429	\$ 4,306,044	\$ 2,572,098

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

Note 11—Defined Benefit Pension Plan:

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

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members 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 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced 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. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members 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 members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Note 11—Defined Benefit Pension Plan: (Continued)

A. Plan Description: (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 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School's non-professional employee contribution rates for the fiscal year ended 2012 were 10.80% and 4.51% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$1,163,375, \$706,636 and \$1,282,402, to the teacher cost-sharing pool for the fiscal years ended June 30, 2012, 2011 and 2010, respectively. The contribution rate was 8.81% from July 2009 through March 2010, zero (0.00%) for April through June 2010, 3.93% in 2011, and 6.33% in 2012.

C. Annual Pension Cost

For fiscal year 2012, the City's annual pension cost of \$2,193,413 for VRS was equal to the City's required and actual contributions.

Note 11—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost: (Continued)

For fiscal year 2012, the City School Board's annual pension cost for the Board's non-professional employees was \$45,854, which was equal to the Board's required and actual contributions.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2012	\$ 2,193,413	100%	\$ -
June 30, 2011	2,169,550	100%	-
June 30, 2010	1,902,589	100%	-
School Board Non-Professional:			
June 30, 2012	\$ 45,854	100%	\$ -
June 30, 2011	48,945	100%	-
June 30, 2010	49,309	100%	-

(1) Employer portion only

The FY2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the City's plan was 73.80% funded. The actuarial accrued liability for benefits was \$102,954,904, and the actuarial value of assets was \$75,980,646, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,974,258. The covered payroll (annual payroll of active employees covered by the plan) was \$20,202,383, and ratio of the UAAL to the covered payroll was 133.52%.

As of June 30, 2011, the most recent actuarial valuation date, the City School Board's plan was 92.50% funded. The actuarial accrued liability for benefits was \$3,352,248, and the actuarial value of assets was \$3,100,730, resulting in an unfunded actuarial accrued liability (UAAL) of \$251,518. The covered payroll (annual payroll of active employees covered by the plan) was \$1,087,209, and ratio of the UAAL to the covered payroll was 23.13%.

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

Note 12—Deferred Compensation Plan:

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

Note 13—Commitments and Contingencies:

State and Federal Programs

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

The Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Environmental Matters

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

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

Construction Commitments

At June 30, 2012, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$35,346,879 at June 30, 2012 including \$29,776,351 for new court construction.

The School Board had no significant construction or related commitments outstanding at June 30, 2012.

Note 14—Litigation:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 15—Landfill Postclosure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to postclosure monitoring. The estimated postclosure care cost for the next twenty years is \$802,815 and has been recorded as a long-term liability at June 30, 2012. These amounts are based on what it would cost to perform all postclosure care based on 2012 costs. These costs may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2011	\$	783,999
Increase in estimate		18,816
Balance at June 30, 2012	\$	<u>802,815</u>

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

Note 16—Surety Bonds:

Amount

Commonwealth of Virginia, Division of Risk Management:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 17—Self Insurance/Risk Management:

The City and School Board administer employee health and unemployment insurance programs. These insurance activities are accounted for in the General and School funds.

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

Employee Health Insurance

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

The insurance carrier informed the City of the estimated benefits incurred but not reported. The City has committed fund balance in the General Fund for these estimated benefits incurred but not reported. In addition, the City has reserved additional funds to cover the expected maximum stop-loss liability that would be incurred, as detailed in the following:

City General Fund		
Estimated claims incurred but not reported	\$	369,084
Estimated maximum stop-loss liability based on premium cost and experience rate		<u>580,916</u>
Total funds committed	\$	<u><u>950,000</u></u>

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

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims and Payments	End of Fiscal Year Liability
2010	\$ 366,806	\$ 2,901,749	\$ 2,864,639	\$ 403,916
2011	403,916	2,889,554	2,959,506	333,964
2012	333,964	3,636,584	3,601,464	369,084

Unemployment Insurance

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

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

Property and Casualty Insurance

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

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

Note 18—Other Post-Employment Benefits Program:

City:

A. Plan Description:

In addition to the pension benefits described in Note 11, the City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (i.e. 50 years of age and 30 years of continuous service) and complete 10 years of service at the City will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the City will provide 100% supplemental insurance benefits. Individuals employed on or after July 1, 1996, and who retire from City service with full VRS benefits (i.e. 50 years of age and 30 years of continuous service) and complete 15 years of service at the City, will receive \$4.00 per month per year of service (up to a maximum of 30 years of service) towards the individual's cost of coverage. Disabled individuals must complete 5 years of service and be eligible for both VRS and Social Security disability to be eligible for these benefits.

B. Funding Policy:

The City establishes employer contribution rates for plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. For participating retirees hired before July 1, 1996 the City pays 100% of the monthly premium. For participating retirees hired on or after July 1, 1996 the City pays \$4.00 per month per year of service (up to a maximum of 30 years of service) towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses can stay in the plan, but must pay the entire premium.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2012

Note 18—Other Post-Employment Benefits Program: (Continued)

City: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation:

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

Annual required contribution	\$	1,340,500
Interest on net OPEB obligation		145,381
Adjustment to annual required contribution		(130,443)
Annual OPEB cost (expense)	\$	1,355,438
Contributions made		805,700
Increase in net OPEB obligation	\$	549,738
Net OPEB obligation-beginning of year		3,634,546
Net OPEB obligation-end of year	\$	4,184,284

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 1,355,438	59.44%	\$ 4,184,284
June 30, 2011	1,352,896	54.28%	3,634,546
June 30, 2010	2,053,384	26.56%	3,016,000

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010 is as follows:

Actuarial accrued liability (AAL)	\$	19,834,600
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		19,834,600
Funded ratio (actuarial value of plan assets / AAL)		-
Covered payroll (active plan members)		20,997,500
UAAL as a percentage of covered payroll		94.46%

Note 18—Other Post-Employment Benefits Program: (Continued)

City: (Continued)C. Annual OPEB Cost and Net OPEB Obligation: (Continued)Actuarial Methods and Assumptions

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

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

Cost Method

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

Interest Assumptions

In the January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.60% initially, reduced by decrements to an ultimate rate of 4.70% after eighty years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2010, was thirty years.

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

Note 18—Other Post-Employment Benefits Program: (Continued)

School Board:A. Plan Description:

The School Board provides post-retirement health care insurance benefits for employees who are eligible. The plan is administered by the School Board. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 55, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan. The plan has no separate financial report.

B. Funding Policy:

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

C. Annual OPEB Cost and Net OPEB Obligation:

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

Annual required contribution	\$	454,900
Interest on net OPEB obligation		36,034
Adjustment to annual required contribution		(32,331)
Annual OPEB cost (expense)	\$	458,603
Contributions made		293,700
Increase in net OPEB obligation	\$	164,903
Net OPEB obligation-beginning of year		900,835
Net OPEB obligation-end of year	\$	<u>1,065,738</u>

Note 18—Other Post-Employment Benefits Program: (Continued)

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

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 458,603	64.04%	\$ 1,065,738
June 30, 2011	457,785	56.57%	900,835
June 30, 2010	606,089	42.09%	702,000

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010 is as follows:

Actuarial accrued liability (AAL)	\$ 4,218,700
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	4,218,700
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	21,140,600
UAAL as a percentage of covered payroll	19.96%

Actuarial Methods and Assumptions

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

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

Note 18—Other Post-Employment Benefits Program: (Continued)

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

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

Interest Assumptions

In the January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.60% initially, reduced by decrements to an ultimate rate of 4.70% after eighty years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2010, was thirty years.

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

Note 19—Health Insurance Credit Program-Other Post-Employment Benefit (OPEB):

A. Plan Description

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

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

Note 19—Health Insurance Credit Program-Other Post-Employment Benefit (OPEB): (Continued)

A. Plan Description: (Continued)

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2012, 2011, and 2010 were \$110,030, \$107,934, and \$151,385, respectively, and equaled the required contributions for each year.

Note 20—Debt Refunding:

On December 29, 2011 the City of Fredericksburg, Virginia issued \$2,805,000 in General Obligation Bonds, Series 2011A with an effective interest rate ranging from 4.0% to 4.5%. The Series 2011A bonds were issued to refund \$2,945,000 of 2001A General Obligation Refunding Bonds. The bonds will be repaid in various installments beginning July 15, 2013 to July 15, 2021. As a result, the refunded bonds are considered to be defeased in substance and the liability for those bonds has been removed from the financial statements. The reacquisition price exceeded the carrying amount of the old debt by \$97,644. The refunding reduced the total debt service payments over the next 10 years by \$259,997 and resulted in an economic gain of \$242,104.

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2012, \$2,765,000 of bonds outstanding are considered defeased from refunding transactions in prior years.

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REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

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

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Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 25,080,500	\$ 25,080,500	\$ 25,194,498	\$ 113,998
Public service corporations	572,500	572,500	933,212	360,712
Personal property	5,890,000	5,890,000	7,125,922	1,235,922
Mobile homes	600	600	813	213
Machinery and tools	180,250	180,250	275,196	94,946
Penalties	190,000	190,000	256,943	66,943
Interest	70,000	70,000	175,211	105,211
Total general property taxes	\$ 31,983,850	\$ 31,983,850	\$ 33,961,795	\$ 1,977,945
Other local taxes:				
Local sales and use taxes	\$ 9,750,000	\$ 9,750,000	\$ 10,311,633	\$ 561,633
Utility taxes	1,650,000	1,650,000	1,831,083	181,083
Business licenses and rental tax	5,395,000	5,395,000	5,735,557	340,557
Motor vehicle licenses	330,100	330,100	421,393	91,293
Bank stock taxes	600,000	600,000	696,511	96,511
Recordation taxes	500,000	500,000	402,018	(97,982)
Tobacco tax	500,000	500,000	578,303	78,303
Amusement tax	300,000	300,000	368,842	68,842
Hotel/lodging taxes	1,060,000	1,060,000	1,182,500	122,500
Meals taxes	8,100,000	8,100,000	9,373,302	1,273,302
Gasoline taxes	198,000	198,000	141,176	(56,824)
Other	95,000	95,000	131,316	36,316
Total other local taxes	\$ 28,478,100	\$ 28,478,100	\$ 31,173,634	\$ 2,695,534
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 672,050	\$ 672,050	\$ 730,113	\$ 58,063
Animal licenses	9,000	9,000	11,983	2,983
Total permits, privilege fees and licenses	\$ 681,050	\$ 681,050	\$ 742,096	\$ 61,046
Fines and forfeitures	\$ 361,000	\$ 361,000	\$ 439,594	\$ 78,594
Revenue from use of money and property:				
Revenue from use of money	\$ 250,000	\$ 250,000	\$ 117,554	\$ (132,446)
Revenue from use of property	44,750	44,750	29,201	(15,549)
Total revenue from use of money and property	\$ 294,750	\$ 294,750	\$ 146,755	\$ (147,995)
Charges for services:				
Court costs	\$ 83,300	\$ 83,300	\$ 100,698	\$ 17,398
Commonwealth's Attorney	2,000	2,000	8,185	6,185
Sanitation and waste removal	727,000	727,000	743,145	16,145
Parks and recreation	424,000	424,000	459,848	35,848
Planning and community development	2,100	2,100	145	(1,955)
Fire and rescue services	636,000	636,000	716,158	80,158
Administrative charges	75,000	75,000	82,624	7,624
Total charges for services	\$ 1,949,400	\$ 1,949,400	\$ 2,110,803	\$ 161,403

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 23,000	\$ 23,000	\$ 24,084	\$ 1,084
Souvenir sales	18,500	18,500	18,183	(317)
Donations - parks and recreation	-	-	64,873	64,873
Other	34,500	34,500	32,269	(2,231)
Total miscellaneous revenue	\$ 76,000	\$ 76,000	\$ 139,409	\$ 63,409
Recovered costs:				
Circuit Court secretaries	\$ 15,000	\$ 15,000	\$ 18,874	\$ 3,874
Health department	240,000	240,000	250,601	10,601
Social services	120,000	120,000	130,931	10,931
Transit	177,750	177,750	170,220	(7,530)
Insurance adjustment	-	-	300,000	300,000
Other	51,150	83,750	145,366	61,616
Total recovered costs	\$ 603,900	\$ 636,500	\$ 1,015,992	\$ 379,492
Total revenue from local sources	\$ 64,428,050	\$ 64,460,650	\$ 69,730,078	\$ 5,269,428
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	\$ 95,000	\$ 95,000	\$ 117,790	\$ 22,790
Motor vehicle rental tax	95,000	95,000	98,783	3,783
Communication sales tax	1,850,000	1,850,000	1,784,746	(65,254)
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	9,220	9,220	10,850	1,630
Total noncategorical aid	\$ 3,774,220	\$ 3,774,220	\$ 3,741,002	\$ (33,218)
Categorical aid - shared expenses:				
Commonwealth's Attorney	\$ 540,000	\$ 540,000	\$ 547,595	\$ 7,595
Sheriff	440,000	440,000	451,834	11,834
Commissioner of Revenue	120,000	120,000	125,318	5,318
Treasurer	95,000	95,000	96,272	1,272
Medical Examiner	400	400	-	(400)
Registrar	40,000	40,000	43,159	3,159
Clerk of the Circuit Court	280,000	280,000	279,986	(14)
Total categorical aid - shared expenses	\$ 1,515,400	\$ 1,515,400	\$ 1,544,164	\$ 28,764
Categorical aid - other:				
Street and highway maintenance	\$ 2,300,000	\$ 2,300,000	\$ 2,362,574	\$ 62,574
VDOT debt service reimbursement	-	-	2,010,619	2,010,619
Law enforcement assistance	725,000	725,000	735,204	10,204
Wireless E-911 grants	150,000	150,000	112,894	(37,106)
Other	21,040	21,040	7,341	(13,699)
Total categorical aid - other	\$ 3,196,040	\$ 3,196,040	\$ 5,228,632	\$ 2,032,592
Total revenue from the Commonwealth	\$ 8,485,660	\$ 8,485,660	\$ 10,513,798	\$ 2,028,138

