

CITY OF WINCHESTER, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2014

Prepared by:
City of Winchester, Virginia
Finance Department

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**CITY OF WINCHESTER, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014**

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CITY OF WINCHESTER, VIRGINIA

THE COMMON COUNCIL

Elizabeth A. Minor, Mayor
John A. Willingham, President
Milton F. McInturff, Vice President
Les C. Veach, Sr., Vice Mayor

John P. Tagnesi
Corey S. Sullivan
John W. Hill

Evan H. Clark
Jeffrey B. Buettner

OFFICIALS

Eden E. Freeman, City Manager
Kari J. Van Diest, Deputy Clerk of Council

CONSTITUTIONAL OFFICERS

Leslie R. Taylor, City Sheriff
Jeffrey L. Barbour, City Treasurer
Terence H. Whittle, Clerk of the Circuit Court
Ann T. Burkholder, Commissioner of the Revenue
Alexander R. Iden, Commonwealth's Attorney

OTHER OFFICIALS

Penny Mathias

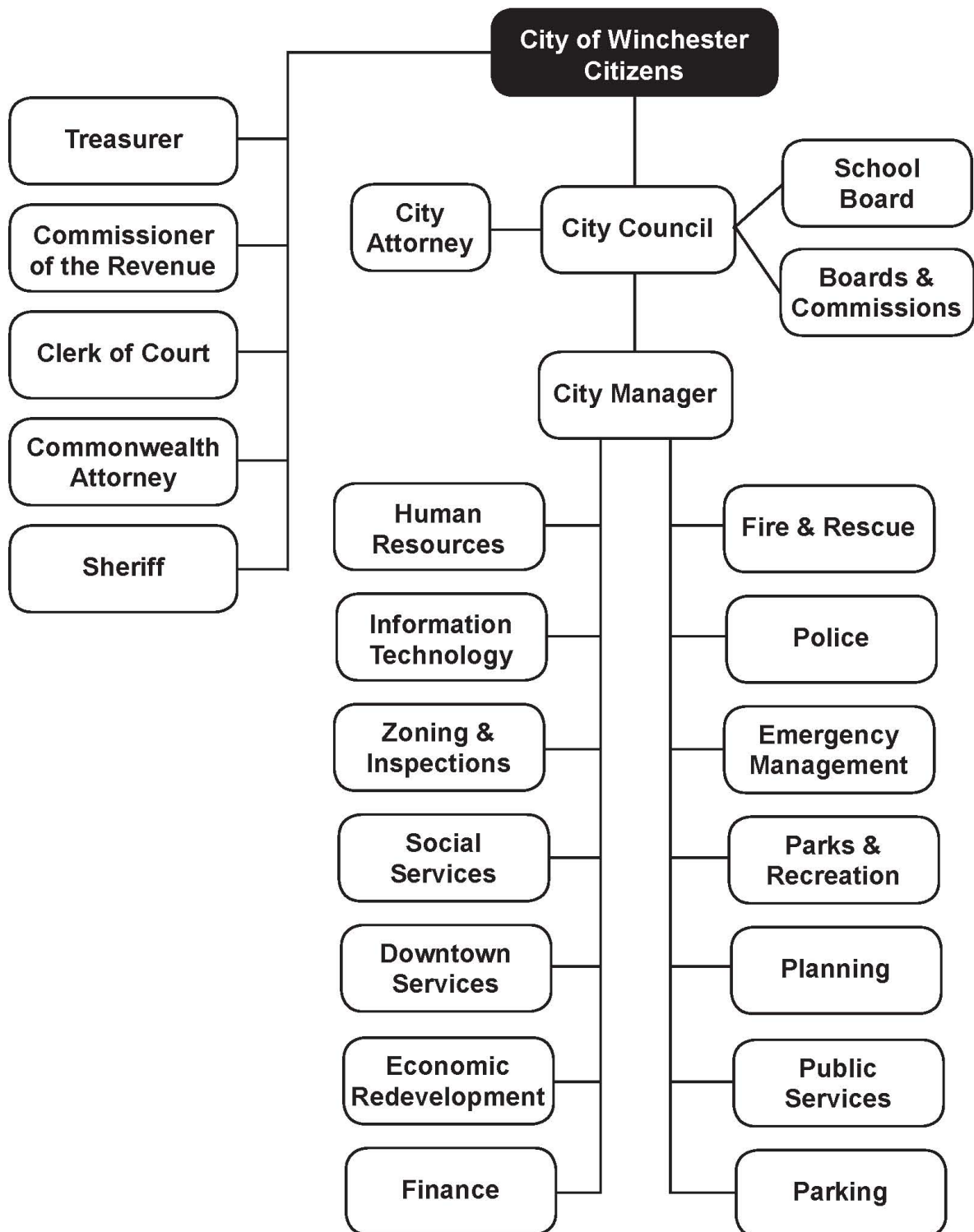
John C. Knight
Vacant

Mary M. Blowe
Allen W. Baldwin
Thomas D. Lloyd
Anthony C. Williams
Jennifer E. Bell

Jennifer L. Jones
Timothy A. Youmans
Kevin L. Sanzenbacher
Amber D. Dopkowski
Perry A. Eisenach
Dr. Ricky L. Leonard
Joyce S. Braithwaite
Samantha R. Anderson

Aaron M. Grisdale

Acting Director of Human
Resources
Building Official
Economic Redevelopment
Director
Finance Director
Fire and Rescue Chief
Information Technology Director
City Attorney
Downtown Manager, Old Town
Winchester
Parks & Recreation Director
Planning Director
Chief of Police
Social Services Director
Public Services Director
Superintendent of Schools
Voter Registrar
Executive Director, Winchester
Parking Authority
Zoning & Inspections
Director



Rouss City Hall
15 North Cameron Street
Winchester, VA 22601

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Website: www.winchesterva.gov

November 17, 2014

To the Honorable Mayor and Members of the City Council
To the Citizens of the City of Winchester
Winchester, Virginia

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the City of Winchester, Virginia for the fiscal year ended June 30, 2014 is submitted herewith pursuant to Sections 15.1-166 & 167 of the Code of Virginia. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of all the funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities are included.

The City's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse; to ensure that adequate accounting data are compiled; and to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

State Statutes require an annual audit by independent certified public accountants. The accounting firm of Brown Edwards & Company, L.L.P. performed the City of Winchester's audit for the fiscal year ended June 30, 2014. In addition to complying with the requirements set forth in the State Statutes, the audit was designed to comply with the requirements of the Single Audit Act of 1984 and related OMB Circular A-133. The auditor's report on the basic financial statements is included in the Financial Section of this report. The auditor's reports related specifically to the single audit are included in the Single Audit Section.

Generally accepted accounting principles 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 complement the MD&A and should be read in conjunction with it. The City of Winchester's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Winchester

The City of Winchester is located in the northern tip of Virginia in the Shenandoah Valley. Winchester, founded in 1744, is the oldest city in Virginia west of the Blue Ridge Mountains. The City currently occupies a land area of 9.3 square miles and serves a population of approximately 27,216. Two major interstate highways, I-81 and I-66, and four major state highways, Routes 50, 7, 11, and 522, provide direct access to eastern markets, including Washington, D.C., 72 miles away, and Baltimore, 97 miles away.

The City of Winchester has a Council/Manager form of government. The nine member Council consists of a Mayor and eight Councilors elected from four wards in the city with each ward electing two members from the territory of the ward, and the mayor elected at-large and serving for a period of four years. In the governance of the City, the Council is charged with the responsibility of establishing policies and enacting ordinances and resolutions. The City Manager is appointed by the Council, and is charged with the responsibility of administering daily operations and implementing Council directives.

The City provides a full range of services, including the following: police and fire protection; emergency response and rescue services; education; water and sewer services; refuse removal and disposal services; the construction and maintenance of highways, streets and infrastructure; parks and recreational activities; cultural events; parking facilities; transit services; social services; planning and zoning; and general administration. All moneys required to support these services are reflected in this report.

The CAFR includes all funds, component unit agencies, and boards and commissions for which the City is financially accountable. Financial accountability is defined as appointment of a voting majority of such an entity's Board, and either (a) the ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to, or impose a financial burden on, the City.

Based on the foregoing criteria, the financial activities of the following organizations are included in the financial statements for the reasons indicated:

- ◆ Winchester Parking Authority (WPA): The City of Winchester created the WPA to plan and foster the development of off-street parking facilities. The WPA is included in the accompanying financial statements as the City appoints all WPA members and is able to impose its will on the WPA.
- ◆ Winchester School Board (Board): The Board was created as a separate legal entity by the City to oversee the operation and management of its publicly funded primary and secondary schools. All members of the Board are appointed by the City's Common Council, which has the ability to impose its will upon the Board.

Financial activities of the following joint ventures and other related organizations are not included in the CAFR, but are disclosed in the notes to the financial statements in accordance with pronouncements of the Governmental Accounting Standards Board:

- ◆ Frederick-Winchester Service Authority
- ◆ Winchester Regional Airport Authority
- ◆ Handley Regional Library Board

The City maintains budgetary control as part of its fiscal management techniques. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level. Only the Common Council can revise the appropriation for each department. The City Manager is authorized to transfer appropriations within general government departments, and the School Board is authorized to transfer budgeted amounts within the school system's categories. As demonstrated by the statements and schedules included in the financial section of this report, the City meets its responsibility for sound financial management.

Local Economy

The City is the region's commercial, industrial, and medical center serving a 60-mile radius. Because of the City's position as a regional economic center and its extensive highway system, the City's work force is drawn from a substantially broader area. Employers in the area offer a wide variety of private sector jobs ranging from agriculture, forestry, and manufacturing, to retail, professional, educational, and medical services.

The City's largest employer is the Valley Health Systems, which owns and operates the Winchester Medical Center and five smaller primary care hospitals along with other related services such as urgent care clinics, home health services, a childcare facility, and transport services. A level II trauma center, the Winchester Medical Center is a non-profit, regional referral hospital, serving the tri-state region surrounding the City. The 445-bed facility offers a full range of inpatient and outpatient diagnostic, medical, surgical and rehabilitative services. The Winchester Medical Center recently completed a three-year \$161 million construction project enhancing critical care and women's services.

Located within the City of Winchester is Shenandoah University, a United Methodist Church-affiliated institution, which was founded in 1875 in Dayton, Virginia, and moved to Winchester in 1960. Today, Shenandoah University has an enrollment of approximately 4,000 students. These students participate in more than 90 programs of study at the undergraduate, graduate, doctorate and professional levels in seven schools: the College of Arts and Sciences, School of Business, School of Health Professions, Shenandoah Conservatory, School of Pharmacy, School of Nursing, and School of Education and Human Development. The University has continued to grow its presence in downtown Winchester through the creation of housing, administrative and classroom facilities.

The Winchester Regional Airport is an all-weather general aviation airport, with 5,500 feet of grooved asphalt runway, serving the region. The airport is staffed 24 hours a day/7 days a week and sells 100LL and Jet-A aviation fuel. It is the official airport of the Virginia Inland Port Authority, which is fifteen miles south of Winchester. The City participates with other user localities in a joint venture to operate the airport, and contributes a share of the local funding needed for the operations and capital improvements of the airport.

The City's commercial tax base accounts for 40.0% of the taxable real property value in the City. The City serves as the major retail center for the region. Apple Blossom Mall, an enclosed regional shopping center, contains Sears, Belk, and J.C. Penney as its anchors, along with an additional 85 specialty stores. Plazas such as Apple Blossom Corners, Winchester Crossing, and Winchester Station house Martin's, Staples, Kohl's, Home Goods, Books-A-Million, Michael's, Old Navy, and HH Gregg. Also, serving the area are a Wal-Mart Supercenter, Lowe's, Home Depot, Target, T.J. Maxx, and Pier 1 Imports. The Old Town Mall, a pedestrian mall in the City's downtown, offers a wide range of specialty shops and restaurants. There are also several anchorless strip centers and one life style center that house Ann Taylor Loft, Talbots, Jos A Banks Clothier, and other high end retail stores. The City also is home to several national chain restaurants. In addition, the City has several class A office buildings serving the professional services sector and business service entities.

The City's Department of Economic Development and the Winchester Economic Development Authority (EDA) work closely together to facilitate economic development within the City of Winchester. During the last year, several major economic development activities have occurred. The EDA worked with the City, U.S. Department of Housing and Urban Development and private companies to redevelop the historic Taylor Hotel into a multi-use space that incorporates downtown living, a unique Cajun restaurant and a premier public gathering space. In addition, the EDA continues to incentivize the redevelopment of several downtown properties and has collectively acquired over \$1,000,000 worth of property in the historic downtown. Also, through enterprise zone designation by the Virginia Department of Housing and Community Development, the EDA has created a valuable and comprehensive incentive package that has facilitated the commencement and expansion of Winchester businesses.

In addition, the City's Old Town Development Board continues to successfully market the City's downtown. New businesses continue to locate downtown, while existing businesses thrive. The Old Town Development Board administers the Main Street Program, which concentrates on downtown revitalization - putting the traditional assets of downtown, such as unique architecture and locally-owned businesses, to work as a catalyst for economic growth and community pride. The efforts of the Old Town Development Board have earned it recognition for excellence in the field of downtown revitalization by meeting high standards of performance set by the Virginia Main Street Program and the National Trust for Historic Preservations National Main Street Center.

Long-term Financial Planning

Unassigned fund balance in the general fund (22.0% of General Fund expenditures) falls within the policy guidelines set by Council for planning purposes. Twenty percent is the target for the City's General Fund balance.

As part of our strategic plan, the City has implemented a 20 year financial planning model to help project revenue and expenditures through the year 2030. Factored into the financial planning model are the future major capital projects. Replacement of John Kerr Elementary School is being accomplished through a recently completed bond issuance (\$20M project cost), and the expansion and renovation of Frederick Douglas Elementary School will require a future bond issuance of approximately \$15.4M. Operational costs for the newly renovated facilities will increase as the renovations are completed at an approximate cost of \$1,000,000. The John Kerr School is approximately 40 years old and has never been renovated. Winchester Public Schools projects that enrollment will grow by approximately 500 students by 2022-2023 to an anticipated total enrollment of over 4,600, and that the current facilities are inadequately sized to handle the increased number of students. These improvements should take us well into the future, allowing us to continue providing a quality education for all students in the City.

Relevant Financial Policies

In December 2003, along with the fund balance policy, City Council adopted a debt obligation policy, which states that net debt as a percentage of assessed value will not exceed 4%. General obligation debt service and capital lease payments as a percentage of general governmental expenditures will not exceed 15%.

The City's investment policy is designed to allow the City to obtain the highest possible yield on available City financial assets, consistent with constraints imposed by its safety objectives, cash flow considerations, and Virginia State laws that restrict the placement of public funds. Accordingly, deposits were either insured by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

Major Initiatives

A. Meadow Branch Extension

Along with the construction of a new John Kerr Elementary School, City Council has approved the construction of the extension of Meadow Branch Avenue. This roadway extension will be approximately 0.6 miles in length and will connect Meadow Branch between Merrimans Lane and Buckner Drive and will serve the new school. Construction on the \$4 million project is expected to begin in the late spring of 2015.

B National Avenue Gateway Improvements

In an effort to improve the safety of National Avenue entering downtown and also construct gateway improvements on this major entryway, the City will be completing some significant improvements to National Avenue/East Lane/Piccadilly Street. The City has acquired twelve parcels of property in this area to be able to make the improvements. The existing structures will be demolished which will allow the roadway to be realigned by constructing a roundabout. There will also be significant landscaping improvements included with the project. Construction on the project will begin in the early spring of 2015 at a cost of \$1.4 million.

C. Monticello Extension

The City was selected as the recipient of \$5 million of funding from the state as part of the Governor's Transportation Partnership Opportunity Fund which was directly related to Rubbermaid's recent decision to expand their Winchester facility. This funding will be used to provide Rubbermaid with an additional truck entrance through improving and extending Armour Dale and Monticello Street making the roads a one-way entrance/exit from the site.

D. Sidewalk and Street Improvements

As a part of the City's Strategic Plan, the City developed both a Sidewalk Master Plan and Street Maintenance Master Plan in 2013 to be used as a guide for future sidewalk improvements within the City and the City's street maintenance program. In FY15, the City will be completing \$2 million of street repaving on numerous streets throughout the City \$550,000 of sidewalk improvements.

Awards and Acknowledgment

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Winchester for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the twenty-second year that the City of Winchester has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report was made possible by the dedicated and effective efforts of City and Schools Finance staff, and staff in other departments throughout the City who assisted in gathering the information for this report. Many hours of hard work are represented herein, and we extend our sincere appreciation to each member of our staff who contributed to the final report.

Finally, grateful appreciation is extended to the City Council for their leadership and support throughout the year.

Respectfully submitted,



Eden E. Freeman
City Manager



Mary M. Blowe
Finance Director



Government Finance Officers Association

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

Presented to

**City of Winchester
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Enser". The signature is fluid and cursive.

Executive Director/CEO

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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

Change in Accounting Principle

As described in Note 18 to the financial statements, in 2014, the City adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, other supplementary information, 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 other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2014

City of Winchester, Virginia
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

This section of the City of Winchester's (the City's) annual financial report presents an overall review of the City's financial activities for the fiscal year ended June 30, 2014. Please review all documentation in conjunction with the City's financial statements and the transmittal letter for an overall picture of the City's financial performance as a whole.

Financial Highlights

- The assets of the City of Winchester, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2014 by \$64.3 million (net position).
- The City's total net position decreased approximately \$6.7 million over the course of this year's operations. Net position of governmental activities decreased \$10.7 million, and net position of business-type activities increased \$4.0 million over the prior year. The decrease in net position by the governmental activities is the result of the increase in liabilities due to new debt issuance for school construction and public improvement projects.
- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27.9 million, an increase of \$3.2 million in comparison with the prior year. Approximately 57.0% of this amount, \$16.0 million, is available for spending at the government's discretion (unassigned fund balance).
- As of the close of the current fiscal year, the unassigned fund balance of the City's general fund was \$16.0 million. This amount represents 22.0% of total general fund expenditures.
- The City's total debt increased by \$12.6 million, or 7.0%, during the current fiscal year due to the new debt issuance in FY2014 for school construction and public improvement projects.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

Overview of the Financial Statements (Continued)

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the 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 revenue (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; judicial administration; public safety; public works; health and welfare; and recreation and cultural. The business-type activities of the City include water and sewer operations.

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

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 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 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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is considered a major fund. Data from the other 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 governmental funds. A budgetary comparison statement has been provided for the governmental funds to demonstrate compliance with this budget.

Overview of the Financial Statements (Continued)

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its employee benefits program, equipment maintenance operation, and other post-employment benefits. Because these three functions predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund (a major fund). Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City has three fiduciary funds: the Special Welfare Fund, Northwestern Regional Jail Authority Construction Fund, and Northwestern Regional Juvenile Detention Center Fund. The accounting used for fiduciary funds is much like that used for proprietary funds.

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 17-70 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

Government-wide Financial Analysis

As noted earlier, net position (assets and deferred outflows of resources in excess of liabilities and deferred inflows of resources) may serve over time as a useful indicator of a government's financial position. Table 1 shows that the primary government's assets exceeded liabilities by \$64.3 million at the close of fiscal year 2014.

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

Government-wide Financial Analysis (Continued)

Table 1
City of Winchester's Net Position
Fiscal Year ended June 30, 2014
(in millions)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | | Component Unit School Board | |
|---|------------------------------------|----------------|-------------------------------------|----------------|-------------------------------------|----------------|--|-----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Assets | | | | | | | | |
| Current and other assets | \$ 39.5 | \$ 34.9 | \$ 4.4 | \$ 3.5 | \$ 43.9 | \$ 38.4 | \$ 30.4 | \$ 13.8 |
| Capital assets | 83.3 | 77.1 | 153.1 | 155.8 | 236.4 | 232.9 | 110.0 | 111.5 |
| Total Assets | 122.8 | 112.0 | 157.5 | 159.3 | 280.3 | 271.3 | 140.4 | 125.3 |
| Deferred Outflows of Resources | | | | | | | | |
| Deferred charge on refunding | 5.4 | 6.0 | 1.1 | 1.2 | 6.5 | 7.2 | - | - |
| Total Deferred outflows of resources | 5.4 | 6.0 | 1.1 | 1.2 | 6.5 | 7.2 | - | - |
| Liabilities | | | | | | | | |
| Current and other liabilities | 5.9 | 4.9 | 2.4 | 2.3 | 8.3 | 7.2 | 5.4 | 6.3 |
| Long-term liabilities | 110.2 | 90.3 | 103.2 | 109.2 | 213.4 | 199.5 | 1.3 | 1.3 |
| Total Liabilities | 116.1 | 95.2 | 105.6 | 111.5 | 221.7 | 206.7 | 6.7 | 7.6 |
| Deferred Inflows of Resources | | | | | | | | |
| Property taxes | 0.8 | 0.8 | - | - | 0.8 | 0.8 | - | - |
| Total Deferred outflows of resources | 0.8 | 0.8 | - | - | 0.8 | 0.8 | - | - |
| Net Position | | | | | | | | |
| Net investment in capital assets | 57.6 | 55.6 | 51.2 | 48.2 | 108.8 | 103.8 | 110.0 | 111.5 |
| Restricted | - | - | - | - | - | - | 20.4 | 0.6 |
| Unrestricted | (46.3) | (33.6) | 1.8 | 0.8 | (44.5) | (32.8) | 3.3 | 5.6 |
| Total Net Position | \$ 11.3 | \$ 22.0 | \$ 53.0 | \$ 49.0 | \$ 64.3 | \$ 71.0 | \$ 133.7 | \$ 117.7 |

Governmental activities. As shown in Table 1, net position for governmental activities decreased from \$22.0 million at the end of FY2013 to \$11.3 million at the end of FY2014. The major reason for the decrease in net position is due to the increase in long-term liabilities reflecting the issuance of debt for school construction and public improvement projects. The City, as required by GASB 34, reports its liability for the repayment of the debt associated with the construction of school facilities under the governmental activities category. The City, not the School Board, is obligated for the debt. The related capital assets are presented under the Component Unit – School Board.

If the debt related to the construction of schools was not presented in governmental activities, the net position for the governmental activities would be \$89.5 million and the total net position for the primary government would be \$142.5 million.

Government-wide Financial Analysis (Continued)

Table 2
Changes in the City of Winchester's Net Position
Fiscal Year ended June 30, 2014
(in millions)

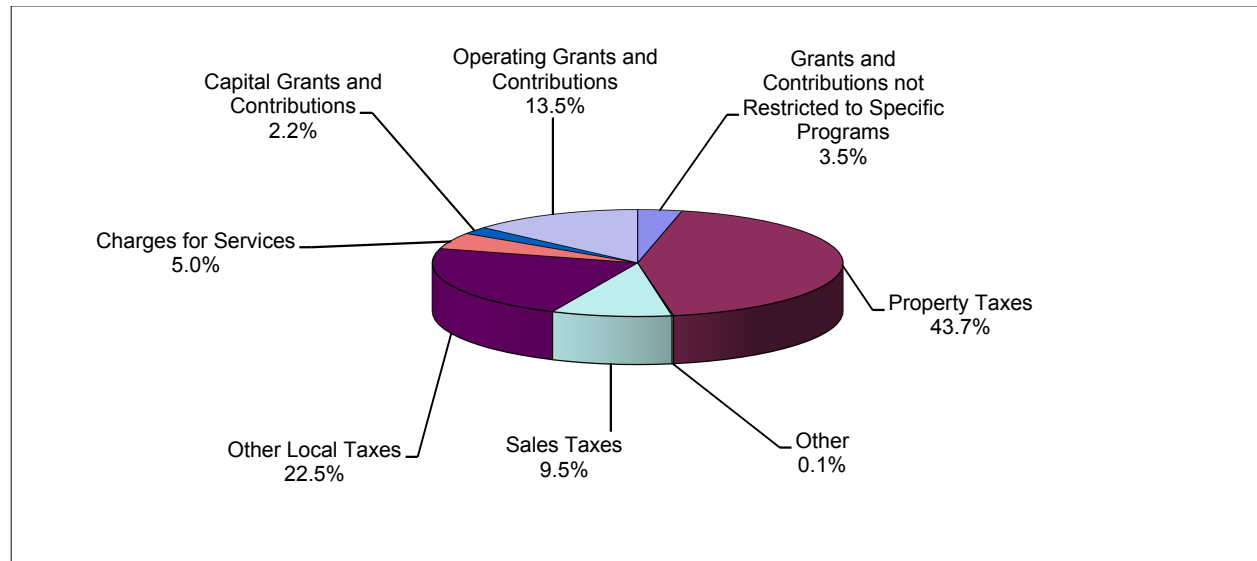
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | | Component Unit School Board | |
|---|------------------------------------|----------------|-------------------------------------|----------------|-------------------------------------|-----------------|--|-----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | | | | | |
| Program Revenues | | | | | | | | |
| Charges for services | \$ 4.2 | \$ 4.2 | \$ 24.8 | \$ 22.4 | \$ 29.0 | \$ 26.6 | \$ 0.7 | \$ 0.7 |
| Operating grants and contributions | 11.6 | 11.9 | - | - | 11.6 | 11.9 | 23.7 | 23.5 |
| Capital grants and contributions | 1.9 | 1.1 | 1.4 | 2.8 | 3.3 | 3.9 | 0.2 | 0.1 |
| General Revenues | | | | | | | | |
| Property taxes | 37.6 | 36.0 | - | - | 37.6 | 36.0 | - | - |
| Sales taxes | 8.1 | 8.7 | - | - | 8.1 | 8.7 | - | - |
| Other taxes | 19.4 | 18.3 | - | - | 19.4 | 18.3 | - | - |
| Grants and contributions not restricted to specific programs | 3.0 | 3.0 | - | - | 3.0 | 3.0 | - | - |
| Unrestricted investment earnings | 0.1 | 0.1 | - | - | 0.1 | 0.1 | 0.1 | 0.1 |
| Other | 3.5 | - | - | - | 3.5 | - | 45.9 | 26.9 |
| Total revenues | \$ 89.4 | \$ 83.3 | \$ 26.2 | \$ 25.2 | \$ 115.6 | \$ 108.5 | \$ 70.6 | \$ 51.3 |
| Expenses | | | | | | | | |
| General government administration | 4.8 | 4.1 | - | - | 4.8 | 4.1 | - | - |
| Judicial administration | 3.2 | 3.2 | - | - | 3.2 | 3.2 | - | - |
| Public safety | 19.6 | 19.1 | - | - | 19.6 | 19.1 | - | - |
| Public works | 12.3 | 10.4 | - | - | 12.3 | 10.4 | - | - |
| Health and welfare | 6.9 | 7.2 | - | - | 6.9 | 7.2 | - | - |
| Education | 45.7 | 26.7 | - | - | 45.7 | 26.7 | 54.6 | 53.6 |
| Parks, recreation and culture | 3.5 | 3.8 | - | - | 3.5 | 3.8 | - | - |
| Community development | 1.8 | 2.4 | - | - | 1.8 | 2.4 | - | - |
| Interest on long-term debt | 3.7 | 3.2 | - | - | 3.7 | 3.2 | - | - |
| Bond issuance costs | 0.2 | 0.6 | - | 0.7 | 0.2 | 1.3 | - | - |
| Water and sewer | - | - | 20.6 | 21.2 | 20.6 | 21.2 | - | - |
| Total expenses | 101.7 | 80.7 | 20.6 | 21.9 | 122.3 | 102.6 | 54.6 | 53.6 |
| Increase (decrease) in net position before transfers | (12.3) | 2.6 | 5.6 | 3.3 | (6.7) | 5.9 | 16.0 | (2.3) |
| Transfers | 1.6 | 1.9 | (1.6) | (1.9) | - | - | - | - |
| Increase (decrease) in net position | (10.7) | 4.5 | 4.0 | 1.4 | (6.7) | 5.9 | 16.0 | (2.3) |
| Net Position - beginning | 22.0 | 17.5 | 49.0 | 47.6 | 71.0 | 65.1 | 117.7 | 120.0 |
| Net Position - ending | \$ 11.3 | \$ 22.0 | \$ 53.0 | \$ 49.0 | \$ 64.3 | \$ 71.0 | \$ 133.7 | \$ 117.7 |

Government-wide Financial Analysis (Continued)

As shown in Table 2, the City's revenues from governmental activities totaled \$89.4 million for FY2014, an increase of \$6.1 million from FY2013. Local tax revenues increased by \$2.1 million due to the continued recovery experienced in our local economy. Revenues also increased \$3.5 million due to the one-time special item for the addition of sidewalks to the City's capital assets. Expenses increased by \$21.0 million due to a one-time transfer of bond proceeds to the City school system for the construction of a new elementary school. As shown in Figure A, the City received 75.7% of its revenue from taxes. The major source of revenue for the City was property taxes (\$37.6 million or 43.7%), composed of real estate, personal property taxes, and machinery and tools taxes. The City's assessed value of taxable real property for FY2014 increased by approximately 0.3% from the prior year. Other tax revenues (sales, meals, and other taxes) increased \$0.5 million from the prior year.

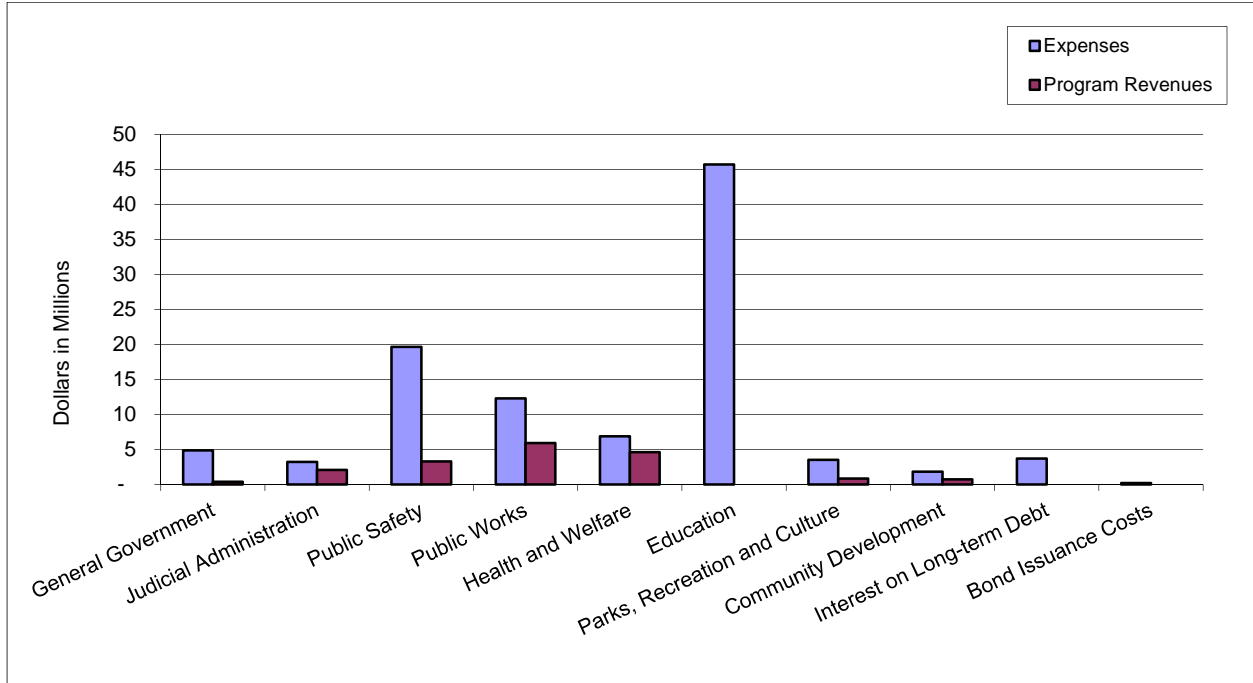
The City's expenses from governmental activities totaled \$101.7 million (Table 2) for the fiscal year ended June 30, 2014, an increase of \$21.0 million from the prior year. As shown in Figure B, education was the largest expense at \$45.7 million or 44.0% of total governmental expenses. Public safety was the second largest expense at \$19.6 million or 19.0% of total governmental expenses.