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public assistance - cost allocation	\$ 50,000	\$ 50,000	\$ 34,788	\$ (15,212)
Total revenue from the Federal Government	\$ 50,000	\$ 50,000	\$ 34,788	\$ (15,212)
Total revenues	\$ 72,963,710	\$ 72,996,310	\$ 80,278,664	\$ 7,282,354
Expenditures				
General government administration:				
Legislative:				
City Council	\$ 209,200	\$ 209,200	\$ 193,894	\$ 15,306
Clerk of Council	101,550	101,550	98,355	3,195
Total legislative	\$ 310,750	\$ 310,750	\$ 292,249	\$ 18,501
General and financial administration:				
City manager	\$ 724,290	\$ 716,690	\$ 606,815	\$ 109,875
Insurance program	743,000	723,000	654,907	68,093
Human resources	305,700	305,700	292,604	13,096
Independent auditor	83,235	83,235	77,662	5,573
Commissioner of the revenue	890,555	897,555	896,472	1,083
Board of Real Estate Assessors	10,000	125,000	111,695	13,305
Treasurer	839,465	842,465	782,885	59,580
Fiscal affairs	581,350	583,550	578,695	4,855
Information technology	893,910	918,742	867,022	51,720
Copying and postage	26,850	26,850	19,353	7,497
Safety program	81,250	84,494	84,222	272
Legal services	323,300	323,300	311,327	11,973
Total general and financial administration	\$ 5,502,905	\$ 5,630,581	\$ 5,283,659	\$ 346,922
Board of elections:				
Registrar and electoral board	\$ 206,650	\$ 211,650	\$ 209,675	\$ 1,975
Total general government administration	\$ 6,020,305	\$ 6,152,981	\$ 5,785,583	\$ 367,398
Judicial administration:				
Courts:				
Circuit Court	\$ 103,900	\$ 103,900	\$ 92,387	\$ 11,513
General District Court	43,950	43,950	20,066	23,884
Special magistrates	13,000	13,000	12,863	137
Juvenile and Domestic Relations Court	20,800	22,576	16,245	6,331
Clerk of the Circuit Court	714,430	746,597	745,659	938
Sheriff	1,473,775	1,494,304	1,491,835	2,469
JDR services	62,950	62,950	62,949	1
Juries	30,000	30,000	21,420	8,580
Court appointed attorney	17,000	17,000	10,231	6,769
Total courts	\$ 2,479,805	\$ 2,534,277	\$ 2,473,655	\$ 60,622

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	\$ 1,161,180	\$ 1,151,080	\$ 1,120,121	\$ 30,959
Total judicial administration	\$ 3,640,985	\$ 3,685,357	\$ 3,593,776	\$ 91,581
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 7,199,615	\$ 7,258,512	\$ 7,142,509	\$ 116,003
Auxiliary police	13,000	11,500	11,478	22
Total law enforcement and traffic control	\$ 7,212,615	\$ 7,270,012	\$ 7,153,987	\$ 116,025
Fire and rescue:				
Fire department	\$ 4,301,950	\$ 4,348,174	\$ 4,325,730	\$ 22,444
Rescue services	255,200	255,200	255,200	-
Emergency medical services	825,100	883,261	849,499	33,762
Hazardous materials	29,680	29,680	23,431	6,249
E-911 communications	917,140	988,976	986,353	2,623
Total fire and rescue	\$ 6,329,070	\$ 6,505,291	\$ 6,440,213	\$ 65,078
Correction and detention:				
Juvenile Detention Center	\$ 339,550	\$ 339,550	\$ 231,210	\$ 108,340
Rappahannock Security Center	2,855,255	2,855,255	2,855,352	(97)
Prisoner extradition	-	2,600	2,263	337
Total correction and detention	\$ 3,194,805	\$ 3,197,405	\$ 3,088,825	\$ 108,580
Inspections:				
Building and development services	\$ 913,800	\$ 920,800	\$ 883,622	\$ 37,178
Other protection:				
Animal control	\$ 100,250	\$ 102,750	\$ 95,295	\$ 7,455
Medical Examiner	1,200	1,200	260	940
Total other protection	\$ 101,450	\$ 103,950	\$ 95,555	\$ 8,395
Total public safety	\$ 17,751,740	\$ 17,997,458	\$ 17,662,202	\$ 335,256
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 754,450	\$ 761,450	\$ 752,686	\$ 8,764
Street maintenance	993,850	1,014,649	971,598	43,051
Drainage	265,470	265,470	262,980	2,490
Street lights	369,000	452,328	429,743	22,585
Snow removal	121,500	42,951	30,524	12,427
Industrial park rail spur	15,500	17,500	17,359	141
Traffic engineering	533,105	610,122	579,280	30,842
Shop and garage	1,230,335	1,245,335	1,195,156	50,179
Graphics	85,685	93,045	85,181	7,864
Total maintenance of streets, highways, bridges and sidewalks	\$ 4,368,895	\$ 4,502,850	\$ 4,324,507	\$ 178,343

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 672,675	\$ 672,675	\$ 649,177	\$ 23,498
Tree purchase program	50,000	98,000	97,085	915
Refuse collection	608,330	612,163	595,922	16,241
Refuse disposal	126,050	210,894	204,804	6,090
Recycling collection	123,170	124,170	123,916	254
Total sanitation and waste removal	\$ 1,580,225	\$ 1,717,902	\$ 1,670,904	\$ 46,998
Maintenance of buildings and grounds:				
General properties	\$ 1,679,735	\$ 1,684,735	\$ 1,675,190	\$ 9,545
Environmental management system	5,400	5,400	4,499	901
Buildings and grounds - special	279,850	291,950	256,948	35,002
Total maintenance of buildings and grounds	\$ 1,964,985	\$ 1,982,085	\$ 1,936,637	\$ 45,448
Total public works	\$ 7,914,105	\$ 8,202,837	\$ 7,932,048	\$ 270,789
Health and welfare:				
Health:				
Supplement to local health department	\$ 414,280	\$ 414,280	\$ 414,280	\$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	\$ 191,325	\$ 191,325	\$ 191,325	\$ -
Social services:				
Other contributions	\$ 358,285	\$ 358,285	\$ 334,694	\$ 23,591
Total health and welfare	\$ 963,890	\$ 963,890	\$ 940,299	\$ 23,591
Education:				
Community colleges	\$ 5,750	\$ 5,750	\$ 5,750	\$ -
Appropriations to public school system	25,238,100	25,238,100	25,238,099	1
Total education	\$ 25,243,850	\$ 25,243,850	\$ 25,243,849	\$ 1
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 552,300	\$ 556,025	\$ 543,244	\$ 12,781
Supervision	601,050	643,050	642,758	292
Maintenance	1,009,050	1,042,050	1,039,460	2,590
Dixon Park swimming pool	125,850	144,850	142,669	2,181
Total parks and recreation	\$ 2,288,250	\$ 2,385,975	\$ 2,368,131	\$ 17,844
Library:				
Regional library	\$ 1,180,000	\$ 1,180,000	\$ 1,180,000	\$ -
Cultural:				
Museums	\$ 95,975	\$ 95,975	\$ 95,975	\$ -
Total parks, recreation and cultural	\$ 3,564,225	\$ 3,661,950	\$ 3,644,106	\$ 17,844

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Community Development:				
Planning and community development:				
Planning	\$ 460,025	\$ 590,025	\$ 530,033	\$ 59,992
Zoning Appeals Board	1,600	1,600	150	1,450
Community development	66,350	66,350	66,349	1
Architectural Review Board	2,000	2,000	1,746	254
Clean and Green Commission	1,500	2,100	2,034	66
Commuter rail	50,000	50,000	37,428	12,572
Economic development and tourism	978,950	1,019,637	924,567	95,070
Total planning and community development	\$ 1,560,425	\$ 1,731,712	\$ 1,562,307	\$ 169,405
Environmental management:				
Soil and water conservation district	\$ 6,000	\$ 6,000	\$ 6,000	\$ -
Total community development	\$ 1,566,425	\$ 1,737,712	\$ 1,568,307	\$ 169,405
Total expenditures	\$ 66,665,525	\$ 67,646,035	\$ 66,370,170	\$ 1,275,865
Excess (deficiency) of revenues over expenditures	\$ 6,298,185	\$ 5,350,275	\$ 13,908,494	\$ 8,558,219
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	\$ 10,500	\$ 10,500	\$ 27,241	\$ 16,741
Transfers in	1,000,000	1,000,000	1,039,774	39,774
Transfers out	(8,462,155)	(8,487,155)	(8,442,382)	44,773
Total other financing sources (uses)	\$ (7,451,655)	\$ (7,476,655)	\$ (7,375,367)	\$ 101,288
Net change in fund balance	\$ (1,153,470)	\$ (2,126,380)	\$ 6,533,127	\$ 8,659,507
Fund balance, beginning of year	1,153,470	2,126,380	19,339,156	17,212,776
Fund balance, end of year	\$ -	\$ -	\$ 25,872,283	\$ 25,872,283

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

Schedule of Pension and OPEB Funding Progress

Virginia Retirement System

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2011	\$ 75,980,646	\$ 102,954,904	\$ 26,974,258	73.80%	\$ 20,202,383	133.52%
June 30, 2010	74,324,775	97,601,073	23,276,298	76.15%	20,185,677	115.31%
June 30, 2009	73,853,295	87,566,204	13,712,909	84.34%	20,400,054	67.22%

School Board Non-Professional:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2011	\$ 3,100,730	\$ 3,352,248	\$ 251,518	92.50%	\$ 1,087,209	23.13%
June 30, 2010	2,935,480	3,130,611	195,131	93.77%	1,136,716	17.17%
June 20, 2009	2,808,219	2,705,156	(103,063)	103.81%	1,135,523	(9.08%)

Other Post-Employment Benefits

City:

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

School Board:

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

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OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule
 New Court Construction Fund
 Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 53,676	\$ 53,676
Charges for services:				
Courthouse construction fees	\$ -	\$ -	\$ 55,101	\$ 55,101
Total revenues	\$ -	\$ -	\$ 108,777	\$ 108,777
Expenditures				
Capital projects:				
Executive plaza interim moves	\$ -	\$ 205,000	\$ 196,390	\$ 8,610
New court construction	39,000,000	38,795,000	4,123,290	34,671,710
Total capital projects	\$ 39,000,000	\$ 39,000,000	\$ 4,319,680	\$ 34,680,320
Excess (deficiency) of revenues over expenditures	\$ (39,000,000)	\$ (39,000,000)	\$ (4,210,903)	\$ 34,789,097
Other Financing Sources (Uses)				
Long-term debt issued	\$ 39,000,000	\$ 39,000,000	\$ 33,860,000	\$ (5,140,000)
Bond premium	-	-	1,496,304	1,496,304
Total other financing sources (uses)	\$ 39,000,000	\$ 39,000,000	\$ 35,356,304	\$ (3,643,696)
Net change in fund balance	\$ -	\$ -	\$ 31,145,401	\$ 31,145,401
Fund balance, beginning of year	-	-	1,003,976	1,003,976
Fund balance, end of year	\$ -	\$ -	\$ 32,149,377	\$ 32,149,377

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

Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2012

	Special Revenue	Capital Projects	Total
ASSETS			
Assets:			
Cash and cash equivalents	\$ 1,561,311	\$ 7,912,479	\$ 9,473,790
Accrued revenue	59,576	51,148	110,724
Due from other governments	845,249	345,194	1,190,443
Total assets	\$ 2,466,136	\$ 8,308,821	\$ 10,774,957
LIABILITIES AND EQUITY			
Liabilities:			
Reconciled overdraft	\$ 141,443	\$ -	\$ 141,443
Accounts payable	196,444	349,332	545,776
Accrued liabilities	35,331	14,944	50,275
Deferred revenue	27,168	-	27,168
Total liabilities	\$ 400,386	\$ 364,276	\$ 764,662
Equity:			
Fund Balance:			
Restricted	\$ 243,980	\$ -	\$ 243,980
Committed	1,821,770	2,056,377	3,878,147
Assigned	-	5,888,168	5,888,168
Total equity	\$ 2,065,750	\$ 7,944,545	\$ 10,010,295
Total liabilities and equity	\$ 2,466,136	\$ 8,308,821	\$ 10,774,957

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue	Capital Projects	Debt Service	Total
Revenues				
Other local taxes	\$ -	\$ 137,944	\$ -	\$ 137,944
Permits, privilege fees and regulatory licenses	6,275	-	-	6,275
Fines and forfeitures	22,132	17,629	-	39,761
Use of money and property	265	225,679	-	225,944
Charges for services	50,910	-	-	50,910
Miscellaneous	107,872	238,366	-	346,238
Recovered costs	435,706	39,750	-	475,456
Intergovernmental:				
Revenue from the Commonwealth	2,611,100	220,284	-	2,831,384
Revenue from the Federal Government	2,520,849	1,323,871	-	3,844,720
Total revenues	\$ 5,755,109	\$ 2,203,523	\$ -	\$ 7,958,632
Expenditures				
Current:				
Judicial administration	\$ 113,519	\$ -	\$ -	\$ 113,519
Public safety	344,041	-	-	344,041
Health and welfare	6,241,134	-	-	6,241,134
Parks, recreation and cultural	89,154	-	-	89,154
Community development	848,672	-	-	848,672
Capital projects	-	4,950,143	-	4,950,143
Debt service:				
Principal payments	-	-	2,857,891	2,857,891
Interest and fiscal charges	-	-	2,675,680	2,675,680
Total expenditures	\$ 7,636,520	\$ 4,950,143	\$ 5,533,571	\$ 18,120,234
Excess (deficiency) of revenues over expenditures	\$ (1,881,411)	\$ (2,746,620)	\$ (5,533,571)	\$ (10,161,602)
Other financing sources (uses)				
Issuance of refunding bonds	\$ -	\$ -	\$ 2,469,101	\$ 2,469,101
Long-term notes payable issued	-	725,000	-	725,000
Payment to refunded bonds escrow agent	-	-	(2,592,336)	(2,592,336)
Bond premium	-	-	263,759	263,759
Transfers in	1,846,310	1,336,025	5,393,047	8,575,382
Transfers out	(572,774)	-	-	(572,774)
Total other financing sources (uses)	\$ 1,273,536	\$ 2,061,025	\$ 5,533,571	\$ 8,868,132
Net change in fund balance	\$ (607,875)	\$ (685,595)	\$ -	\$ (1,293,470)
Fund balance, beginning of year	2,673,625	8,630,140	-	11,303,765
Fund balance, end of year	\$ 2,065,750	\$ 7,944,545	\$ -	\$ 10,010,295

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2012

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Total
ASSETS						
Assets:						
Cash and cash equivalents	\$ -	\$ 658,900	\$ -	\$ 662,519	\$ 239,892	\$ 1,561,311
Accrued revenue	24,479	18,439	12,570	-	4,088	59,576
Due from other governments	358,273	117,237	369,739	-	-	845,249
Total assets	<u>\$ 382,752</u>	<u>\$ 794,576</u>	<u>\$ 382,309</u>	<u>\$ 662,519</u>	<u>\$ 243,980</u>	<u>\$ 2,466,136</u>
LIABILITIES AND EQUITY						
Liabilities:						
Reconciled overdraft	\$ 76,411	\$ -	\$ 65,032	\$ -	\$ -	\$ 141,443
Accounts payable	10,808	58,136	127,500	-	-	196,444
Accrued liabilities	29,407	5,036	888	-	-	35,331
Deferred revenue	-	20,000	7,168	-	-	27,168
Total liabilities	<u>\$ 116,626</u>	<u>\$ 83,172</u>	<u>\$ 200,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,386</u>
Equity:						
Fund Balance:						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 243,980	\$ 243,980
Committed	266,126	711,404	181,721	662,519	-	1,821,770
Total equity	<u>\$ 266,126</u>	<u>\$ 711,404</u>	<u>\$ 181,721</u>	<u>\$ 662,519</u>	<u>\$ 243,980</u>	<u>\$ 2,065,750</u>
Total liabilities and equity	<u>\$ 382,752</u>	<u>\$ 794,576</u>	<u>\$ 382,309</u>	<u>\$ 662,519</u>	<u>\$ 243,980</u>	<u>\$ 2,466,136</u>

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

Nonmajor Special Revenue Funds

Year Ended June 30, 2012

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Total
Revenues						
Permits, privilege fees and regulatory licenses	\$ -	\$ 6,275	\$ -	\$ -	\$ -	\$ 6,275
Fines and forfeitures	-	22,132	-	-	-	22,132
Use of money and property	-	265	-	-	-	265
Charges for services	-	-	-	-	50,910	50,910
Miscellaneous	3,548	104,324	-	-	-	107,872
Recovered costs	111,536	324,170	-	-	-	435,706
Intergovernmental:						
Revenue from the Commonwealth	1,415,207	233,925	961,968	-	-	2,611,100
Revenue from the Federal Government	2,174,221	325,144	21,484	-	-	2,520,849
Total revenues	\$ 3,704,512	\$ 1,016,235	\$ 983,452	\$ -	\$ 50,910	\$ 5,755,109
Expenditures						
Current:						
Judicial administration	\$ -	\$ 113,519	\$ -	\$ -	\$ -	\$ 113,519
Public safety	-	344,041	-	-	-	344,041
Health and welfare	4,563,734	-	1,677,400	-	-	6,241,134
Parks, recreation and cultural	-	89,154	-	-	-	89,154
Community Development	-	848,672	-	-	-	848,672
Total expenditures	\$ 4,563,734	\$ 1,395,386	\$ 1,677,400	\$ -	\$ -	\$ 7,636,520
Excess (deficiency) of revenues over expenditures	\$ (859,222)	\$ (379,151)	\$ (693,948)	\$ -	\$ 50,910	\$ (1,881,411)
Other financing sources (uses)						
Transfers in	\$ 893,215	\$ 308,095	\$ 645,000	\$ -	\$ -	\$ 1,846,310
Transfers out	-	(172,774)	-	(400,000)	-	(572,774)
Total other financing sources (uses)	\$ 893,215	\$ 135,321	\$ 645,000	\$ (400,000)	\$ -	\$ 1,273,536
Net change in fund balance	\$ 33,993	\$ (243,830)	\$ (48,948)	\$ (400,000)	\$ 50,910	\$ (607,875)
Fund balance, beginning of year	232,133	955,234	230,669	1,062,519	193,070	2,673,625
Fund balance, end of year	\$ 266,126	\$ 711,404	\$ 181,721	\$ 662,519	\$ 243,980	\$ 2,065,750

Combining Balance Sheet
Nonmajor Capital Projects Funds
At June 30, 2012

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
ASSETS				
Assets:				
Cash and cash equivalents	\$ 3,963,451	\$ 2,354,511	\$ 1,594,517	\$ 7,912,479
Accrued revenue	16,936	17,325	16,887	51,148
Due from other governments	345,194	-	-	345,194
Total assets	<u>\$ 4,325,581</u>	<u>\$ 2,371,836</u>	<u>\$ 1,611,404</u>	<u>\$ 8,308,821</u>
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 86,503	\$ 262,779	\$ 50	\$ 349,332
Accrued liabilities	6,025	8,919	-	14,944
Total liabilities	<u>\$ 92,528</u>	<u>\$ 271,698</u>	<u>\$ 50</u>	<u>\$ 364,276</u>
Equity:				
Fund Balance:				
Committed	\$ 586,415	\$ 1,469,962	\$ -	\$ 2,056,377
Assigned	3,646,638	630,176	1,611,354	5,888,168
Total equity	<u>\$ 4,233,053</u>	<u>\$ 2,100,138</u>	<u>\$ 1,611,354</u>	<u>\$ 7,944,545</u>
Total liabilities and equity	<u>\$ 4,325,581</u>	<u>\$ 2,371,836</u>	<u>\$ 1,611,404</u>	<u>\$ 8,308,821</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2012

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Revenues				
Other local taxes	\$ 117,141	\$ 20,803	\$ -	\$ 137,944
Fines and forfeitures	17,629	-	-	17,629
Use of money and property	48,765	128,407	48,507	225,679
Miscellaneous	238,366	-	-	238,366
Recovered costs	10,000	29,750	-	39,750
Intergovernmental:				
Revenue from the Commonwealth	115,284	-	105,000	220,284
Revenue from the Federal Government	1,155,871	168,000	-	1,323,871
Total revenues	\$ 1,703,056	\$ 346,960	\$ 153,507	\$ 2,203,523
Expenditures				
Capital projects	\$ 3,280,133	\$ 1,320,377	\$ 349,633	\$ 4,950,143
Excess (deficiency) of revenues over expenditures	\$ (1,577,077)	\$ (973,417)	\$ (196,126)	\$ (2,746,620)
Other financing sources (uses)				
Long-term notes payable issued	\$ 725,000	\$ -	\$ -	\$ 725,000
Transfers in	511,025	592,000	233,000	1,336,025
Total other financing sources (uses)	\$ 1,236,025	\$ 592,000	\$ 233,000	\$ 2,061,025
Net change in fund balance	\$ (341,052)	\$ (381,417)	\$ 36,874	\$ (685,595)
Fund balance, beginning of year	4,574,105	2,481,555	1,574,480	8,630,140
Fund balance, end of year	\$ 4,233,053	\$ 2,100,138	\$ 1,611,354	\$ 7,944,545

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2012

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Expenditures			
Debt service:			
Principal	\$ 1,408,050	\$ 1,449,841	\$ 2,857,891
Interest and fiscal charges	618,265	2,057,415	2,675,680
Total expenditures	\$ 2,026,315	\$ 3,507,256	\$ 5,533,571
Excess (deficiency) of revenues over expenditures	\$ (2,026,315)	\$ (3,507,256)	\$ (5,533,571)
Other financing sources (uses)			
Transfers in	\$ 1,885,791	\$ 3,507,256	\$ 5,393,047
Issuance of refunding bonds	2,469,101	-	2,469,101
Payment to refunded bonds escrow agent	(2,592,336)	-	(2,592,336)
Bond premium	263,759	-	263,759
Total other financing sources (uses)	\$ 2,026,315	\$ 3,507,256	\$ 5,533,571
Net change in fund balance	\$ -	\$ -	\$ -
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -

CITY OF FREDERICKSBURG, VIRGINIA

Combining Statement of Fiduciary Net Assets

At June 30, 2012

	Criminal Justice Academy	Special Welfare	Court Service Unit	CASA Program	Rappahannock Area Youth Commission
ASSETS					
Assets:					
Cash and cash equivalents	\$ 252,261	\$ 25,289	\$ 155,412	\$ -	\$ 20,652
Accounts receivable	17,883	2,354	985	8,689	90,976
Prepaid items	12,671	-	-	-	5,697
Total assets	\$ 282,815	\$ 27,643	\$ 156,397	\$ 8,689	\$ 117,325
LIABILITIES AND NET ASSETS					
Liabilities:					
Reconciled overdraft	\$ -	\$ -	\$ -	\$ 8,555	\$ -
Accounts payable	9,168	-	8,376	-	13,073
Accrued liabilities	12,439	-	-	-	-
Amounts held for others	261,208	27,643	148,021	134	104,252
Total liabilities	\$ 282,815	\$ 27,643	\$ 156,397	\$ 8,689	\$ 117,325
Net Assets	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue Maximization Fund	Forfeited Asset Sharing Program Fund	Community Development Authority	Total
\$ 20,451	\$ 67,404	\$ 225,378	\$ 766,847
-	-	-	120,887
-	-	-	18,368
<u>\$ 20,451</u>	<u>\$ 67,404</u>	<u>\$ 225,378</u>	<u>\$ 906,102</u>
\$ -	\$ -	\$ -	\$ 8,555
-	-	-	30,617
-	-	-	12,439
<u>20,451</u>	<u>67,404</u>	<u>225,378</u>	<u>854,491</u>
<u>\$ 20,451</u>	<u>\$ 67,404</u>	<u>\$ 225,378</u>	<u>\$ 906,102</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	\$ 523,921	\$ 252,261	\$ 523,921	\$ 252,261
Accounts receivable	37,123	17,883	37,123	17,883
Prepaid items	12,124	12,671	12,124	12,671
Total assets	<u>\$ 573,168</u>	<u>\$ 282,815</u>	<u>\$ 573,168</u>	<u>\$ 282,815</u>
Liabilities:				
Accounts payable	\$ 22,520	\$ 9,168	\$ 22,520	\$ 9,168
Accrued liabilities	19,830	12,439	19,830	12,439
Amounts held for others	530,818	261,208	530,818	261,208
Total liabilities	<u>\$ 573,168</u>	<u>\$ 282,815</u>	<u>\$ 573,168</u>	<u>\$ 282,815</u>
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	\$ 17,461	\$ 12,765	\$ 4,937	\$ 25,289
Accounts receivable	-	2,354	-	2,354
Total assets	<u>\$ 17,461</u>	<u>\$ 15,119</u>	<u>\$ 4,937</u>	<u>\$ 27,643</u>
Liabilities:				
Amounts held for others	<u>\$ 17,461</u>	<u>\$ 15,119</u>	<u>\$ 4,937</u>	<u>\$ 27,643</u>
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	\$ 163,000	\$ 227,958	\$ 235,546	\$ 155,412
Accounts receivable	-	985	-	985
Total assets	<u>\$ 163,000</u>	<u>\$ 228,943</u>	<u>\$ 235,546</u>	<u>\$ 156,397</u>
Liabilities:				
Accounts payable	\$ 7,155	\$ 8,376	\$ 7,155	\$ 8,376
Amounts held for others	155,845	220,567	228,391	148,021
Total liabilities	<u>\$ 163,000</u>	<u>\$ 228,943</u>	<u>\$ 235,546</u>	<u>\$ 156,397</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
CASA PROGRAM				
Assets:				
Accounts receivable	\$ -	\$ 8,689	\$ -	\$ 8,689
Liabilities:				
Reconciled overdraft	\$ 756	\$ 7,799	\$ -	\$ 8,555
Accounts payable	134	-	134	-
Amounts held for others	(890)	890	(134)	134
Total liabilities	\$ -	\$ 8,689	\$ -	\$ 8,689
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	\$ 5,002	\$ 572,355	\$ 556,705	\$ 20,652
Accounts receivable	119,737	90,976	119,737	90,976
Prepaid items	5,673	5,697	5,673	5,697
Total assets	\$ 130,412	\$ 669,028	\$ 682,115	\$ 117,325
Liabilities:				
Accounts payable	\$ 11,731	\$ 13,073	\$ 11,731	\$ 13,073
Amounts held for others	118,681	655,955	670,384	104,252
Total liabilities	\$ 130,412	\$ 669,028	\$ 682,115	\$ 117,325
REVENUE MAXIMIZATION FUND				
Assets:				
Cash and cash equivalents	\$ 20,451	\$ -	\$ -	\$ 20,451
Liabilities:				
Amounts held for others	\$ 20,451	\$ -	\$ -	\$ 20,451
FORFEITED ASSET SHARING PROGRAM FUND				
Assets:				
Cash and cash equivalents	\$ 61,696	\$ 7,420	\$ 1,712	\$ 67,404
Accounts receivable	948	-	948	-
Total assets	\$ 62,644	\$ 7,420	\$ 2,660	\$ 67,404
Liabilities:				
Amounts held for others	\$ 62,644	\$ 7,420	\$ 2,660	\$ 67,404