Figure A
Revenues by Source – Governmental Activities



Government-wide Financial Analysis (Continued)

Figure B
Expenses and Program Revenues – Governmental Activities



Business-type activities. The City's business-type activities include the water and sewer fund. The net position of these business-type activities totaled \$53.0 million (Table 2) an increase of \$4.0 million from the prior year. As shown in Figure C, the major revenue source for the business-type activities is charges for services, including water and sewer utility fees, which totaled \$24.8 million or 94.6% of the total revenues for business-type activities. Capital grants and contributions decreased \$1.4 million from the prior year mainly due to a decrease in contributed capital in the form of water & sewer infrastructure to the City. Expenses of the business-type activities totaled \$20.6 million (Table 2) a decrease of \$0.6 million from the prior year. This decrease in expenses is mainly due to reduction in capital related expenses for FY 2014.

Government-wide Financial Analysis (Continued)

Figure C
Revenues by Source – Business-type Activities

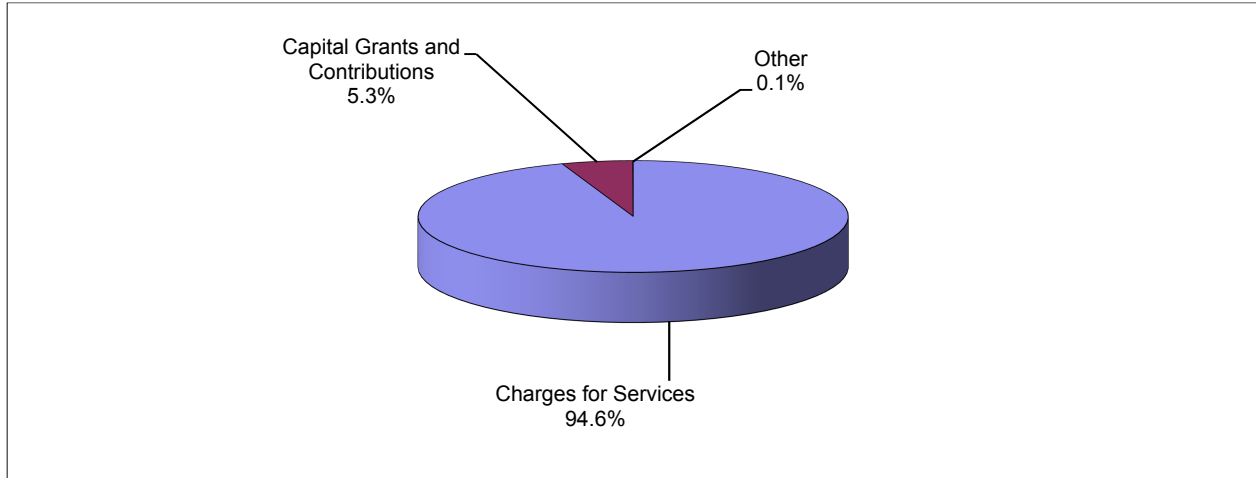
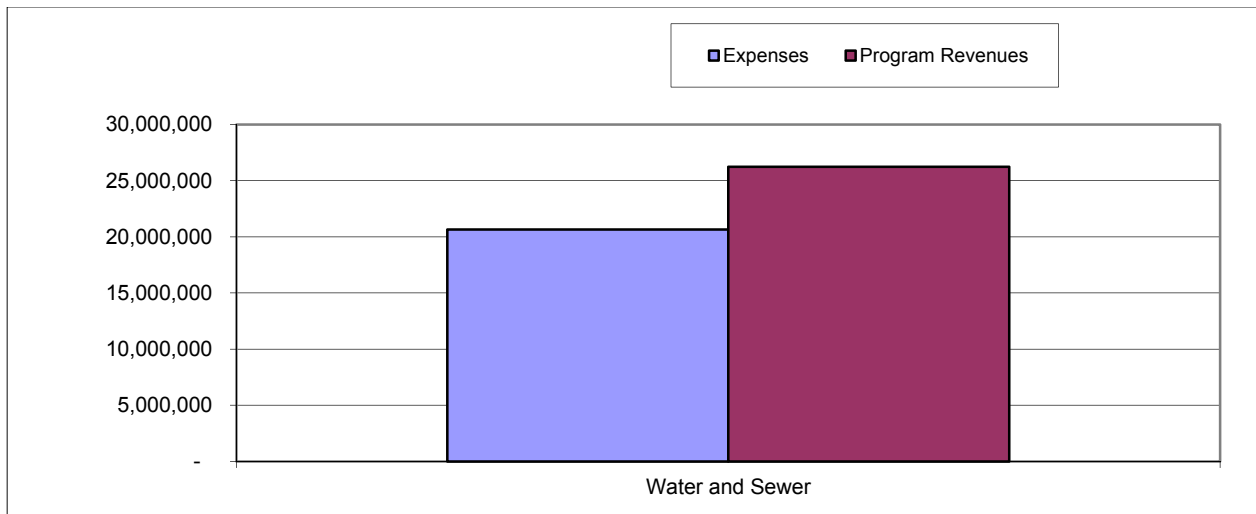


Figure D
Expenses and Program Revenues – Business-type Activities



Financial Analysis of the City's Funds

The City of Winchester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Fund balances are the difference between assets and liabilities in governmental funds and consist of the following categories:

- Nonspendable fund balance includes amounts that are not in spendable form, or amounts that are required to be maintained intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external providers, such as grantors or bondholders, as well as amounts that are restricted through enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes that are determined by a formal action of the government's highest level of decision making authority.
- Assigned fund balance applies to amounts that are intended for specific purposes as expressed by the governing body or authorized official and applies to remaining resources in any governmental funds other than the general fund.
- Unassigned fund balance includes all amounts not contained in other classifications for the general fund, and deficit fund balances in any other governmental funds.

For the fiscal year ended June 30, 2014, the City's governmental funds reported combined fund balances of \$27.9 million, an increase of \$3.2 million in comparison with the prior year. Approximately \$16.0 million of the combined total fund balances constitutes unassigned fund balance, which is generally available for spending at the City's discretion.

The general fund is the chief operating fund of the City. For the fiscal year ended June 30, 2014, the unassigned fund balance of the general fund was \$16.0 million, while total fund balance reached \$22.2 million. Unassigned fund balance represents 22.0% of total general fund expenditures, as a measure of the general fund's liquidity. Fund balance in the City's general fund slightly increased by \$0.1 million during the current fiscal year.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the City's water and sewer fund for the fiscal year ended June 30, 2014, amounted to \$1.8 million, an increase of \$1.0 million from the prior year. The increase in the water and sewer unrestricted net position can mainly be attributed to decrease of bonds payable due to debt retirement in FY2014 and good financial performance of the fund.

General Fund Budgetary Highlights

City Council revised the City budget twice during the fiscal year. The difference between the original budget and the final amended budget of expenditures for the general fund was an increase of \$21.0 million, mainly due to \$20.0 million for the bond proceeds for the John Kerr Elementary School project.

Actual revenues were more than final budget amounts by \$1.0 million, and actual expenditures were \$2.3 million less than final budget amounts. Highlights of the comparison of final budget to actual figures include the following:

- Other local taxes exceeded budget by \$0.6 million primarily due to strong meals tax and business license revenues indicating that the local economy in Winchester is showing positive signs of recovery and growth.
- Revenues from general property taxes exceeded budget by \$0.7 million mainly due to personal property revenues. This was due to the decreasing percentage of State tax relief available to offset local taxpayers' amount due for personal property tax.
- Actual combined general government, public safety, public works, health and welfare, and parks, recreation and cultural, expenditures were \$0.8 million less than budgeted amounts resulting primarily from savings in personnel costs due to managed position vacancies.
- Community development was \$0.6 million less than budget due to the deferral of projects to the next fiscal year.

Capital Assets and Debt Administration

Capital assets. The City of Winchester's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$236.4 million net of depreciation, which represents an increase of \$3.5 million, or 1.5% over the prior year. This investment includes land, buildings, improvements, water and sewer distribution systems, roads and bridges, and machinery and equipment. More detailed information regarding the City's capital assets can be found in Note 8 to the financial statements.

Major capital asset events during the fiscal year included the following:

- Sidewalk additions and replacements totaled \$3.5 million
- Land acquisition for the National Avenue Gateway Enhancement project totaled \$0.3 million.
- E-911 system upgrade totaled \$0.3 million.
- Completion of a new Transit parking area totaled \$0.1 million.

Capital Assets and Debt Administration (Continued)

Table 3 summarizes the City's capital assets as of June 30, 2013 and 2014.

Table 3
City of Winchester's Capital Assets
(net of depreciation)
Fiscal Year ended June 30, 2014

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------------|--------------------------------|----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | \$ 5,738,201 | \$ 5,437,240 | \$ 1,201,485 | \$ 1,201,485 | \$ 6,939,686 | \$ 6,638,725 |
| Construction in progress | 5,071,239 | 956,141 | 115,788 | - | 5,187,026 | 956,141 |
| Buildings | 20,826,975 | 21,461,438 | - | - | 20,826,975 | 21,461,438 |
| Treatment plants | - | - | 40,760,681 | 41,661,486 | 40,760,681 | 41,661,486 |
| Improvements other than buildings | 7,265,177 | 3,917,008 | 4,076 | 4,531 | 7,269,253 | 3,921,539 |
| Infrastructure | 39,451,772 | 41,672,388 | 92,113,546 | 92,493,701 | 131,565,318 | 134,166,089 |
| Machinery & Equipment | 4,969,679 | 3,689,412 | 983,122 | 1,166,384 | 5,952,801 | 4,855,796 |
| FWSA purchased capacity | - | - | 17,947,417 | 19,317,594 | 17,947,417 | 19,317,594 |
| Total Capital Assets | \$ 83,323,043 | \$ 77,133,627 | \$ 153,126,115 | \$ 155,845,181 | \$ 236,449,157 | \$ 232,978,808 |

Long-term debt. As shown in Table 4, the City of Winchester had total debt outstanding of \$194.2 million, for the fiscal year ended June 30, 2014, an increase of \$12.6 million from the fiscal year ended June 30, 2013. This entire amount is backed by the full faith and credit of the City, with \$97.5 million of the total being repaid by the City's business-type activities.

For the fiscal year ended June 30, 2014, the City retired \$7.3 million of outstanding general obligation bond principal and issued \$24.2 million for net increase of \$16.9 million. More detailed information regarding the City's long-term debt can be found in Note 10 to the financial statements.

Table 4
City of Winchester's Outstanding Debt
Fiscal Year ended June 30, 2014

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------|--------------------------------|----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| General Obligation Bonds | \$ 96,034,572 | \$ 77,520,134 | \$ 18,187,064 | \$ 19,784,803 | \$ 114,221,636 | \$ 97,304,937 |
| Revenue Bonds | - | - | 63,183,122 | 65,620,000 | 63,183,122 | 65,620,000 |
| Obligations payable | 600,000 | 900,000 | 16,202,542 | 17,709,408 | 16,802,542 | 18,609,408 |
| Total Outstanding Debt | \$ 96,634,572 | \$ 78,420,134 | \$ 97,572,728 | \$ 103,114,211 | \$ 194,207,300 | \$ 181,534,345 |

The City's General Obligation Bonds have been rated AAA by Standard & Poor's Corporation, and Aa2 by Moody's Investors Service. The legal debt margin of the City is 10% of the total assessed valuation of the real estate within the City, which is subject to local taxation. The limitation complies with Article VII, Section 10(a) of the Constitution of Virginia, 1971, and Section 15.1-176 of the Code of Virginia, 1950, which defines the limitation on outstanding indebtedness that may be incurred by cities. Based on 10% of the assessed value of real property, the City's legal debt limit is \$283.4 million. As of June 30, 2014, the City's total debt applicable to the limitation totaled \$114.2 million, leaving a legal debt margin of \$169.2 million.

Economic Factors and Next Year's Budgets and Rates

- The City of Winchester uses a robust strategic planning process to identify and address significant community issues. The process involves both the City Council and staff working together to create and update the plan. The 2014 -2015 strategic plan includes the City's Vision 2028, the City's work plan through 2018 and the City's mission statement. City Council developed the following four main goals during the planning process: grow the economy, develop a high performing organization, continue revitalization of historic old town, and create a more livable City for all. The City has embraced these goals and Council and staff work together to forward these goals.
- The City of Winchester completed an Economic Development Master Plan and adopted the updated Comprehensive Plan. The goal described in both of these new plans is to attract young professionals, and families headed by individuals over the age of 55. These are the two largest growing population segments in the country, with the largest amounts of disposable income and the minimal impact on municipal services. Our plans, which have been reinforced by a recently completed market study, call for major changes in land use to allow for more mixed use development and increases in housing density with the hope that these changes will allow for the development of appropriate housing and work environments required to attract these population segments. These two populations groups will help provide a skilled workforce for future employment, particularly in our growing health services industries, along with providing market support for our retail and service sectors.
- The City recently adopted more stringent storm water regulations to comply with federal and state mandates related primarily to the Chesapeake Bay initiatives that are intended to improve water quality in the Bay. These regulations will require the City to undertake additional activities related to storm water management in the coming years. Some of these activities will be rather costly and will require additional City resources.
- For the month of June 2014, the City's unemployment rate was 5.1%, compared to the State's 5.4% and Federal rate of 6.3%.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Winchester, 15 N. Cameron Street, Winchester, VA 22601.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

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CITY OF WINCHESTER, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

Exhibit 1

| | Primary Government | | | Component Units | |
|---------------------------------------|----------------------------|---------------------------------|----------------------|-----------------------|------------------------------------|
| | Governmental Activities | Business- type Activities | Total | School Board | Winchester Parking Authority |
| ASSETS | | | | | |
| Cash | \$ 21,877,441 | \$ 928,913 | \$ 22,806,354 | \$ 6,183,811 | \$ 1,095,464 |
| Investments | 8,707,767 | 169,558 | 8,877,325 | 1,258,783 | 198,684 |
| Receivables, net: | | | | | |
| Taxes, including penalties | 2,193,353 | - | 2,193,353 | - | - |
| Accounts | 1,481,885 | 3,911,007 | 5,392,892 | 34,702 | 2,509 |
| Notes | 127,500 | - | 127,500 | - | - |
| Promises to give | - | - | - | 1,404,484 | - |
| Due from other governments | 3,899,227 | - | 3,899,227 | 1,530,464 | - |
| Internal balances | 720,584 | (720,584) | - | - | - |
| Prepays | 376,532 | - | 376,532 | 465 | - |
| Inventories | 131,558 | 100,468 | 232,026 | 22,365 | - |
| Land held for sale | - | - | - | 15,000 | - |
| Investments - restricted | - | - | - | 20,018,600 | - |
| Capital assets: | | | | | |
| Nondepreciable | 10,809,440 | 1,317,273 | 12,126,713 | 2,855,085 | 11,685 |
| Depreciable, net | <u>72,513,603</u> | <u>151,808,842</u> | <u>224,322,445</u> | <u>107,104,979</u> | <u>8,296,911</u> |
| Total assets | <u>122,838,890</u> | <u>157,515,477</u> | <u>280,354,367</u> | <u>140,428,738</u> | <u>9,605,253</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Deferred charge on refunding | <u>5,467,216</u> | <u>1,076,556</u> | <u>6,543,772</u> | <u>-</u> | <u>-</u> |
| Total deferred outflows of resources | <u>5,467,216</u> | <u>1,076,556</u> | <u>6,543,772</u> | <u>-</u> | <u>-</u> |
| LIABILITIES | | | | | |
| Accounts payable and other current | | | | | |
| liabilities | 4,619,364 | 1,285,605 | 5,904,969 | 5,410,570 | 27,378 |
| Accrued interest | 1,308,167 | 1,082,990 | 2,391,157 | - | 166,989 |
| Noncurrent liabilities: | | | | | |
| Due within one year | 6,743,595 | 6,430,060 | 13,173,655 | 232,000 | 195,149 |
| Due in more than one year | <u>103,504,587</u> | <u>96,785,725</u> | <u>200,290,312</u> | <u>1,091,004</u> | <u>8,130,797</u> |
| Total liabilities | <u>116,175,713</u> | <u>105,584,380</u> | <u>221,760,093</u> | <u>6,733,574</u> | <u>8,520,313</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Property taxes | <u>869,924</u> | <u>-</u> | <u>869,924</u> | <u>-</u> | <u>-</u> |
| Total deferred inflows of resources | <u>869,924</u> | <u>-</u> | <u>869,924</u> | <u>-</u> | <u>-</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 57,626,610 | 51,196,584 | 108,823,194 | 109,960,064 | 29,757 |
| Restricted - unspent debt proceeds | - | - | - | 20,371,300 | - |
| Unrestricted | <u>(46,366,141)</u> | <u>1,811,069</u> | <u>(44,555,072)</u> | <u>3,363,800</u> | <u>1,055,183</u> |
| Total net position | <u>\$ 11,260,469</u> | <u>\$ 53,007,653</u> | <u>\$ 64,268,122</u> | <u>\$ 133,695,164</u> | <u>\$ 1,084,940</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Exhibit 2

| | | | | | Net (Expenses) Revenues and Changes in Net Position | | | | |
|---|----------------|-------------------------|--|--|--|-----------------------------|----------------|-----------------|------------------------------------|
| Program Revenues | | | | | Primary Government | | | Component Units | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | School Board | Winchester Parking Authority |
| Primary government: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | \$ 4,847,983 | \$ 147,384 | \$ 237,693 | \$ - | \$ (4,462,906) | | \$ (4,462,906) | | |
| Judicial administration | 3,217,304 | 634,692 | 1,434,636 | - | (1,147,976) | | (1,147,976) | | |
| Public safety | 19,691,104 | 1,193,298 | 1,340,082 | 739,700 | (16,418,024) | | (16,418,024) | | |
| Public works | 12,276,087 | 1,071,780 | 3,646,870 | 1,182,132 | (6,375,305) | | (6,375,305) | | |
| Health and welfare | 6,874,897 | 52,008 | 4,552,818 | - | (2,270,071) | | (2,270,071) | | |
| Education | 45,697,366 | - | - | - | (45,697,366) | | (45,697,366) | | |
| Parks, recreation, and culture | 3,504,618 | 833,837 | - | - | (2,670,781) | | (2,670,781) | | |
| Community development | 1,810,977 | 316,428 | 394,425 | - | (1,100,124) | | (1,100,124) | | |
| Interest on long-term debt | 3,682,243 | - | - | - | (3,682,243) | | (3,682,243) | | |
| Bond issuance costs | 183,567 | - | - | - | (183,567) | | (183,567) | | |
| Total governmental activities | 101,786,146 | 4,249,427 | 11,606,524 | 1,921,832 | (84,008,363) | | (84,008,363) | | |
| Business-type activities: | | | | | | | | | |
| Water and sewer | 20,636,511 | 24,814,747 | - | 1,400,500 | - | \$ 5,578,736 | 5,578,736 | | |
| Total business-type activities | 20,636,511 | 24,814,747 | - | 1,400,500 | - | 5,578,736 | 5,578,736 | | |
| Total primary government | \$ 122,422,657 | \$ 29,064,174 | \$ 11,606,524 | \$ 3,322,332 | (84,008,363) | 5,578,736 | (78,429,627) | | |
| Component units: | | | | | | | | | |
| School board | \$ 54,649,291 | \$ 697,971 | \$ 23,720,228 | \$ 248,673 | | | | \$ (29,982,419) | \$ - |
| Parking authority | 1,226,432 | 1,041,489 | - | - | | | | - | (184,943) |
| Total component unit | \$ 55,875,723 | \$ 1,739,460 | \$ 23,720,228 | \$ 248,673 | | | | (29,982,419) | (184,943) |
| General revenues: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Property taxes | | | | | 37,597,733 | - | 37,597,733 | - | - |
| Sales taxes | | | | | 8,119,431 | - | 8,119,431 | - | - |
| Utility taxes | | | | | 2,233,337 | - | 2,233,337 | - | - |
| Business license taxes | | | | | 6,016,529 | - | 6,016,529 | - | - |
| Franchise taxes | | | | | 402,711 | - | 402,711 | - | - |
| Hotel and meals taxes | | | | | 6,596,681 | - | 6,596,681 | - | - |
| Communication taxes | | | | | 2,145,662 | - | 2,145,662 | - | - |
| Other local taxes | | | | | 1,979,202 | - | 1,979,202 | - | - |
| Miscellaneous | | | | | 33,441 | 6,694 | 40,135 | 243,541 | 490 |
| Payments from City | | | | | - | - | - | 45,659,975 | 1,000,000 |
| Grants and contributions not restricted to specific programs | | | | | 2,987,618 | - | 2,987,618 | - | - |
| Unrestricted investment earnings | | | | | 70,590 | 426 | 71,016 | 115,791 | 532 |
| Special item (annexation of sidewalks) | | | | | 3,451,777 | - | 3,451,777 | - | - |
| Transfers | | | | | 1,600,000 | (1,600,000) | - | - | - |
| Total revenues and transfers | | | | | 73,234,712 | (1,592,880) | 71,641,832 | 46,019,307 | 1,001,022 |
| Change in net position | | | | | (10,773,651) | 3,985,856 | (6,787,795) | 16,036,888 | 816,079 |
| Net position - beginning, as restated (Note 18) | | | | | 22,034,120 | 49,021,797 | 71,055,917 | 117,658,276 | 268,861 |
| Net position - ending | | | | | \$ 11,260,469 | \$ 53,007,653 | \$ 64,268,122 | \$ 133,695,164 | \$ 1,084,940 |

The Notes to Financial Statements
are an integral part of this Statement.

FUND FINANCIAL STATEMENTS

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CITY OF WINCHESTER, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 3

| | General | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash | \$ 16,989,371 | \$ 1,231,765 | \$ 18,221,136 |
| Investments | 3,102,500 | 4,997,344 | 8,099,844 |
| Receivables, net: | | | |
| Taxes, including penalties | 2,193,353 | - | 2,193,353 |
| Accounts | 1,199,301 | 188,656 | 1,387,957 |
| Notes | - | 127,500 | 127,500 |
| Prepays | - | 40,000 | 40,000 |
| Inventories | 11,916 | - | 11,916 |
| Due from other funds | 1,059,000 | - | 1,059,000 |
| Due from other governments | 2,299,047 | 1,600,180 | 3,899,227 |
| Total assets | <u>\$ 26,854,488</u> | <u>\$ 8,185,445</u> | <u>\$ 35,039,933</u> |
| LIABILITIES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 855,596 | \$ 1,719,246 | \$ 2,574,842 |
| Deposits payable | 94,134 | - | 94,134 |
| Accrued payroll | 969,574 | 219,780 | 1,189,354 |
| Due to other funds | - | 405,000 | 405,000 |
| Deferred revenue | - | 167,309 | 167,309 |
| Total liabilities | <u>1,919,304</u> | <u>2,511,335</u> | <u>4,430,639</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable/unearned revenue | <u>2,693,726</u> | <u>-</u> | <u>2,693,726</u> |
| Total deferred inflows of resources | <u>2,693,726</u> | <u>-</u> | <u>2,693,726</u> |
| FUND BALANCES | | | |
| Nonspendable | 11,916 | 167,500 | 179,416 |
| Restricted | 495,790 | 4,013,360 | 4,509,150 |
| Committed | 1,926,988 | - | 1,926,988 |
| Assigned | 3,722,604 | 1,493,250 | 5,215,854 |
| Unassigned | 16,084,160 | - | 16,084,160 |
| Total fund balances | <u>22,241,458</u> | <u>5,674,110</u> | <u>27,915,568</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 26,854,488</u> | <u>\$ 8,185,445</u> | |

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

| | |
|---|----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 83,282,035 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 1,991,111 |
| Internal service funds are used by management to charge the costs of supplies, employee benefits, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. | 2,348,403 |
| Deferred refunding costs are not financial resources and, therefore, are not reported in the funds. | 5,467,216 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (109,743,864) |
| Net position of governmental activities | <u>\$ 11,260,469</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 4

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| General property taxes | \$ 37,746,991 | \$ - | \$ 37,746,991 |
| Other local taxes | 27,493,553 | - | 27,493,553 |
| Permits, privilege fees, and regulatory licenses | 300,089 | - | 300,089 |
| Fines and forfeitures | 149,170 | - | 149,170 |
| Revenues from use of money and property | 179,791 | 14,234 | 194,025 |
| Charges for services | 813,950 | 1,197,936 | 2,011,886 |
| Miscellaneous | 1,087,800 | 44,786 | 1,132,586 |
| Recovered costs | 550,051 | 62,524 | 612,575 |
| Intergovernmental: | | | |
| Frederick County | - | 100,500 | 100,500 |
| Commonwealth | 6,017,840 | 6,289,018 | 12,306,858 |
| Federal | 562,862 | 2,741,738 | 3,304,600 |
| Total revenues | <u>74,902,097</u> | <u>10,450,736</u> | <u>85,352,833</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government administration | 5,046,842 | - | 5,046,842 |
| Judicial administration | 3,164,598 | 37,164 | 3,201,762 |
| Public safety | 18,350,346 | 1,594,136 | 19,944,482 |
| Public works | 4,092,222 | 9,919,727 | 14,011,949 |
| Health and welfare | 901,530 | 5,978,613 | 6,880,143 |
| Education | 45,697,366 | - | 45,697,366 |
| Parks, recreation, and culture | 3,232,432 | 223,500 | 3,455,932 |
| Community development | 1,566,564 | 242,426 | 1,808,990 |
| Debt service: | | | |
| Principal retirement | 6,047,562 | - | 6,047,562 |
| Interest and fiscal charges | 3,672,839 | - | 3,672,839 |
| Bond issuance costs | 183,567 | - | 183,567 |
| Total expenditures | <u>91,955,868</u> | <u>17,995,566</u> | <u>109,951,434</u> |
| Excess (deficiency) of revenues over expenditures | <u>(17,053,771)</u> | <u>(7,544,830)</u> | <u>(24,598,601)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Insurance recoveries | 33,437 | - | 33,437 |
| Proceeds from bond issuance | 18,701,837 | 5,563,163 | 24,265,000 |
| Proceeds from premium on bond issuance | 1,481,730 | 444,518 | 1,926,248 |
| Transfers in | 1,600,000 | 4,712,546 | 6,312,546 |
| Transfers out | (4,712,546) | - | (4,712,546) |
| Total other financing sources (uses) | <u>17,104,458</u> | <u>10,720,227</u> | <u>27,824,685</u> |
| Net change in fund balances | 50,687 | 3,175,397 | 3,226,084 |
| Fund balance - beginning | <u>22,190,771</u> | <u>2,498,713</u> | <u>24,689,484</u> |
| Fund balance - ending | <u>\$ 22,241,458</u> | <u>\$ 5,674,110</u> | <u>\$ 27,915,568</u> |

**CITY OF WINCHESTER, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Exhibit 5

| | |
|--|------------------------|
| Net change in fund balances - total governmental funds (Exhibit 4) | \$ 3,226,084 |
| Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$6,084,623 exceeded depreciation \$4,095,722 in the current period. | 1,988,901 |
| In the Statement of Activities, only the <i>gain or loss</i> on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the <i>cost</i> of the property sold. | (13,991) |
| Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources. | 4,191,477 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (170,432) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | (19,859,499) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (403,888) |
| Internal service funds are used by management to charge the costs of supplies, employee benefits, and risk management to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. | 267,697 |
| Change in net position of governmental activities | <u>\$ (10,773,651)</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