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	\$ <u>224,467</u>	\$ <u>914,575</u>	\$ <u>913,664</u>	\$ <u>225,378</u>
Liabilities:				
Amounts held for others	\$ <u>224,467</u>	\$ <u>914,575</u>	\$ <u>913,664</u>	\$ <u>225,378</u>
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 1,015,998	\$ 1,987,334	\$ 2,236,485	\$ 766,847
Accounts receivable	157,808	120,887	157,808	120,887
Prepaid items	<u>17,797</u>	<u>18,368</u>	<u>17,797</u>	<u>18,368</u>
Total assets	\$ <u>1,191,603</u>	\$ <u>2,126,589</u>	\$ <u>2,412,090</u>	\$ <u>906,102</u>
Liabilities:				
Reconciled overdraft	\$ 756	\$ 7,799	\$ -	\$ 8,555
Accounts payable	41,540	30,617	41,540	30,617
Accrued liabilities	19,830	12,439	19,830	12,439
Amounts held for others	<u>1,129,477</u>	<u>2,075,734</u>	<u>2,350,720</u>	<u>854,491</u>
Total liabilities	\$ <u>1,191,603</u>	\$ <u>2,126,589</u>	\$ <u>2,412,090</u>	\$ <u>906,102</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Miscellaneous	\$ -	\$ -	\$ 3,548	\$ 3,548
Recovered costs	\$ 85,000	\$ 85,000	\$ 111,536	\$ 26,536
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	\$ 1,432,187	\$ 1,432,187	\$ 1,415,207	\$ (16,980)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 2,475,910	\$ 2,475,910	\$ 2,174,221	\$ (301,689)
Total revenues	\$ 3,993,097	\$ 3,993,097	\$ 3,704,512	\$ (288,585)
Expenditures				
Health and welfare	\$ 4,886,312	\$ 4,886,312	\$ 4,563,734	\$ 322,578
State, Federal and Local Grants Fund				
Revenues				
Permits & other licenses	\$ -	\$ 8,000	\$ 6,275	\$ (1,725)
Fines and forfeitures	\$ -	\$ 21,700	\$ 22,132	\$ 432
Revenue from use of money and property:				
Use of money				
	\$ -	\$ -	\$ 265	\$ 265
Miscellaneous	\$ 156,030	\$ 167,505	\$ 104,324	\$ (63,181)
Recovered costs:				
Stafford and Spotsylvania Counties	\$ 322,000	\$ 322,000	\$ 324,170	\$ 2,170
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Hazardous materials grant	30,000	30,000	30,000	-
Fire services program	49,320	49,320	64,922	15,602
VA domestic violence victim fund	40,000	40,000	70,000	30,000
Other	50,680	75,680	64,003	(11,677)
Total revenue from the Commonwealth	\$ 175,000	\$ 200,000	\$ 233,925	\$ 33,925
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 264,765	\$ 283,200	\$ 140,938	\$ (142,262)
Community development block grants	209,360	209,360	184,206	(25,154)
Total revenue from the Federal Government	\$ 474,125	\$ 492,560	\$ 325,144	\$ (167,416)
Total revenues	\$ 1,127,155	\$ 1,211,765	\$ 1,016,235	\$ (195,530)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures				
Judicial administration:				
Victim-witness	\$ 119,900	\$ 119,900	\$ 113,519	\$ 6,381
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 165,000	\$ 19,002	\$ 145,998
Fire services program	49,320	129,132	76,651	52,481
Rescue Four for Life	25,000	25,000	23,279	1,721
Byrne ARRA grant	-	-	874	(874)
Victim-witness ARRA grant	-	-	5,348	(5,348)
Domestic violence	63,775	63,775	59,925	3,850
Community projects	-	9,989	4,900	5,089
JAG formula grant	154,460	154,460	95,297	59,163
Local emergency performance grant	10,680	10,680	10,171	509
COPS grant	59,000	59,000	35,909	23,091
DMV grants	18,325	36,760	12,685	24,075
State homeland security grant	-	166,425	-	166,425
Total public safety	\$ 410,560	\$ 820,221	\$ 344,041	\$ 476,180
Parks, recreation and cultural:				
Soap Box Derby	\$ 25,000	\$ 25,000	\$ 23,732	\$ 1,268
Starfire drill team	45,030	45,030	10,214	34,816
Fredericksburg Arts Commission	11,500	36,522	28,230	8,292
Other	40,000	88,500	26,978	61,522
Total parks, recreation and cultural	\$ 121,530	\$ 195,052	\$ 89,154	\$ 105,898
Community development:				
Community development block grant	\$ 254,760	\$ 254,760	\$ 215,724	\$ 39,036
First Night celebration	61,000	61,000	74,603	(13,603)
Regional consumer marketing	363,000	597,231	434,511	162,720
Regional group tourism	120,000	134,426	122,798	11,628
Other	40,000	61,700	1,036	60,664
Total community development	\$ 838,760	\$ 1,109,117	\$ 848,672	\$ 260,445
Total expenditures	\$ 1,370,850	\$ 2,124,390	\$ 1,281,867	\$ 842,523

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
Comprehensive Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	\$ 747,500	\$ 1,062,500	\$ 961,968	\$ (100,532)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ -	\$ -	\$ 21,484	\$ 21,484
Total revenues	\$ 747,500	\$ 1,062,500	\$ 983,452	\$ (79,048)
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	\$ 1,417,500	\$ 1,757,500	\$ 1,677,400	\$ 80,100
Courthouse Maintenance Fund				
Revenues				
Charges for services:				
Courthouse maintenance fees	\$ 40,000	\$ 40,000	\$ 50,910	\$ 10,910
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 125,000	\$ 498,500	\$ 117,141	\$ (381,359)
Fines and forfeitures	\$ 13,975	\$ 13,975	\$ 17,629	\$ 3,654
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 48,765	\$ 48,765
Miscellaneous	\$ -	\$ 200,000	\$ 238,366	\$ 38,366
Recovered costs	\$ -	\$ -	\$ 10,000	\$ 10,000
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	\$ -	\$ 373,500	\$ 112,390	\$ (261,110)
FEMA grant	-	-	2,894	2,894
Total revenue from the Commonwealth	\$ -	\$ 373,500	\$ 115,284	\$ (258,216)
Revenue from the Federal Government:				
Categorical aid:				
VDOT grants	\$ 2,615,000	\$ 2,925,525	\$ 1,109,221	\$ (1,816,304)
Traffic signal improvement grants	-	442,520	46,650	(395,870)
Total revenue from the Federal Government	\$ 2,615,000	\$ 3,368,045	\$ 1,155,871	\$ (2,212,174)
Total revenues	\$ 2,753,975	\$ 4,454,020	\$ 1,703,056	\$ (2,750,964)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Works Construction Fund: (continued)				
Expenditures				
Capital projects:				
Annual pavement rehabilitation	\$ 550,000	\$ 850,000	\$ 720,234	\$ 129,766
Culvert repair	-	20,000	-	20,000
Salt storage facility	-	500,000	15,237	484,763
Cowan Boulevard extension	-	-	7	(7)
Sophia & William Street intersection	-	316,803	4,152	312,651
Traffic signal improvement - pedestrian sign	-	111,000	13,400	97,600
Riverfront Park	-	1,229,171	937,884	291,287
Route 1 traffic signal grant	-	328,690	39,910	288,780
Telecommunications fiber installation	-	27,081	-	27,081
Route 3 traffic signal grant	-	169,980	16,089	153,891
Lafayette Boulevard	-	3,586	3,500	86
Historic downtown improvements	100,000	180,000	124,232	55,768
Fall Hill Avenue bridge over I-95	2,615,000	2,615,000	1,149,890	1,465,110
Fall Hill Avenue canal bridge	-	636,000	255,598	380,402
Total capital projects	<u>\$ 3,265,000</u>	<u>\$ 6,987,311</u>	<u>\$ 3,280,133</u>	<u>\$ 3,707,178</u>
Public Facilities Construction Fund				
Revenues				
Other local taxes:				
Gasoline tax	\$ 55,000	\$ 160,000	\$ 20,803	\$ (139,197)
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 48,506	\$ 48,506
Use of property	-	-	79,901	79,901
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,407</u>	<u>\$ 128,407</u>
Recovered costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,750</u>	<u>\$ 29,750</u>
Intergovernmental:				
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	\$ 1,795,000	\$ 3,030,000	\$ 168,000	\$ (2,862,000)
Total revenues	<u>\$ 1,850,000</u>	<u>\$ 3,190,000</u>	<u>\$ 346,960</u>	<u>\$ (2,843,040)</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Construction Fund: (continued)				
Expenditures				
Capital projects:				
Cal Ripken Sr. baseball field	\$ -	\$ 40,000	\$ 40,000	\$ -
CRRL parking lot repairs	75,000	75,000	36,271	38,729
Computer equipment replacement	225,000	425,000	304,143	120,857
Court security project	200,000	200,000	52,070	147,930
Public facilities general improvements	100,000	100,000	89,074	10,926
Playground equipment replacement	100,000	109,410	85,423	23,987
HVAC replacements	85,000	85,000	-	85,000
Cowan Boulevard Trail	-	140,000	104,017	35,983
Pathways - VCR Trail	1,850,000	1,575,000	59,265	1,515,735
Rappahannock River Heritage Trail	-	1,675,000	230,096	1,444,904
Fredericksburg Area Museum	100,000	100,000	100,000	-
City elevator repairs	-	121,200	121,480	(280)
Moss free clinic	42,000	42,000	42,000	-
Executive Plaza building	-	-	6,538	(6,538)
Hart Center renovations	-	50,000	50,000	-
Total capital projects	<u>\$ 2,777,000</u>	<u>\$ 4,737,610</u>	<u>\$ 1,320,377</u>	<u>\$ 3,417,233</u>
Public Safety Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 48,507	\$ 48,507
Intergovernmental:				
Revenue from the Commonwealth:				
Public safety grant	100,000	105,000	105,000	-
Total revenues	<u>\$ 100,000</u>	<u>\$ 105,000</u>	<u>\$ 153,507</u>	<u>\$ 48,507</u>
Expenditures				
Capital projects:				
Fleet replacements	\$ -	\$ 11,588	\$ 11,588	\$ -
Fire equipment	200,000	338,000	337,826	174
Backup generators	-	-	219	(219)
Total capital projects	<u>\$ 200,000</u>	<u>\$ 349,588</u>	<u>\$ 349,633</u>	<u>\$ (45)</u>
Debt Service Funds				
General Obligation Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 1,925,013</u>	<u>\$ 1,925,013</u>	<u>\$ 2,026,315</u>	<u>\$ (101,302)</u>
Education Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 3,512,802</u>	<u>\$ 3,512,802</u>	<u>\$ 3,507,256</u>	<u>\$ 5,546</u>

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

Component Unit School Board
Combining Balance Sheet
At June 30, 2012

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 4,831,425	\$ -	\$ 962,846	\$ 5,794,271
Accrued revenue	-	7,918	-	7,918
Due from other governments	464,919	1,210,328	-	1,675,247
Prepays	183,807	-	-	183,807
Total assets	\$ 5,480,151	\$ 1,218,246	\$ 962,846	\$ 7,661,243
LIABILITIES AND EQUITY				
Liabilities:				
Reconciled overdraft	\$ -	\$ 29,500	\$ -	\$ 29,500
Accounts payable	323,479	74,701	208,579	606,759
Accrued liabilities	2,633,411	454,098	-	3,087,509
Total liabilities	\$ 2,956,890	\$ 558,299	\$ 208,579	\$ 3,723,768
Equity:				
Fund Balance:				
Nonspendable:				
Prepays	\$ 183,807	\$ -	\$ -	\$ 183,807
Committed:				
Grant related expenditures	-	659,947	-	659,947
Capital projects	184,937	-	61,182	246,119
Assigned:				
Capital projects	-	-	693,085	693,085
Unassigned	2,154,517	-	-	2,154,517
Total equity	\$ 2,523,261	\$ 659,947	\$ 754,267	\$ 3,937,475
Total liabilities and equity	\$ 5,480,151	\$ 1,218,246	\$ 962,846	\$ 7,661,243

Component Unit School Board

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

At June 30, 2012

Total fund balances for governmental funds (Exhibit 26)	\$ 3,937,475
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Total net assets reported for governmental activities in the statement of net assets is different because:

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

Land	\$ 472,679	
Construction in progress	25,000	
Land improvements, net of accumulated depreciation	61,843	
Buildings and improvements, net of accumulated depreciation	14,286,453	
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,355,410</u>	
 Total capital assets		 16,201,385
 Net OPEB obligation not reported as fund liabilities		 (1,065,738)
 Compensated absences not reported as fund liabilities		 <u>(1,039,736)</u>

Total net assets of governmental activities (Exhibits 1 and 12)	\$ <u><u>18,033,386</u></u>
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Component Unit School Board

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

Governmental Funds

Year Ended June 30, 2012

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Charges for services	\$ 178,502	\$ 461,434	\$ -	\$ 639,936
Miscellaneous	185,562	804	-	186,366
Recovered costs	-	117,453	-	117,453
Intergovernmental:				
Appropriation from primary government	24,842,599	195,500	200,000	25,238,099
Revenue from the Commonwealth	7,545,028	308,258	-	7,853,286
Revenue from the Federal Government	5,431	4,359,704	-	4,365,135
Total revenues	\$ 32,757,122	\$ 5,443,153	\$ 200,000	\$ 38,400,275
Expenditures				
Current:				
Education:				
Instruction	\$ 23,733,376	\$ 3,795,930	\$ -	\$ 27,529,306
Administration, attendance and health	2,265,113	-	-	2,265,113
Transportation	1,400,036	-	-	1,400,036
Facilities operations	3,736,605	-	-	3,736,605
Technology	867,766	-	-	867,766
School food service operations	67,246	1,582,338	-	1,649,584
Capital projects	-	-	1,094,048	1,094,048
Total expenditures	\$ 32,070,142	\$ 5,378,268	\$ 1,094,048	\$ 38,542,458
Excess (deficiency) of revenues over expenditures	\$ 686,980	\$ 64,885	\$ (894,048)	\$ (142,183)
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ 1,580,000	\$ 1,580,000
Transfers out	(1,580,000)	-	-	(1,580,000)
Total other financing sources (uses)	\$ (1,580,000)	\$ -	\$ 1,580,000	\$ -
Net change in fund balance	\$ (893,020)	\$ 64,885	\$ 685,952	\$ (142,183)
Fund balance, beginning of year	3,416,281	595,062	68,315	4,079,658
Fund balance, end of year	\$ 2,523,261	\$ 659,947	\$ 754,267	\$ 3,937,475

Component Unit School Board

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit 28) \$ (142,183)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (416,833)

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board 1,004,028

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

Net OPEB obligation payable	(164,903)
Compensated absences	<u>(21,021)</u>
Change in net assets of governmental activities (Exhibit 12)	\$ <u><u>259,088</u></u>

Component Unit School Board
School Operating Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Charges for services:				
Charges for education	\$ 240,650	\$ 240,650	\$ 178,502	\$ (62,148)
Miscellaneous	\$ 57,750	\$ 57,750	\$ 185,562	\$ 127,812
Intergovernmental:				
Appropriation from primary government	\$ 24,842,599	\$ 24,842,599	\$ 24,842,599	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 2,629,167	\$ 2,629,167	\$ 2,659,905	\$ 30,738
Basic aid	3,022,233	3,022,233	3,122,857	100,624
Other	1,708,966	1,708,966	1,762,266	53,300
Total revenue from the Commonwealth	\$ 7,360,366	\$ 7,360,366	\$ 7,545,028	\$ 184,662
Revenue from the Federal Government:				
Categorical aid:				
Education jobs fund	\$ -	\$ -	\$ 5,431	\$ 5,431
Total revenues	\$ 32,504,365	\$ 32,504,365	\$ 32,757,122	\$ 252,757
Expenditures				
Current:				
Education:				
Instruction	\$ 23,870,882	\$ 25,055,393	\$ 23,733,376	\$ 1,322,017
Administration, attendance and health	2,512,975	2,512,975	2,265,113	247,862
Transportation	1,316,692	1,316,692	1,400,036	(83,344)
School food service operations	125,000	125,000	67,246	57,754
Facilities operations	3,952,135	4,027,135	3,736,605	290,530
Technology	826,681	827,170	867,766	(40,596)
Total expenditures	\$ 32,604,365	\$ 33,864,365	\$ 32,070,142	\$ 1,794,223
Excess (deficiency) of revenues over expenditures	\$ (100,000)	\$ (1,360,000)	\$ 686,980	\$ 2,046,980
Other financing sources (uses)				
Transfers out	\$ -	\$ (1,580,000)	\$ (1,580,000)	\$ -
Net change in fund balance	\$ (100,000)	\$ (2,940,000)	\$ (893,020)	\$ 2,046,980
Fund balance, beginning of year	100,000	2,940,000	3,416,281	476,281
Fund balance, end of year	\$ -	\$ -	\$ 2,523,261	\$ 2,523,261

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

Component Unit School Board
Special School Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	\$ 398,000	\$ 398,000	\$ 461,434	\$ 63,434
Miscellaneous	\$ 250	\$ 250	\$ 804	\$ 554
Recovered costs:				
Education	\$ 153,434	\$ 153,434	\$ 117,453	\$ (35,981)
Intergovernmental:				
Appropriation from primary government	\$ 170,000	\$ 170,000	\$ 195,500	\$ 25,500
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 20,000	\$ 20,000	\$ 26,423	\$ 6,423
VPSA technology grant	154,000	154,000	62,794	(91,206)
Project graduation	225,000	175,741	26,519	(149,222)
Preschool initiative grant	201,000	201,000	108,000	(93,000)
Other	111,000	111,000	84,522	(26,478)
Total revenue from the Commonwealth	\$ 711,000	\$ 661,741	\$ 308,258	\$ (353,483)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 875,000	\$ 1,161,706	\$ 1,116,133	\$ (45,573)
School food	875,000	875,000	1,128,939	253,939
Head Start	891,943	891,943	1,116,154	224,211
Special education IDEA	500,000	500,000	728,163	228,163
Other	593,000	355,553	270,315	(85,238)
Total revenue from the Federal Government	\$ 3,734,943	\$ 3,784,202	\$ 4,359,704	\$ 575,502
Total revenues	\$ 5,167,627	\$ 5,167,627	\$ 5,443,153	\$ 275,526
Expenditures				
Current:				
Education:				
Instruction	\$ 3,874,627	\$ 4,124,627	\$ 3,795,930	\$ 328,697
School food service operations	1,293,000	1,293,000	1,582,338	(289,338)
Total expenditures	\$ 5,167,627	\$ 5,417,627	\$ 5,378,268	\$ 39,359
Excess (deficiency) of revenues over expenditures	\$ -	\$ (250,000)	\$ 64,885	\$ 314,885
Net change in fund balance	\$ -	\$ (250,000)	\$ 64,885	\$ 314,885
Fund balance, beginning of year	-	250,000	595,062	345,062
Fund balance, end of year	\$ -	\$ -	\$ 659,947	\$ 659,947

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

Component Unit School Board
 School Capital Projects Fund
 Revenues and Expenditures Budgetary Comparison Schedule
 Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Capital Projects Fund				
Revenues				
Intergovernmental:				
Appropriation from primary government	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Expenditures				
Capital projects:				
School buses	\$ -	\$ 210,000	\$ 191,916	\$ 18,084
School computer technology	100,000	674,000	662,959	11,041
Maintenance equipment	35,000	63,124	60,924	2,200
Other	65,000	901,191	178,249	722,942
Total capital projects	\$ 200,000	\$ 1,848,315	\$ 1,094,048	\$ 754,267
Excess (deficiency) of revenues over expenditures	\$ -	\$ (1,648,315)	\$ (894,048)	\$ 754,267
Other financing sources (uses)				
Transfers in	\$ -	\$ 1,580,000	\$ 1,580,000	\$ -
Net change in fund balance	\$ -	\$ (68,315)	\$ 685,952	\$ 754,267
Fund balance, beginning of year	-	-	68,315	68,315
Fund balance, end of year	\$ -	\$ (68,315)	\$ 754,267	\$ 822,582

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

Statistical Section

Contents

Tables

Financial Trends

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

1 - 5

Revenue Capacity

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

6 - 9

Debt Capacity

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.

10 - 13

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

14, 15

Operating Information

These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

16 - 18

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

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CITY OF FREDERICKSBURG, VIRGINIA

Table 1

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets, net of related debt	\$ 4,880,522	\$ 18,210,496	\$ 27,167,134	\$ 68,520,864	\$ 80,789,888	\$ 81,234,288	\$ 80,177,661	\$ 81,665,145	\$ 80,513,796	\$ 80,274,520
Unrestricted	28,326,393	29,766,767	59,025,733	42,907,819	31,075,783	28,429,225	24,379,848	22,042,434	23,055,185	27,061,221
Total governmental activities net assets	<u>\$ 33,206,915</u>	<u>\$ 47,977,263</u>	<u>\$ 86,192,867</u>	<u>\$ 111,428,683</u>	<u>\$ 111,865,671</u>	<u>\$ 109,663,513</u>	<u>\$ 104,557,509</u>	<u>\$ 103,707,579</u>	<u>\$ 103,568,981</u>	<u>\$ 107,335,741</u>
Business-type activities:										
Invested in capital assets, net of related debt	\$ 21,806,563	\$ 21,954,260	\$ 28,763,172	\$ 27,183,315	\$ 32,215,508	\$ 29,319,742	\$ 38,744,975	\$ 39,780,366	\$ 39,550,414	\$ 40,307,710
Unrestricted	13,149,428	12,692,077	11,123,212	17,550,170	15,618,080	21,584,625	12,503,966	13,022,965	16,473,376	17,161,279
Total business-type activities net assets	<u>\$ 34,955,991</u>	<u>\$ 34,646,337</u>	<u>\$ 39,886,384</u>	<u>\$ 44,733,485</u>	<u>\$ 47,833,588</u>	<u>\$ 50,904,367</u>	<u>\$ 51,248,941</u>	<u>\$ 52,803,331</u>	<u>\$ 56,023,790</u>	<u>\$ 57,468,989</u>
Primary government:										
Invested in capital assets, net of related debt	\$ 26,687,085	\$ 40,164,756	\$ 55,930,306	\$ 95,704,179	\$ 113,005,396	\$ 110,554,030	\$ 118,922,636	\$ 121,445,511	\$ 120,064,210	\$ 120,582,230
Unrestricted	41,475,821	42,458,844	70,148,945	60,457,989	46,693,863	50,013,850	36,883,814	35,065,399	39,528,561	44,222,500
Total primary government net assets	<u>\$ 68,162,906</u>	<u>\$ 82,623,600</u>	<u>\$ 126,079,251</u>	<u>\$ 156,162,168</u>	<u>\$ 159,699,259</u>	<u>\$ 160,567,880</u>	<u>\$ 155,806,450</u>	<u>\$ 156,510,910</u>	<u>\$ 159,592,771</u>	<u>\$ 164,804,730</u>

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

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 3,667,325	\$ 3,836,089	\$ 4,105,737	\$ 3,688,618	\$ 5,546,499	\$ 5,254,913	\$ 5,760,023	\$ 5,171,028	\$ 5,407,587	\$ 5,833,003
Judicial administration	2,084,990	2,155,331	2,434,259	2,853,064	3,131,169	3,559,936	3,701,857	3,854,380	3,609,180	3,879,790
Public safety	12,950,555	13,448,595	14,424,379	15,922,143	18,155,708	19,073,783	20,056,605	20,200,427	19,937,181	19,316,975
Public works	5,280,143	5,342,332	6,689,270	8,278,001	9,099,097	9,882,486	10,194,381	10,964,359	10,707,212	10,898,437
Health and welfare	4,228,980	5,098,576	5,357,236	6,130,391	6,745,573	6,465,395	6,661,643	6,721,050	6,797,908	6,790,459
Education	15,556,786	14,232,858	15,942,171	18,961,723	24,108,406	28,328,165	27,341,339	26,228,250	26,383,137	27,249,752
Parks, recreation and cultural	3,007,944	3,302,359	3,648,639	4,029,638	4,485,451	4,588,059	4,400,464	3,936,068	4,031,435	4,340,912
Community development	2,022,708	1,914,617	1,972,940	2,186,347	2,619,455	2,344,557	1,965,407	1,819,607	1,930,369	2,154,832
Interest on long-term debt	817,031	1,180,917	2,951,161	3,110,420	2,991,013	2,948,621	2,859,774	2,674,176	2,542,424	3,186,127
Total governmental activities expenses	\$ 49,616,462	\$ 50,511,674	\$ 57,525,792	\$ 65,160,345	\$ 76,882,371	\$ 82,445,915	\$ 82,941,493	\$ 81,569,345	\$ 81,346,433	\$ 83,650,287
Business-type activities:										
Water	\$ 1,691,936	\$ 1,691,301	\$ 2,561,096	\$ 2,381,713	\$ 2,873,240	\$ 3,148,696	\$ 2,748,400	\$ 2,882,295	\$ 2,523,517	\$ 2,884,071
Sewer	2,610,054	2,566,538	2,708,274	3,077,612	3,538,756	4,172,099	4,476,638	4,156,245	4,975,289	5,256,052
Transit	1,085,071	1,156,280	1,464,268	2,124,171	2,491,330	3,345,639	3,893,458	3,600,428	3,887,158	4,097,929
Parking	-	-	19,575	297,067	441,343	495,917	493,920	528,819	460,950	476,315
Total business-type activities expenses	\$ 5,387,061	\$ 5,414,119	\$ 6,753,213	\$ 7,880,563	\$ 9,344,669	\$ 11,162,351	\$ 11,612,416	\$ 11,167,787	\$ 11,846,914	\$ 12,714,367
Total primary government expenses	\$ 55,003,523	\$ 55,925,793	\$ 64,279,005	\$ 73,040,908	\$ 86,227,040	\$ 93,608,266	\$ 94,553,909	\$ 92,737,132	\$ 93,193,347	\$ 96,364,654