Exhibit 6

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------|-------------------|-------------------|--|
| | Original | Final | Amounts | Final Budget - Positive (Negative) |
| REVENUES | | | | |
| General property taxes | \$ 37,033,000 | \$ 37,033,000 | \$ 37,746,991 | \$ 713,991 |
| Other local taxes | 26,875,000 | 26,875,000 | 27,493,553 | 618,553 |
| Permits, privilege fees, and regulatory licenses | 297,100 | 297,100 | 300,089 | 2,989 |
| Fines and forfeitures | 303,000 | 303,000 | 149,170 | (153,830) |
| Revenues from use of money and property | 275,000 | 275,000 | 179,791 | (95,209) |
| Charges for services | 1,024,000 | 1,024,000 | 813,950 | (210,050) |
| Miscellaneous | 1,115,000 | 1,123,400 | 1,087,800 | (35,600) |
| Recovered costs | 758,000 | 758,000 | 550,051 | (207,949) |
| Intergovernmental: | | | | |
| Commonwealth | 5,758,400 | 5,806,671 | 6,017,840 | 211,169 |
| Federal | 338,000 | 440,787 | 562,862 | 122,075 |
| Total revenues | <u>73,776,500</u> | <u>73,935,958</u> | <u>74,902,097</u> | <u>966,139</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration: | | | | |
| Legislative | 159,000 | 166,300 | 172,648 | (6,348) |
| General and financial administration | 5,068,444 | 5,021,344 | 4,720,033 | 301,311 |
| Board of elections | 191,600 | 181,600 | 154,161 | 27,439 |
| Total general government administration | <u>5,419,044</u> | <u>5,369,244</u> | <u>5,046,842</u> | <u>322,402</u> |
| Judicial administration: | | | | |
| Courts | 2,037,100 | 2,131,500 | 2,100,434 | 31,066 |
| Commonwealth attorney | 1,085,100 | 1,083,175 | 1,064,164 | 19,011 |
| Total judicial administration | <u>3,122,200</u> | <u>3,214,675</u> | <u>3,164,598</u> | <u>50,077</u> |
| Public safety: | | | | |
| Law enforcement and traffic control | 7,547,400 | 7,634,062 | 7,528,292 | 105,770 |
| Fire and rescue services | 5,047,006 | 5,054,206 | 5,080,409 | (26,203) |
| Correction and detention | 3,852,458 | 3,852,458 | 3,851,193 | 1,265 |
| Inspections | 466,000 | 485,459 | 477,671 | 7,788 |
| Other protection | 1,387,600 | 1,445,371 | 1,412,781 | 32,590 |
| Total public safety | <u>18,300,464</u> | <u>18,471,556</u> | <u>18,350,346</u> | <u>121,210</u> |
| Public Works: | | | | |
| Maintenance of highways, streets, bridges and sidewalks | 78,600 | 71,700 | 71,272 | 428 |
| Sanitation and waste removal | 1,388,300 | 1,388,300 | 1,352,411 | 35,889 |
| Maintenance of buildings and grounds | 1,893,500 | 1,922,300 | 1,668,539 | 253,761 |
| Contributions to Parking Authority | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Total public works | <u>4,360,400</u> | <u>4,382,300</u> | <u>4,092,222</u> | <u>290,078</u> |
| Health and welfare: | | | | |
| Health | 286,889 | 286,889 | 286,889 | - |
| Chapter X board | 183,307 | 183,307 | 183,307 | - |
| Welfare/Social Services | 593,000 | 593,000 | 431,334 | 161,666 |
| Total Health and Welfare | <u>1,063,196</u> | <u>1,063,196</u> | <u>901,530</u> | <u>161,666</u> |
| Education: | | | | |
| Contributions to community college | 37,391 | 37,391 | 37,391 | - |
| Contributions to School Board - Construction fund | - | 20,000,000 | 20,000,000 | - |
| Contributions to School Board | 26,301,702 | 26,301,702 | 25,659,975 | 641,727 |
| Total Education | <u>26,339,093</u> | <u>46,339,093</u> | <u>45,697,366</u> | <u>641,727</u> |
| Parks, recreation, and cultural: | | | | |
| Parks and recreation | 2,710,280 | 2,692,280 | 2,603,556 | 88,724 |
| Cultural enrichment | 219,025 | 238,825 | 238,542 | 283 |
| Contribution to Regional Library | 390,334 | 390,334 | 390,334 | - |
| Total parks, recreation, and cultural | <u>3,319,639</u> | <u>3,321,439</u> | <u>3,232,432</u> | <u>89,007</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual Amounts | Exhibit 6 (Continued) Variance with Final Budget - Positive (Negative) |
|--|-----------------------|-----------------------|---------------------|--|
| | Original | Final | | |
| EXPENDITURES (continued) | | | | |
| Current: (continued) | | | | |
| Community development: | | | | |
| Planning and community development | \$ 2,082,544 | \$ 2,218,633 | \$ 1,566,564 | \$ 652,069 |
| Total community development | <u>2,082,544</u> | <u>2,218,633</u> | <u>1,566,564</u> | <u>652,069</u> |
| Debt service: | | | | |
| Principal retirement | 5,939,220 | 6,048,220 | 6,047,562 | 658 |
| Interest and fiscal charges | 3,316,200 | 3,673,300 | 3,672,839 | 461 |
| Bond issuance costs | <u>-</u> | <u>183,649</u> | <u>183,567</u> | <u>82</u> |
| Total debt service | <u>9,255,420</u> | <u>9,905,169</u> | <u>9,903,968</u> | <u>1,201</u> |
| Total expenditures | <u>73,262,000</u> | <u>94,285,305</u> | <u>91,955,868</u> | <u>2,329,437</u> |
| Excess of revenues over expenditures | <u>514,500</u> | <u>(20,349,347)</u> | <u>(17,053,771)</u> | <u>3,295,576</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance recoveries | - | - | 33,437 | 33,437 |
| Proceeds from bond issuance | - | 18,709,519 | 18,701,837 | (7,682) |
| Proceeds from premium on bond issuance | - | 1,481,730 | 1,481,730 | - |
| Transfers in | 5,000,000 | 5,000,000 | 1,600,000 | (3,400,000) |
| Transfers out | <u>(6,688,000)</u> | <u>(6,229,500)</u> | <u>(4,712,546)</u> | <u>1,516,954</u> |
| Total other financing sources (uses) | <u>(1,688,000)</u> | <u>18,961,749</u> | <u>17,104,458</u> | <u>(1,857,291)</u> |
| Net change in fund balances | <u>\$ (1,173,500)</u> | <u>\$ (1,387,598)</u> | <u>\$ 50,687</u> | <u>\$ 1,438,285</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

Exhibit 7

| | Business-type Activities- Enterprise Funds | Governmental Activities |
|--|---|------------------------------|
| | Major | |
| | Water and Sewer Fund | Internal Service Funds |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 928,913 | \$ 3,656,305 |
| Investments | 169,558 | 607,923 |
| Accounts receivable, net | 3,911,007 | 93,928 |
| Prepays | - | 336,532 |
| Inventories | 100,468 | 119,642 |
| Total current assets | <u>5,109,946</u> | <u>4,814,330</u> |
| Noncurrent assets: | | |
| Capital assets: | | |
| Nondepreciable | 1,317,273 | - |
| Depreciable, net | 151,808,842 | 41,008 |
| Total capital assets, net | <u>153,126,115</u> | <u>41,008</u> |
| Total noncurrent assets | <u>153,126,115</u> | <u>41,008</u> |
| Total assets | <u>158,236,061</u> | <u>4,855,338</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | 1,076,556 | - |
| Total deferred outflows of resources | <u>1,076,556</u> | <u>-</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 719,393 | 748,775 |
| Customer deposits | 390,298 | - |
| Accrued payroll | 175,914 | 12,259 |
| Accrued interest | 1,082,990 | - |
| Due to other funds | 654,000 | - |
| Compensated absences | 20,000 | - |
| Bonds payable and other obligations - current | 6,410,060 | - |
| Total current liabilities | <u>9,452,655</u> | <u>761,034</u> |
| Noncurrent liabilities: | | |
| Compensated absences | 189,698 | 27,408 |
| Net OPEB obligation | - | 1,785,077 |
| Bonds payable and other obligations | 96,596,027 | - |
| Total noncurrent liabilities | <u>96,785,725</u> | <u>1,812,485</u> |
| Total liabilities | <u>106,238,380</u> | <u>2,573,519</u> |
| NET POSITION | | |
| Net investment in capital assets | 51,196,584 | 41,008 |
| Unrestricted | 1,877,653 | 2,240,811 |
| Total net position | <u>53,074,237</u> | <u>\$ 2,281,819</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds and shown as an internal balance on the Statement of Net Position. | <u>(66,584)</u> | |
| Net position of business-type activities | <u>\$ 53,007,653</u> | |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

Exhibit 8

| | Business-type Activities- Enterprise Funds | Governmental Activities |
|--|---|------------------------------|
| | Major | |
| | Water and Sewer Fund | Internal Service Funds |
| OPERATING REVENUES | | |
| Revenue from use of property | \$ 4,830 | \$ - |
| Charges for services | 20,653,445 | 2,654,566 |
| Miscellaneous | 6,694 | - |
| Recovered costs | 4,156,472 | - |
| Total operating revenues | <u>24,821,441</u> | <u>2,654,566</u> |
| OPERATING EXPENSES | | |
| Personal services | 4,066,869 | 795,147 |
| Contractual services | 4,443,790 | 200,037 |
| Other supplies and expenses | 3,903,127 | 931,978 |
| Insurance claims and expenses | - | 428,158 |
| Depreciation | 4,235,354 | 3,910 |
| Total operating expenses | <u>16,649,140</u> | <u>2,359,230</u> |
| Operating income | <u>8,172,301</u> | <u>295,336</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment earnings | 426 | 5,180 |
| Interest and fiscal charges | (4,020,190) | - |
| Total nonoperating revenues (expenses) | <u>(4,019,764)</u> | <u>5,180</u> |
| Income before contributions and transfers | 4,152,537 | 300,516 |
| CAPITAL CONTRIBUTIONS | 1,400,500 | - |
| TRANSFERS OUT | <u>(1,600,000)</u> | <u>-</u> |
| Change in net position | 3,953,037 | 300,516 |
| Total net position - beginning, as restated (Note 18) | <u>49,121,200</u> | <u>1,981,303</u> |
| Total net position - ending | <u>\$ 53,074,237</u> | <u>\$ 2,281,819</u> |
| Change in net position | \$ 3,953,037 | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | <u>32,819</u> | |
| Change in net position of business-type activities | <u>\$ 3,985,856</u> | |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

Exhibit 9

| | Business-type Activities- Enterprise Funds | Governmental Activities |
|--|---|------------------------------|
| | Major | |
| | Water and Sewer Fund | Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers and users | \$ 20,415,371 | \$ 2,599,240 |
| Cash paid to suppliers | (8,222,483) | (1,114,205) |
| Cash paid to employees | (4,040,353) | (320,057) |
| Premiums paid | - | (1,366,824) |
| Other receipts | 4,167,996 | - |
| Net cash provided by (used in) operating activities | 12,320,531 | (201,846) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Interfund borrowing | (231,000) | - |
| Transfer to other funds | (1,600,000) | - |
| Net cash used in noncapital financing activities | (1,831,000) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital grants | 440,293 | - |
| Acquisition and construction of capital assets | (239,845) | (26,940) |
| Principal paid on capital debt | (5,541,483) | - |
| Interest paid on capital debt | (4,382,527) | - |
| Net cash used in capital and related financing activities | (9,723,562) | (26,940) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 426 | 5,180 |
| Net cash provided by investing activities | 426 | 5,180 |
| Net increase (decrease) in cash and cash equivalents | 766,395 | (223,606) |
| Cash and cash equivalents - beginning of year | 332,076 | 4,487,834 |
| Cash and cash equivalents - end of year | \$ 1,098,471 | \$ 4,264,228 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR IS COMPRISED OF THE FOLLOWING: | | |
| Cash | \$ 928,913 | \$ 3,656,305 |
| Cash equivalents - investments | 169,558 | 607,923 |
| Total | \$ 1,098,471 | \$ 4,264,228 |

Continued

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

Exhibit 9 (Continued)

| | Business-type Activities- Enterprise Funds | Governmental Activities |
|---|---|------------------------------|
| | Major | |
| | Water and Sewer Fund | Internal Service Funds |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 8,172,301 | \$ 295,336 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 4,235,354 | 3,910 |
| (Increase) decrease in: | | |
| Accounts receivable | (345,274) | (55,326) |
| Prepays | - | (321,532) |
| Inventories | 3,518 | 13,737 |
| Increase (decrease) in: | | |
| Accounts payable | 120,916 | (613,061) |
| Accrued payroll | 20,466 | (920) |
| Net OPEB obligation | - | 477,000 |
| Compensated absences | 107,200 | (990) |
| Customer deposits | 6,050 | - |
| Total adjustments | 4,148,230 | (497,182) |
| Net cash provided by (used in) operating activities | <u>\$ 12,320,531</u> | <u>\$ (201,846)</u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | |
| Capital contributions of water and sewer lines from developers | <u>\$ 1,400,500</u> | <u>\$ -</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

Exhibit 10

| | Total Agency Funds |
|--|--------------------------|
| <hr/> | |
| ASSETS | |
| Cash | \$ 784,316 |
| Investments | 1,683,945 |
| Accounts receivable | 178,307 |
| Prepays | <u>2,001</u> |
| Total assets | <u>\$ 2,648,569</u> |
| LIABILITIES | |
| Accounts payable | \$ 50,391 |
| Accrued payroll | 95,430 |
| Amounts held for social services clients | 8,775 |
| Amounts held for NRJA | 1,517,376 |
| Amounts held for NRJDC | <u>976,597</u> |
| Total liabilities | <u>\$ 2,648,569</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City of Winchester, Virginia (the “City”) was incorporated in 1752 and organized under the Council-Manager form of government. The City is governed by an elected mayor and an eight-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units:

The City of Winchester School Board was created as a separate legal entity by the City to oversee the operations and management of its publicly funded primary and secondary schools. All members of the School Board are appointed by City Council, and the City has the ability to impose its will upon the Board. In addition, because the School Board does not have taxing powers, the School Board is fiscally dependent upon the City to provide significant funding to operate the public schools. The School Board must also obtain the City’s approval for debt issuances. The School Board has one discretely presented component unit, the Winchester Education Foundation. The Winchester Education Foundation was created for the purpose of enhancing the funding resources of the Winchester Public Schools above and beyond local and state funding. Funds raised by the Foundation benefit all schools in the City of Winchester. The City of Winchester School Board is also responsible for appointing two members to the Foundation’s Board of Directors. The Winchester Education Foundation is shown as a discretely presented component unit as it is legally separate from the School Board.

The Winchester Parking Authority was created by the City for the purpose of planning and fostering the development of off-street parking facilities. The City appoints all members of the Authority and is able to impose its will on the Authority. The City is financially accountable for the Authority because the City approves the Authority’s budget, levies taxes (if necessary) and must approve any debt issuances.

Separate financial statements of these component units are not available.

Jointly Governed Organizations:

The Frederick-Winchester Service Authority was created by the City and County of Frederick to provide for administration, planning, and design of regional wastewater facilities for the participating jurisdictions. The City appoints a majority of the voting members of the Authority but has no equity interest in the venture. The Authority is able to meet its operating and other costs from charges for services. The City has certain long-term obligations with the Authority that are described further in Note 10. Separate financial statements for this joint venture may be obtained at the entity’s administrative offices at P.O. Box 43, Winchester, Virginia 22604.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Jointly Governed Organizations (Continued):

The Winchester Regional Airport Authority was created by the City and the Counties of Frederick, Clarke, Warren, and Shenandoah to operate a regional airport facility. The City appoints less than a majority of Authority members and participating jurisdictions have no equity interest in the venture. The participants normally must subsidize operations and capital needs. During 2014, the City provided total support of \$188,818. Separate financial statements for this joint venture may be obtained at the entity's administrative offices at 491 Airport Road, Winchester, Virginia 22602.

The Northwestern Juvenile Detention Center Commission was created by the City of Winchester and the Counties of Clarke, Frederick, Page, Shenandoah, and Warren to provide for the operation of a regional juvenile detention center for the use of the participating jurisdictions. The City serves as fiscal agent for the Commission and appoints a majority of the voting members of the Commission, but has no equity interest in the venture. The participants must subsidize operations and capital needs. During 2014, the City provided total support of \$299,751. Separate financial statements for this joint venture may be obtained at the entity's administrative offices at 145 Fort Collier Road, Winchester, Virginia 22603.

The Northwestern Regional Jail Authority was created by the City of Winchester and the Counties of Clarke, Frederick, and Fauquier to govern the operations of the Northwestern Regional Adult Detention Center. Each participating jurisdiction appoints three members to the Authority's board. The participants must subsidize operations and capital needs. During 2014, the City provided total support of \$3,549,207. Separate financial statements for this joint venture may be obtained at the entity's administrative offices at 141 Fort Collier Road, Winchester, Virginia 22603.

Other Related Organizations:

The Economic Development Authority of the City of Winchester was created by Council resolution to promote industry and trade within the City. A board of seven directors appointed by the City Council governs the Authority; however, the City's accountability does not extend beyond making the appointments. Separate financial statements for this related organization may be obtained at the entity's administrative offices at 15 North Cameron Street, Winchester, Virginia 22601.

The Handley Regional Library Board was created by the City and the Counties of Frederick and Clarke to operate a regional library. Although the City appoints a majority of the Board members, its accountability does not extend beyond making the appointments. The participating localities have no equity interest in the library; however, the City provided \$390,334 to the Board for operating support for 2014. Separate financial statements for this related organization may be obtained at the entity's administrative offices at 100 West Piccadilly Street, Winchester, VA 22601.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, *the primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, with the exception of agency fund financial statements, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

Governmental funds account for the expendable financial resources, other than those accounted for in proprietary and fiduciary funds. The governmental funds use the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than on net income determination as would apply to a commercial enterprise. The City reports the following governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is considered a major fund for financial reporting purposes.

Special revenue funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds consist of the Social Services Fund, Highway Maintenance Fund, Emergency Medical Services Fund, Winchester-Frederick County Convention and Visitors Bureau Fund, Law Library Fund, and Transit Fund.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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. Proprietary funds consist of enterprise and internal service funds. The government reports the following proprietary funds:

Enterprise funds account for operations where the intent of the City is that the cost of provided services to the general public be financed and recovered through user charges. Enterprise funds consist of the Water and Sewer Fund, which accounts for the operation of the City's water distribution system and sewage collection system and is considered a major fund for financial reporting purposes.

Internal service funds account for employee fringes, equipment inventory, and other post-employment benefits provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. Internal service funds consist of the Employee Benefits Fund, Equipment Operating Fund and Other Post-Employment Benefits Fund.

Fiduciary funds account for assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include agency funds. Fiduciary funds utilize the accrual basis of accounting as described in the proprietary funds presentation. Agency funds reported by the City include the Special Welfare Fund, Northwestern Regional Jail Authority Construction Fund, and the Northwestern Regional Juvenile Detention Center Fund. These funds account for assets held by the City for social services clients, regional jail construction, and a regional juvenile detention center.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund, transit service fund, and internal service funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the operating definition are reported as non-operating revenues and expenses.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Notes Receivable

The City participates in a "Private Property Rehabilitation Program" funded under a Community Development Block Grant by the Department of Housing and Urban Development. The majority of the funding represents deferred loans payable at maturity date or on change of home ownership, whichever occurs first. The City maintains a security interest in the property. Interest rates on the loans range from non-interest bearing to eight percent.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Notes Receivable (Continued)

During 2012, the City loaned \$150,000 to the South End Fire Company through the Emergency Medical Services Fund to assist with volunteer firefighting and emergency response needs. The loan is to be repaid in equal monthly installments of \$1,250 beginning January 1, 2013 until maturity on December 1, 2022. The balance of the loan was \$127,500 at June 30, 2014. The note does not bear any interest.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the enterprise and internal service funds consist of expendable supplies held for consumption and are accounted for under the consumption method. The cost is recorded as an expense at the time the individual inventory items are used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on June 5 and December 5. The City bills and collects its own taxes. The City's real estate and business-related personal property taxes are levied each calendar year on all taxable property located in the City, and are accounted for in the General fund. Therefore, real estate and business-related personal property taxes that are due within the current fiscal year and collected within 45 days subsequent to year-end are recorded as revenue.

Levy Date
Due Date

January 1
June 5/December 5

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Motor Vehicles

The City employs an innovative system providing for both proration and monthly billing/assessment for personal property taxes on motor vehicles. Property is assessed on the date which a vehicle gains situs in the City, using its value as of the immediately preceding January 1. Taxes attach as a lien on the property as of the date assessed, and are due thirty days after assessment. The City bills and collects its own taxes. These taxes are levied on each vehicle each year in the month in which the property first became taxable in the City. Vehicles already in the City at the adoption of this system were grandfathered in using the same system as for real estate, except that taxes were due in one installment on December 5. Replacement vehicles are taxed using the new system. These taxes are accounted for in the General Fund. Accordingly, such taxes due within the current fiscal year and collected within 45 days subsequent to year-end are recorded as revenue.

Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance at June 30, consisted of the following:

| | |
|--|----------------------------|
| General Fund (property taxes, penalties, and interest) | \$ 1,755,138 |
| Emergency Medical Service Fund | 121,068 |
| Water and Sewer Fund | <u>206,627</u> |
| | <u><u>\$ 2,082,833</u></u> |

Use of Estimates

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Capital Assets (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Property, plant, and equipment, is depreciated using the straight line method over the following estimated useful lives:

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings | 25-50 |
| Improvements other than buildings | 10-65 |
| Infrastructure | 10-65 |
| Machinery and equipment | 5-30 |

Compensated Absences

City employees earn vacation at a rate of 8 to 14 hours per month, depending on years of service. Sick leave is earned at the rate of one day per month. Benefits or pay is received for unused sick leave upon termination at 25% of its carrying value to a maximum of \$5,000 per employee after five years of credited service. Accumulated vacation up to forty-two days is paid upon termination.

Employees of the School Board, who retire under the Virginia Retirement System, and have been employed by the School Board for the immediately preceding ten consecutive years prior to retirement in a full-time position receive \$50 a day for any unused sick leave up to a maximum of 90 days. All employees who are classified as full-time twelve-month employees are entitled to annual leave and shall be paid per diem upon retirement or termination (based on their final annual salary) for their unused annual leave.

All vacation and sick pay currently payable is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

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

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – 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** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council through adoption of a resolution. Only City Council may modify or rescind the commitment.
- **Assigned** - Amounts are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on governing body direction through adoption or amendment of the budget or through ordinance or resolution.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the general fund.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Restricted Amounts

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance Policy

The General Fund reserve target is 20% of the fund's current year budgeted appropriations. For the purpose of determining if the target has been met, the unassigned fund balance of the General Fund is compared with the annual appropriations budget.

Other governmental funds of the City do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by Council.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2014 total \$219,142 in the School Capital Improvements Fund, \$9,808 in the School Federal Grants Fund, and \$97,559 in the School Operating Fund.

Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflows of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported on both the government-wide statement of net position and the proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item which occurs under a modified accrual basis of accounting. The item, unavailable revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year-end and property taxes levied to fund future years. These amounts are deferred and recognized as an inflow of resources in the period they become available. In addition, the Statement of Net Position reports property taxes received in advance under this section.

School Board Debt/Capital Asset Reporting

The City issues debt to finance the construction of school facilities because the School Board does not have borrowing or taxing authority. The City reports this debt, whereas the School Board reports the related capital assets. As a result, in the Statement of Net Position (Exhibit 1), the school related debt reduces *unrestricted net position* for the primary government, while the capital assets are reported in *net investment in capital assets* for the School Board.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statements of Net Position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of these differences for the primary government and school board are as follows:

| | Primary Government | Component Unit School Board |
|--------------------------|-------------------------------|--|
| Bonds payable | \$ 96,637,572 | \$ - |
| Plus: Issuance premium | 9,487,758 | - |
| Accrued interest payable | 1,308,167 | - |
| Compensated absences | 2,310,368 | 1,323,004 |
| | <u>\$ 109,743,865</u> | <u>\$ 1,323,004</u> |

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of supplies, employee benefits, and risk management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.” The details of this difference in the primary government are as follows:

| | |
|---|---------------------|
| Net position of the internal service funds | \$ 2,281,819 |
| Add: Internal receivable representing costs in excess of charges to business-type activities – prior years | 33,765 |
| Add: Internal receivable representing costs in excess of charges to business-type activities – current year | 32,819 |
| | <u>\$ 2,348,403</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.” The details of these differences for the primary government and school board are as follows:

| | <u>Primary Government</u> |
|--|--------------------------------------|
| Principal repayments | \$ 6,047,562 |
| Proceeds from bond issuance | (24,265,000) |
| Proceeds from premium on bond issuance | (1,926,248) |
| Amortization of issuance premium | 828,165 |
| Amortization of deferred charge on refunding | <u>(543,978)</u> |
| | <u>\$ (19,859,499)</u> |

Another element of that reconciliation states that “Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of these differences for the primary government and school board, respectively, is as follows:

| | <u>Primary Government</u> | <u>Component Unit School Board</u> |
|----------------------|--------------------------------------|---|
| Compensated absences | \$ (110,297) | \$ 4,046 |
| Accrued interest | <u>(293,591)</u> | <u>-</u> |
| | <u>\$ (403,888)</u> | <u>\$ 4,046</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities (Continued)

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of supplies, employee benefits, and risk management to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.” The details of this difference in the primary government are as follows:

| | |
|--|--------------------------|
| Changes in net position of the internal service funds | \$ 300,516 |
| Add: Loss from costs in excess of charges to business-type activities | <u>(32,819)</u> |
| | <u><u>\$ 267,697</u></u> |

Explanation of certain differences between the proprietary fund Statement of Net Position and the government-wide Statement of Net Position

The proprietary fund statement of net position includes a reconciliation between *net position-total enterprise funds* and *net position of business-type activities* as reported in the government-wide statements of net position. The description of the sole element of that reconciliation is “Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.” The details of this difference are as follows:

| | |
|---|---------------------------|
| Internal receivable representing charges in excess of costs to business-type activities – prior years | \$ (99,403) |
| Internal receivable representing costs in excess of charges to business-type activities – current year | <u>32,819</u> |
| | <u><u>\$ (66,584)</u></u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Stewardship, Compliance, and Accountability

Budgetary Information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. Appropriated annual budgets are adopted for the General, Special Revenue, and Capital Projects Funds of the primary government and School Board.
4. The Appropriations Resolution is adopted at the fund, function, and department level and places legal restrictions on expenditures at the department level. The appropriation for each department can be revised only by the Council. The City Manager is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's departmental categories.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds and the capital projects funds. The Discretely Presented Component Unit - School Board is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City funds.
8. All budget data presented in the accompanying financial statements is the appropriated budget as of June 30, as amended. The City and Schools required budget amendments during the year, representing a net increase of \$1,438,285 in the General Fund, and a net decrease of \$3,138 in the School Operating Fund.

Note 4. Deposits and Investments

Deposits

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Investments

The City's investments are subject to credit risk, concentration of credit risk, and interest rate risk as described below. The City's investments are not subject to custodial risk or foreign currency risk.

Credit Risk - 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, bankers acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP). The City has no investment policy that would further limit its investment choices.

Interest Rate Risk - The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The City may reject an investment with a higher yield when it is felt it carries an element of risk. Speculative investments will not be allowed. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments, which meet the maturity requirement. If no specific maturity is required, a yield curve analysis will be conducted to determine which maturities would be most advantageous.

As of June 30, the City's investments consisted of the following:

| Investment Type | Fair Value | S & P Credit Rating | Weighted Average Maturity* |
|--------------------------------|----------------------|---------------------|----------------------------|
| Federal Agency Bonds and Notes | \$ 4,991,280 | AA+ | 1.39 |
| Mutual Funds | 741,828 | AA- to AA | N/A |
| LGIP | 316,518 | AAAm | 0.13 |
| SNAP | 26,633,792 | AAAm | N/A |
| Total investments | <u>\$ 32,683,418</u> | | |

* - Average Maturity in Years

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk:

The City had the following investments at June 30, that exceeded 5 percent of the total investment balance. These investments were not considered by management to represent a risk to the City.

| <u>Issuer</u> | <u>Percent of Total Portfolio</u> |
|---------------------------------------|--|
| SNAP | 81.49% |
| Federal National Mortgage Association | 12.21% |

The above items are reflected in the financial statements as follows:

| | <u>Component Units</u> | | |
|----------------------------|----------------------------------|----------------------------|--|
| | <u>Primary Government</u> | <u>School Board</u> | <u>Winchester Parking Authority</u> |
| Deposits and investments: | | | |
| Cash on hand | \$ 4,275 | \$ 1,380 | \$ 7,690 |
| Deposits | 23,586,395 | 7,378,638 | 1,087,774 |
| Investments | <u>10,561,270</u> | <u>21,923,464</u> | <u>198,684</u> |
| | <u>\$ 34,151,940</u> | <u>\$ 29,303,482</u> | <u>\$ 1,294,148</u> |
| Statement of Net Position: | | | |
| Cash | \$ 22,806,354 | \$ 6,813,811 | \$ 1,095,464 |
| Investments | 8,877,325 | 1,258,783 | 198,684 |
| Investments - restricted | - | 20,018,600 | - |
| Fiduciary: | | | |
| Cash and cash equivalents | 784,316 | 566,207 | - |
| Investments | <u>1,683,945</u> | <u>646,081</u> | <u>-</u> |
| | <u>\$ 34,151,940</u> | <u>\$ 29,303,482</u> | <u>\$ 1,294,148</u> |

Investments - Restricted:

Restricted investments consist of unspent bond proceeds related to the Series 2013 bond issuance.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 5. Due from Other Governments

The following amounts represent amounts due from other governments at June 30:

| | Primary Government | Component Unit – School Board |
|--|-------------------------------|--|
| Federal and Commonwealth of Virginia: | | |
| State sales tax | \$ - | \$ 689,758 |
| Title VI-B | - | 224,922 |
| Title I | - | 229,736 |
| Other federal and state school funds | - | 386,048 |
| Local sales tax | 1,465,124 | - |
| Transit grants | 564,438 | - |
| Highway construction funds | 577,273 | - |
| Welfare grants | 355,345 | - |
| Communication tax | 180,245 | - |
| Other federal and state funds | 465,858 | - |
| | <u>3,608,283</u> | <u>1,530,464</u> |
| Total due from federal and state sources | | |
| Frederick County: | | |
| Joint Judicial Center – debt service | 140,725 | - |
| Joint Judicial Center – operating expenses | 78,098 | - |
| Other receivables | 72,121 | - |
| | <u>\$ 3,899,227</u> | <u>\$ 1,530,464</u> |

Note 6. Promises to Give

Unconditional promises to give reported by the School Board for the Handley Capital Project, scholarships and other educational programs, and the Winchester Education Foundation at June 30, are as follows:

| | |
|--|---------------------|
| Receivable in less than one year | \$ 298,841 |
| Receivable in one to five years | 915,847 |
| Receivable in five to ten years | 441,053 |
| Receivable in ten to fifteen years | 151,590 |
| Receivable in fifteen to twenty years | 8,000 |
| | <u>1,815,331</u> |
| Total unconditional promises to give | 1,815,331 |
| Less discounts to present value | (380,823) |
| Less allowance for uncollectible pledges | (30,024) |
| | <u>\$ 1,404,484</u> |

The discount rate used on long-term promises to give is 5%.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Interfund Receivables, Payables, and Transfers

Inter-fund balances at June 30, consisted of the following:

Primary Government

Due to general fund from:

| | |
|------------------------------|----------------|
| Non-major governmental funds | \$ 405,000 |
| Water and sewer fund | <u>654,000</u> |

Total due to general fund from other funds for cash advances

\$ 1,059,000

Component Unit – School Board

Due to school operating fund from:

| | |
|---------------------|-------------------|
| Federal grants fund | <u>\$ 391,030</u> |
|---------------------|-------------------|

Inter-fund transfers for the year ended June 30, consisted of the following:

Primary Government

Transfers to general fund from:

| | |
|----------------------|---------------------|
| Water and sewer fund | <u>\$ 1,600,000</u> |
|----------------------|---------------------|

Transfers to non-major governmental funds from:

| | |
|--------------|---------------------|
| General fund | <u>\$ 4,712,546</u> |
|--------------|---------------------|

Component Unit – School Board

Transfers to non-major governmental funds from:

| | |
|-----------------------|-------------------|
| School operating fund | <u>\$ 129,235</u> |
|-----------------------|-------------------|

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, (3) close the residual balances of certain funds into other funds.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets

Primary Government

A summary of the changes in the City's capital assets for *governmental activities* is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|-------------------------------------|-------------------------|-------------------------|----------------------------------|
| Capital asset, not being depreciated: | | | | |
| Land | \$ 5,437,240 | \$ 300,961 | \$ - | \$ 5,738,201 |
| Construction in progress | 956,141 | 4,185,572 | (70,474) | 5,071,239 |
| | <u>6,393,381</u> | <u>4,486,533</u> | <u>(70,474)</u> | <u>10,809,440</u> |
| Total capital assets not being depreciated | | | | |
| | <u>6,393,381</u> | <u>4,486,533</u> | <u>(70,474)</u> | <u>10,809,440</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 31,041,890 | - | - | 31,041,890 |
| Improvements other than buildings | 7,269,014 | 3,702,208 | - | 10,971,222 |
| Infrastructure | 61,691,269 | 168,480 | - | 61,859,749 |
| Equipment | 12,721,278 | 2,016,292 | (311,529) | 14,426,041 |
| | <u>112,723,451</u> | <u>5,886,980</u> | <u>(311,529)</u> | <u>118,298,902</u> |
| Total capital assets being depreciated | | | | |
| | <u>112,723,451</u> | <u>5,886,980</u> | <u>(311,529)</u> | <u>118,298,902</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (9,580,452) | (634,463) | - | (10,214,915) |
| Improvements other than buildings | (3,352,006) | (354,039) | - | (3,706,045) |
| Infrastructure | (20,018,881) | (2,389,096) | - | (22,407,977) |
| Equipment | (9,031,866) | (722,034) | 297,538 | (9,456,362) |
| | <u>(41,983,205)</u> | <u>(4,099,632)</u> | <u>297,538</u> | <u>(45,785,299)</u> |
| Total accumulated depreciation | | | | |
| | <u>(41,983,205)</u> | <u>(4,099,632)</u> | <u>297,538</u> | <u>(45,785,299)</u> |
| Total capital assets being depreciated, net | | | | |
| | <u>70,740,246</u> | <u>1,787,348</u> | <u>(13,991)</u> | <u>72,513,603</u> |
| Governmental activities capital assets, net | | | | |
| | <u>\$ 77,133,627</u> | <u>\$ 6,273,881</u> | <u>\$ (84,465)</u> | <u>\$ 83,323,043</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Depreciation expense was charged to functions/programs of the City's governmental activities as follows:

| | |
|--|----------------------------|
| Governmental activities: | |
| General government | \$ 129,811 |
| Judicial administration | 173,249 |
| Public safety | 401,042 |
| Public works | 2,956,002 |
| Health and welfare | 17,783 |
| Parks, recreation, and cultural | 416,385 |
| Community development | <u>5,360</u> |
| Total depreciation expense – governmental activities | <u><u>\$ 4,099,632</u></u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

A summary of the changes in the City's capital assets for *business-type activities* is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital asset, not being depreciated: | | | | |
| Land | \$ 1,201,485 | \$ - | \$ - | \$ 1,201,485 |
| Construction in progress | - | 115,788 | - | 115,788 |
| Total capital assets not being depreciated | 1,201,485 | 115,788 | - | 1,317,273 |
| Capital assets, being depreciated: | | | | |
| Treatment plants | 45,043,669 | - | - | 45,043,669 |
| Improvements other than buildings | 118,837 | - | - | 118,837 |
| Infrastructure | 115,735,895 | 1,400,500 | - | 117,136,395 |
| Equipment | 2,684,035 | - | - | 2,684,035 |
| FWSA purchased capacity | 27,403,547 | - | - | 27,403,547 |
| Total capital assets being depreciated | 190,985,983 | 1,400,500 | - | 192,386,483 |
| Less accumulated depreciation for: | | | | |
| Treatment plants | (3,382,183) | (900,805) | - | (4,282,988) |
| Improvements other than buildings | (114,306) | (455) | - | (114,761) |
| Infrastructure | (23,242,194) | (1,780,655) | - | (25,022,849) |
| Equipment | (1,517,651) | (183,262) | - | (1,700,913) |
| FWSA purchased capacity | (8,085,953) | (1,370,177) | - | (9,456,130) |
| Total accumulated depreciation | (36,342,287) | (4,235,354) | - | (40,577,641) |
| Total capital assets being depreciated, net | 154,643,696 | (2,834,854) | - | 151,808,842 |
| Business-type activities capital assets, net | \$ 155,845,181 | \$ (2,719,066) | \$ - | \$ 153,126,115 |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Primary Government (Continued)

Depreciation expense was charged to functions/programs of the City's business-type activities as follows:

| | |
|---------------------------|---------------------|
| Business-type activities: | |
| Water and sewer fund | \$ <u>4,235,354</u> |

Frederick-Winchester Service Authority (FWSA) treatment plant rights:

The City and the FWSA have entered into agreements for the City to benefit from a certain wastewater treatment plant of the FWSA. The City is not authorized to hold legal title to the plant; thus FWSA holds title to these assets. Through long-term contracts, the risks and benefits of operating and maintaining the assets has been transferred to the City, and thus represent intangible capital assets. The City is responsible for a portion of the debt incurred for these facilities.

Construction Commitments:

The City has active construction projects related to various items. At year end, the City's commitments with contractors on the projects are as follows:

| | <u>Total Contracts</u> | <u>Total Payments</u> | <u>Future Amounts to be Expended</u> |
|---------------------------------|-----------------------------------|----------------------------------|---|
| General Fund: | | | |
| S. Loudon Drainage Improvements | \$ <u>2,343,482</u> | \$ <u>2,049,087</u> | \$ <u>294,395</u> |
| Sidewalk Replacements | \$ <u>974,840</u> | \$ <u>740,865</u> | \$ <u>233,975</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Summaries of the changes in the Discretely Presented Component Unit School Board and Parking Authority's capital assets are as follows:

Component Unit – School Board

| | <u>Beginning Balance *</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|---------------------------------------|-------------------------|-------------------------|----------------------------------|
| Capital asset, not being depreciated: | | | | |
| Land * | \$ 2,307,970 | \$ - | \$ - | \$ 2,307,970 |
| Construction in progress | 765,456 | 446,107 | (664,448) | 547,115 |
| | <u>3,073,426</u> | <u>446,107</u> | <u>(664,448)</u> | <u>2,855,085</u> |
| Total capital assets not being depreciated | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings | 129,856,835 | 282,912 | - | 130,139,747 |
| Improvements other than buildings | 2,748,931 | 889,344 | - | 3,638,275 |
| Equipment | 6,095,772 | 620,728 | (355,185) | 6,361,315 |
| | <u>138,701,538</u> | <u>1,792,984</u> | <u>(355,185)</u> | <u>140,139,337</u> |
| Total capital assets being depreciated | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | (24,271,593) | (2,529,761) | - | (26,801,354) |
| Improvements other than buildings | (1,844,923) | (95,061) | - | (1,939,984) |
| Equipment | (4,169,628) | (403,911) | 280,519 | (4,293,020) |
| | <u>(30,286,144)</u> | <u>(3,028,733)</u> | <u>280,519</u> | <u>(33,034,358)</u> |
| Total accumulated depreciation | | | | |
| Total capital assets being depreciated, net | <u>108,415,394</u> | <u>(1,235,749)</u> | <u>(74,666)</u> | <u>107,104,979</u> |
| School board capital assets, net | <u>\$ 111,488,820</u> | <u>\$ (789,642)</u> | <u>\$ (739,114)</u> | <u>\$ 109,960,064</u> |

* Land held for sale for \$15,000 in the Winchester Education Foundation Fund was previously shown under this classification and has been separated for presentation purposes as of June 30, 2014 on Exhibit 1.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Capital Assets (Continued)

Component Unit – Parking Authority

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 11,685 | \$ - | \$ - | \$ 11,685 |
| Total capital assets not being depreciated | 11,685 | - | - | 11,685 |
| Capital assets, being depreciated: | | | | |
| Buildings | 9,751,399 | - | - | 9,751,399 |
| Improvements other than buildings | 56,179 | - | - | 56,179 |
| Equipment | 751,143 | - | - | 751,143 |
| Total capital assets being depreciated | 10,558,721 | - | - | 10,558,721 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,670,651) | (194,850) | - | (1,865,501) |
| Improvements other than buildings | (56,179) | - | - | (56,179) |
| Equipment | (276,853) | (63,277) | - | (340,130) |
| Total accumulated depreciation | (2,003,683) | (258,127) | - | (2,261,810) |
| Total capital assets being depreciated, net | 8,555,038 | (258,127) | - | 8,296,911 |
| Parking Authority capital assets, net | <u>\$ 8,566,723</u> | <u>\$ (258,127)</u> | <u>-</u> | <u>8,308,596</u> |

Depreciation expense was charged to functions/programs of the respective Component Unit – School Board’s governmental activities and Component Unit – Parking Authority’s business-type activities as follows:

Governmental activities:

School Board – Education \$ 3,028,733

Business-type activities:

Parking Authority – Public works \$ 258,127

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Unavailable/Unearned Revenue and Deferred Inflows of Resources

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also include unearned revenue amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. At year end, the various components of deferred inflows of resources and deferred revenue reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| Deferred property tax revenue, representing uncollected tax billings (General Fund) | \$ 1,683,077 | \$ - | \$ 1,683,077 |
| Deferred joint judicial commission, representing uncollected debt service billings (General Fund) | 140,725 | - | 140,725 |
| Property taxes paid in advance, representing property taxes not yet due (General Fund) | <u>-</u> | <u>869,924</u> | <u>869,924</u> |
| Total deferred inflows of resources for the general fund | <u>1,823,802</u> | <u>869,924</u> | <u>2,693,726</u> |
| Deferred EMS transportation charges, representing uncollected EMS billings (Special Revenue Fund) | <u>167,309</u> | <u>-</u> | <u>167,309</u> |
| Total deferred revenues for special revenue funds | <u>\$ 1,991,111</u> | <u>\$ 869,924</u> | <u>\$ 2,861,035</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt

Primary Government

Changes in Long-Term Debt

The following is a summary of the long-term debt transactions of the City for the year ended June 30:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|--|-------------------------------------|-------------------------|-------------------------|----------------------------------|---------------------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds | \$ 77,520,134 | \$24,265,000 | \$ 5,747,562 | \$ 96,037,572 | \$ 5,742,139 |
| Obligations payable | 900,000 | - | 300,000 | 600,000 | 100,000 |
| Unamortized bond premium | 8,389,675 | 1,926,248 | 828,165 | 9,487,758 | 824,456 |
| Compensated absences | 2,228,470 | 186,305 | 77,000 | 2,337,775 | 77,000 |
| Net OPEB obligation | 1,308,077 | 477,000 | - | 1,785,077 | - |
| Governmental activities long-term liabilities | <u>\$ 90,346,356</u> | <u>\$26,854,553</u> | <u>\$ 6,952,727</u> | <u>\$ 110,248,182</u> | <u>\$ 6,743,595</u> |
| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
| Business-type Activities: | | | | | |
| General obligation bonds | \$ 19,784,803 | \$ - | \$ 1,597,739 | \$ 18,187,064 | \$ 1,780,631 |
| Revenue bonds | 65,620,000 | - | 2,436,878 | 63,183,122 | 2,538,194 |
| Obligations payable FWSA | 17,709,408 | - | 1,506,866 | 16,202,542 | 1,654,560 |
| Unamortized bond premium | 5,878,034 | - | 444,675 | 5,433,359 | 436,675 |
| Compensated absences | 203,648 | 21,050 | 15,000 | 209,698 | 20,000 |
| Business-type activities long-term liabilities | <u>\$ 109,195,893</u> | <u>\$ 21,050</u> | <u>\$ 6,001,158</u> | <u>\$ 103,215,785</u> | <u>\$ 6,430,060</u> |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At June 30, \$27,408 of internal service funds compensated absences is included in the above amounts. Also, for the governmental activities, the net other postemployment benefit obligation and compensated absences are generally liquidated by the general fund and special revenue funds.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Primary Government (Continued)

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|---|--|
| <u>Details of Long-Term Indebtedness</u> | | |
| General Obligation Bonds: | | |
| \$10,000,000 General Obligation Public Improvement Bonds, Series of 1999A, issued June 16, 1999, maturing annually beginning June 1, 2000 through June 3, 2019, interest payable semi-annually at 4.86% Purpose: General and Utilities capital projects | \$ 1,719,818 | \$ 1,719,818 |
| \$9,595,000 General Obligation Public Improvement Bonds, Series of 2003, issued December 18, 2003, maturing annually beginning September 1, 2004 through September 1, 2015, interest payable semi-annually at 3.79% Purpose: General, Utilities and School capital projects | 332,168 | 142,833 |
| \$35,020,000 General Obligation Public Improvement and Refunding Bonds, Series of 2004, issued October 21, 2004, maturing annually beginning January 15, 2005 through January 15, 2020, interest payable semi-annually at 3.77%. Purpose: General, Utilities, and School capital projects | 3,709,416 | 3,165,583 |
| \$45,000,000 General Obligation Public Improvement, Series of 2005, issued November 1, 2005, maturing annually beginning November 1, 2006 through November 1, 2025, interest payable semi-annually at 4.1861% Purpose: General, Utilities, and School capital projects | 5,750,370 | 914,630 |
| \$23,660,000 General Obligation Public Improvement, Series of 2006, issued December 21, 2006, maturing annually beginning December 1, 2007 through December 1, 2026, interest payable semi-annually at 3.84%. Purpose: Utilities and School capital projects | 5,640,475 | 1,284,525 |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Primary Government (Continued)

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--|---|--|
| <u>Details of Long-Term Indebtedness (Continued)</u> | | |
| \$7,200,000 General Obligation Public Improvement, Series of 2007, issued September 12, 2007, maturing annually beginning September 1, 2008 through September 1, 2027, interest payable semi-annually at rates of 4.0-5.0%. Purpose: General and School capital projects | \$ 5,625,000 | \$ - |
| \$31,705,000 General Obligation Public Improvement and Refunding Bond, Series 2011, issued September 8, 2011, maturing annually beginning September 1, 2012 through September 1, 2023, interest payable semi-annually at rates of 2.0-4.0%. Purpose: General, Utilities, and School capital projects | 26,870,040 | 4,449,960 |
| \$28,635,000 General Obligation Public Improvement and Refunding Bond, Series 2012, issued August 2, 2012, maturing annually beginning September 1, 2012 through September 1, 2026, interest payable semi-annually at rates of 3.0-5.0%. Purpose: General, Utilities, and School capital projects | 22,125,285 | 6,509,715 |
| \$24,265,000 General Obligation Public Improvement, Series 2013, issued October 30, 2013, maturing annually beginning September 1, 2014 through September 1, 2033, interest payable semi-annually at rates of 3.0-5.0%. Purpose: General and School capital projects | 24,265,000 | - |
| Total General Obligation Bonds | <u>\$ 96,037,572</u> | <u>\$ 18,187,064</u> |

Revenue Bonds:

| | | |
|--|------|---------------|
| \$12,100,000 Virginia Resources Authority Revenue Bond, Series of 2008, issued November 21, 2008, maturing annually beginning October 1, 2010 through October 1, 2028 interest payable semi-annually at rates of 3.125-5.375%. Purpose: Utilities capital projects | \$ - | \$ 10,320,000 |
|--|------|---------------|

| | | |
|---|---|------------|
| \$11,820,000 Virginia Resources Authority Revenue Bond, Series of 2009A, issued June 1, 2009, maturing annually beginning October 1, 2010 through October 1, 2029 interest payable semi-annually at rates of 4.125-5.125% Purpose: Utilities capital projects | - | 10,295,000 |
|---|---|------------|

(Continued)

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Primary Government (Continued)

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|---|--|
| <u>Details of Long-Term Indebtedness (Continued)</u> | | |
| \$12,295,000 Virginia Resources Authority Revenue Bond, Series of 2009B, issued November 1, 2009, maturing annually beginning October 1, 2011 through October 2, 2029, interest payable semi-annually at rates of 3.041%-5.916%. Purpose: Utilities capital projects | - | 10,925,000 |
| \$12,165,000 Virginia Resources Authority Revenue Bond, Series of 2010C, issued November 1, 2010, maturing annually beginning October 1, 2012 through October 1, 2031 interest payable semi-annually at rates of 4.200%-6.041%. Purpose: Utilities capital projects | - | 11,310,000 |
| \$1,500,000 Virginia Resources Authority Revenue Bond, Series 2011A, issued October 25, 2011, maturing semi-annually beginning September 1, 2013 through September 1, 2042, interest payable semi-annually at 3.00%. Balance of bond is based on principal advances made by the City not to exceed \$1,500,000. | - | 1,468,122 |
| \$19,470,000 Virginia Resources Authority Revenue Bond, Series 2011B, issued October 16, 2011, maturing annually beginning October 1, 2013 through October 1, 2032, interest payable semi-annually at rates of 3.44%-5.125%. Purpose: Utilities capital projects. | - | 18,865,000 |
| Total Revenue Bonds | <u>\$ -</u> | <u>\$ 63,183,122</u> |
| Obligations Payable: | | |
| \$26,452,442 FWSA Opequen Water Facility obligations, commencing April 1, 2004, maturing annually through October 1, 2038 interest payable monthly at rates of 2.6%-3.5%. Purpose: Utilities capital projects. | \$ - | \$ 16,202,542 |
| \$1,000,000 HUD 108 loan, commencing August 1, 2013, maturing annually through August 1, 2022, no stated interest rate. Purpose: Community development capital projects. | 600,000 | - |
| Total Obligations Payable | <u>\$ 600,000</u> | <u>\$ 16,202,542</u> |

(Continued)

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Primary Government (Continued)

Annual requirements to amortize long-term debt and related interest are as follows:

| | Governmental Activities | | | |
|-----------|---------------------------------|----------------------|----------------------------|-----------------|
| | General Obligation Bonds | | Obligations Payable | |
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 5,742,139 | \$ 4,136,789 | \$ 100,000 | \$ - |
| 2016 | 6,119,619 | 3,876,421 | 100,000 | - |
| 2017 | 6,440,530 | 3,613,190 | 100,000 | - |
| 2018 | 6,726,284 | 3,327,184 | 100,000 | - |
| 2019 | 6,930,501 | 3,006,432 | 100,000 | - |
| 2020-2024 | 36,024,374 | 10,338,775 | 100,000 | - |
| 2025-2029 | 19,509,125 | 3,431,795 | - | - |
| 2030-2034 | 8,545,000 | 963,688 | - | - |
| | <u>\$ 96,037,572</u> | <u>\$ 32,694,274</u> | <u>\$ 600,000</u> | <u>\$ -</u> |

| | Business-type Activities | | | | | |
|-----------|---------------------------------|---------------------|----------------------|----------------------|---------------------------------|---------------------|
| | General Obligation Bonds | | Revenue Bonds | | Obligations Payable FWSA | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ 1,780,631 | \$ 777,922 | \$ 2,538,194 | \$ 3,102,309 | \$ 1,654,560 | \$ 630,875 |
| 2016 | 1,829,696 | 702,143 | 2,649,197 | 2,988,803 | 1,586,996 | 568,043 |
| 2017 | 1,975,308 | 611,779 | 2,775,231 | 2,861,204 | 685,317 | 520,226 |
| 2018 | 2,077,605 | 525,238 | 2,901,296 | 2,724,124 | 710,848 | 494,567 |
| 2019 | 2,174,638 | 431,662 | 3,047,393 | 2,585,582 | 737,010 | 468,693 |
| 2020-2024 | 6,483,681 | 1,062,438 | 17,479,616 | 10,526,755 | 3,027,032 | 1,973,496 |
| 2025-2029 | 1,865,505 | 114,356 | 21,842,467 | 5,499,910 | 3,362,164 | 1,374,938 |
| 2030-2034 | - | - | 9,375,589 | 815,490 | 2,509,395 | 715,423 |
| 2035-2039 | - | - | 319,832 | 65,070 | 1,929,220 | 248,570 |
| 2040-2044 | - | - | 254,307 | 15,465 | - | - |
| | <u>\$ 18,187,064</u> | <u>\$ 4,225,538</u> | <u>\$ 63,183,122</u> | <u>\$ 31,184,712</u> | <u>\$ 16,202,542</u> | <u>\$ 6,994,831</u> |

Frederick-Winchester Service Authority (FWSA) treatment plant rights

During 2008 and 2009, the FWSA in conjunction with the participating entities decided to expand the Opequon Water Reclamation Facility. The FWSA has issued debt to finance this project. During 2011, this project was completed and the City assumed responsibility for partial debt service of this plant.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Primary Government (Continued)

Prior Year Refunding of Debt

In August 2012, the City issued \$28,635,000 in general obligation bonds with an average interest rate of 4.00%. These bonds were issued to refund approximately \$30,465,000 in outstanding bonds including bond issuances in 2001, and partial refunding of bonds issued in 2004, 2005, and 2006. The net proceeds of the refunding were \$34,669,687 (including \$6,034,687 in bond premium and payment of \$297,844 in underwriting fees and other issuance costs). The liability for the refunded bonds has been replaced with the liability from the new debt with the difference between the reacquisition price and the net carrying amount of the old debt being deferred and amortized over the life of the new debt in proportion to the stated interest due on the new debt. Approximately \$24,855,000 remains outstanding at June 30, 2014 related to the partially defeased bonds described above.

In September 2011, the City issued \$31,705,000 in general obligation bonds with an average interest rate of 4.00%. These bonds were issued to advance refund \$31,410,000 in outstanding bonds including bond issuances in 2002, and partial refunding of bonds issued in 2003, 2004, and 2005. The proceeds were placed in trust with an escrow agent to fund all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$1,397,126 and to obtain an economic gain of \$1,221,025. Approximately \$23,510,000 remains outstanding at June 30, 2014 related to the partially defeased bonds described above.

School Board

The following is a summary of long-term debt transactions for the School Board for the year ended June 30:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|---|-------------------------------------|-------------------------|-------------------------|----------------------------------|---------------------------------------|
| Governmental Activities - School Board | | | | | |
| Compensated absences | \$ 1,327,050 | \$ 227,954 | \$ 232,000 | \$ 1,323,004 | \$ 232,000 |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Long-Term Debt (Continued)

Parking Authority

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the Parking Authority for the year ended June 30:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Business-type Activities – Component Unit Parking Authority | | | | | |
| Revenue bond | \$ 8,235,000 | \$ - | \$ 175,000 | \$ 8,060,000 | \$ 180,000 |
| Unamortized bond premium | 234,308 | - | 15,469 | 218,839 | 15,149 |
| Compensated absences | 42,711 | 4,396 | - | 47,107 | - |
| Parking authority long-term liabilities | <u>\$ 8,512,019</u> | <u>\$ 4,396</u> | <u>\$ 190,469</u> | <u>\$ 8,325,946</u> | <u>\$ 195,149</u> |

Details of Long-Term Indebtedness

\$9,000,000 Revenue Bonds, Series of 2007, issued August 8, 2007, maturing annually beginning August 1, 2008 through August 1, 2037, interest payable semi-annually at rates of 4.25 - 5.00%. Purpose: Parking Facility project

\$ 8,060,000

Annual requirements to amortize long-term debt and related interest are as follows:

| | <u>Parking Authority</u> | |
|-----------|--------------------------|---------------------|
| | <u>Revenue Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 180,000 | \$ 398,500 |
| 2016 | 190,000 | 389,250 |
| 2017 | 200,000 | 379,500 |
| 2018 | 210,000 | 369,250 |
| 2019 | 220,000 | 358,500 |
| 2020-2024 | 1,280,000 | 1,611,250 |
| 2025-2029 | 1,630,000 | 1,249,250 |
| 2030-2034 | 2,080,000 | 788,000 |
| 2035-2038 | <u>2,070,000</u> | <u>213,250</u> |
| | <u>\$ 8,060,000</u> | <u>\$ 5,756,750</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Contingent Liabilities and Commitments

Federal programs in which the City participates were audited in accordance with 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 document, all major programs were tested for compliance with applicable grant requirements. While no matters of material noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse affect on the financial condition of the government.

Green Energy Project

In November 2013, the City, along with the Frederick-Winchester Service Authority (FWSA), the County of Frederick, and the Frederick County Sanitation Authority, approved the Green Energy Project for the purpose of implementing a series of capacity and efficiency improvements to the Opequon Water Reclamation Facility. To finance this project, the FWSA authorized the issuance of \$53,000,000 in bonds, for which the City will be liable for a yet to be determined portion. As of June 30, 2014, this project has not yet commenced, no debt amounts have been issued, and no liabilities have been recorded related to this project.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System

Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

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

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (Continued)

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 2 (Continued)

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

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

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.*
- School division employees.
- Political subdivision employees.*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

***Non-Eligible Members**

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

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

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service

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

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

Vesting

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

Defined Contribution Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

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

Distribution is not required by law until age 70½.

Calculating the Benefit

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

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit (Continued)

Service Retirement Multiplier – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2014 was 11.90% of the annual covered payroll.

The School Board non-professional employees' contribution rate for the fiscal year ended 2014 was 10.15% of annual covered payroll. The School Board professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the fiscal years ending June 30, 2014, 2013, and 2012 were \$3,522,967, \$2,658,826, and \$1,528,934, respectively, and were equal to the required contributions for each year.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Plan Description (Continued)

Annual Pension Cost

For 2014, the City and School Board's annual pension cost was equal to the required and actual contributions.

Three-Year Trend Information
City

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| June 30, 2014 | \$ 2,771,720 | 100% | \$ - |
| June 30, 2013 | \$ 2,035,368 | 100% | \$ - |
| June 30, 2012 | \$ 1,924,048 | 100% | \$ - |

Three-Year Trend Information
School Board (non-professional employees)

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| June 30, 2014 | \$ 213,956 | 100% | \$ - |
| June 30, 2013 | \$ 196,813 | 100% | \$ - |
| June 30, 2012 | \$ 149,625 | 100% | \$ - |

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the City 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's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

Funded Status and Funding Progress

For the City employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 74.5% funded. The actuarial accrued liability for benefits was \$86,377,965, and the actuarial value of assets was \$64,336,428, resulting in a net underfunding – on actuarial accrued liability of \$22,041,537. The covered payroll (annual payroll of active employees covered by the plan) was \$21,516,041, and the ratio of the UAAL to the covered payroll was 102.4%.

For the School Board non-professional employees as of June 30, 2013, the most recent actuarial valuation date, the plan was 84.2% funded. The actuarial accrued liability for benefits was \$6,282,464, and the actuarial value of assets was \$5,291,868, resulting in an unfunded actuarial accrued liability (UAAL) of \$990,596. The covered payroll (annual payroll of active employees covered by the plan) was \$1,991,689, and the ratio of the UAAL to the covered payroll was 49.7%.

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

VRS Health Insurance Credit

Plan Description

Retirees who have 15 or more years of creditable VRS service are granted the option to participate in the VRS Health Insurance Credit Program by paying 100% of their monthly health insurance premium less a \$1.50 per month per year of service for a maximum health insurance credit of \$45.00 from VRS. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend the benefit provisions to the General Assembly of Virginia. The health insurance credit program is financed by payments from the City and the School Board (non-professional employees) for all active employees to VRS and is an agent and cost-sharing multiple-employer defined benefit pension plan. The surplus funds are not considered advance funded because the City, the School Board, its employees, and retirees have no vested rights to access the excess funds. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement Systems (Continued)

VRS Health Insurance Credit (Continued)

Funding Policy and Annual Benefit Contribution

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute actuarial percentage of their annual reported compensation of the VRS for the retiree health insurance credit. The City and the School Board (non-professional employees) have assumed this contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for 2014 was 0.18% of annual covered payroll. The School Board contribution rate for 2014 was 0.32% of annual covered payroll of non-professional employees.

Actuarial Methods and Assumptions

The required contributions for the City and the School Board (non-professional employees) were determined as part of an actuarial valuation performed as of June 30, 2011 using the entry age normal cost method. The actuarial assumptions at June 30, 2011 included (a) 7.00% investment rate of return, and (b) a projected payroll growth rate of 3.00%. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City and the School Board (non-professional) assets are equal to the market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 30 years.

Three-Year Trend Information
City

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| June 30, 2014 | \$ 26,455 | 100% | \$ - |
| June 30, 2013 | \$ 32,688 | 100% | \$ - |
| June 30, 2012 | \$ 30,900 | 100% | \$ - |

Three-Year Trend Information
School Board (non-professional employees)

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| June 30, 2014 | \$ 6,750 | 100% | \$ - |
| June 30, 2013 | \$ 5,993 | 100% | \$ - |
| June 30, 2012 | \$ 6,231 | 100% | \$ - |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Virginia Retirement System (Continued)

VRS Health Insurance Credit (Continued)

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the VRS health insurance credit program was 55.01% and 60.35% funded. The actuarial liability for the City and School Board (non-professional employees) benefits were \$531,888 and \$88,111 respectively, and the actuarial value of assets was \$292,566 and \$53,171, resulting in an unfunded actuarial liability (UAAL) of \$239,322 and \$34,940 for the City and the School Board (non-professional employees). The covered payroll (annual payroll of active employees covered by the plan) was \$17,976,458 and \$1,991,689 and ratio of the UAAL to the covered payroll was 1.33% and 1.75% for the City and the School Board (non-professional employees).

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 13. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other cities and counties in the Virginia Liability Risk Management Plan (VARISK2), a Commonwealth of Virginia risk pool currently operating as a risk management program for public body members in Virginia. The City pays an annual premium to VARISK2 for its public officials general law enforcement and medical malpractice liability insurance coverage. The Department of Treasury obtains its authority to act from the statutory provisions of the Code and will limit liability up to \$1 million for each insured event.

Through the Virginia Municipal League, the City has joined together with other Virginia public bodies in the Virginia Municipal League Insurance Programs pools currently operating as common risk management and insurance programs for members in Virginia. The City pays an annual premium to VML Insurance Programs for its workers' compensation and employer's liability, general liability, excess property, crime, and automobile coverage. The agreement for formation of the VML Insurance Programs Pool provides that it will be self-sustaining through member premiums. Workers' compensation coverage provides the benefits as set forth in the Virginia Workers' Compensation Act. VML Insurance Programs will reinsure through commercial insurance companies for claims in excess of \$5 million for general liability, and \$5 million for automotive liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Risk Management (Continued)

Through the Virginia School Board Association, the School Board has joined together with other localities in the VSBA Insurance Program and School Systems of VA Group Self-Insurance Association, public entity risk pools currently operating as an insurance program and common risk management for several member city and county school boards in Virginia. The school board pays annual premiums to VSBA Insurance Program and School Systems of VA Group Self-Insurance Association for its employer liability insurance coverage and worker's compensation insurance coverage. The agreement for formation of VSBA Insurance Program and School Systems of VA Group Self-Insurance Association provides that it will be self-sustaining through member premiums. The Workers' compensation coverage provides the benefits set forth in the Virginia Workers' Compensation Act.

Prior to July 1, 2013, the City was partially self-insured for health and dental insurance coverage for its employees, and accounts for the uninsured risks of loss within Internal Service Funds. From the Internal Service Funds, the City paid up to the annual stop loss limit of \$75,000 and \$90,000 per person, respectively, and purchase commercial insurance for claims in excess of such limits. The City made payments to a claims service provider based on estimates of the amounts needed to pay prior-year and current-year claims in addition to the premiums for the stop loss coverage. As of July 1, 2013, the City was no longer self-insured for health insurance claims.