Changes in Net Assets
Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 44,352	\$ 35,159	\$ 36,160	\$ 41,889	\$ 49,059	\$ 50,515	\$ 93,045	\$ 79,215	\$ 85,191	\$ 82,624
Judicial administration	77,388	65,162	66,795	230,864	122,520	112,162	106,210	196,474	219,127	214,894
Public safety	880,080	1,001,944	1,438,302	363,782	1,036,746	1,361,978	1,834,819	1,848,719	2,111,221	1,943,884
Public works	555,898	598,371	598,081	1,695,616	698,875	689,151	727,253	725,710	733,070	743,145
Parks, recreation and cultural	564,243	592,019	562,119	579,514	637,446	550,465	518,630	469,802	487,368	459,848
Community development	766	2,478	1,675	15,185	2,795	2,470	1,685	691	476	145
Operating grants and contributions	7,013,544	8,034,289	8,113,818	8,625,114	9,343,428	10,656,874	10,522,749	10,073,459	10,159,077	11,758,221
Capital grants and contributions	647,763	229,535	-	-	766,972	453,402	202,849	1,750,758	841,870	1,725,467
Total governmental activities program revenues	\$ 9,784,034	\$ 10,558,957	\$ 10,816,950	\$ 11,551,964	\$ 12,657,841	\$ 13,877,017	\$ 14,007,240	\$ 15,144,828	\$ 14,637,400	\$ 16,928,228
Business-type activities:										
Charges for services:										
Water	\$ 1,753,862	\$ 1,870,329	\$ 1,938,886	\$ 2,056,764	\$ 2,067,579	\$ 2,150,126	\$ 2,180,347	\$ 2,261,200	\$ 2,344,438	\$ 2,448,425
Sewer	2,926,124	3,101,699	3,103,723	3,073,788	3,168,327	3,264,915	3,457,792	3,742,221	3,821,281	4,013,111
Transit	28,604	32,157	45,830	50,416	54,952	116,661	159,741	271,610	274,395	368,072
Parking	-	-	-	28,563	83,520	106,916	130,281	192,461	238,240	261,991
Operating grants and contributions	2,605,140	2,695,011	4,350,268	5,887,681	4,427,535	4,560,490	4,342,760	5,270,270	6,621,263	5,493,221
Capital grants and contributions	-	22,289	2,328,265	739,857	2,391,013	2,301,859	566,957	931,897	870,726	763,564
Total business-type activities program revenues	\$ 7,313,730	\$ 7,721,485	\$ 11,766,972	\$ 11,837,069	\$ 12,192,926	\$ 12,500,967	\$ 10,837,878	\$ 12,669,659	\$ 14,170,343	\$ 13,348,384
Total primary government program revenues	\$ 17,097,764	\$ 18,280,442	\$ 22,583,922	\$ 23,389,033	\$ 24,850,767	\$ 26,377,984	\$ 24,845,118	\$ 27,814,487	\$ 28,807,743	\$ 30,276,612
Net (expense) / revenue										
Governmental activities	\$ (39,832,428)	\$ (39,952,717)	\$ (46,708,842)	\$ (53,608,381)	\$ (64,224,530)	\$ (68,568,898)	\$ (68,934,253)	\$ (66,424,517)	\$ (66,709,033)	\$ (66,772,059)
Business-type activities	1,926,669	2,307,366	5,013,759	3,956,506	2,848,257	1,338,616	(774,538)	1,501,872	2,323,429	634,017
Total primary government net expense	\$ (37,905,759)	\$ (37,645,351)	\$ (41,695,083)	\$ (49,651,875)	\$ (61,376,273)	\$ (67,230,282)	\$ (69,708,791)	\$ (64,922,645)	\$ (64,385,604)	\$ (66,088,042)

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes:										
Property taxes	\$ 19,529,042	\$ 21,998,946	\$ 22,552,006	\$ 24,818,965	\$ 27,037,526	\$ 27,791,803	\$ 29,632,428	\$ 29,951,918	\$ 31,254,682	\$ 33,896,976
Local sales and use taxes	9,966,988	11,537,324	11,994,065	12,856,512	12,892,369	12,746,040	11,929,648	10,043,091	10,191,895	10,311,633
Taxes on recordation and wills	334,216	277,548	708,156	985,477	818,353	715,884	460,085	406,123	468,241	402,018
Motor vehicle licenses taxes	159,618	160,089	165,647	298,240	310,039	300,786	377,547	375,553	429,626	421,393
Consumer utility taxes	2,497,143	2,780,470	2,882,555	2,910,053	2,036,988	1,527,028	1,517,109	1,677,699	1,644,628	1,831,083
Business licenses taxes	3,761,772	4,536,150	4,974,756	5,893,564	5,777,346	5,436,366	5,847,174	5,893,072	5,538,312	5,735,557
Meals taxes	4,562,821	5,395,346	5,987,400	6,402,076	6,418,546	7,042,409	7,080,021	8,132,542	8,842,347	9,373,302
Other local taxes	1,703,386	2,359,276	2,735,248	2,651,253	3,140,776	3,308,838	2,920,063	3,450,445	3,169,975	3,236,592
Unrestricted grants and contributions	1,925,405	1,799,222	1,989,643	2,145,364	1,992,420	2,027,309	1,967,696	3,810,995	3,909,817	3,741,002
Unrestricted revenues from use of money and property	1,449,961	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375
Gain / (loss) on disposal of assets	-	-	-	-	298,472	1,073,425	(846,807)	-	-	-
Miscellaneous	277,862	434,025	431,637	18,207,446	683,108	1,837,386	733,896	391,890	294,113	512,888
Transfers	-	-	-	-	764,695	834,798	856,580	904,224	385,020	600,000
Total governmental activities	\$ 46,168,214	\$ 51,853,847	\$ 56,601,992	\$ 79,174,644	\$ 64,661,518	\$ 66,366,740	\$ 63,828,249	\$ 65,574,587	\$ 66,570,435	\$ 70,488,819
Business-type activities:										
Taxes:										
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 393,707	\$ 536,846	\$ 1,355,225	\$ 321,058	\$ 765,756	\$ 726,653
Unrestricted revenues from use of money and property	-	20,731	31,997	315,856	418,168	448,499	275,621	123,522	71,152	85,668
Miscellaneous	185,861	231,467	169,744	244,292	204,666	1,581,616	344,846	512,162	445,142	598,861
Transfers	-	-	24,547	-	(764,695)	(834,798)	(856,580)	(904,224)	(385,020)	(600,000)
Total business-type activities	\$ 185,861	\$ 252,198	\$ 226,288	\$ 560,148	\$ 251,846	\$ 1,732,163	\$ 1,119,112	\$ 52,518	\$ 897,030	\$ 811,182
Total primary government	\$ 46,354,075	\$ 52,106,045	\$ 56,828,280	\$ 79,734,792	\$ 64,913,364	\$ 68,098,903	\$ 64,947,361	\$ 65,627,105	\$ 67,467,465	\$ 71,300,001
Change in Net Assets										
Governmental activities	\$ 6,335,786	\$ 11,901,130	\$ 9,893,150	\$ 25,566,263	\$ 436,988	\$ (2,202,158)	\$ (5,106,004)	\$ (849,930)	\$ (138,598)	\$ 3,766,760
Business-type activities	2,112,530	2,559,564	5,240,047	4,516,654	3,100,103	3,070,779	344,574	1,554,390	3,220,459	1,445,199
Total primary government	\$ 8,448,316	\$ 14,460,694	\$ 15,133,197	\$ 30,082,917	\$ 3,537,091	\$ 868,621	\$ (4,761,430)	\$ 704,460	\$ 3,081,861	\$ 5,211,959

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Reserved	\$ 326,832	\$ 506,004	\$ 422,747	\$ 248,573	\$ 747,450	\$ 225,153	\$ 189,721	\$ 445,308	\$ -	\$ -
Unreserved	17,343,550	22,354,035	26,847,192	23,232,843	20,924,343	17,975,842	15,924,951	17,272,991	-	-
Nonspendable	-	-	-	-	-	-	-	-	44,611	348,945
Committed	-	-	-	-	-	-	-	-	5,257,805	5,004,661
Assigned	-	-	-	-	-	-	-	-	373,829	292,876
Unassigned	-	-	-	-	-	-	-	-	13,662,911	20,225,801
Total general fund	\$ 17,670,382	\$ 22,860,039	\$ 27,269,939	\$ 23,481,416	\$ 21,671,793	\$ 18,200,995	\$ 16,114,672	\$ 17,718,299	\$ 19,339,156	\$ 25,872,283
All other governmental funds										
Reserved	\$ 917,284	\$ 283,399	\$ 2,551,352	\$ 421,979	\$ 500,819	\$ 870,711	\$ 1,232,229	\$ 250,474	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	2,565,757	3,186,317	3,392,644	3,634,866	3,606,488	2,730,594	3,255,921	3,346,494	-	-
Capital projects funds	10,196,613	53,849,607	30,128,715	19,040,047	9,716,246	11,504,973	9,629,901	7,938,299	-	-
Restricted, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	193,070	243,980
Committed, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	2,480,555	1,821,770
Capital projects funds	-	-	-	-	-	-	-	-	1,981,075	31,832,728
Assigned, reported in:										
Capital projects funds	-	-	-	-	-	-	-	-	7,653,041	8,261,194
Total all other governmental funds	\$ 13,679,654	\$ 57,319,323	\$ 36,072,711	\$ 23,096,892	\$ 13,823,553	\$ 15,106,278	\$ 14,118,051	\$ 11,535,267	\$ 12,307,741	\$ 42,159,672

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
General property taxes	\$ 19,658,874	\$ 22,038,643	\$ 22,575,809	\$ 24,052,400	\$ 27,608,258	\$ 27,840,128	\$ 29,410,334	\$ 29,903,318	\$ 31,240,415	\$ 33,961,795
Other local taxes	22,985,944	27,046,203	29,447,827	31,997,175	31,394,417	31,077,351	30,131,647	29,978,525	30,285,024	31,311,578
Permits, privilege fees and regulatory licenses	413,773	499,110	988,302	1,117,018	753,661	653,453	717,349	822,476	945,035	748,371
Fines and forfeitures	466,307	502,834	450,000	339,338	283,035	408,580	466,213	344,897	586,421	479,355
Revenue from use of money and property	1,449,961	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375
Charges for services	1,242,647	1,293,189	1,264,830	1,470,494	1,510,745	1,704,708	2,098,080	2,153,238	2,104,997	2,216,814
Miscellaneous	277,862	434,025	468,884	1,026,316	683,108	563,376	392,910	391,890	257,448	485,647
Recovered costs	729,646	1,589,560	1,425,432	1,180,093	1,917,637	1,694,312	1,364,758	1,256,605	1,004,106	1,491,448
Intergovernmental:										
Commonwealth	7,276,493	7,204,137	7,615,919	8,141,771	8,703,743	10,169,012	9,936,350	11,239,010	11,490,604	13,345,182
Federal	2,310,219	2,858,909	2,487,542	2,628,707	2,949,077	2,968,573	2,756,944	3,337,402	3,221,610	3,879,508
Total revenues	\$ 56,811,726	\$ 64,042,061	\$ 68,905,424	\$ 73,959,006	\$ 78,294,561	\$ 78,804,161	\$ 78,627,394	\$ 79,964,396	\$ 81,577,439	\$ 88,346,073
Expenditures										
General government administration	\$ 3,544,021	\$ 3,620,386	\$ 3,956,701	\$ 4,094,919	\$ 4,720,227	\$ 5,047,982	\$ 5,402,264	\$ 4,785,487	\$ 5,034,113	\$ 5,785,583
Judicial administration	2,173,551	2,260,530	2,494,022	2,946,064	3,233,832	3,575,964	3,324,483	3,326,241	3,347,017	3,707,295
Public safety	12,653,369	13,210,581	14,051,770	15,361,207	17,375,049	18,603,995	18,220,229	18,666,202	18,154,890	18,006,243
Public works	5,067,820	5,655,233	5,767,195	6,452,638	6,785,769	7,273,319	7,206,095	7,648,942	7,430,631	7,932,048
Health and welfare	4,602,554	5,491,600	5,814,011	6,245,485	7,119,818	6,859,859	6,976,070	7,004,337	7,136,173	7,181,433
Education	15,556,786	14,839,742	15,942,171	18,961,723	21,631,305	24,441,360	25,202,840	24,143,850	24,343,841	25,243,849
Parks, recreation and cultural	2,879,319	3,108,829	3,432,702	3,811,195	3,928,293	4,053,007	4,090,417	3,441,368	3,389,943	3,733,260
Community development	2,460,671	2,026,074	2,030,189	2,174,694	2,975,019	2,732,018	2,380,204	2,168,755	2,255,173	2,416,979
Capital projects	4,811,374	15,286,264	27,965,223	30,809,180	16,439,420	6,735,321	3,456,377	4,792,112	2,675,390	9,269,823
Debt service										
Principal	2,520,546	1,804,469	1,933,645	2,897,462	3,040,925	3,296,107	3,126,779	3,026,695	3,127,831	2,857,891
Interest and other fiscal charges	941,679	779,714	2,329,960	3,147,613	3,191,033	3,064,543	3,046,535	2,843,788	2,710,791	2,675,680
Total expenditures	\$ 57,211,690	\$ 68,083,422	\$ 85,717,589	\$ 96,902,180	\$ 90,440,690	\$ 85,683,475	\$ 82,432,293	\$ 81,847,777	\$ 79,605,793	\$ 88,810,084
Excess (deficiency) of revenues over expenditures	\$ (399,964)	\$ (4,041,361)	\$ (16,812,165)	\$ (22,943,174)	\$ (12,146,129)	\$ (6,879,314)	\$ (3,804,899)	\$ (1,883,381)	\$ 1,971,646	\$ (464,011)
Other financing sources (uses)										
Transfers in	\$ 172,391	\$ 2,869,218	\$ 210,862	\$ 228,217	\$ 764,695	\$ 834,798	\$ 10,133,320	\$ 9,732,457	\$ 11,913,628	\$ 9,615,156
Transfers out	-	-	(235,409)	(558,664)	-	-	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)
Refunding bonds issued	-	-	-	-	-	-	2,672,836	-	-	2,469,101
Bonds issued	-	48,095,000	-	6,509,279	-	2,462,150	-	-	-	33,860,000
Premium on bonds issued	-	1,906,469	-	-	-	64,015	-	-	-	1,760,063
Payments to refunded bond escrow agent	-	-	-	-	-	-	(2,650,207)	-	-	(2,592,336)
Long-term notes payable issued	-	-	-	-	-	-	-	-	-	725,000
Sale of capital assets	-	-	-	-	298,472	1,105,125	76,293	-	36,665	27,241
Total other financing sources (uses)	\$ 172,391	\$ 52,870,687	\$ (24,547)	\$ 6,178,832	\$ 1,063,167	\$ 4,466,088	\$ 955,502	\$ 904,224	\$ 421,685	\$ 36,849,069
Net change in fund balances	\$ (227,573)	\$ 48,829,326	\$ (16,836,712)	\$ (16,764,342)	\$ (11,082,962)	\$ (2,413,226)	\$ (2,849,397)	\$ (979,157)	\$ 2,393,331	\$ 36,385,058
Debt service as a percentage of noncapital expenditures	6.69%	4.96%	7.44%	9.04%	8.19%	8.03%	7.84%	7.59%	7.53%	6.93%