Changes in the City claims liability amount for the last three years is shown below.

| Three-Year Trend Information - City | | | | |
|--|--------------------------------|--------------------------------|---------------------------|-----------------------------|
| Fiscal Year Ending | Beginning Liability | Current Year Claims | Claim Payments | Ending Liability |
| June 30, 2014 | \$586,148 | \$ - | \$ 586,148 | \$ - |
| June 30, 2013 | \$288,315 | \$2,712,713 | \$3,587,176 | \$586,148 |
| June 30, 2012 | 275,715 | 2,645,823 | 3,209,853 | 288,315 |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. Related Party Transactions

During 2014, the City paid \$161,234 to Buettner Tire Distributors, Inc. for automobile repair services. One member of the City's Common Council had economic interests in this business.

The Social Services department has a 15 year lease for property that commenced during 2009 and the Housing department has a 15 year lease for property that commenced during 2011 with a company in which a Council member is a partial owner. The City paid \$503,090 during 2014. The leases call for monthly lease payments of \$41,923 per month and an initial deposit of \$40,000 is being held by the company. Two members of the City's Common Council had economic interests in these businesses.

Additionally, the School Board's component unit Winchester Education Foundation paid \$65,000 to Russ Potts Productions for marketing as well as soliciting donations and pledges on behalf of the Foundation. This company is owned by the Foundation's Executive Director.

Note 15. Other Post-employment Benefits

Plan Description

The City of Winchester administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and coverage ceases at age 65. Retirees under age 65 have the option of choosing three medical plans including a prescription program for retail and a mail order program. Retirees can continue the same medical coverage they had (including dependent coverage) as active employees. There are five grandfathered retirees over age 65 where their entire individual premium is subsidized for life. The plan was established under the authority of the City of Winchester's Council.

Funding Policy

The City pays a certain dollar amount for the retiree, which covers the entire cost of the cheapest plan. The retiree pays 100% for the dependent coverage. Employees must meet the unreduced retirement eligibility as described in the pension plan to be eligible for post-retirement health coverage.

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$282,000 for 2014.

The City has elected not to pre-fund OPEB liabilities. The City is required to recognize 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.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Other Post-employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation for the healthcare benefits:

| | |
|--|----------------------------|
| Annual required contribution | \$ 769,000 |
| Interest on net OPEB obligation | 52,000 |
| Adjustment to annual required contribution | <u>(62,000)</u> |
| Annual OPEB cost | 759,000 |
| Contributions made | <u>(282,000)</u> |
| Increase in net OPEB obligation | 477,000 |
| Net OPEB obligation – beginning of year | <u>1,308,077</u> |
| Net OPEB obligation – end of year | <u><u>\$ 1,785,077</u></u> |

Trend Information

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows.

| Fiscal Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2014 | \$ 759,000 | 37.2% | \$ 1,785,077 |
| June 30, 2013 | \$ 715,000 | 36.1% | \$ 1,308,077 |
| June 30, 2012 | \$ 468,000 | 44.9% | \$ 849,077 |

Funding Status and Funding Progress

The funding status of the plan as of September 1, 2011 was as follows:

| | |
|---|---------------|
| Actuarial Accrued Liability (AAL) | \$ 6,959,000 |
| Actuarial Value of Plan Assets | \$ - |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 6,959,000 |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | -% |
| Covered Payroll (Active Plan Members) | \$ 20,700,320 |
| UAAL as a Percentage of Covered Payroll | 31.6% |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Other Post-employment Benefits (Continued)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual 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 trend information that shows whether the actuarial value of plan assets and liabilities are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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 benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the September 1, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions include a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The closed amortization method and a 30-year amortization period are being used. The remaining amortization period at September 1, 2011 was 27 years.

The following additional simplifying assumptions were made:

Coverage Status and Age of Spouse – Actual coverage status is used; females assumed 3 years younger than male spouse. Employees with individual coverage are assumed to elect individual coverage in retirement, those with spouse/family coverage assumed to continue this coverage at retirement.

90% of actives currently enrolled in the City's health care plan, or will continue in the plan upon retiring or becoming disabled.

Demographic Assumptions – Demographic assumptions mirror those used for the pension plan, with adjustments made for actual experience of City employees. All employees are assumed to participate in the Virginia Retirement System.

Economic Assumptions – Medical claims are assumed to decrease from 7.5% to 4.6% per year. While medical costs have increased by a rate well in excess of 7.5% in recent years, prevailing practice is to assume that these increases will slow in the future. This is based on the macroeconomic assumption that if they do not moderate, medical expenses will consume an unacceptable percentage of the gross national product. The long-term assumption selected is consistent with the Centers for Medicare and Medicaid Services office of the actuary's assumption for per-capita increases in medical costs.

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

Payroll is assumed to increase at 2.5% per annum. This assumption is used to determine the level percentage of payroll amortization factor. Inflation is assumed to be 2.9% per annum.

Note 16. Net Position/Fund Balances

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the general fund balance and other governmental funds balance are presented below:

| | General Fund | Other Governmental Funds |
|---------------------------------------|-------------------------|---|
| Nonspendable: | | |
| Prepays | \$ - | \$ 40,000 |
| Long-term portion of notes receivable | - | 127,500 |
| Inventories | 11,916 | - |
| Total nonspendable | 11,916 | 167,500 |
| Restricted for: | | |
| Public safety | 475,790 | 4,013,360 |
| Community development | 20,000 | - |
| Total restricted | 495,790 | 4,013,360 |
| Committed to: | | |
| Community development | 1,418,750 | - |
| Other capital projects | 508,238 | - |
| Total committed | 1,926,988 | - |
| Assigned to: | | |
| Judicial administration | 15,303 | 119,403 |
| Public safety | 42,301 | 396,214 |
| Public works | - | 799,076 |
| Health and welfare | - | 79,147 |
| Parks, recreation and cultural | - | 45,410 |
| Community development | - | - |
| Subsequent year appropriation | 3,665,000 | 54,000 |
| Total assigned | 3,722,604 | 1,493,250 |
| Unassigned | 16,084,160 | - |
| Total fund balance | \$ 22,241,458 | \$ 5,674,110 |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Net Position/Fund Balances (Continued)

Restricted net position at June 30, 2014 for the component unit - School Board of \$20,371,300 is made up of cash and pledges receivable held by the Schools Board's discretely presented component unit – Winchester Education Foundation, for which the purpose restrictions have not yet been met. In addition, the amount includes bond proceeds for capital projects not yet spent.

Note 17. Subsequent Events

In October 2014, the City issued \$14,685,000 in General Obligation Public Improvement Refunding Bonds, Series 2014. The bonds are being issued for the refunding of previously issued debt. Interest will be due semi-annually beginning March, 2015 at rates ranging from 1.5% to 5%. Payments of principal will begin in September, 2015 and will be due annually until maturity in September, 2027.

Note 18. Prior Period Adjustment

Beginning net position has been restated to properly reflect amounts in accordance with implementing **GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***. This standard requires the reclassification of items as deferred outflows and inflows that were previously reported as assets and liabilities. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred, except any portion related to prepaid insurance costs. Bond issuance costs that were capitalized as a part of various debt issuances in prior years were required to be retroactively expensed as reflected below.

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Water and Sewer Fund</u> | <u>Winchester Parking Authority</u> |
|--|------------------------------------|-------------------------------------|---------------------------------|---|
| Net Position, June 30, 2013, as previously stated | \$ 22,599,222 | \$ 49,815,987 | \$ 49,915,390 | \$ 432,270 |
| To retroactively expense debt issuance costs | <u>(565,102)</u> | <u>(794,190)</u> | <u>(794,190)</u> | <u>(163,409)</u> |
| Net Position, June 30, 2013, as restated | <u>\$ 22,034,120</u> | <u>\$ 49,021,797</u> | <u>\$ 49,121,200</u> | <u>\$ 268,861</u> |

CITY OF WINCHESTER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. This Statement amends *GASB Statement No. 68* to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS**

| CITY - DEFINED BENEFIT PENSION PLAN | | | | | | Exhibit 11 |
|---|---------------------------|-----------------------------------|---|--------------|-----------------|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| June 30, 2011 | 61,204,572 | 80,339,762 | 19,135,190 | 76.2% | 20,700,320 | 92.4% |
| June 30, 2012 | 61,385,991 | 86,880,317 | 25,494,326 | 70.7% | 21,864,022 | 116.6% |
| June 30, 2013 | 64,336,428 | 86,377,965 | 22,041,537 | 74.5% | 21,516,041 | 102.4% |
| SCHOOL BOARD COMPONENT UNIT (NON-PROFESSIONAL) - DEFINED BENEFIT PENSION PLAN | | | | | | |
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| June 30, 2011 | 4,898,052 | 5,978,413 | 1,080,361 | 81.9% | 1,840,586 | 58.7% |
| June 30, 2012 | 5,017,645 | 6,343,660 | 1,326,015 | 79.1% | 1,829,064 | 72.5% |
| June 30, 2013 | 5,291,868 | 6,282,464 | 990,596 | 84.2% | 1,991,689 | 49.7% |
| CITY - VRS HEALTH INSURANCE CREDIT PROGRAM | | | | | | |
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| June 30, 2011 | 259,346 | 493,667 | 234,321 | 52.5% | 16,747,717 | 1.4% |
| June 30, 2012 | 264,399 | 530,324 | 265,925 | 49.9% | 17,932,929 | 1.5% |
| June 30, 2013 | 292,566 | 531,888 | 239,322 | 55.0% | 17,976,458 | 1.3% |
| SCHOOL BOARD COMPONENT UNIT (NON-PROFESSIONAL) - VRS HEALTH INSURANCE CREDIT PROGRAM | | | | | | |
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| June 30, 2011 | 42,446 | 75,474 | 33,028 | 56.2% | 1,840,586 | 1.8% |
| June 30, 2012 | 46,005 | 82,911 | 36,906 | 55.5% | 1,829,064 | 2.0% |
| June 30, 2013 | 53,171 | 88,111 | 34,940 | 60.3% | 1,991,689 | 1.8% |
| CITY - RETIREE HEALTH PLAN | | | | | | |
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| June 1, 2009 | - | 4,417,000 | 4,417,000 | 0.0% | 16,282,810 | 27.1% |
| September 1, 2011 | - | 6,959,000 | 6,959,000 | 0.0% | 20,700,320 | 33.6% |
| July 1, 2013 | - | 6,329,000 | 6,329,000 | 0.0% | 20,700,320 | 30.6% |

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Social Services Fund – to account for the provision of health and welfare services. Financing is provided by state and federal funds, which may be used only for this purpose.

Highway Maintenance Fund – to account for the proceeds of state street and highway maintenance grants, and the related expenditure which is to be used for this purpose. This fund is only used for maintenance related expenditures, capital expenditures are recorded in other applicable funds.

Emergency Medical Services Fund – to account for the provision of emergency medical transportation services. Financing is provided by fees charged to customers and insurance providers.

Winchester-Frederick County Convention and Visitors Bureau Fund – to account for the costs of a shared visitors bureau. Financing is provided in equal amounts by the City of Winchester and Frederick County.

Law Library Fund – to account for the purchase of reference material for the law library. Financing is provided by a portion of court fines levied. Such funds are limited to expenditures for this purpose.

Transit Fund – to account for grants and monies received and used for operations of the City's public transit system.

CAPITAL PROJECTS FUND

Capital Projects Fund – to account for the financing and construction of capital projects of the general government. Financing is provided by general government revenue and bond issues.

CITY OF WINCHESTER, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 12

| | Special Revenue Funds | Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------------------|-----------------------------|--|
| ASSETS | | | |
| Cash | \$ 1,231,765 | \$ - | \$ 1,231,765 |
| Investments | 224,953 | 4,772,391 | 4,997,344 |
| Accounts receivable, net | 188,656 | - | 188,656 |
| Notes receivable | 127,500 | - | 127,500 |
| Prepays | 40,000 | - | 40,000 |
| Due from other governments | 931,907 | 668,273 | 1,600,180 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 2,744,781</u> | <u>\$ 5,440,664</u> | <u>\$ 8,185,445</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 960,215 | \$ 759,031 | \$ 1,719,246 |
| Accrued payroll | 219,780 | - | 219,780 |
| Due to other funds | 405,000 | - | 405,000 |
| Deferred revenue | 167,309 | - | 167,309 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>1,752,304</u> | <u>759,031</u> | <u>2,511,335</u> |
| Fund balances: | | | |
| Nonspendable | 167,500 | - | 167,500 |
| Restricted for: | | | |
| Debt proceeds not yet spent | - | 4,013,360 | 4,013,360 |
| Assigned | 824,977 | 668,273 | 1,493,250 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>992,477</u> | <u>4,681,633</u> | <u>5,674,110</u> |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 2,744,781</u> | <u>\$ 5,440,664</u> | <u>\$ 8,185,445</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 13

| | Special Revenue Funds | Capital Projects Fund | Total Nonmajor Governmental Funds |
|---|-----------------------------|-----------------------------|--|
| REVENUES | | | |
| Revenues from use of money and property | \$ 8,366 | \$ 5,868 | \$ 14,234 |
| Charges for services | 1,197,936 | - | 1,197,936 |
| Miscellaneous | 44,786 | - | 44,786 |
| Recovered costs | 37,387 | 25,137 | 62,524 |
| Intergovernmental: | | | |
| Frederick County | 100,500 | - | 100,500 |
| Commonwealth | 5,284,348 | 1,004,670 | 6,289,018 |
| Federal | <u>2,640,879</u> | <u>100,859</u> | <u>2,741,738</u> |
| Total revenues | <u>9,314,202</u> | <u>1,136,534</u> | <u>10,450,736</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Judicial administration | 37,164 | - | 37,164 |
| Public safety | 1,082,514 | 511,622 | 1,594,136 |
| Public works | 5,595,506 | 4,324,221 | 9,919,727 |
| Health and welfare | 5,978,613 | - | 5,978,613 |
| Parks, recreation, and culture | - | 223,500 | 223,500 |
| Community development | <u>242,426</u> | <u>-</u> | <u>242,426</u> |
| Total expenditures | <u>12,936,223</u> | <u>5,059,343</u> | <u>17,995,566</u> |
| Excess of expenditures over revenues | <u>(3,622,021)</u> | <u>(3,922,809)</u> | <u>(7,544,830)</u> |
| OTHER FINANCING SOURCES | | | |
| Proceeds from bond issuance | - | 5,563,163 | 5,563,163 |
| Proceeds from premium on bond issuance | - | 444,518 | 444,518 |
| Transfers in | <u>3,307,546</u> | <u>1,405,000</u> | <u>4,712,546</u> |
| Total other financing sources | <u>3,307,546</u> | <u>7,412,681</u> | <u>10,720,227</u> |
| Net change in fund balances | (314,475) | 3,489,872 | 3,175,397 |
| Fund balance - beginning | <u>1,306,952</u> | <u>1,191,761</u> | <u>2,498,713</u> |
| Fund balance - ending | <u>\$ 992,477</u> | <u>\$ 4,681,633</u> | <u>\$ 5,674,110</u> |

**CITY OF WINCHESTER, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2014**

Exhibit 14

| | Social Services Fund | Highway Maintenance Fund | Emergency Medical Services Fund | Win-Fred Convention and Visitors Bureau Fund | Law Library Fund | Transit Fund | Total |
|--------------------------------------|----------------------------|--------------------------------|--|--|------------------------|-------------------|---------------------|
| ASSETS | | | | | | | |
| Cash | \$ 174,101 | \$ 422,911 | \$ 492,972 | \$ 43,976 | \$ 97,089 | \$ 716 | \$ 1,231,765 |
| Investments | 31,800 | 77,245 | 90,042 | 8,032 | 17,734 | 100 | 224,953 |
| Accounts receivable, net | - | - | 176,835 | - | 10,847 | 974 | 188,656 |
| Notes receivable | - | - | 127,500 | - | - | - | 127,500 |
| Prepays | 40,000 | - | - | - | - | - | 40,000 |
| Due from other governments | <u>355,345</u> | <u>103,124</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>473,438</u> | <u>931,907</u> |
| Total assets | <u>\$ 601,246</u> | <u>\$ 603,280</u> | <u>\$ 887,349</u> | <u>\$ 52,008</u> | <u>\$ 125,670</u> | <u>\$ 475,228</u> | <u>\$ 2,744,781</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 373,395 | \$ 459,853 | \$ 119,318 | \$ 638 | \$ 5,767 | \$ 1,244 | \$ 960,215 |
| Accrued payroll | 108,704 | 55,348 | 23,008 | 5,960 | 500 | 26,260 | 219,780 |
| Due to other funds | - | - | - | - | - | 405,000 | 405,000 |
| Deferred revenue | <u>-</u> | <u>-</u> | <u>167,309</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>167,309</u> |
| Total liabilities | <u>482,099</u> | <u>515,201</u> | <u>309,635</u> | <u>6,598</u> | <u>6,267</u> | <u>432,504</u> | <u>1,752,304</u> |
| Fund balances: | | | | | | | |
| Nonspendable | 40,000 | - | 127,500 | - | - | - | 167,500 |
| Assigned | <u>79,147</u> | <u>88,079</u> | <u>450,214</u> | <u>45,410</u> | <u>119,403</u> | <u>42,724</u> | <u>824,977</u> |
| Total fund balances | <u>119,147</u> | <u>88,079</u> | <u>577,714</u> | <u>45,410</u> | <u>119,403</u> | <u>42,724</u> | <u>992,477</u> |
| Total liabilities and fund balances | <u>\$ 601,246</u> | <u>\$ 603,280</u> | <u>\$ 887,349</u> | <u>\$ 52,008</u> | <u>\$ 125,670</u> | <u>\$ 475,228</u> | <u>\$ 2,744,781</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

Exhibit 15

| | Social Services Fund | Highway Maintenance Fund | Emergency Medical Services Fund | Win-Fred Convention and Visitors Bureau Fund | Law Library Fund | Transit Fund | Total |
|---|----------------------------|--------------------------------|--|--|------------------------|------------------|--------------------|
| REVENUES | | | | | | | |
| Revenues from use of money and property | \$ 2 | \$ 6,636 | \$ 1,354 | \$ 104 | \$ 270 | \$ - | \$ 8,366 |
| Charges for services | - | - | 1,066,452 | - | 48,535 | 82,949 | 1,197,936 |
| Miscellaneous | 59 | 2,996 | - | 41,731 | - | - | 44,786 |
| Recovered costs | - | 31,509 | - | - | - | 5,878 | 37,387 |
| Intergovernmental: | | | | | | | |
| Frederick County | - | - | - | 100,500 | - | - | 100,500 |
| Commonwealth | 2,120,031 | 2,957,569 | - | - | - | 206,748 | 5,284,348 |
| Federal | 2,144,246 | - | - | - | - | 496,633 | 2,640,879 |
| Total revenues | <u>4,264,338</u> | <u>2,998,710</u> | <u>1,067,806</u> | <u>142,335</u> | <u>48,805</u> | <u>792,208</u> | <u>9,314,202</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Judicial administration | - | - | - | - | 37,164 | - | 37,164 |
| Public safety | - | - | 1,082,514 | - | - | - | 1,082,514 |
| Public works | - | 4,622,412 | - | - | - | 973,094 | 5,595,506 |
| Health and welfare | 5,978,613 | - | - | - | - | - | 5,978,613 |
| Community development | - | - | - | 242,426 | - | - | 242,426 |
| Total expenditures | <u>5,978,613</u> | <u>4,622,412</u> | <u>1,082,514</u> | <u>242,426</u> | <u>37,164</u> | <u>973,094</u> | <u>12,936,223</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,714,275)</u> | <u>(1,623,702)</u> | <u>(14,708)</u> | <u>(100,091)</u> | <u>11,641</u> | <u>(180,886)</u> | <u>(3,622,021)</u> |
| OTHER FINANCING SOURCES | | | | | | | |
| Transfers in | 1,671,046 | 1,360,000 | - | 100,500 | - | 176,000 | 3,307,546 |
| Total other financing sources | <u>1,671,046</u> | <u>1,360,000</u> | <u>-</u> | <u>100,500</u> | <u>-</u> | <u>176,000</u> | <u>3,307,546</u> |
| Net change in fund balances | (43,229) | (263,702) | (14,708) | 409 | 11,641 | (4,886) | (314,475) |
| Fund balance - beginning | <u>162,376</u> | <u>351,781</u> | <u>592,422</u> | <u>45,001</u> | <u>107,762</u> | <u>47,610</u> | <u>1,306,952</u> |
| Fund balance - ending | <u>\$ 119,147</u> | <u>\$ 88,079</u> | <u>\$ 577,714</u> | <u>\$ 45,410</u> | <u>\$ 119,403</u> | <u>\$ 42,724</u> | <u>\$ 992,477</u> |

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

| | Social Services Fund | | | Variance w/ Final Budget Positive (Negative) |
|---|----------------------|--------------------|--------------------|---|
| | Original Budget | Final Budget | Actual | |
| REVENUES | | | | |
| Revenues from use of money and property | \$ - | \$ - | \$ 2 | \$ 2 |
| Charges for services | - | - | - | - |
| Miscellaneous | - | - | 59 | 59 |
| Recovered costs | - | - | - | - |
| Intergovernmental: | | | | |
| Commonwealth | 3,088,912 | 3,088,912 | 2,120,031 | (968,881) |
| Federal | 2,025,088 | 2,025,088 | 2,144,246 | 119,158 |
| Total revenues | <u>5,114,000</u> | <u>5,114,000</u> | <u>4,264,338</u> | <u>(849,662)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | 7,242,000 | 7,242,000 | 5,978,613 | 1,263,387 |
| Total expenditures | <u>7,242,000</u> | <u>7,242,000</u> | <u>5,978,613</u> | <u>1,263,387</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,128,000)</u> | <u>(2,128,000)</u> | <u>(1,714,275)</u> | <u>413,725</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | 2,100,000 | 2,100,000 | 1,671,046 | (428,954) |
| Total other financing sources | <u>2,100,000</u> | <u>2,100,000</u> | <u>1,671,046</u> | <u>(428,954)</u> |
| Net change in fund balances | <u>\$ (28,000)</u> | <u>\$ (28,000)</u> | <u>\$ (43,229)</u> | <u>\$ (15,229)</u> |

| | Win-Fred Convention and Visitors Bureau Fund | | | Variance with Final Budget Positive (Negative) |
|---|--|------------------|------------------|---|
| | Original Budget | Final Budget | Actual | |
| REVENUES | | | | |
| Revenues from use of money and property | \$ - | \$ - | \$ 104 | \$ 104 |
| Charges for services | - | - | - | - |
| Miscellaneous | 38,000 | 38,000 | 41,731 | 3,731 |
| Recovered costs | - | - | - | - |
| Intergovernmental: | | | | |
| Frederick County | 100,500 | 100,500 | 100,500 | - |
| Commonwealth | - | - | - | - |
| Federal | - | - | - | - |
| Total revenues | <u>138,500</u> | <u>138,500</u> | <u>142,335</u> | <u>3,835</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Judicial administration | - | - | - | - |
| Public works | - | - | - | - |
| Community development | 252,000 | 252,000 | 242,426 | 9,574 |
| Total expenditures | <u>252,000</u> | <u>252,000</u> | <u>242,426</u> | <u>9,574</u> |
| Excess (deficiency) of revenues over expenditures | <u>(113,500)</u> | <u>(113,500)</u> | <u>(100,091)</u> | <u>13,409</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | 113,500 | 113,500 | 100,500 | (13,000) |
| Total other financing sources | <u>113,500</u> | <u>113,500</u> | <u>100,500</u> | <u>(13,000)</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 409</u> | <u>\$ 409</u> |

| Highway Maintenance Fund | | | | Emergency Medical Services Fund | | | |
|--------------------------|--------------|--------------|--|---------------------------------|--------------|-------------|--|
| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
| \$ 6,600 | \$ 6,600 | \$ 6,636 | \$ 36 | \$ 5,000 | \$ 5,000 | \$ 1,354 | \$ (3,646) |
| - | - | - | - | 940,000 | 940,000 | 1,066,452 | 126,452 |
| - | - | 2,996 | 2,996 | - | - | - | - |
| - | - | 31,509 | 31,509 | - | - | - | - |
| 2,853,400 | 2,932,800 | 2,957,569 | 24,769 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 2,860,000 | 2,939,400 | 2,998,710 | 59,310 | 945,000 | 945,000 | 1,067,806 | 122,806 |
| - | - | - | - | 970,000 | 970,000 | 1,082,514 | (112,514) |
| 4,570,000 | 4,649,400 | 4,622,412 | 26,988 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 4,570,000 | 4,649,400 | 4,622,412 | 26,988 | 970,000 | 970,000 | 1,082,514 | (112,514) |
| (1,710,000) | (1,710,000) | (1,623,702) | 86,298 | (25,000) | (25,000) | (14,708) | 10,292 |
| 1,710,000 | 1,710,000 | 1,360,000 | 350,000 | 25,000 | 25,000 | - | (25,000) |
| 1,710,000 | 1,710,000 | 1,360,000 | 350,000 | 25,000 | 25,000 | - | (25,000) |
| \$ - | \$ - | \$ (263,702) | \$ 436,298 | \$ - | \$ - | \$ (14,708) | \$ (14,708) |
| Law Library Fund | | | | Transit Fund | | | |
| Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
| \$ - | \$ - | \$ 270 | \$ 270 | \$ - | \$ - | \$ - | \$ - |
| 50,000 | 50,000 | 48,535 | (1,465) | 100,700 | 100,700 | 82,949 | (17,751) |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 5,878 | 5,878 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 254,000 | 254,000 | 206,748 | (47,252) |
| - | - | - | - | 962,800 | 962,800 | 496,633 | (466,167) |
| 50,000 | 50,000 | 48,805 | (1,195) | 1,317,500 | 1,317,500 | 792,208 | (525,292) |
| 50,000 | 50,000 | 37,164 | 12,836 | - | - | - | - |
| - | - | - | - | 1,640,000 | 1,640,000 | 973,094 | (666,906) |
| - | - | - | - | - | - | - | - |
| 50,000 | 50,000 | 37,164 | 12,836 | 1,640,000 | 1,640,000 | 973,094 | (666,906) |
| - | - | 11,641 | 11,641 | (322,500) | (322,500) | (180,886) | 141,614 |
| - | - | - | - | 322,500 | 322,500 | 176,000 | (146,500) |
| - | - | - | - | 322,500 | 322,500 | 176,000 | (146,500) |
| \$ - | \$ - | \$ 11,641 | \$ 11,641 | \$ - | \$ - | \$ (4,886) | \$ (4,886) |

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2014

Exhibit 17

| | Capital Improvements Fund | | | Variance with Final Budget Positive (Negative) |
|---|---------------------------|---------------------|---------------------|---|
| | Original Budget | Final Budget | Actual | |
| REVENUES | | | | |
| Revenue from use of money and property | \$ - | \$ - | \$ 5,868 | \$ 5,868 |
| Recovered costs | 950,000 | 950,000 | 25,137 | (924,863) |
| Intergovernmental: | | | | |
| Commonwealth | 7,845,000 | 7,845,000 | 1,004,670 | (6,840,330) |
| Federal | 880,000 | 880,000 | 100,859 | (779,141) |
| Total revenues | <u>9,675,000</u> | <u>9,675,000</u> | <u>1,136,534</u> | <u>(8,538,466)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | 3,360,000 | 3,360,000 | 511,622 | 2,848,378 |
| Public works | 14,980,000 | 14,980,000 | 4,324,221 | 10,655,779 |
| Parks, recreation and culture | <u>1,350,000</u> | <u>1,350,000</u> | <u>223,500</u> | <u>1,126,500</u> |
| Total expenditures | <u>19,690,000</u> | <u>19,690,000</u> | <u>5,059,343</u> | <u>14,630,657</u> |
| Excess (deficiency) of revenues over expenditures | <u>(10,015,000)</u> | <u>(10,015,000)</u> | <u>(3,922,809)</u> | <u>6,092,191</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from bond issuance | 6,000,000 | 6,000,000 | 5,563,163 | (436,837) |
| Proceeds from premium on bond issuance | - | - | 444,518 | 444,518 |
| Transfers in | <u>4,015,000</u> | <u>4,015,000</u> | <u>1,405,000</u> | <u>(2,610,000)</u> |
| Total other financing sources | <u>10,015,000</u> | <u>10,015,000</u> | <u>7,412,681</u> | <u>(2,602,319)</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,489,872</u> | <u>\$ 3,489,872</u> |

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INTERNAL SERVICE FUNDS

Employee Benefits Fund – to account for the receipt and payment of funds for City employee fringe benefits, including health insurance and workers' compensation. Cost reimbursement revenues paid by departments and agencies of the City, as well as participating employees, are used to provide the employee fringe benefits.

Equipment Operating Fund – to account for the purchase and use of equipment inventory, which is provided to departments and agencies of the City on a cost reimbursement basis.

Other Post-Employment Benefits Fund – to account for the costs associated with providing healthcare benefits to current and future eligible retirees of the City.