CITY OF FREDERICKSBURG, VIRGINIA

Table 5

General Governmental Tax Revenues by Source
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Business License Tax	Motor		Bank Stock Tax	Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
					Vehicle License Tax	Vehicle License Tax						
2003	\$ 19,658,874	\$ 9,966,988	\$ 2,497,143	\$ 3,761,772	\$ 159,618	\$ 159,618	\$ 425,193	\$ 334,216	\$ 147,270	\$ 527,818	\$ 4,562,821	\$ 42,041,713
2004	22,038,643	11,537,324	2,780,470	4,536,150	160,089	160,089	519,107	277,548	195,098	605,936	5,395,346	48,045,711
2005	22,575,809	11,994,065	2,882,555	4,974,756	165,647	165,647	501,213	708,156	898,413	718,473	5,987,400	51,406,487
2006	24,052,400	12,856,512	2,910,053	5,893,564	298,240	298,240	546,953	985,477	613,471	808,010	6,402,076	55,366,756
2007	27,608,258	12,892,369	2,036,988	5,777,346	310,039	310,039	567,273	818,353	612,462	860,935	6,418,546	57,902,569
2008	27,840,128	12,746,040	1,527,028	5,436,366	300,786	300,786	459,020	715,884	593,940	918,952	7,042,409	97,888,263
2009	29,410,334	11,929,648	1,517,109	5,847,174	377,547	377,547	469,094	460,085	530,216	1,050,586	7,080,021	58,671,814
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	375,553	758,805	406,123	503,322	1,084,542	8,132,542	75,939,346
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	429,626	777,521	468,241	554,701	1,175,244	8,842,347	60,862,930
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	421,393	696,511	402,018	578,303	1,182,500	9,373,302	64,494,095

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

Fiscal Year	Real Estate	Direct		Personal Property	Direct		Machinery and Tools	Direct		Public Service	Service Charges		Total Taxable Assessed Value		Total Direct Tax Rate		Estimated Actual Taxable Value		Assessed Value as a Percentage of Actual Value
		Tax Rate	Tax Rate		Tax Rate	Tax Rate		Tax Rate	Tax Rate		Tax Rate	Tax Rate	Tax Rate	Tax Rate					
2003	\$ 1,303,778,900	\$	1.13	\$ 166,499,597	\$	2.99	\$ 14,883,250	\$	0.80	\$ 83,318,479	\$	1,436,700	\$	1,569,916,926	\$	1.34	\$ 1,569,916,926	100.00%	
2004	1,902,889,000		0.89	170,590,770		2.99	14,184,964		0.80	78,948,771		1,856,400		2,168,469,905		1.06	2,168,469,905	100.00%	
2005	1,931,966,200		0.89	182,889,067		2.99	12,921,115		0.80	81,650,555		1,856,400		2,211,283,337		1.07	2,211,283,337	100.00%	
2006	2,074,818,500		0.89	219,561,613		2.99	11,754,265		0.80	49,453,104		1,856,400		2,357,443,882		1.09	2,357,443,882	100.00%	
2007	2,241,072,600		0.89	238,522,432		2.99	10,016,867		0.80	41,254,287		1,856,400		2,532,722,586		1.09	2,532,722,586	100.00%	
2008	4,045,740,800		0.53	247,570,187		2.99	8,972,280		0.80	45,382,045		4,023,600		4,351,688,912		0.67	4,351,688,912	100.00%	
2009	4,106,387,300		0.56	244,149,967		2.99	9,064,237		0.80	87,776,155		4,060,300		4,451,437,959		0.70	4,451,437,959	100.00%	
2010	3,501,342,300		0.68	237,860,715		3.40	20,065,271		0.80	92,224,942		3,464,100		3,854,957,328		0.85	3,854,957,328	100.00%	
2011	3,542,088,600		0.68	252,413,838		3.40	33,658,145		0.80	106,522,343		3,464,100		3,938,147,026		0.86	3,938,147,026	100.00%	
2012	3,606,739,500		0.72	266,300,640		3.40	34,817,018		0.80	121,621,449		3,464,100		4,032,942,707		0.90	4,032,942,707	100.00%	

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 7

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

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Total Direct Tax Rate
2003	\$ 1.13	\$ 2.99	\$ 1.13	\$ 0.80	1.34
2004	0.89	2.99	0.89	0.80	1.06
2005	0.89	2.99	0.89	0.80	1.07
2006	0.89	2.99	0.89	0.80	1.09
2007	0.89	2.99	0.89	0.80	1.09
2008	0.53	2.99	0.53	0.80	0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90

(1) Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 8

Principal Property Taxpayers

Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2012			Fiscal Year 2003		
		2011-2012 Assessed Valuation	Rank	% of Total Assessed Valuation (1)	2002-2003 Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Fredericksburg 35 LLC	Central Park property	\$ 105,476,300	1	2.83 %	\$ -	-	-
Virginia Electric & Power Co.	Public utility	58,309,740	2	1.56	22,973,488	4	1.65
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	49,410,200	3	1.32	28,555,900	1	2.06
Central Park Marketplace Holdings LLC	Central Park property	38,349,300	4	1.03	-	-	-
Verizon Virginia, Inc.	Public utility	36,016,137	5	0.97	27,747,971	2	2.00
2520 Belmont Terrace Holdings	Apartment complex	30,913,400	6	0.83	-	-	-
Celebrate Virginia South LLC	Office buildings, retail	29,834,100	7	0.80	-	-	-
Carl D. Silver Holdings, Co.	Various commercial	27,391,400	8	0.73	-	-	-
Wal-Mart Real Estate Business	Retail	25,048,100	9	0.67	-	-	-
Hylton Venture LLC	Land development	24,545,200	10	0.66	-	-	-
Town Center - Central Park	Restaurants, ice park, office building	-	-	-	27,401,400	3	1.97
Riverside Manor	Apartment complex	-	-	-	13,545,000	5	0.98
Lowes Home Center, Inc.	Retail	-	-	-	11,029,800	6	0.79
Fredericksburg Park & Shop LP	Shopping center	-	-	-	10,820,300	7	0.78
Summit/Belmont, LP	Apartment complex	-	-	-	10,600,700	8	0.76
Carl D. Silver, Co.	Hotels	-	-	-	10,391,200	9	0.75
Adelphia Business Solutions of Va.	Public utility	-	-	-	10,031,250	10	0.72
Total		\$ 425,293,877		11.40 %	\$ 173,097,009		12.47 %

Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year (1)	Collected within the Fiscal Year of the Levy				Collections in Subsequent Years (1) (3)	Total Collections to Date	
		Year of the Levy		Percentage of Levy (2)	Amount (1) (3)		Percentage of Levy (2)	Amount (1) (3)
		Amount (1) (3)						
2003	\$ 21,078,696	\$ 20,898,738	99.15%	\$ 130,630	\$ 21,029,368	99.77%		
2004	23,173,114	22,971,933	99.13%	162,121	23,134,054	99.83%		
2005	24,116,517	23,928,589	99.22%	148,401	24,076,990	99.84%		
2006	26,936,577	26,561,519	98.61%	304,684	26,866,203	99.74%		
2007	28,552,323	28,097,519	98.41%	393,142	28,490,661	99.78%		
2008	29,330,707	28,961,391	98.74%	300,030	29,261,421	99.76%		
2009	30,902,557	30,222,352	97.80%	543,232	30,765,584	99.56%		
2010	32,129,525	31,050,501	96.64%	922,633	31,973,134	99.51%		
2011	33,269,826	32,103,892	96.50%	583,699	32,687,591	98.25%		
2012	35,663,960	34,417,182	96.50%	-	34,417,182	96.50%		

(1) Exclusive of penalties and interest.

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Years	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General		Other	General		Other			
	Obligation Bonds	Notes/ Bonds	Obligation Bonds	Notes/ Bonds					
2003	\$ 20,319,760	\$ 50,000	\$ 4,530,240	\$ -	\$ -	24,900,000	3.92%	\$ 1,206	
2004	66,660,291	-	4,134,709	-	-	70,795,000	10.28%	3,317	
2005	64,726,646	-	3,778,501	4,035,000	-	72,540,147	9.71%	3,339	
2006	68,329,184	-	7,670,963	-	-	76,000,147	9.51%	3,448	
2007	65,288,259	-	7,226,888	-	-	72,515,147	8.38%	3,201	
2008	64,454,302	-	14,945,845	-	-	79,400,147	8.93%	3,467	
2009	61,350,152	-	14,246,995	-	-	75,597,147	8.47%	3,237	
2010	58,323,457	-	19,700,689	-	-	78,024,146	8.16%	3,213	
2011	55,195,626	-	18,696,521	-	-	73,892,147	7.30%	2,876	
2012	86,074,500	725,000	17,675,647	-	-	104,475,147	10.33%	4,067	

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 11

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

Fiscal Year	Gross Bonded Debt		Less: Amounts Reserved for Debt Service		Net Bonded Debt (1)		Ratio of Net General Obligation Debt to Assessed Value (2)		Net Bonded Debt per Capita (3)	
	\$	\$	\$	\$	\$	\$	%	%	\$	\$
2003	\$	24,900,000	\$	-	\$	24,900,000	1.59%	\$	1,206	
2004		70,795,000		-		70,795,000	3.26%		3,317	
2005		72,540,147		-		72,540,147	3.28%		3,339	
2006		76,000,147		-		76,000,147	3.22%		3,448	
2007		72,515,147		-		72,515,147	2.86%		3,201	
2008		79,400,147		-		79,400,147	1.82%		3,467	
2009		75,597,147		-		75,597,147	1.70%		3,237	
2010		78,024,146		-		78,024,146	2.02%		3,213	
2011		73,892,147		-		73,892,147	1.88%		2,876	
2012		104,475,147		-		104,475,147	2.59%		4,067	

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

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

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

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 82,545,570	\$ 115,844,874	\$ 119,047,390	\$ 124,498,301	\$ 132,869,049	\$ 231,895,610	\$ 237,514,942	\$ 207,207,276	\$ 211,856,637	\$ 216,056,402
Total net debt applicable to limit	24,900,000	70,795,000	72,540,147	76,000,147	72,515,147	79,400,147	75,597,147	78,024,146	73,892,147	104,475,147
Legal debt margin	\$ 57,645,570	\$ 45,049,874	\$ 46,507,243	\$ 48,498,154	\$ 60,353,902	\$ 152,495,463	\$ 161,917,795	\$ 129,183,130	\$ 137,964,490	\$ 111,581,255
Total net debt applicable to the limit as a percentage of debt limit	30.17%	61.11%	60.93%	61.05%	54.58%	34.24%	31.83%	37.66%	34.88%	48.36%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 3,728,360,949
Add back: exempt real property	772,814,100
Total assessed value	\$ 4,501,175,049
Debt limit (4.8% of total assessed value)	\$ 216,056,402
Net debt applicable to limit	104,475,147
Legal debt margin	\$ 111,581,255

Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Bonds											
	Water & Sewer		Less:		Net							
	Charges and Other		Operating Expenses		Available Revenue		Debt Service					
							Principal	Interest				
2003	\$	6,164,964	\$	3,547,818	\$	2,617,146	\$	1,098,061	\$	767,997	\$	1.40
2004		6,233,777		3,717,094		2,516,683		1,153,404		606,067		1.43
2005		7,885,646		5,102,334		2,783,312		1,168,757		167,036		2.08
2006		9,346,467		5,049,094		4,297,373		1,197,949		410,231		2.67
2007		7,517,175		6,045,570		1,471,605		1,224,349		366,426		0.93
2008		7,142,159		6,799,902		342,257		1,272,693		520,893		0.19
2009		7,361,317		6,559,626		801,691		1,514,393		665,412		0.37
2010		7,693,179		6,388,224		1,304,955		1,583,149		650,316		0.58
2011		10,049,028		6,710,195		3,338,833		1,860,357		788,611		1.26
2012		9,218,671		7,394,400		1,824,271		1,905,625		745,723		0.69

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita		School Enrollment (3)	Unemploy- ment Rate (4)
		Personal Income	Personal Income (2)		
2003	20,641	635,536,390	30,790	2,278	5.4%
2004	21,342	688,514,262	32,261	2,384	5.1%
2005	21,724	746,914,568	34,382	2,418	4.8%
2006	22,044	799,337,484	36,261	2,447	4.0%
2007	22,651	865,154,945	38,195	2,511	4.1%
2008	22,899	889,030,776	38,824	2,540	5.7%
2009	23,353	892,808,543	38,231	2,655	9.2%
2010	24,286 *	956,504,110	39,385	2,793	9.6%
2011	25,691 *	1,011,840,035	39,385	3,037	10.3%
2012	25,691 *	1,011,840,035	39,385	3,072	8.8%

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

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

(3) Source: Fredericksburg School Board office.