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
June 30, 2014

Exhibit 18

| | Employee Benefits Fund | Equipment Operating Fund | Other Post- Employment Benefits Fund | Total |
|----------------------------------|------------------------------|--------------------------------|---|---------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | \$ 2,023,340 | \$ 123,580 | \$ 1,509,385 | \$ 3,656,305 |
| Investments | 309,659 | 22,572 | 275,692 | 607,923 |
| Accounts receivable, net | 92,554 | 1,374 | - | 93,928 |
| Prepays | 336,532 | - | - | 336,532 |
| Inventories | - | 119,642 | - | 119,642 |
| Total current assets | <u>2,762,085</u> | <u>267,168</u> | <u>1,785,077</u> | <u>4,814,330</u> |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Depreciable, net | - | 41,008 | - | 41,008 |
| Total assets | <u>2,762,085</u> | <u>308,176</u> | <u>1,785,077</u> | <u>4,855,338</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 685,236 | 63,539 | - | 748,775 |
| Accrued payroll | - | 12,259 | - | 12,259 |
| Total current liabilities | <u>685,236</u> | <u>75,798</u> | <u>-</u> | <u>761,034</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences | - | 27,408 | - | 27,408 |
| Net OPEB obligation | - | - | 1,785,077 | 1,785,077 |
| Total noncurrent liabilities | <u>-</u> | <u>27,408</u> | <u>1,785,077</u> | <u>1,812,485</u> |
| Total liabilities | <u>685,236</u> | <u>103,206</u> | <u>1,785,077</u> | <u>2,573,519</u> |
| NET POSITION | | | | |
| Net investment in capital assets | - | 41,008 | - | 41,008 |
| Unrestricted | <u>2,076,849</u> | <u>163,962</u> | <u>-</u> | <u>2,240,811</u> |
| Total net position | <u>\$ 2,076,849</u> | <u>\$ 204,970</u> | <u>\$ -</u> | <u>\$ 2,281,819</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2014

Exhibit 19

| | Employee Benefits Fund | Equipment Operating Fund | Other Post- Employment Benefits Fund | Total |
|---|------------------------------|--------------------------------|---|---------------------|
| OPERATING REVENUES | | | | |
| Charges for services | \$ 681,786 | \$ 1,495,780 | \$ 477,000 | \$ 2,654,566 |
| Total operating revenues | <u>681,786</u> | <u>1,495,780</u> | <u>477,000</u> | <u>2,654,566</u> |
| OPERATING EXPENSES | | | | |
| Personal services | 24,003 | 294,144 | 477,000 | 795,147 |
| Contractual services | - | 200,037 | - | 200,037 |
| Other supplies and expenses | - | 931,978 | - | 931,978 |
| Insurance claims and expenses | 428,158 | - | - | 428,158 |
| Depreciation | - | 3,910 | - | 3,910 |
| Total operating expenses | <u>452,161</u> | <u>1,430,069</u> | <u>477,000</u> | <u>2,359,230</u> |
| Operating income | <u>229,625</u> | <u>65,711</u> | <u>-</u> | <u>295,336</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | <u>5,036</u> | <u>144</u> | <u>-</u> | <u>5,180</u> |
| Change in net position | 234,661 | 65,855 | - | 300,516 |
| Total net position - beginning | <u>1,842,188</u> | <u>139,115</u> | <u>-</u> | <u>1,981,303</u> |
| Total net position - ending | <u>\$ 2,076,849</u> | <u>\$ 204,970</u> | <u>\$ -</u> | <u>\$ 2,281,819</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2014

Exhibit 20

| | Employee Benefits Fund | Equipment Operating Fund | Other Post- Employment Benefits Fund | Total |
|---|------------------------------|--------------------------------|---|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from internal services provided | \$ 626,275 | \$ 1,495,965 | \$ 477,000 | \$ 2,599,240 |
| Cash paid to suppliers | - | (1,114,205) | - | (1,114,205) |
| Cash paid to employees | (32,126) | (287,931) | - | (320,057) |
| Premiums paid | (1,366,824) | - | - | (1,366,824) |
| Net cash provided by (used in) operating activities | (772,675) | 93,829 | 477,000 | (201,846) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition and construction of capital assets | - | (26,940) | - | (26,940) |
| Net cash used in capital and related financing activities | - | (26,940) | - | (26,940) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment income | 5,036 | 144 | - | 5,180 |
| Net cash provided by investing activities | 5,036 | 144 | - | 5,180 |
| Net increase (decrease) in cash and cash equivalents | (767,639) | 67,033 | 477,000 | (223,606) |
| Cash and cash equivalents - beginning of year | 3,100,638 | 79,119 | 1,308,077 | 4,487,834 |
| Cash and cash equivalents - end of year | \$ 2,332,999 | \$ 146,152 | \$ 1,785,077 | \$ 4,264,228 |
| Cash and cash equivalents at end of year is comprised of the following: | | | | |
| Cash | \$ 2,023,340 | \$ 123,580 | \$ 1,509,385 | \$ 3,656,305 |
| Cash equivalents - Investments | 309,659 | 22,572 | 275,692 | 607,923 |
| Total | \$ 2,332,999 | \$ 146,152 | \$ 1,785,077 | \$ 4,264,228 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income | \$ 229,625 | \$ 65,711 | \$ - | \$ 295,336 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | | |
| Depreciation | - | 3,910 | - | 3,910 |
| (Increase) decrease in accounts receivable | (55,511) | 185 | - | (55,326) |
| (Increase) decrease in prepaids | (321,532) | - | - | (321,532) |
| (Increase) decrease in inventory | - | 13,737 | - | 13,737 |
| Increase (decrease) in accounts payable | (617,134) | 4,073 | - | (613,061) |
| Increase (decrease) in accrued payroll | (2,428) | 1,508 | - | (920) |
| Increase (decrease) in net OPEB obligation | - | - | 477,000 | 477,000 |
| Increase (decrease) in compensated absences | (5,695) | 4,705 | - | (990) |
| Total adjustments | (1,002,300) | 28,118 | 477,000 | (497,182) |
| Net cash provided by (used in) operating activities | \$ (772,675) | \$ 93,829 | \$ 477,000 | \$ (201,846) |

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FIDUCIARY FUNDS

AGENCY FUNDS

Special Welfare Fund – to account for the receipt and payment of funds collected by the City on the behalf of certain social services clients.

Northwestern Regional Jail Authority Construction Fund – to account for bond proceeds for purposes of constructing a new regional jail.

Northwestern Regional Juvenile Detention Center Fund – to account for state grants, member locality contributions and reimbursements, and other revenues for the purpose of operating a joint juvenile detention center.

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2014

Exhibit 21

| | Special Welfare Fund | Northwestern Regional Jail Authority Construction Fund | Northwestern Regional Juvenile Detention Center Fund | Total |
|--|----------------------------|--|---|---------------------|
| ASSETS | | | | |
| Cash | \$ 8,775 | \$ - | \$ 775,541 | \$ 784,316 |
| Investments | - | 1,542,291 | 141,654 | 1,683,945 |
| Accounts receivable | - | - | 178,307 | 178,307 |
| Prepays | - | 2,001 | - | 2,001 |
| Total assets | <u>\$ 8,775</u> | <u>\$ 1,544,292</u> | <u>\$ 1,095,502</u> | <u>\$ 2,648,569</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ 26,916 | \$ 23,475 | \$ 50,391 |
| Accrued payroll | - | - | 95,430 | 95,430 |
| Amounts held for social services clients | 8,775 | - | - | 8,775 |
| Amounts held for NRJA | - | 1,517,376 | - | 1,517,376 |
| Amounts held for NRJDC | - | - | 976,597 | 976,597 |
| Total liabilities | <u>\$ 8,775</u> | <u>\$ 1,544,292</u> | <u>\$ 1,095,502</u> | <u>\$ 2,648,569</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2014

Exhibit 22

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| Special Welfare Fund | | | | |
| Assets: | | | | |
| Cash | \$ 8,450 | \$ 325 | \$ - | \$ 8,775 |
| Total Assets | <u>\$ 8,450</u> | <u>\$ 325</u> | <u>\$ -</u> | <u>\$ 8,775</u> |
| Liabilities: | | | | |
| Amounts held for social services clients | \$ 8,450 | \$ 325 | \$ - | \$ 8,775 |
| Total Liabilities | <u>\$ 8,450</u> | <u>\$ 325</u> | <u>\$ -</u> | <u>\$ 8,775</u> |
| Northwestern Regional Jail Authority Construction Fund | | | | |
| Assets: | | | | |
| Investments | \$ 2,461,046 | \$ 1,062,628 | \$ 1,981,383 | \$ 1,542,291 |
| Prepays | 14,501 | - | 12,500 | 2,001 |
| Total Assets | <u>\$ 2,475,547</u> | <u>\$ 1,062,628</u> | <u>\$ 1,993,883</u> | <u>\$ 1,544,292</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 319,304 | \$ - | \$ 292,388 | \$ 26,916 |
| Amounts held for NRJA | 2,156,243 | 1,062,628 | 1,701,495 | 1,517,376 |
| Total Liabilities | <u>\$ 2,475,547</u> | <u>\$ 1,062,628</u> | <u>\$ 1,993,883</u> | <u>\$ 1,544,292</u> |
| Northwestern Regional Juvenile Detention Center Fund | | | | |
| Assets: | | | | |
| Cash | \$ 755,955 | \$ 2,607,200 | \$ 2,587,614 | \$ 775,541 |
| Investments | 218,869 | - | 77,215 | 141,654 |
| Accounts receivable | 123,532 | 1,733,667 | 1,678,892 | 178,307 |
| Total Assets | <u>\$ 1,098,356</u> | <u>\$ 4,340,867</u> | <u>\$ 4,343,721</u> | <u>\$ 1,095,502</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 21,080 | \$ 2,617,833 | \$ 2,615,438 | \$ 23,475 |
| Accrued payroll | 90,046 | 5,384 | - | 95,430 |
| Amounts held for NRJDC | 987,230 | 1,717,650 | 1,728,283 | 976,597 |
| Total Liabilities | <u>\$ 1,098,356</u> | <u>\$ 4,340,867</u> | <u>\$ 4,343,721</u> | <u>\$ 1,095,502</u> |
| Total All Agency Funds | | | | |
| Assets: | | | | |
| Cash | \$ 764,405 | \$ 2,607,525 | \$ 2,587,614 | \$ 784,316 |
| Investments | 2,679,915 | 1,062,628 | 2,058,598 | 1,683,945 |
| Accounts receivable | 123,532 | 1,733,667 | 1,678,892 | 178,307 |
| Prepays | 14,501 | - | 12,500 | 2,001 |
| Total Assets | <u>\$ 3,582,353</u> | <u>\$ 5,403,820</u> | <u>\$ 6,337,604</u> | <u>\$ 2,648,569</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 340,384 | \$ 2,617,833 | \$ 2,907,826 | \$ 50,391 |
| Accrued payroll | 90,046 | 5,384 | - | 95,430 |
| Amounts held for social services clients | 8,450 | 325 | - | 8,775 |
| Amounts held for NRJA | 2,156,243 | 1,062,628 | 1,701,495 | 1,517,376 |
| Amounts held for NRJDC | 987,230 | 1,717,650 | 1,728,283 | 976,597 |
| Total Liabilities | <u>\$ 3,582,353</u> | <u>\$ 5,403,820</u> | <u>\$ 6,337,604</u> | <u>\$ 2,648,569</u> |

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

School Operating Fund – to account for the operations and maintenance of the schools. Financing is provided by state and federal funds, and by appropriations from the City’s general revenues. State and federal education funds received may be used only for this purpose. Annual appropriations from general revenues were restricted by the Appropriations Resolution to education expenditures.

CAPITAL PROJECTS FUNDS

School Fundraising Fund – created to account fundraising revenue and expenditures for the construction of school facilities.

School Capital Improvement Fund – created to account for unexpended school funds allowed by the Common Council to be carried over to future periods for school related capital projects.

School Construction Fund – created to account for the financing and construction of school capital projects. Currently, financing is provided by bond proceeds. Expenditures are for the construction of school facilities.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

School Cafeteria Fund – to account for the operation and maintenance of cafeterias of the schools. Financing is provided primarily from charges for services and federal and state lunch subsidiaries. Such funds are limited by federal and state law to expenditures for cafeteria operations and maintenance.

School Federal Grants Fund – to account for the proceeds from federal grants. Such funds are limited to specified educational expenditures that are governed by the terms of the grant.

School Textbook Fund – to account for the purchase and sale of school textbooks. Financing is provided primarily by the transfer of funds from the School Operating Fund and funds so received are limited by the School Board to expenditures only for school textbooks.

**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
(Continued)**

INTERNAL SERVICE FUND

School Insurance Fund – to account for the operation of a partially self-insured employee health insurance program. Receipts from the School Board and participating employees are used to pay claims and purchase insurance for excess claims.

FIDUCIARY FUNDS

PRIVATE-PURPOSE TRUST FUNDS

Newton B. Shingleton, M. Louise Cooper, and School Scholarship Funds – to account for donations received for the purpose of funding scholarships.

AGENCY FUNDS

School Employee Benefits Fund – to account for funds withheld and payment of funds for payroll withholding taxes for all school employees.

CITY OF WINCHESTER, VIRGINIA
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 23

| | School Operating Fund | School Fundraising Fund | School Capital Improvement Fund | School Construction Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|-----------------------------|-------------------------------|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash | \$ 2,596,999 | \$ 706,204 | \$ 757,565 | \$ - | \$ 739,191 | \$ 4,799,959 |
| Investments | 474,253 | 128,807 | 138,371 | - | 134,854 | 876,285 |
| Receivables, net: | | | | | | |
| Accounts | - | 1,251 | - | - | 28,071 | 29,322 |
| Promises to give | - | 920,934 | - | - | - | 920,934 |
| Due from other funds | 391,030 | - | - | - | - | 391,030 |
| Due from other governments | 849,727 | - | 42,965 | - | 637,772 | 1,530,464 |
| Inventories | - | - | - | - | 22,365 | 22,365 |
| Investments - restricted | - | - | - | 20,018,600 | - | 20,018,600 |
| Total assets | <u>\$ 4,312,009</u> | <u>\$ 1,757,196</u> | <u>\$ 938,901</u> | <u>\$ 20,018,600</u> | <u>\$ 1,562,253</u> | <u>\$ 28,588,959</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 418,484 | \$ - | \$ 480,554 | \$ 295,290 | \$ 13,978 | \$ 1,208,306 |
| Accrued payroll | 3,859,853 | - | - | - | 342,411 | 4,202,264 |
| Due to other funds | - | - | - | - | 391,030 | 391,030 |
| Total liabilities | <u>4,278,337</u> | <u>-</u> | <u>480,554</u> | <u>295,290</u> | <u>747,419</u> | <u>5,801,600</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable/unearned revenue | <u>13,510</u> | <u>920,934</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>934,444</u> |
| Total deferred inflows of resources | <u>13,510</u> | <u>920,934</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>934,444</u> |
| Fund balances: | | | | | | |
| Restricted: | | | | | | |
| Debt proceeds not yet spent | - | - | - | 19,723,310 | - | 19,723,310 |
| Nonspendable | - | - | - | - | 22,365 | 22,365 |
| Assigned | <u>20,162</u> | <u>836,262</u> | <u>458,347</u> | <u>-</u> | <u>792,469</u> | <u>2,107,240</u> |
| Total fund balances | <u>20,162</u> | <u>836,262</u> | <u>458,347</u> | <u>19,723,310</u> | <u>814,834</u> | <u>21,852,915</u> |
| Total liabilities and fund balances | <u>\$ 4,312,009</u> | <u>\$ 1,757,196</u> | <u>\$ 938,901</u> | <u>\$ 20,018,600</u> | <u>\$ 1,562,253</u> | |

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

| | |
|---|-----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 109,960,064 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 934,444 |
| Internal service funds are used by management to charge the costs of maintenance and risk management, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Position. | 1,305,640 |
| Long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds. | (1,323,004) |
| Net position of Discretely Presented Component Unit - Winchester Education Foundation | <u>965,105</u> |
| Net position of governmental activities | <u>\$ 133,695,164</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Exhibit 24

| | School Operating Fund | School Fundraising Fund | School Capital Improvement Fund | School Construction Fund | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------------|-------------------------------|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Revenues from use of money and property | \$ 67,385 | \$ 1,951 | \$ 3,337 | \$ 18,600 | \$ 2,125 | \$ 93,398 |
| Charges for services | 140,660 | - | - | - | 557,311 | 697,971 |
| Miscellaneous | 236,474 | 171,247 | 3,559 | - | 8,569 | 419,849 |
| Recovered costs | 144,095 | - | 97,746 | - | - | 241,841 |
| Intergovernmental revenues: | | | | | | |
| Local | 25,659,975 | - | - | 20,000,000 | - | 45,659,975 |
| Commonwealth | 19,630,502 | - | 100,000 | - | 38,522 | 19,769,024 |
| State and Federal | - | - | - | - | 3,839,340 | 3,839,340 |
| Total revenues | <u>45,879,091</u> | <u>173,198</u> | <u>204,642</u> | <u>20,018,600</u> | <u>4,445,867</u> | <u>70,721,398</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Education | 45,752,994 | 2,026 | - | - | 4,815,187 | 50,570,207 |
| Capital projects | - | 125,238 | 1,785,445 | 295,290 | - | 2,205,973 |
| Total expenditures | <u>45,752,994</u> | <u>127,264</u> | <u>1,785,445</u> | <u>295,290</u> | <u>4,815,187</u> | <u>52,776,180</u> |
| Excess (deficiency) of revenues over expenditures | <u>126,097</u> | <u>45,934</u> | <u>(1,580,803)</u> | <u>19,723,310</u> | <u>(369,320)</u> | <u>17,945,218</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | - | 129,235 | 129,235 |
| Transfers out | (129,235) | - | - | - | - | (129,235) |
| Total other financing sources (uses) | <u>(129,235)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>129,235</u> | <u>-</u> |
| Net change in fund balances | (3,138) | 45,934 | (1,580,803) | 19,723,310 | (240,085) | 17,945,218 |
| Fund balances - beginning | <u>23,300</u> | <u>790,328</u> | <u>2,039,150</u> | <u>-</u> | <u>1,054,919</u> | |
| Fund balances - ending | <u>\$ 20,162</u> | <u>\$ 836,262</u> | <u>\$ 458,347</u> | <u>\$ 19,723,310</u> | <u>\$ 814,834</u> | |

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|--|----------------------|
| Governmental funds reported capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,574,643) exceeded depreciation (\$3,028,733) in the current period. | (1,454,090) |
| In the statement of activities, only the <i>gain or loss</i> on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the <i>cost</i> of the property sold. | (74,666) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | (171,176) |
| Internal service funds are used by management to charge the costs of risk management, to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. | (94,360) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. | 4,046 |
| Change in net position of Discretely Presented Component-Unit - Winchester Education Foundation | <u>(118,084)</u> |
| Change in net position of governmental activities | <u>\$ 16,036,888</u> |

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
For the Year Ended June 30, 2014

Exhibit 25

| | School Operating Fund | | | |
|---|-----------------------|------------|------------|---|
| | Budgeted Amounts | | | Variance with Final Budget - Favorable (Unfavorable) |
| | Original | Final | Actual | |
| REVENUES | | | | |
| Revenue from use of money and property | \$ 55,000 | \$ 55,000 | \$ 67,385 | \$ 12,385 |
| Charges for services | 130,734 | 130,734 | 140,660 | 9,926 |
| Miscellaneous | 135,400 | 248,078 | 236,474 | (11,604) |
| Recovered costs | 80,000 | 116,888 | 144,095 | 27,207 |
| Intergovernmental: | | | | |
| Local | 26,301,702 | 26,301,702 | 25,659,975 | (641,727) |
| Commonwealth | 19,337,727 | 19,619,249 | 19,630,502 | 11,253 |
| Total revenues | 46,040,563 | 46,471,651 | 45,879,091 | (592,560) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Education | 46,040,563 | 46,342,416 | 45,752,994 | 589,422 |
| Total expenditures | 46,040,563 | 46,342,416 | 45,752,994 | 589,422 |
| Excess (deficiency) of revenues over expenditures | - | 129,235 | 126,097 | (3,138) |
| OTHER FINANCING USES | | | | |
| Transfers out | - | (129,235) | (129,235) | - |
| Total other financing uses | - | (129,235) | (129,235) | - |
| Net change in fund balances | \$ - | \$ - | \$ (3,138) | \$ (3,138) |

CITY OF WINCHESTER, VIRGINIA
COMBINING BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 26

| | Special Revenue | | | |
|--------------------------------------|-----------------------------|-------------------------------------|----------------------------|--|
| | School Cafeteria Fund | School Federal Grants Fund | School Textbook Fund | Total Nonmajor Governmental Funds |
| ASSETS | | | | |
| Cash | \$ 622,816 | \$ - | \$ 116,375 | \$ 739,191 |
| Investments | 113,598 | - | 21,256 | 134,854 |
| Accounts receivable | 28,071 | - | - | 28,071 |
| Due from other governments | - | 637,772 | - | 637,772 |
| Inventories | 22,365 | - | - | 22,365 |
| Total assets | <u>\$ 786,850</u> | <u>\$ 637,772</u> | <u>\$ 137,631</u> | <u>\$ 1,562,253</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 98 | \$ 13,880 | \$ - | \$ 13,978 |
| Accrued payroll | 109,549 | 232,862 | - | 342,411 |
| Due to other funds | - | 391,030 | - | 391,030 |
| Total liabilities | <u>109,647</u> | <u>637,772</u> | <u>-</u> | <u>747,419</u> |
| Fund balances: | | | | |
| Nonspendable | 22,365 | - | - | 22,365 |
| Assigned | 654,838 | - | 137,631 | 792,469 |
| Total fund balances | <u>677,203</u> | <u>-</u> | <u>137,631</u> | <u>814,834</u> |
| Total liabilities and fund balances | <u>\$ 786,850</u> | <u>\$ 637,772</u> | <u>\$ 137,631</u> | <u>\$ 1,562,253</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
NONMAJOR FUNDS
For the Year Ended June 30, 2014

Exhibit 27

| | Special Revenue | | | |
|---|-----------------------------|-------------------------------------|----------------------------|--|
| | School Cafeteria Fund | School Federal Grants Fund | School Textbook Fund | Total Nonmajor Governmental Funds |
| REVENUES | | | | |
| Revenues from use of money and property | \$ 1,440 | \$ - | \$ 685 | \$ 2,125 |
| Charges for services | 557,311 | - | - | 557,311 |
| Miscellaneous | 8,569 | - | - | 8,569 |
| Intergovernmental revenues: | | | | |
| Commonwealth | 38,522 | - | - | 38,522 |
| Federal | 1,423,051 | 2,416,289 | - | 3,839,340 |
| Total revenues | <u>2,028,893</u> | <u>2,416,289</u> | <u>685</u> | <u>4,445,867</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Education | <u>1,972,293</u> | <u>2,416,289</u> | <u>426,605</u> | <u>4,815,187</u> |
| Total expenditures | <u>1,972,293</u> | <u>2,416,289</u> | <u>426,605</u> | <u>4,815,187</u> |
| Excess (deficiency) of revenues over expenditures | <u>56,600</u> | <u>-</u> | <u>(425,920)</u> | <u>(369,320)</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>129,235</u> | <u>129,235</u> |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>129,235</u> | <u>129,235</u> |
| Net change in fund balances | 56,600 | - | (296,685) | (240,085) |
| Fund balance - beginning | <u>620,603</u> | <u>-</u> | <u>434,316</u> | <u>1,054,919</u> |
| Fund balance - ending | <u>\$ 677,203</u> | <u>\$ -</u> | <u>\$ 137,631</u> | <u>\$ 814,834</u> |

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CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

| | School Cafeteria Fund | | | |
|---|-----------------------|------------------|------------------|--|
| | Budgeted Amounts | | | Variance with |
| | Original | Final | Actual | Final Budget - Positive (Negative) |
| REVENUES | | | | |
| Revenues from use of money and property | \$ 1,500 | \$ 1,500 | \$ 1,440 | \$ (60) |
| Charges for services | 689,000 | 689,000 | 557,311 | (131,689) |
| Miscellaneous | 5,000 | 5,000 | 8,569 | 3,569 |
| Intergovernmental: | | | | |
| Commonwealth | 36,950 | 37,040 | 38,522 | 1,482 |
| Federal | 1,219,129 | 1,370,174 | 1,423,051 | 52,877 |
| Total revenues | <u>1,951,579</u> | <u>2,102,714</u> | <u>2,028,893</u> | <u>(73,821)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Education | <u>1,951,579</u> | <u>2,102,714</u> | <u>1,972,293</u> | <u>130,421</u> |
| Total expenditures | <u>1,951,579</u> | <u>2,102,714</u> | <u>1,972,293</u> | <u>130,421</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>-</u> | <u>56,600</u> | <u>56,600</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 56,600</u> | <u>\$ 56,600</u> |

| School Federal Grants Fund | | | | School Textbook Fund | | | |
|----------------------------|------------------|------------------|---|----------------------|------------------|---------------------|---|
| Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
| Original | Final | Actual | | Original | Final | Actual | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 685 | \$ 685 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>2,675,444</u> | <u>2,673,879</u> | <u>2,416,289</u> | <u>(257,590)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>2,675,444</u> | <u>2,673,879</u> | <u>2,416,289</u> | <u>(257,590)</u> | <u>-</u> | <u>-</u> | <u>685</u> | <u>685</u> |
| | | | | | | | |
| <u>2,675,444</u> | <u>2,673,879</u> | <u>2,416,289</u> | <u>257,590</u> | <u>350,000</u> | <u>563,549</u> | <u>426,605</u> | <u>136,944</u> |
| <u>2,675,444</u> | <u>2,673,879</u> | <u>2,416,289</u> | <u>257,590</u> | <u>350,000</u> | <u>563,549</u> | <u>426,605</u> | <u>136,944</u> |
| | | | | | | | |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(350,000)</u> | <u>(563,549)</u> | <u>(425,920)</u> | <u>137,629</u> |
| | | | | | | | |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>350,000</u> | <u>563,549</u> | <u>129,235</u> | <u>(434,314)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>350,000</u> | <u>563,549</u> | <u>129,235</u> | <u>(434,314)</u> |
| | | | | | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (296,685)</u> | <u>\$ (296,685)</u> |

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2014

| | School Fundraising Fund | | | |
|--|-------------------------|---------|-----------|---|
| | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
| | Original | Final | Actual | |
| REVENUES | | | | |
| Revenues from use of money and property | \$ - | \$ - | \$ 1,951 | \$ 1,951 |
| Miscellaneous | 200,000 | 381,235 | 171,247 | (209,988) |
| Recovered costs | - | - | - | - |
| Intergovernmental: | | | | |
| Local government | - | - | - | - |
| Commonwealth | - | - | - | - |
| Total revenues | 200,000 | 381,235 | 173,198 | (208,037) |
| EXPENDITURES | | | | |
| Education | - | 2,026 | 2,026 | - |
| Capital projects | 200,000 | 379,209 | 125,238 | 253,971 |
| Total expenditures | 200,000 | 381,235 | 127,264 | 253,971 |
| Excess (deficiency) of revenues over expenditures | - | - | 45,934 | 45,934 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Net change in fund balances | \$ - | \$ - | \$ 45,934 | \$ 45,934 |

| School Capital Improvement Fund | | | | School Construction Fund | | | |
|---------------------------------|-------------|----------------|---|--------------------------|------------|---------------|---|
| Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
| Original | Final | Actual | | Original | Final | Actual | |
| \$ - | \$ - | \$ 3,337 | \$ 3,337 | \$ - | \$ 6,700 | \$ 18,600 | \$ 11,900 |
| - | - | 3,559 | 3,559 | - | - | - | - |
| - | - | 97,746 | 97,746 | - | - | - | - |
| - | - | - | - | - | 20,000,000 | 20,000,000 | - |
| - | 100,000 | 100,000 | - | - | - | - | - |
| - | 100,000 | 204,642 | 104,642 | - | 20,006,700 | 20,018,600 | 11,900 |
| - | - | - | - | - | - | - | - |
| 490,000 | 2,126,115 | 1,785,445 | 340,670 | - | 20,006,700 | 295,290 | 19,711,410 |
| 490,000 | 2,126,115 | 1,785,445 | 340,670 | - | 20,006,700 | 295,290 | 19,711,410 |
| (490,000) | (2,026,115) | (1,580,803) | 445,312 | - | - | 19,723,310 | 19,723,310 |
| 490,000 | 2,026,115 | - | (2,026,115) | - | - | - | - |
| 490,000 | 2,026,115 | - | (2,026,115) | - | - | - | - |
| \$ - | \$ - | \$ (1,580,803) | \$ (1,580,803) | \$ - | \$ - | \$ 19,723,310 | \$ 19,723,310 |

**CITY OF WINCHESTER, VIRGINIA
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
INTERNAL SERVICE FUND
June 30, 2014**

Exhibit 30

| | School Insurance Fund |
|-------------------------|-----------------------------|
| <hr/> | |
| ASSETS | |
| Current assets: | |
| Cash | \$ 1,102,235 |
| Investments | 201,325 |
| Receivables, net | <u>2,080</u> |
| Total current assets | <u>1,305,640</u> |
| NET POSITION | |
| Unrestricted | <u>\$ 1,305,640</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
INTERNAL SERVICE FUND
For the Year Ended June 30, 2014

Exhibit 31

| | School Insurance Fund |
|--------------------------------|-----------------------------|
| OPERATING REVENUES | |
| Charges for services | \$ 4,038,919 |
| Total operating revenues | <u>4,038,919</u> |
| OPERATING EXPENSES | |
| Insurance claims and expenses | <u>4,135,608</u> |
| Total operating expenses | <u>4,135,608</u> |
| Operating loss | <u>(96,689)</u> |
| NONOPERATING REVENUES | |
| Investment earnings | <u>2,329</u> |
| Total nonoperating revenues | <u>2,329</u> |
| TRANSFERS OUT | <u>-</u> |
| Change in net position | (94,360) |
| Total net position - beginning | <u>1,400,000</u> |
| Total net position - ending | <u>\$ 1,305,640</u> |

**CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
INTERNAL SERVICE FUND
For the Year Ended June 30, 2014**

Exhibit 32

| | School Insurance Fund |
|---|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from internal services provided | \$ 4,136,268 |
| Premiums paid | <u>(4,135,608)</u> |
| Net cash provided by operating activities | <u>660</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends received | <u>2,329</u> |
| Net cash provided by investing activities | <u>2,329</u> |
| Net increase in cash and cash equivalents | 2,989 |
| Cash and cash equivalents - beginning of year | <u>1,300,571</u> |
| Cash and cash equivalents - end of year | <u>\$ 1,303,560</u> |
| Cash and cash equivalents at end of year is comprised of the following: | |
| Cash | \$ 1,102,235 |
| Cash equivalents - Investments | <u>201,325</u> |
| Total | <u>\$ 1,303,560</u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (96,689) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Change in assets and liabilities: | |
| Decrease (increase) in accounts receivable | <u>97,349</u> |
| Total adjustments | <u>97,349</u> |
| Net cash provided by operating activities | <u>\$ 660</u> |

**CITY OF WINCHESTER, VIRGINIA
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
 PRIVATE-PURPOSE TRUST FUNDS
 June 30, 2014**

Exhibit 33

| | School Scholarship Fund | Newton B. Shingleton Scholarship Fund | M. Louise Cooper Scholarship Fund | Total |
|--------------------------------|-------------------------------|--|--|-------------------|
| ASSETS | | | | |
| Investments | \$ 445,572 | \$ 42,407 | \$ 71,676 | \$ 559,655 |
| Total assets | <u>\$ 445,572</u> | <u>\$ 42,407</u> | <u>\$ 71,676</u> | <u>\$ 559,655</u> |
| NET POSITION | | | | |
| Held in trust for scholarships | <u>\$ 445,572</u> | <u>\$ 42,407</u> | <u>\$ 71,676</u> | <u>\$ 559,655</u> |

CITY OF WINCHESTER, VIRGINIA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
PRIVATE-PURPOSE TRUST FUNDS
For the Year Ended June 30, 2014

Exhibit 34

| | School Scholarship Fund | Newton B. Shingleton Scholarship Fund | M. Louise Cooper Scholarship Fund | Total |
|--|-------------------------------|--|--|-------------------|
| ADDITIONS | | | | |
| Gifts and contributions | \$ 49,442 | \$ 6,000 | \$ 36,444 | \$ 91,886 |
| Investment earnings: | | | | |
| Interest | 5 | - | 56 | 61 |
| Dividends | 15,753 | 531 | - | 16,284 |
| Realized and unrealized gains on investments | 25,452 | 5,602 | - | 31,054 |
| Total additions | <u>90,652</u> | <u>12,133</u> | <u>36,500</u> | <u>139,285</u> |
| DEDUCTIONS | | | | |
| Administrative expenses | 7,204 | 140 | - | 7,344 |
| Scholarships awarded | 39,875 | 8,000 | 31,000 | 78,875 |
| Transfers out | 13,464 | - | - | 13,464 |
| Total deductions | <u>60,543</u> | <u>8,140</u> | <u>31,000</u> | <u>99,683</u> |
| Change in net position | 30,109 | 3,993 | 5,500 | 39,602 |
| Net position - beginning | <u>415,463</u> | <u>38,414</u> | <u>66,176</u> | <u>520,053</u> |
| Net position - ending | <u>\$ 445,572</u> | <u>\$ 42,407</u> | <u>\$ 71,676</u> | <u>\$ 559,655</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
AGENCY FUNDS
For the Year Ended June 30, 2014

Exhibit 35

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2014 |
|--------------------------------------|-------------------------|-------------------|------------------|--------------------------|
| School Employee Benefits Fund | | | | |
| Assets: | | | | |
| Cash | \$ 455,002 | \$ 111,205 | \$ - | \$ 566,207 |
| Investments | <u>102,769</u> | <u>-</u> | <u>17,343</u> | <u>85,426</u> |
| Total assets | <u>\$ 557,771</u> | <u>\$ 111,205</u> | <u>\$ 17,343</u> | <u>\$ 651,633</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 557,771 | \$ 93,862 | \$ - | \$ 651,633 |
| Total liabilities | <u>\$ 557,771</u> | <u>\$ 93,862</u> | <u>\$ -</u> | <u>\$ 651,633</u> |

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DISCRETELY PRESENTED COMPONENT UNIT – PARKING AUTHORITY

ENTERPRISE FUND

Parking Authority Fund – to account for the provision of parking facilities to City residents and visitors through City-owned parking lots and garages and metered on-street parking. All activities necessary to provide such services are included in the fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - WINCHESTER PARKING AUTHORITY
ENTERPRISE FUND
June 30, 2014

| | Exhibit 36 |
|----------------------------------|------------------------------|
| | Parking Authority Fund |
| ASSETS | |
| Current assets: | |
| Cash | \$ 1,095,464 |
| Investments | 198,684 |
| Accounts receivable, net | <u>2,509</u> |
| Total current assets | <u>1,296,657</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Nondepreciable | 11,685 |
| Depreciable, net | <u>8,296,911</u> |
| Total capital assets, net | <u>8,308,596</u> |
| Total noncurrent assets | <u>8,308,596</u> |
| Total assets | <u>9,605,253</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 13,666 |
| Accrued payroll | 13,712 |
| Accrued interest payable | 166,989 |
| Revenue bonds payable | <u>195,149</u> |
| Total current liabilities | <u>389,516</u> |
| Noncurrent liabilities: | |
| Compensated absences | 47,107 |
| Revenue bonds payable | <u>8,083,690</u> |
| Total noncurrent liabilities | <u>8,130,797</u> |
| Total liabilities | <u>8,520,313</u> |
| NET POSITION | |
| Net investment in capital assets | 29,757 |
| Unrestricted | <u>1,055,183</u> |
| Total net position | <u>\$ 1,084,940</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - WINCHESTER PARKING AUTHORITY
ENTERPRISE FUND
For the Year Ended June 30, 2014

| | Exhibit 37 |
|---|------------------------------|
| | Parking Authority Fund |
| OPERATING REVENUES | |
| Charges for services | \$ 1,041,489 |
| Miscellaneous | 490 |
| Total operating revenues | <u>1,041,979</u> |
| OPERATING EXPENSES | |
| Personal services | 336,185 |
| Contractual services | 97,879 |
| Other supplies and expenses | 145,911 |
| Depreciation | 258,127 |
| Total operating expenses | <u>838,102</u> |
| Operating income | <u>203,877</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 532 |
| Interest and fiscal charges | (388,330) |
| City contribution | 1,000,000 |
| Total nonoperating revenues (expenses) | <u>612,202</u> |
| Change in net position | 816,079 |
| Total net position - beginning, as restated | <u>268,861</u> |
| Total net position - ending | <u>\$ 1,084,940</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT - WINCHESTER PARKING AUTHORITY
ENTERPRISE FUND
For the Year Ended June 30, 2014

| | Exhibit 38 |
|---|------------------------------|
| | Parking Authority Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers and users | \$ 1,046,438 |
| Cash paid to suppliers | (236,300) |
| Cash paid to employees | (330,635) |
| Net cash provided by operating activities | <u>479,503</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| City contribution | 1,000,000 |
| Principal paid on capital debt | (175,000) |
| Interest paid on capital debt | (407,062) |
| Net cash provided by capital and related financing activities | <u>417,938</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment income | <u>532</u> |
| Net cash provided by investing activities | <u>532</u> |
| Net increase in cash and cash equivalents | 897,973 |
| Cash and cash equivalents - beginning of year | <u>396,175</u> |
| Cash and cash equivalents - end of year | <u><u>\$ 1,294,148</u></u> |
| Cash and cash equivalents at end of year is comprised of the following: | |
| Cash | \$ 1,095,464 |
| Cash equivalents - Investments | 198,684 |
| Total | <u><u>\$ 1,294,148</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 203,877 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 258,127 |
| Change in assets and liabilities: | |
| Decrease (increase) in accounts receivable | 4,459 |
| Increase (decrease) in accounts payable | 7,490 |
| Increase (decrease) in accrued payroll | 1,154 |
| Increase (decrease) in compensated absences | 4,396 |
| Total adjustments | <u>275,626</u> |
| Net cash provided by operating activities | <u><u>\$ 479,503</u></u> |

**SCHOOL BOARD'S DISCRETELY PRESENTED COMPONENT UNIT –
WINCHESTER EDUCATION FOUNDATION**

ENTERPRISE FUND

Winchester Education Foundation – to account for fundraising efforts that will benefit member organizations including, Winchester Public School Board, Handley Trust, Judges Athletic Association, and the John Handley High School Museum and Archive, as well as offering individuals and businesses, opportunities for making contributions to benefit the school children of the Winchester Public Schools. All activities necessary to carry-out these fundraising efforts are included in the fund. The Winchester Education Foundation is a discretely presented component unit of the discretely presented component unit, School Board. The amounts related to the Winchester Education Foundation have been added to the totals for the School Board as reported on Exhibits 23 and 24 to arrive at the entity-wide amounts presented on Exhibits 1 and 2.

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF NET POSITION
SCHOOL BOARD'S DISCRETELY PRESENTED COMPONENT UNIT -
WINCHESTER EDUCATION FOUNDATION
ENTERPRISE FUND
June 30, 2014

Exhibit 39

Winchester
Education
Foundation
Fund

ASSETS

Current assets:

| | |
|----------------------|----------------|
| Cash | \$ 281,617 |
| Investments | 181,173 |
| Accounts receivable | 3,300 |
| Promises to give | 153,755 |
| Prepays | 465 |
| Total current assets | <u>620,310</u> |

Noncurrent assets:

| | |
|-------------------------|----------------|
| Promises to give, net | 329,795 |
| Land held for sale | 15,000 |
| Total noncurrent assets | <u>344,795</u> |
| Total assets | <u>965,105</u> |

NET POSITION

| | |
|----------------------------------|-------------------|
| Net investment in capital assets | 15,000 |
| Restricted | 647,990 |
| Unrestricted | 302,115 |
| Total net position | <u>\$ 965,105</u> |

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
SCHOOL BOARD'S DISCRETELY PRESENTED COMPONENT UNIT -
WINCHESTER EDUCATION FOUNDATION
ENTERPRISE FUND
For the Year Ended June 30, 2014

Exhibit 40

Winchester
Education
Foundation
Fund

OPERATING REVENUES

| | |
|--------------------------|----------------|
| Contributions | \$ 111,864 |
| Miscellaneous | 1,700 |
| Total operating revenues | <u>113,564</u> |

OPERATING EXPENSES

| | |
|-----------------------------|------------------|
| Contractual services | 70,745 |
| Other supplies and expenses | 133,296 |
| Contributions | <u>50,000</u> |
| Total operating expenses | <u>254,041</u> |
| Operating loss | <u>(140,477)</u> |

NONOPERATING REVENUES

| | |
|-----------------------------|---------------|
| Investment earnings | <u>22,393</u> |
| Total nonoperating revenues | <u>22,393</u> |
| Change in net position | (118,084) |

| | |
|--------------------------------|------------------|
| Total net position - beginning | <u>1,083,189</u> |
|--------------------------------|------------------|

| | |
|-----------------------------|--------------------------|
| Total net position - ending | <u><u>\$ 965,105</u></u> |
|-----------------------------|--------------------------|

CITY OF WINCHESTER, VIRGINIA
STATEMENT OF CASH FLOWS
SCHOOL BOARD'S DISCRETELY PRESENTED COMPONENT UNIT -
WINCHESTER EDUCATION FOUNDATION
ENTERPRISE FUND
For the Year Ended June 30, 2014

Exhibit 41

Winchester
Education
Foundation
Fund

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Cash received from donors | \$ 173,780 |
| Cash paid to suppliers and contributions | <u>(254,141)</u> |
| Net cash used in operating activities | <u>(80,361)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|---------------|
| Investment income | <u>22,393</u> |
| Net cash provided by investing activities | <u>22,393</u> |

| | |
|---|----------|
| Net decrease in cash and cash equivalents | (57,968) |
|---|----------|

| | |
|---|----------------|
| Cash and cash equivalents - beginning of year | <u>520,758</u> |
|---|----------------|

| | |
|---|--------------------------|
| Cash and cash equivalents - end of year | <u><u>\$ 462,790</u></u> |
|---|--------------------------|

Cash and cash equivalents at end of year is comprised of the following:

| | |
|--------------------------------|--------------------------|
| Cash | \$ 281,617 |
| Cash equivalents - Investments | <u>181,173</u> |
| Total | <u><u>\$ 462,790</u></u> |

Reconciliation of operating income to net cash provided by operating activities:

| | |
|---|---------------------------|
| Operating loss | \$ (140,477) |
| Adjustments to reconcile operating income to net cash used in operating activities: | |
| Change in assets and liabilities: | |
| Decrease in pledges receivable | 60,216 |
| Decrease in accounts payable | <u>(100)</u> |
| Total adjustments | <u>60,116</u> |
| Net cash used in operating activities | <u><u>\$ (80,361)</u></u> |

SUPPLEMENTAL DATA

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STATISTICAL SECTION

This part of the City of Winchester’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

| Contents | Pages |
|---|--------------|
| <i>Financial Trends – Tables 1 – 4</i> | |
| These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time. | 110-116 |
| <i>Revenue Capacity – Tables 5 – 8</i> | |
| These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax. | 117-120 |
| <i>Debt Capacity – Tables 9 – 13</i> | |
| These schedules contain trend information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future. | 121-125 |
| <i>Demographic and Economic Information – Tables 14 – 15</i> | |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place | 126-127 |
| <i>Operating Information – Tables 16 – 18</i> | |
| These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and activities it performs. | 128-130 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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

Table 1

| | 2005 | 2006 | 2007 | 2008 | 2009(1) | 2010(1) | 2011 | 2012 | 2013(1) | 2014 |
|---|----------------------|-----------------------|------------------------|------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 27,530,372 | \$ 31,894,578 | \$ 35,925,618 | \$ 42,291,055 | \$ 44,602,441 | \$ 62,512,145 | \$ 62,402,348 | \$ 58,706,983 | \$ 56,163,377 | \$ 57,626,610 |
| Restricted | - | - | 217,166 | 102,003 | 49,876 | - | - | - | - | - |
| Unrestricted | (16,610,067) | (41,078,838) | (53,683,445) | (58,705,920) | (59,010,599) | (58,030,587) | (50,945,522) | (41,218,664) | (33,564,155) | (46,366,141) |
| Total governmental activities net position | <u>\$ 10,920,305</u> | <u>\$ (9,184,260)</u> | <u>\$ (17,540,661)</u> | <u>\$ (16,312,862)</u> | <u>\$ (14,358,282)</u> | <u>\$ 4,481,558</u> | <u>\$ 11,456,826</u> | <u>\$ 17,488,319</u> | <u>\$ 22,599,222</u> | <u>\$ 11,260,469</u> |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ 30,128,483 | \$ 32,310,319 | \$ 32,018,014 | \$ 35,012,184 | \$ 36,807,871 | \$ 44,278,901 | \$ 43,480,262 | \$ 48,176,844 | \$ 49,037,689 | \$ 51,196,584 |
| Restricted | - | 2,000 | 2,000 | 2,000 | 2,000 | - | - | - | - | - |
| Unrestricted | 7,464,431 | 3,904,997 | 6,531,712 | 3,555,389 | 5,579,913 | 380,107 | 917,995 | (443,640) | 778,298 | 1,811,069 |
| Total business-type activities net position | <u>\$ 37,592,914</u> | <u>\$ 36,217,316</u> | <u>\$ 38,551,726</u> | <u>\$ 38,569,573</u> | <u>\$ 42,389,784</u> | <u>\$ 44,659,008</u> | <u>\$ 44,398,257</u> | <u>\$ 47,733,204</u> | <u>\$ 49,815,987</u> | <u>\$ 53,007,653</u> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 57,658,855 | \$ 64,204,897 | \$ 67,943,632 | \$ 77,303,239 | \$ 81,410,312 | \$ 106,791,046 | \$ 105,882,610 | \$ 106,883,827 | \$ 105,201,066 | \$ 108,823,194 |
| Restricted | - | 2,000 | 219,166 | 104,003 | 51,876 | - | - | - | - | - |
| Unrestricted | (9,145,636) | (37,173,841) | (47,151,733) | (55,150,531) | (53,430,686) | (57,650,480) | (50,027,527) | (41,662,304) | (32,785,857) | (44,555,072) |
| Total primary government net position | <u>\$ 48,513,219</u> | <u>\$ 27,033,056</u> | <u>\$ 21,011,065</u> | <u>\$ 22,256,711</u> | <u>\$ 28,031,502</u> | <u>\$ 49,140,566</u> | <u>\$ 55,855,083</u> | <u>\$ 65,221,523</u> | <u>\$ 72,415,209</u> | <u>\$ 64,268,122</u> |
| School Board Component Unit | | | | | | | | | | |
| Net investment in capital assets | \$ 42,682,558 | \$ 70,713,467 | \$ 88,843,037 | \$ 104,213,868 | \$ 112,430,425 | \$ 116,460,222 | \$ 114,692,709 | \$ 113,054,855 | \$ 111,503,820 | \$ 109,960,064 |
| Restricted | - | - | 2,096,290 | 3,731,987 | 1,767,727 | - | - | - | 575,798 | 20,371,300 |
| Unrestricted | 4,965,488 | 10,815,973 | 16,779,217 | 8,553,970 | 2,173,262 | 3,881,107 | 5,791,479 | 5,907,579 | 5,578,658 | 3,363,800 |
| Total governmental activities net position | <u>\$ 47,648,046</u> | <u>\$ 81,529,440</u> | <u>\$ 107,718,544</u> | <u>\$ 116,499,825</u> | <u>\$ 116,371,414</u> | <u>\$ 120,341,329</u> | <u>\$ 120,484,188</u> | <u>\$ 118,962,434</u> | <u>\$ 117,658,276</u> | <u>\$ 133,695,164</u> |

Notes: (1) These totals are as previously reported. A prior period adjustment was required in 2010, 2011, and 2013 which modified these amounts.

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

Table 2

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|----------------------|-----------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 3,757,763 | \$ 4,101,357 | \$ 4,611,199 | \$ 4,963,448 | \$ 4,646,225 | \$ 4,023,701 | \$ 3,951,051 | \$ 4,450,987 | \$ 4,098,528 | \$ 4,847,983 |
| Judicial administration | 1,327,540 | 2,061,174 | 2,347,350 | 2,014,178 | 2,763,951 | 2,884,754 | 2,935,921 | 2,937,196 | 3,208,823 | 3,217,304 |
| Public safety | 12,392,777 | 14,541,554 | 15,534,200 | 16,781,824 | 18,323,978 | 17,585,438 | 17,771,948 | 18,061,684 | 19,051,218 | 19,691,104 |
| Public works | 5,212,319 | 5,296,991 | 5,871,189 | 7,940,266 | 7,067,534 | 7,766,233 | 9,257,342 | 11,502,592 | 10,462,004 | 12,276,087 |
| Health and welfare | 6,652,692 | 6,880,841 | 7,689,247 | 7,705,538 | 7,579,302 | 7,246,742 | 7,730,706 | 7,659,067 | 7,208,056 | 6,874,897 |
| Education | 41,445,344 | 56,829,849 | 44,973,236 | 32,640,160 | 27,924,540 | 25,416,114 | 25,378,193 | 25,383,157 | 26,706,238 | 45,697,366 |
| Parks, recreation, and culture | 2,352,025 | 2,187,433 | 2,385,028 | 2,968,842 | 3,354,192 | 3,413,062 | 3,461,791 | 3,525,459 | 3,792,062 | 3,504,618 |
| Community development | 2,449,154 | 1,906,853 | 1,920,305 | 2,173,272 | 1,850,299 | 1,653,859 | 2,414,352 | 2,077,685 | 2,438,493 | 1,810,977 |
| Interest on long-term debt | 2,077,447 | 3,388,365 | 4,184,083 | 4,640,407 | 4,610,500 | 4,249,316 | 4,036,885 | 3,436,706 | 3,156,413 | 3,682,243 |
| Bond issuance costs | - | - | - | - | - | - | - | - | - | 183,567 |
| Total governmental activities expenses | <u>77,667,061</u> | <u>97,194,417</u> | <u>89,515,837</u> | <u>81,827,935</u> | <u>78,120,521</u> | <u>74,239,219</u> | <u>76,938,189</u> | <u>79,034,533</u> | <u>80,121,835</u> | <u>101,786,146</u> |
| Business-type activities: | | | | | | | | | | |
| Water and sewer | 10,291,642 | 11,660,732 | 12,867,908 | 14,427,989 | 16,030,605 | 15,973,606 | 17,132,555 | 19,207,251 | 21,294,667 | 20,636,511 |
| Transit service | 645,959 | 921,626 | 924,440 | 853,081 | 910,514 | 964,912 | - | - | - | - |
| Total business-type activities expenses | <u>10,937,601</u> | <u>12,582,358</u> | <u>13,792,348</u> | <u>15,281,070</u> | <u>16,941,119</u> | <u>16,938,518</u> | <u>17,132,555</u> | <u>19,207,251</u> | <u>21,294,667</u> | <u>20,636,511</u> |
| Total primary government expenses | <u>\$ 88,604,662</u> | <u>\$ 109,776,775</u> | <u>\$ 103,308,185</u> | <u>\$ 97,109,005</u> | <u>\$ 95,061,640</u> | <u>\$ 91,177,737</u> | <u>\$ 94,070,744</u> | <u>\$ 98,241,784</u> | <u>\$ 101,416,502</u> | <u>\$ 122,422,657</u> |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 609,001 | \$ 672,473 | \$ 681,154 | \$ 732,219 | \$ 795,459 | \$ 254,535 | \$ 276,960 | \$ 269,955 | \$ 113,965 | \$ 147,384 |
| Judicial administration | 418,589 | 383,212 | 371,968 | 359,633 | 204,413 | 630,433 | 781,054 | 837,066 | 683,121 | 634,692 |
| Public safety | 109,541 | 127,567 | 1,008,032 | 895,701 | 888,450 | 992,875 | 1,031,282 | 961,651 | 1,226,999 | 1,193,298 |
| Public works | 358,752 | 480,784 | 615,990 | 603,778 | 1,064,374 | 341,284 | 788,258 | 1,193,772 | 1,158,991 | 1,071,780 |
| Health and welfare | 71,228 | 71,388 | 78,634 | 83,304 | 90,838 | 75,357 | 70,083 | 61,555 | 52,875 | 52,008 |
| Parks, recreation, and culture | 588,779 | 591,651 | 593,557 | 620,699 | 607,476 | 781,612 | 732,187 | 777,314 | 665,747 | 833,837 |
| Community development | 636,958 | 616,498 | 557,807 | 444,174 | 277,349 | 441,569 | 312,354 | 279,155 | 302,148 | 316,428 |
| Operating grants and contributions | 8,335,248 | 9,302,094 | 9,680,995 | 9,306,894 | 8,931,591 | 10,225,614 | 11,927,468 | 13,093,099 | 11,914,905 | 11,606,524 |
| Capital grants and contributions | 1,317,918 | 484,819 | 1,497,526 | 723,220 | 1,835,430 | 16,184,324 | 36,524 | 1,904,428 | 1,141,420 | 1,921,832 |
| Total governmental activities revenues | <u>12,446,014</u> | <u>12,730,486</u> | <u>15,085,663</u> | <u>13,769,622</u> | <u>14,695,380</u> | <u>29,927,603</u> | <u>15,956,170</u> | <u>19,377,995</u> | <u>17,260,171</u> | <u>17,777,783</u> |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water and sewer | 14,618,918 | 13,511,213 | 14,656,789 | 16,036,767 | 17,926,218 | 18,236,410 | 19,636,840 | 20,219,861 | 22,411,243 | 24,814,747 |
| Transit service | 66,376 | 84,029 | 67,579 | 60,070 | 79,959 | 89,482 | - | - | - | - |
| Operating grants and contributions | 392,920 | 449,306 | 415,530 | 542,664 | 560,688 | - | - | - | - | - |
| Capital grants and contributions | 2,496,444 | 401,660 | 1,828,777 | 178,293 | 3,412,273 | 1,583,104 | 498,821 | 3,882,896 | 2,809,805 | 1,400,500 |
| Total business-type activities revenues | <u>17,574,658</u> | <u>14,446,208</u> | <u>16,968,675</u> | <u>16,817,794</u> | <u>21,979,138</u> | <u>19,908,996</u> | <u>20,135,661</u> | <u>24,102,757</u> | <u>25,221,048</u> | <u>26,215,247</u> |
| Total primary government revenues | <u>\$ 30,020,672</u> | <u>\$ 27,176,694</u> | <u>\$ 32,054,338</u> | <u>\$ 30,587,416</u> | <u>\$ 36,674,518</u> | <u>\$ 49,836,599</u> | <u>\$ 36,091,831</u> | <u>\$ 43,480,752</u> | <u>\$ 42,481,219</u> | <u>\$ 43,993,030</u> |

CITY OF WINCHESTER, VIRGINIA
CHANGES IN NET POSITION
Last Ten Years
(accrual basis of accounting)

Table 2 (Continued)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental activities | \$ (65,221,047) | \$ (84,463,931) | \$ (74,430,174) | \$ (68,058,313) | \$ (63,425,141) | \$ (44,311,616) | \$ (60,982,019) | \$ (59,656,538) | \$ (62,861,664) | \$ (84,008,363) |
| Business-type activities | 6,637,057 | 1,863,850 | 3,176,327 | 1,536,724 | 5,038,019 | 2,970,478 | 3,003,106 | 4,895,506 | 3,926,381 | 5,578,736 |
| Total primary government net expense | <u>\$ (58,583,990)</u> | <u>\$ (82,600,081)</u> | <u>\$ (71,253,847)</u> | <u>\$ (66,521,589)</u> | <u>\$ (58,387,122)</u> | <u>\$ (41,341,138)</u> | <u>\$ (57,978,913)</u> | <u>\$ (54,761,032)</u> | <u>\$ (58,935,283)</u> | <u>\$ (78,429,627)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | \$ 20,654,729 | \$ 25,468,425 | \$ 29,385,425 | \$ 33,279,510 | \$ 34,178,174 | \$ 34,168,510 | \$ 33,797,432 | \$ 34,768,213 | \$ 35,952,587 | \$ 37,597,733 |
| Sales taxes | 10,273,222 | 10,894,693 | 10,281,056 | 9,747,373 | 8,037,031 | 7,389,558 | 8,086,528 | 8,485,685 | 8,718,682 | 8,119,431 |
| Utility taxes | 3,394,446 | 3,433,690 | 2,832,613 | 2,015,744 | 1,991,193 | 1,915,234 | 1,987,027 | 1,616,764 | 2,014,264 | 2,233,337 |
| Business license taxes | 5,400,295 | 5,983,072 | 5,901,109 | 5,727,230 | 5,458,468 | 5,236,568 | 5,451,253 | 5,678,324 | 5,736,888 | 6,016,529 |
| Franchise taxes | 1,057,007 | 543,864 | 557,228 | 276,598 | 293,529 | 329,097 | 349,004 | 302,554 | 360,030 | 402,711 |
| Hotel and meals taxes | 5,032,624 | 5,598,277 | 5,845,108 | 5,739,369 | 5,021,594 | 5,375,860 | 5,671,611 | 5,999,862 | 6,217,625 | 6,596,681 |
| E-911 taxes | 651,115 | 579,235 | - | - | - | - | - | - | - | - |
| Communication sales taxes | - | - | 886,730 | 2,423,466 | 2,277,662 | 2,207,059 | 2,260,141 | 2,142,639 | 2,199,696 | 2,145,662 |
| Other local taxes | 1,468,133 | 2,182,526 | 2,187,954 | 1,720,639 | 2,129,896 | 1,598,674 | 1,762,905 | 1,529,900 | 1,820,712 | 1,979,202 |
| Sale of right-of-way | - | - | - | - | - | - | 250,000 | 386,296 | - | - |
| Unrestricted grants and contributions | 3,752,212 | 3,959,529 | 4,472,972 | 3,735,644 | 3,626,897 | 2,831,277 | 2,997,533 | 3,007,083 | 2,966,192 | 2,987,618 |
| Investment earnings | 205,740 | 875,864 | 1,322,717 | 1,458,202 | 460,609 | 281,219 | 146,478 | 138,851 | 68,675 | 70,590 |
| Miscellaneous | 414,694 | 459,032 | 799,216 | 512,011 | 527,737 | - | 4,304 | 31,860 | 47,216 | 33,441 |
| Gain on sale of capital assets | - | 734,856 | 70,364 | - | 22,781 | - | - | - | - | - |
| Special item | - | - | - | - | - | - | - | - | - | 3,451,777 |
| Transfers | 1,819,869 | 3,677,307 | 1,500,277 | 1,819,967 | 1,354,150 | 1,864,000 | 3,321,749 | 1,600,000 | 1,870,000 | 1,600,000 |
| Total governmental activities | <u>54,124,086</u> | <u>64,390,370</u> | <u>66,042,769</u> | <u>68,455,753</u> | <u>65,379,721</u> | <u>63,197,056</u> | <u>66,085,965</u> | <u>65,688,031</u> | <u>67,972,567</u> | <u>73,234,712</u> |
| Business-type activities: | | | | | | | | | | |
| Investment earnings | 195,569 | 400,403 | 567,522 | 273,073 | 125,725 | 56,010 | 12,746 | 32,925 | 20,577 | 426 |
| Miscellaneous | 13,519 | 37,456 | 134,639 | 28,017 | 10,617 | 53,060 | 45,146 | 6,516 | 5,825 | 6,694 |
| Transfers | (1,819,869) | (3,677,307) | (1,500,277) | (1,819,967) | (1,354,150) | (1,864,000) | (3,321,749) | (1,600,000) | (1,870,000) | (1,600,000) |
| Total business-type activities | <u>(1,610,781)</u> | <u>(3,239,448)</u> | <u>(798,116)</u> | <u>(1,518,877)</u> | <u>(1,217,808)</u> | <u>(1,754,930)</u> | <u>(3,263,857)</u> | <u>(1,560,559)</u> | <u>(1,843,598)</u> | <u>(1,592,880)</u> |
| Total primary government | <u>\$ 52,513,305</u> | <u>\$ 61,150,922</u> | <u>\$ 65,244,653</u> | <u>\$ 66,936,876</u> | <u>\$ 64,161,913</u> | <u>\$ 61,442,126</u> | <u>\$ 62,822,108</u> | <u>\$ 64,127,472</u> | <u>\$ 66,128,969</u> | <u>\$ 71,641,832</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental activities | \$ (11,096,961) | \$ (20,073,561) | \$ (8,387,405) | \$ 397,440 | \$ 1,954,580 | \$ 18,885,440 | \$ 5,103,946 | \$ 6,031,493 | \$ 5,110,903 | \$ (10,773,651) |
| Business-type activities | 5,026,276 | (1,375,598) | 2,378,211 | 17,847 | 3,820,211 | 1,215,548 | (260,751) | 3,334,947 | 2,082,783 | 3,985,856 |
| Total primary government | <u>\$ (6,070,685)</u> | <u>\$ (21,449,159)</u> | <u>\$ (6,009,194)</u> | <u>\$ 415,287</u> | <u>\$ 5,774,791</u> | <u>\$ 20,100,988</u> | <u>\$ 4,843,195</u> | <u>\$ 9,366,440</u> | <u>\$ 7,193,686</u> | <u>\$ (6,787,795)</u> |