(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers

Current Year and the Period Nine Years Prior

Employer	Fiscal Year 2012			Fiscal Year 2003		
	Number of Employees (1)	Rank	Percentage of Total Employment	Number of Employees (2)	Rank	
Mary Washington Healthcare	4,250	1	32.15%	1000 and Over	1	
University of Mary Washington	824	2	6.23%	500 to 999	2	
City of Fredericksburg School Board	667	3	5.05%	500 to 999	3	
City of Fredericksburg	625	4	4.73%	500 to 999	4	
Wal-Mart	511	5	3.87%	100 to 249	6	
Wegmans	504	6	3.81%	-	-	
Free Lance Star Publishing, Inc.	394	7	2.98%	250 to 499	5	
Rappahannock Goodwill Industries	207	8	1.57%	100 to 249	8	
OS Restaurant Services	193	9	1.46%	-	-	
Target	174	10	1.32%	100 to 249	9	
Home Depot USA, Inc.	-	-	-	100 to 249	7	
Lowe's Home Centers, Inc.	-	-	-	100 to 249	10	

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

(2) For fiscal year 2003 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA

Table 16

Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	37	37	37	37	41	43	40	38	41	41
Judicial administration	31	31	30	35	42	41	39	38	39	39
Public safety	162	163	162	169	166	162	162	164	162	166
Public works	73	70	73	69	87	86	81	75	73	74
Health and welfare	31	33	32	34	33	35	35	35	34	33
Parks and recreation	13	13	13	16	16	19	17	17	17	16
Community development	8	11	11	11	12	13	12	12	12	11
Water	4	4	4	7	9	9	10.5	10.5	10	10
Wastewater	16	15	16	16	18	21	18.5	16.5	19	19
Transit	5	5	5	6	11	12	13	13	13	13
Parking garage	-	-	-	-	1	1	1	1	1	1
Totals	380	382	383	400	436	442	429	420	421	423

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety:										
Police department:										
Physical arrests	3,407	3,281	3,656	3,805	2,839	2,850	3,168	3,477	3,772	3,621
Traffic violations	10,935	12,496	10,644	9,500	6,167	7,290	7,335	6,546	7,937	7,914
Parking violations	6,999	11,791	10,431	10,449	10,055	10,671	8,397	7,467	7,223	6,965
Sheriffs department:										
Civil papers	37,272	39,771	40,314	40,502	42,279	44,088	41,379	48,074	48,918	50,764
Fire and rescue:										
Number of calls answered	3,971	4,794	5,159	5,450	5,728	6,145	5,885	5,882	5,825	5,471
Inspections	-	1,432	1,434	1,542	2,531	3,111	2,265	2,489	2,446	2,372
Building inspections:										
Permits issued	2,100	2,192	3,528	3,820	2,395	1,781	1,541	1,486	1,633	1,558
Animal control:										
Number of calls answered	897	899	901	992	1,163	1,010	811	1,015	897	864
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	370	315	518	483	483	311	277	327	517	400
Waste removal:										
Refuse collected										
(thousands of pounds/day)	26.9	29.4	30.3	28.8	24.3	24.7	20.6	21.4	20.7	19.3
Recycling collected:										
Leaves (cubic yards)	4,939	4,972	5,049	5,577	5,379	6,292	5,604	5,604	5,038	4,510
General services:										
Buildings maintained										
(thousands of square feet)	208.0	375.5	375.5	486.6	572.1	496.9	501.9	500.5	500.5	480.5
Culture and recreation:										
Parks and recreation:										
Number of programs	214	250	370	385	403	518	510	464	471	514
Number of participants	10,830	12,650	14,260	15,300	17,055	20,964	18,563	16,193	19,082	20,425
Community development:										
Planning:										
Zoning permits issued (1) (2)	337	391	327	309	289	237	291	260	283	390

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Water:										
Number of connections	6,293	6,435	6,696	7,062	7,245	7,274	7,351	7,453	7,614	7,718
Average daily consumption (thousands of gallons)	2,269	2,362	2,394	2,718	2,529	2,639	2,492	2,334	2,557	2,584
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,829	2,739	2,389	2,181	2,454	2,700	2,794	3,210	2,700	3,010
Transit:										
Ridership per service area: (3)										
City of Fredericksburg	161,329	181,743	185,663	177,833	184,670	208,410	273,685	261,238	274,540	278,657
UMW - Eagle Express	14,530	17,697	18,667	15,996	17,723	16,444	15,014	12,030	15,323	12,284
Spotsylvania County	36,764	39,059	40,514	40,730	44,659	81,315	113,669	97,343	96,248	116,623
South Stafford County	19,181	21,678	25,043	30,900	34,808	32,112	39,234	40,830	45,288	44,341
North Stafford County	-	-	9,908	44,445	53,957	62,895	77,303	74,369	70,397	72,366
Caroline County	3,834	5,924	5,701	5,647	5,855	6,189	8,160	7,155	5,882	7,352
King George County	-	-	1,020	7,803	10,727	15,867	21,550	16,792	16,993	17,033
Component Unit - School Board:										
Education:										
Number of students	2,278	2,384	2,418	2,447	2,511	2,540	2,655	2,793	3,037	3,072
Number of teachers	230	239	238	248	251	256	257	256	258	258
Cost per pupil	\$ 10,507	\$ 11,429	\$ 11,867	\$ 13,131	\$ 13,403	\$ 14,416	\$ 13,911	\$ 13,276	\$ 11,882	\$ 12,546

Source: Individual city departments.

(1) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.

(2) Data presented on a calendar year basis (FY2003 - FY2008).

(3) Transit indicators are presented from the first year of operation for each service area.

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	22	22	22	25	30	35	33	31	31	31
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	6	6	6	7	7	7	8	8	9	10
Sheriffs department:										
Patrol units	12	13	15	16	18	14	15	15	15	15
Building inspections:										
Vehicles	4	4	4	5	7	7	7	7	7	7
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	21	21	22	22	22	22	22	21	20	20
Streets (moving lane miles)	172	172	174	183	189	189	189	189	189	189
Traffic signals	50	52	52	57	61	61	61	61	61	61
Waste removal:										
Trucks/vehicles	7	7	7	7	7	7	7	8	10	10
Building maintenance:										
Trucks/vehicles	6	7	8	10	9	10	8	10	10	10
Health and welfare:										
Department of Social Services:										
Vehicles	5	5	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	15	14	13	13	14	13	15	13	13	14
Parks	10	10	12	12	13	13	13	17	18	18
Park acreage	949	949	1,003	1,003	1,009	1,015	1,015	1,051	1,055	1,055
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	4	4	4	5	5	5	5	5	5	5
School buses	41	35	35	33	36	36	36	37	38	37

Source: Individual city departments.

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia as of and for the year ended June 30, 2012, which collectively comprise the City of Fredericksburg, Virginia's basic financial statements and have issued our report thereon dated November 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Fredericksburg, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fredericksburg, Virginia'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 of Fredericksburg, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fredericksburg, Virginia'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 City's financial statements will not be prevented, or detected and 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fredericksburg, Virginia'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Fredericksburg, Virginia in a separate letter dated November 12, 2012.

This report is intended solely for the information and use of the City Council, management, others within the entity, 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.

Robinson, Tamm, Cox Associates

Fredericksburg, Virginia
November 12, 2012

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' 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

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

Compliance

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City of Fredericksburg, Virginia'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 of Fredericksburg, Virginia's management. Our responsibility is to express an opinion on the City of Fredericksburg, Virginia'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 of Fredericksburg, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Fredericksburg, 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.

Internal Control Over Compliance

The management of the City of Fredericksburg, Virginia 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 of Fredericksburg, Virginia'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.

Internal Control Over Compliance: (Continued)

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 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.

This report is intended solely for the information and use of the City Council, management, others within the entity, 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.



Fredericksburg, Virginia
November 12, 2012

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government:			
Department of Agriculture:			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010111/0010112 0040111/0040112	\$ 353,060
Total Department of Agriculture			\$ 353,060
Department of Housing and Urban Development:			
Direct Payments:			
Community Development Block Grant - Entitlement Grants	14.218	N/A	\$ 184,206
Total Department of Housing and Urban Development			\$ 184,206
Department of Justice:			
Pass-through Payments:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	39001-41000/61000	\$ 67,530
Crime Victim Assistance	16.575	39001-86000/76000	47,171
ARRA - State Victim Assistance Formula Grant Program	16.801	39001-62300	9,501
Total Department of Justice			\$ 124,202
Department of Transportation:			
Direct Payments:			
Highway Planning and Construction	20.205	N/A	\$ 1,323,870
Pass-through Payments:			
Virginia Department of Rail and Public Transportation:			
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500	VA-95-X042-00/ VA-95-X021-00/ VA-90-X299-00/ VA-95-X078	626,350
Federal Transit - Formula Grants	20.507	VA-18-X031-00/ VA-18-X032-00/ VA-90-X366-00	1,185,269
Total Federal Transit Cluster			\$ 3,135,489
Virginia Department of Motor Vehicles:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	60507-51355	\$ 4,051
Alcohol Open Container Requirements	20.607	60507-52200	12,685
Total Department of Transportation			\$ 3,152,225

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2012 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government: (continued)			
Department of Health and Human Services:			
Pass-through Payments:			
Department of Social Services:			
CCDF Cluster:			
Child Care and Development Block Grant	93.575	0770110/0770111	\$ 299,486
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760111/0760112	265,901
Total CCDF Cluster			\$ 565,387
Promoting Safe and Stable Families	93.556	0950111/0950112	12,383
Temporary Assistance for Needy Families	93.558	0400111/0400112	318,086
Refugee and Entrant Assistance State Administered Programs	93.566	0500111/0500112	900
Low-Income Home Energy Assistance	93.568	0600411/0600412	22,621
Chafee Education & Training Vouchers Program	93.599	9160111	4,281
Stephanie Tubbs Jones Child Welfare Services - State Grants	93.645	0900111/0900112	838
Foster Care - Title IV-E	93.658	1100111/1100112	294,791
Adoption Assistance	93.659	1120111/1120112	208,279
Social Services Block Grant	93.667	1000111/1000112	206,500
Chafee Foster Care Independence Program	93.674	9150111/9150112	6,771
Children's Health Insurance Program	93.767	0540111/0540112	10,507
Medical Assistance Program	93.778	1200111/1200112	214,094
Total Department of Health and Human Services			\$ 1,865,438
Department of Homeland Security:			
Direct Payments:			
Emergency Food and Shelter National Board Program	97.024	N/A	\$ 11,996
Total Department of Homeland Security			\$ 11,996
Total Expenditures of Federal Awards - Primary Government			\$ 5,691,127
Component Unit - School Board:			
Department of Agriculture:			
Pass-through Payments:			
Virginia Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program (SL-4) (SL-11)	10.555	10.555/2011/2012	\$ 761,092
Food Distribution Service	10.555	10.555/2011/2012	102,847
Total 10.555			\$ 863,939
School Breakfast Program	10.553	10.553/2011/2012	\$ 265,000
Total Department of Agriculture			\$ 1,128,939

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2012 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Component Unit - School Board: (continued)			
Department of Health and Human Services:			
Direct Payments:			
Head Start	93.600	N/A	\$ 1,116,154
Total Department of Health and Human Services			\$ 1,116,154
Department of Education:			
Pass-through Payments:			
Virginia Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A110046/ S010A100046	\$ 1,116,133
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	S389A090046	5,438
Total Title I, Part A Cluster			\$ 1,121,571
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A110107	\$ 572,697
ARRA - Special Education - Grants to States, Recovery Act	84.391	H391A090107	149,863
Special Education - Preschool Grants	84.173	H173A100112	12,558
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	H392A090112	5,603
Total Special Education Cluster (IDEA)			\$ 740,721
Education Technology State Grants	84.318	S318X100046	2,341
English Language Acquisition Grants	84.365	S365A100046 T365A090046	25,646
Career and Technical Education - Basic Grants to States	84.048	V048A110046 V048A100046	51,110
ARRA - Education Jobs Fund	84.410	S410A100047	5,431
Improving Teacher Quality State Grants	84.367	S367A100044 S367A110044	173,222
Total Department of Education			\$ 2,120,042
Total Expenditures of Federal Awards - Component Unit School Board			\$ 4,365,135
Total Expenditures of Federal Awards - Reporting Entity			\$ 10,056,262
Loans and loan guarantees not included in the above as federal assistance:			
Environmental Protection Agency:			
Pass-through Payments:			
State Water Control Board:			
Capitalization Grants for Clean Water State Revolving Fund - balance of loan as of June 30, 2012	66.458	51503-90301	\$ 1,609,765
See accompanying notes to the Schedule of Expenditures of Federal Awards.			

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Fredericksburg, Virginia under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 3 - Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of \$39,089 were received on behalf of subrecipients for the CDBG - Entitlement Grants Cluster for the year ended June 30, 2012.

Note 4 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary Government:

General Fund	\$ 34,788
Special Revenue Funds:	
Virginia Public Assistance Fund	2,174,221
Comprehensive Services Act Fund	21,484
City Grants Fund	325,144
Capital Projects Funds:	
Public Works Construction Fund	1,155,871
Public Facilities Construction Fund	168,000
Proprietary Funds:	
Transit Fund	1,811,619
Wastewater Fund	61,661
Total Primary Government	\$ 5,752,788

Component Unit School Board:

School Operating Fund	\$ 5,431
School Grants Fund	4,359,704
Total Component Unit School Board	\$ 4,365,135

Less: Build America Bonds Interest Subsidy \$ (61,661)

Total Federal Expenditures per the Schedule of Expenditures
of Federal Awards \$ 10,056,262

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
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Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
20.205	Highway Planning and Construction
84.010/84.389	Title I, Part A Cluster
93.558	Temporary Assistance for Needy Families
84.027/84.173/84.391/84.392	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	\$301,688
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Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2012

There were no prior year findings or questioned costs.