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

Table 2 (Continued)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|----------------------|
| Expenses | | | | | | | | | | |
| School Board Component Unit: | | | | | | | | | | |
| Education | \$ 39,729,723 | \$ 42,043,989 | \$ 44,755,582 | \$ 47,890,837 | \$ 51,428,596 | \$ 47,296,567 | \$ 48,837,882 | \$ 49,246,256 | \$ 53,609,858 | \$ 54,649,291 |
| Total School Board component unit expenses | <u>39,729,723</u> | <u>42,043,989</u> | <u>44,755,582</u> | <u>47,890,837</u> | <u>51,428,596</u> | <u>47,296,567</u> | <u>48,837,882</u> | <u>49,246,256</u> | <u>53,609,858</u> | <u>54,649,291</u> |
| Program Revenues | | | | | | | | | | |
| School Board Component Unit: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Education | 915,437 | 949,126 | 963,824 | 924,387 | 957,618 | 880,847 | 880,295 | 869,102 | 734,401 | 697,971 |
| Operating grants and contributions | 15,551,702 | 16,524,727 | 17,422,798 | 18,058,555 | 19,567,683 | 21,252,219 | 19,926,049 | 20,824,041 | 23,468,737 | 23,720,228 |
| Capital grants and contributions | 19,836,755 | 33,689,828 | 22,501,915 | 7,577,965 | 1,471,063 | 3,031,845 | 2,216,821 | 390,328 | 137,927 | 248,673 |
| Total School Board component unit revenues | <u>36,303,894</u> | <u>51,163,681</u> | <u>40,888,537</u> | <u>26,560,907</u> | <u>21,996,364</u> | <u>25,164,911</u> | <u>23,023,165</u> | <u>22,083,471</u> | <u>24,341,065</u> | <u>24,666,872</u> |
| Net (Expense)/Revenue | | | | | | | | | | |
| School Board Component Unit | <u>(3,425,829)</u> | <u>9,119,692</u> | <u>(3,867,045)</u> | <u>(21,329,930)</u> | <u>(29,432,232)</u> | <u>(22,131,656)</u> | <u>(25,814,717)</u> | <u>(27,162,785)</u> | <u>(29,268,793)</u> | <u>(29,982,419)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| School Board Component Unit: | | | | | | | | | | |
| Payment from City of Winchester | 21,975,750 | 23,481,698 | 25,056,307 | 26,920,190 | 27,901,103 | 25,386,902 | 25,351,902 | 25,351,902 | 26,651,702 | 45,659,975 |
| Investment earnings | 424,115 | 998,705 | 1,211,760 | 1,110,082 | 216,949 | 165,518 | 79,639 | 73,813 | 80,761 | 115,791 |
| Miscellaneous | 246,617 | 281,299 | 3,788,082 | 3,815,962 | 1,185,769 | 145,137 | 236,623 | 215,316 | 214,500 | 243,541 |
| Gain on sale of capital assets | 8,748 | - | - | - | - | - | - | - | - | - |
| Total School Board Component Unit | <u>22,655,230</u> | <u>24,761,702</u> | <u>30,056,149</u> | <u>31,846,234</u> | <u>29,303,821</u> | <u>25,697,557</u> | <u>25,668,164</u> | <u>25,641,031</u> | <u>26,946,963</u> | <u>46,019,307</u> |
| Change in Net Position | | | | | | | | | | |
| School Board Component Unit | <u>\$ 19,229,401</u> | <u>\$ 33,881,394</u> | <u>\$ 26,189,104</u> | <u>\$ 10,516,304</u> | <u>\$ (128,411)</u> | <u>\$ 3,565,901</u> | <u>\$ (146,553)</u> | <u>\$ (1,521,754)</u> | <u>\$ (2,321,830)</u> | <u>\$ 16,036,888</u> |

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

Table 3

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Pre-GASB 54 implementation: | | | | | | |
| General Fund | | | | | | |
| Reserved | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 13,465 |
| Unreserved | 18,982,128 | 25,075,724 | 28,957,466 | 26,842,432 | 20,577,901 | 17,253,692 |
| Total general fund | <u>\$ 18,982,128</u> | <u>\$ 25,075,724</u> | <u>\$ 28,957,466</u> | <u>\$ 26,842,432</u> | <u>\$ 20,577,901</u> | <u>\$ 17,267,157</u> |
| | | | | | | |
| All Other Governmental Funds | | | | | | |
| Reserved | \$ 126,832 | \$ - | \$ - | \$ - | \$ - | \$ 40,000 |
| Unreserved, reported in: | | | | | | |
| Special revenue funds | 1,286,541 | 1,468,954 | 1,704,636 | 1,820,531 | - | 1,811,642 |
| Capital projects funds | 950,751 | 6,847,195 | 2,969,046 | 1,842,195 | 4,279,791 | 824,558 |
| Debt service funds | 482,877 | 342,947 | 217,166 | 102,003 | 49,876 | - |
| Total all other governmental funds | <u>\$ 2,847,001</u> | <u>\$ 8,659,096</u> | <u>\$ 4,890,848</u> | <u>\$ 3,764,729</u> | <u>\$ 4,329,667</u> | <u>\$ 2,676,200</u> |
| | | | | | | |
| | 2011 | 2012 | 2013 | 2014 | | |
| Post-GASB 54 implementation: | | | | | | |
| General Fund | | | | | | |
| Nonspendable | \$ 11,950 | \$ 7,081 | \$ 8,408 | \$ 11,916 | | |
| Restricted | 441,131 | 476,780 | 486,062 | 495,790 | | |
| Committed | 950,000 | 1,300,000 | 1,218,750 | 1,926,988 | | |
| Assigned | 931,312 | 5,410,412 | 4,405,933 | 3,722,604 | | |
| Unassigned | 18,651,925 | 15,145,625 | 16,071,618 | 16,084,160 | | |
| Total general fund | <u>\$ 20,986,318</u> | <u>\$ 22,339,898</u> | <u>\$ 22,190,771</u> | <u>\$ 22,241,458</u> | | |
| | | | | | | |
| All Other Governmental Funds | | | | | | |
| Nonspendable | \$ 40,000 | \$ 190,000 | \$ 182,500 | \$ 167,500 | | |
| Restricted | - | - | - | 4,013,360 | | |
| Committed | - | - | - | - | | |
| Assigned | 2,068,984 | 3,172,645 | 2,316,213 | 1,493,250 | | |
| Unassigned | - | - | - | - | | |
| Total all other governmental funds | <u>\$ 2,108,984</u> | <u>\$ 3,362,645</u> | <u>\$ 2,498,713</u> | <u>\$ 5,674,110</u> | | |

Note: 2011 was the first year of implementing GASB 54 which revised fund balance classifications.

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

Table 4

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Revenues | | | | | | | | | | |
| General property taxes | \$ 20,502,718 | \$ 25,041,195 | \$ 29,701,648 | \$ 33,045,144 | \$ 33,704,350 | \$ 33,821,252 | \$ 33,942,158 | \$ 34,607,227 | \$ 36,115,435 | \$ 37,746,991 |
| Sales taxes | 10,273,222 | 10,894,693 | 10,281,056 | 9,747,373 | 8,037,031 | 7,389,558 | 8,086,528 | 8,485,685 | 8,718,682 | 8,119,431 |
| Other local taxes | 17,003,620 | 18,320,664 | 18,210,742 | 17,903,046 | 17,172,342 | 16,662,492 | 17,481,942 | 17,270,042 | 18,346,602 | 19,374,122 |
| Permits, privilege fees, and regulatory licenses | 639,874 | 619,646 | 560,761 | 450,188 | 285,131 | 392,290 | 292,644 | 252,950 | 285,746 | 300,089 |
| Fines and forfeitures | 274,987 | 221,123 | 203,206 | 171,521 | 159,077 | 147,721 | 221,715 | 274,147 | 161,403 | 149,170 |
| Revenues from use of money and property | 226,866 | 897,306 | 1,357,831 | 1,504,587 | 529,863 | 439,521 | 315,006 | 292,403 | 219,226 | 194,025 |
| Charges for services | 834,354 | 843,209 | 1,420,091 | 1,698,424 | 1,760,787 | 1,706,059 | 1,846,033 | 1,963,310 | 1,951,951 | 2,011,886 |
| Miscellaneous | 391,358 | 436,721 | 763,945 | 465,622 | 444,901 | 453,621 | 764,927 | 1,157,315 | 1,044,782 | 1,132,586 |
| Recovered costs | 650,470 | 776,667 | 903,114 | 887,583 | 1,454,804 | 979,769 | 1,045,223 | 930,667 | 726,062 | 612,575 |
| Intergovernmental | 12,575,431 | 13,646,660 | 13,697,391 | 13,849,118 | 14,393,918 | 14,754,690 | 14,737,288 | 17,742,776 | 15,888,838 | 15,711,958 |
| Total revenues | 63,372,900 | 71,697,884 | 77,099,785 | 79,722,606 | 77,942,204 | 76,746,973 | 78,733,464 | 82,976,522 | 83,458,727 | 85,352,833 |
| Expenditures | | | | | | | | | | |
| General government administration | 3,140,752 | 3,445,735 | 3,907,048 | 4,420,565 | 3,999,143 | 3,803,786 | 3,690,586 | 4,304,202 | 4,607,388 | 5,046,842 |
| Judicial administration | 1,661,817 | 1,929,431 | 2,266,027 | 2,537,903 | 2,574,148 | 2,690,827 | 2,768,905 | 2,838,387 | 3,099,072 | 3,201,762 |
| Public safety | 12,505,214 | 14,851,908 | 15,745,426 | 16,592,044 | 17,907,345 | 16,963,980 | 17,471,623 | 18,028,989 | 19,021,960 | 19,944,482 |
| Public works | 5,645,313 | 6,994,174 | 7,592,466 | 9,579,042 | 8,611,361 | 10,526,541 | 6,958,722 | 9,708,681 | 10,215,038 | 14,011,949 |
| Health and welfare | 6,678,900 | 6,852,789 | 7,675,658 | 7,728,686 | 7,542,126 | 7,205,135 | 7,727,186 | 7,697,084 | 7,256,023 | 6,880,143 |
| Education | 41,445,344 | 56,829,849 | 44,973,236 | 32,640,160 | 27,924,540 | 25,416,114 | 25,378,193 | 25,383,157 | 26,706,238 | 45,697,366 |
| Parks, recreation, and culture | 2,125,648 | 2,702,534 | 2,941,953 | 3,898,630 | 3,716,933 | 3,877,809 | 3,117,656 | 3,364,141 | 3,696,943 | 3,455,932 |
| Community development | 2,456,570 | 1,922,337 | 1,897,862 | 2,247,515 | 1,757,737 | 1,574,376 | 2,332,049 | 2,109,601 | 3,554,065 | 1,808,990 |
| Capital projects | 744,593 | 1,004,599 | 2,866,617 | 2,466,646 | 2,027,584 | - | - | - | - | - |
| Debt service: | | | | | | | | | | |
| Principal retirement | 3,511,299 | 4,290,832 | 4,860,328 | 5,702,316 | 5,544,227 | 5,829,665 | 5,760,991 | 5,519,489 | 6,064,266 | 6,047,562 |
| Interest and fiscal charges | 1,763,091 | 3,048,509 | 4,136,444 | 4,592,251 | 4,690,387 | 4,343,895 | 4,132,168 | 3,435,326 | 3,183,954 | 3,672,839 |
| Bond issuance costs | 297,686 | 260,168 | 142,965 | 98,552 | - | - | - | 235,527 | 216,634 | 183,567 |
| Advance refunding escrow | 129,378 | - | - | - | - | - | - | - | - | - |
| Total expenditures | 82,105,605 | 104,132,865 | 99,006,030 | 92,504,310 | 86,295,531 | 82,232,128 | 79,338,079 | 82,624,584 | 87,621,581 | 109,951,434 |
| Excess of revenues over (under) expenditures | (18,732,705) | (32,434,981) | (21,906,245) | (12,781,704) | (8,353,327) | (5,485,155) | (604,615) | 351,938 | (4,162,854) | (24,598,601) |

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

Table 4 (Continued)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|---------------------|----------------------|-------------------|-----------------------|-----------------------|-----------------------|---------------------|---------------------|-----------------------|---------------------|
| Other Financing Sources (Uses) | | | | | | | | | | |
| Sale of property | \$ 7,004 | \$ 752,455 | \$ 82,493 | \$ 1,520 | \$ 43,198 | \$ - | \$ 250,000 | \$ 386,296 | \$ - | \$ - |
| Insurance recoveries | - | 59,303 | 13,416 | 14,015 | 18,576 | 114,754 | 4,304 | 31,860 | 47,216 | 33,437 |
| Bonds issued | 28,172,590 | 39,000,000 | 19,260,000 | 7,200,000 | - | - | - | 27,217,364 | 27,963,072 | 24,265,000 |
| Premium on debt | 620,625 | 1,230,047 | 772,124 | 88,710 | - | 1,481,730 | - | 3,995,350 | - | 1,926,248 |
| Capital lease | 766,308 | 282,000 | 360,425 | 441,500 | - | - | - | - | - | - |
| Payment to refunded bond escrow agent | (9,952,868) | - | - | - | - | - | - | (30,975,567) | (26,730,493) | - |
| Transfers in | 4,715,464 | 6,848,646 | 6,919,733 | 9,642,156 | 7,650,015 | 7,980,231 | 5,433,719 | 5,243,455 | 5,694,575 | 6,312,546 |
| Transfers out | (2,895,595) | (3,800,775) | (5,419,456) | (7,847,350) | (6,295,865) | (6,336,231) | (3,589,786) | (3,643,455) | (3,824,575) | (4,712,546) |
| Total other financing sources and uses | <u>21,433,528</u> | <u>44,371,676</u> | <u>21,988,735</u> | <u>9,540,551</u> | <u>1,415,924</u> | <u>3,240,484</u> | <u>2,098,237</u> | <u>2,255,303</u> | <u>3,149,795</u> | <u>27,824,685</u> |
| Net change in fund balances | <u>\$ 2,700,823</u> | <u>\$ 11,936,695</u> | <u>\$ 82,490</u> | <u>\$ (3,241,153)</u> | <u>\$ (6,937,403)</u> | <u>\$ (2,244,671)</u> | <u>\$ 1,493,622</u> | <u>\$ 2,607,241</u> | <u>\$ (1,013,059)</u> | <u>\$ 3,226,084</u> |
| Debt service as a percentage of noncapital expenditures | 7.2% | 7.7% | 10.0% | 12.3% | 12.8% | 13.3% | 12.6% | 11.3% | 11.4% | 9.5% |

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

Table 5

| Real Property (1)(3) | | | | | | | | | | | | | | | | | Personal Property (1) | | | | | | | | Total Taxable Assessed Value | Total Direct Tax Rate |
|----------------------|-----|---------------|---------------|--------------------|----------------|--------------------|------------------------------|--------------------|----------------|--------------------|-------------------|--------------------|--------------|--------------------|---------------|------|-----------------------|--|--|--|--|--|--|--|------------------------------|-----------------------|
| Fiscal Year | | Residential | Commercial | Tax Rate per \$100 | Public Service | Tax Rate per \$100 | Motor Vehicles and Tangibles | Tax Rate per \$100 | Public Service | Tax Rate per \$100 | Machinery & Tools | Tax Rate per \$100 | Mobile Homes | Tax Rate per \$100 | | | | | | | | | | | | |
| 2005 | (2) | 1,547,000,230 | 846,685,200 | 0.63 | 52,812,984 | 0.63 | 163,876,921 | 3.5 | 33,411 | 3.5 | 114,813,086 | 1.3 | 236,400 | 0.63 | 2,725,458,232 | 0.83 | | | | | | | | | | |
| 2006 | | 1,611,591,819 | 873,266,900 | 0.69 | 64,545,448 | 0.63 | 174,036,126 | 4.5 | - | 4.5 | 121,396,014 | 1.3 | 251,900 | 0.69 | 2,845,088,207 | 0.95 | | | | | | | | | | |
| 2007 | (2) | 2,222,262,840 | 1,145,978,600 | 0.65 | 52,548,980 | 0.69 | 184,039,831 | 4.5 | 7,656 | 4.5 | 116,912,479 | 1.3 | 175,000 | 0.65 | 3,721,925,386 | 0.86 | | | | | | | | | | |
| 2008 | | 2,209,123,962 | 1,151,495,700 | 0.68 | 62,548,699 | 0.65 | 184,820,863 | 4.5 | 8,814 | 4.5 | 116,719,433 | 1.3 | 197,956 | 0.68 | 3,724,915,427 | 0.89 | | | | | | | | | | |
| 2009 | (2) | 1,930,786,600 | 1,145,085,600 | 0.77 | 62,322,900 | 0.68 | 183,336,720 | 4.5 | 10,493 | 4.5 | 109,391,904 | 1.3 | 192,756 | 0.77 | 3,431,126,973 | 0.98 | | | | | | | | | | |
| 2010 | | 1,937,277,200 | 1,138,605,300 | 0.77 | 67,087,131 | 0.77 | 178,115,588 | 4.5 | 16,957 | 4.5 | 124,891,288 | 1.3 | 202,056 | 0.77 | 3,446,195,520 | 0.98 | | | | | | | | | | |
| 2011 | (2) | 1,590,890,500 | 1,129,950,300 | 0.86 | 64,741,641 | 0.86 | 186,501,554 | 4.5 | 11,236 | 4.5 | 124,891,288 | 1.3 | 202,056 | 0.86 | 3,097,188,575 | 1.10 | | | | | | | | | | |
| 2012 | | 1,603,736,800 | 1,139,679,400 | 0.95 | 72,272,617 | 0.95 | 211,721,208 | 4.5 | 5,494 | 4.5 | 120,805,964 | 1.3 | 158,888 | 0.95 | 3,148,380,371 | 1.20 | | | | | | | | | | |
| 2013 | (2) | 1,618,898,500 | 1,142,293,500 | 0.95 | 64,839,333 | 0.95 | 253,205,986 | 4.5 | 5,936 | 4.5 | 152,329,260 | 1.3 | 163,048 | 0.95 | 3,231,735,563 | 1.24 | | | | | | | | | | |
| 2014 | | 1,629,108,700 | 1,137,899,900 | 0.95 | 67,540,972 | 0.95 | 269,630,162 | 4.5 | 5,936 | 4.5 | 144,655,883 | 1.3 | 159,988 | 0.95 | 3,249,001,541 | 1.26 | | | | | | | | | | |

Notes:

- (1) Property assessed at 100% of actual value. Tax rates are assessed per \$100 of assessed value.
- (2) General reassessment of real property completed for the 2003, 2005, 2007, 2009, 2011, and 2013 tax year.
- (3) Real Property tax rate for residential and commercial property is rate in effect for 1st half billing coming due in the current fiscal year.

Source:

City of Winchester, Commissioner of the Revenue

CITY OF WINCHESTER, VIRGINIA
DIRECT PROPERTY TAX RATES (1)
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Table 6

| Fiscal Year | City Direct Rates (2) | | | | Total Direct Rate |
|----------------|-----------------------|----------------------------------|------------------------------------|----------------------|-------------------------|
| | Real Estate | Public Service Real Estate | Motor Vehicles and Tangibles | Machinery & Tools | |
| 2005 | 0.55 | 0.01 | 0.21 | 0.05 | 0.82 |
| 2006 | 0.60 | 0.01 | 0.28 | 0.06 | 0.95 |
| 2007 | 0.59 | 0.01 | 0.22 | 0.04 | 0.86 |
| 2008 | 0.61 | 0.01 | 0.22 | 0.04 | 0.88 |
| 2009 | 0.69 | 0.01 | 0.24 | 0.04 | 0.98 |
| 2010 | 0.69 | 0.01 | 0.23 | 0.05 | 0.98 |
| 2011 | 0.76 | 0.02 | 0.27 | 0.05 | 1.10 |
| 2012 | 0.83 | 0.02 | 0.30 | 0.05 | 1.20 |
| 2013 | 0.81 | 0.02 | 0.35 | 0.06 | 1.24 |
| 2014 | 0.81 | 0.02 | 0.37 | 0.06 | 1.26 |

Notes:

- (1) The City is autonomous from any other political subdivision of the Commonwealth of Virginia, and there are no overlapping taxing powers with other political subdivisions.
- (2) Direct rates are derived by calculating a weighted average that multiplies each rate by the proportion of the revenue base to which it applies.

Source:

City of Winchester, Commissioner of the Revenue

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

Table 7

| <u>Taxpayer</u> | December 31, 2013 | | | December 31, 2004 | | |
|----------------------------------|-------------------------------|-------------|---|-------------------------------|-------------|---|
| | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total Taxable Assessed Value</u> | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total Taxable Assessed Value</u> |
| Mayflower Apple Blossom, LP | \$ 48,943,400 | 1 | 1.76% | \$ 35,562,300 | 1 | 1.33% |
| Walmart Realty CO | 23,733,000 | 2 | 0.85% | 15,296,800 | 7 | 0.57% |
| Cole MT Winchester LC | 21,952,800 | 3 | 0.79% | | | |
| PDK Winchester LC | 21,322,200 | 4 | 0.77% | 12,925,500 | 9 | 0.48% |
| Rubbermaid Commercial Prod Inc | 20,122,300 | 5 | 0.72% | 15,473,100 | 6 | 0.58% |
| DDRM Apple Blossom Corners LLC | 16,440,400 | 6 | 0.59% | | | |
| National Fruit Product Co., Inc. | 14,589,400 | 7 | 0.52% | 15,994,700 | 5 | 0.60% |
| Pleasant Valley Market Place LLC | 12,510,500 | 8 | 0.45% | | | |
| Lowe's Home Center Inc. | 12,283,600 | 9 | 0.44% | 12,423,100 | 10 | 0.46% |
| Stuart Hill Apartments | 12,147,000 | 10 | 0.44% | | | |
| Winchester Medical Center | - | | - | 27,927,300 | 2 | 1.01% |
| Dev. Diversified Realty Corp | - | | - | 16,951,200 | 4 | 0.63% |
| Melco, Inc. | - | | - | 18,349,800 | 3 | 0.69% |
| PolyOne Engineered Films | - | | - | 14,150,100 | 8 | 0.53% |
| Total | <u>\$ 204,044,600</u> | | <u>7.33%</u> | <u>\$ 185,053,900</u> | | <u>6.88%</u> |

Source:

City of Winchester, Commissioner of Revenue Office

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

Table 8

| Fiscal Year | Taxes Levied for the Fiscal Year | | Total Adjusted Levy | Collected within the Fiscal Year of the Levy (1) | | Collections in Subsequent Years | Total Collections to Date | |
|----------------|--|-------------|------------------------|---|--------------------------------|---------------------------------------|---------------------------|--------------------------------|
| | (Original Levy) | Adjustments | | Amount | Percentage of Original Levy | | Amount | Percentage of Adjusted Levy |
| 2005 | 20,766,491 | 2,013,703 | 22,780,194 | 19,893,140 | 95.79% | 2,648,056 | 22,541,196 | 98.95% |
| 2006 | 25,705,020 | 2,802,593 | 28,507,613 | 24,280,467 | 94.46% | 3,773,927 | 28,054,394 | 98.41% |
| 2007 | 29,728,314 | 2,850,749 | 32,579,063 | 28,477,374 | 95.79% | 2,160,600 | 30,637,974 | 94.04% |
| 2008 | 32,280,468 | 2,877,353 | 35,157,821 | 31,240,872 | 96.78% | 2,168,130 | 33,409,002 | 95.03% |
| 2009 | 32,726,042 | - | 32,726,042 | 31,632,098 | 96.66% | 1,093,944 | 32,726,042 | 100.00% |
| 2010 | 35,759,290 | - | 35,759,290 | 34,285,769 | 95.88% | 1,473,521 | 35,759,290 | 100.00% |
| 2011 | 35,941,324 | - | 35,941,324 | 32,347,826 | 90.00% | 1,448,421 | 33,796,247 | 94.03% |
| 2012 | 34,060,423 | - | 34,060,423 | 33,158,805 | 97.35% | 901,618 | 34,060,423 | 100.00% |
| 2013 | 35,795,054 | - | 35,795,054 | 34,600,217 | 96.66% | 1,196,585 | 35,796,802 | 100.00% |
| 2014 | 36,946,349 | - | 36,946,349 | 35,960,406 | 97.33% | - | 35,960,406 | 97.33% |

Source:

City of Winchester, Treasurer

Notes:

- (1) Includes the Commonwealth's personal property tax reimbursement.

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

Table 9

| Fiscal Year | Governmental Activities | | Business-type Activities | | | Total Primary Government | Percentage of Personal Income (1) | Per Capita (1) |
|----------------|------------------------------------|------------------------|------------------------------------|----------------------|------------------------|--------------------------------|---|-------------------|
| | General Obligation Bonds (2) | Obligations Payable | General Obligation Bonds (2) | Revenue Bonds (2) | Obligations Payable | | | |
| 2005 | 55,393,281 | - | 21,751,067 | - | - | 77,144,348 | 11.66% | 3,157 |
| 2006 | 90,474,179 | - | 26,662,924 | - | - | 117,137,103 | 15.49% | 4,663 |
| 2007 | 105,263,817 | - | 29,886,248 | - | - | 135,150,065 | 16.78% | 5,349 |
| 2008 | 107,244,423 | - | 28,497,851 | - | - | 135,742,274 | 16.08% | 5,275 |
| 2009 | 101,700,196 | - | 27,022,523 | 23,920,000 | 8,163,355 | 160,806,074 | 18.04% | 6,209 |
| 2010 | 95,870,531 | - | 25,444,814 | 36,215,000 | 7,232,324 | 164,762,669 | 18.41% | 6,259 |
| 2011 | 90,109,540 | - | 23,779,501 | 47,610,000 | 20,221,937 | 181,720,978 | 20.34% | 6,934 |
| 2012 | 84,848,790 | - | 22,058,855 | 66,589,030 | 19,080,302 | 192,576,977 | 21.45% | 7,242 |
| 2013 | 85,909,809 | 900,000 | 21,557,534 | 69,725,303 | 17,709,408 | 195,802,054 | 20.78% | 7,283 |
| 2014 | 105,525,330 | 600,000 | 19,806,474 | 66,997,071 | 16,202,542 | 209,131,417 | 20.79% | 7,683 |

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

Notes:

- (1) See the Schedule of Demographic and Economic Statistics for personal income and population data.
- (2) Includes Unamortized Bond Premiums

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

Table 10

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in Debt Service Fund | Total | Percentage of Actual Taxable Value of Property (1) | Per Capita (2) |
|-------------|--------------------------|--|-------------|--|----------------|
| 2005 | 77,144,348 | 482,877 | 76,661,471 | #DIV/0! | 3,137 |
| 2006 | 117,137,103 | 342,947 | 116,794,156 | 4.29% | 4,650 |
| 2007 | 135,150,065 | 217,166 | 134,932,899 | 4.74% | 5,341 |
| 2008 | 135,742,274 | 102,003 | 135,640,271 | 3.64% | 5,271 |
| 2009 | 128,722,719 | 49,876 | 128,672,843 | 3.45% | 4,969 |
| 2010 | 121,315,345 | - | 121,315,345 | 3.54% | 4,609 |
| 2011 | 113,889,041 | - | 113,889,041 | 3.30% | 4,346 |
| 2012 | 106,907,645 | - | 106,907,645 | 3.40% | 4,021 |
| 2013 | 107,467,343 | - | 107,467,343 | 3.33% | 3,998 |
| 2014 | 125,331,804 | - | 125,331,804 | 3.86% | 4,605 |

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

Notes:

- (1) See the Schedule of Assessed Value and Actual Value of Taxable Property for property value data.
- (2) Population data can be found in the Schedule of Demographic and Economic Statistics.

CITY OF WINCHESTER, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT (1)
As of June 30, 2014

Table 11

| <u>Jurisdiction</u> | <u>Debt Outstanding</u> | <u>Percentage Applicable to City of Winchester</u> | <u>Amount Applicable to City of Winchester</u> |
|---------------------|-----------------------------|--|--|
| City of Winchester | \$ 106,125,330 | 100% | \$ 106,125,330 |

Notes:

- (1) The City is autonomous from any other political subdivision of the Commonwealth of Virginia, and there is no overlapping debt or taxing powers.

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

Table 12

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Debt limit | \$ 244,649,841 | \$ 254,940,417 | \$ 342,079,042 | \$ 342,316,836 | \$ 302,560,266 | \$ 314,296,963 | \$ 278,558,244 | \$ 281,568,882 | \$ 282,603,133 | \$ 283,454,957 |
| Total net debt applicable to limit | <u>76,661,471</u> | <u>116,794,156</u> | <u>134,932,899</u> | <u>135,640,271</u> | <u>128,672,843</u> | <u>121,315,345</u> | <u>113,889,041</u> | <u>106,907,645</u> | <u>107,467,343</u> | <u>114,224,636</u> |
| Legal debt margin | <u>\$ 167,988,370</u> | <u>\$ 138,146,261</u> | <u>\$ 207,146,143</u> | <u>\$ 206,676,565</u> | <u>\$ 173,887,423</u> | <u>\$ 192,981,618</u> | <u>\$ 164,669,203</u> | <u>\$ 174,661,237</u> | <u>\$ 175,135,790</u> | <u>\$ 169,230,321</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 31.34% | 45.81% | 39.44% | 39.62% | 42.53% | 38.60% | 40.89% | 37.97% | 38.03% | 40.30% |

Legal Debt Margin Calculation for Fiscal Year 2014

| | |
|---|-----------------------|
| Assessed Value of Real Property | \$ 2,834,549,572 |
| Debt Limit - 10% | 283,454,957 |
| Amount of Debt Applicable to Debt Limit | |
| General obligation bonds | <u>114,224,636</u> |
| Legal Debt Margin | <u>\$ 169,230,321</u> |

Note: Under state finance law, the City's outstanding general obligation debt should not exceed 10 percent of total assessed real property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

**CITY OF WINCHESTER, VIRGINIA
PLEDGED-REVENUE COVERAGE
Last Five Fiscal Years**

Table 13

| Fiscal Year | Water and Sewer Revenue Bonds | | | | | |
|----------------|---|-----------------------------|-----------------------------|--------------|-----------|----------|
| | Water and Sewer Charges and Other | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage |
| | | | | Principal | Interest | |
| 2010 | 18,282,412 | 11,301,236 | 6,981,176 | - | 1,093,351 | 6.39 |
| 2011 | 19,681,986 | 11,662,219 | 8,019,767 | 770,000 | 1,779,020 | 4.51 |
| 2012 | 20,226,377 | 12,299,426 | 7,926,951 | 1,245,000 | 2,383,018 | 3.33 |
| 2013 | 22,417,068 | 12,860,026 | 9,557,042 | 1,715,000 | 3,247,700 | 2.94 |
| 2014 | 24,821,441 | 12,413,786 | 12,407,655 | 2,436,879 | 3,204,543 | 3.87 |

Details regarding the city's outstanding debt can be found in the notes to the financial statements. Water and Sewer charges and other includes investment earnings but not availability fees. Operating expenses do not include interest or depreciation.

Notes:

- (1) Revenue bonds were issued in fiscal year 2009. Data will be added until a 10 year comparison is achieved.

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

Table 14

| Fiscal Year | Population(1) | Personal Income (amounts expressed in thousands) | Per capita income(2) | Median age(4) | Educational attainment (4) | | School enrollment(5) | Unemployment rate (3) |
|-------------|---------------|--|-------------------------|------------------|--------------------------------------|-----------------------------------|-------------------------|--------------------------|
| | | | | | High School Graduate or higher | Bachelor's Degree or higher | | |
| 2005 | 24,434 | 661,770 | 27,084 | 35.2 | 75.4% | 23.7% | 3,631 | 3.30% |
| 2006 | 25,119 | 756,182 | 30,104 | 35.2 | 75.4% | 23.7% | 3,756 | 2.80% |
| 2007 | 25,265 | 805,625 | 31,887 | 35.2 | 75.4% | 23.7% | 3,708 | 3.10% |
| 2008 | 25,733 | 844,325 | 32,811 | 36.0 | 75.4% | 23.7% | 3,652 | 4.60% |
| 2009 | 25,897 | 891,297 | 34,417 | 35.7 | 75.4% | 23.7% | 3,714 | 8.70% |
| 2010 | 26,322 | 894,790 | 33,994 | 35.2 | 75.4% | 23.7% | 3,745 | 7.20% |
| 2011 | 26,203 | 893,365 | 34,094 | 37.4 | 78.1% | 28.1% | 3,829 | 7.30% |
| 2012 | 26,587 | 897,737 | 33,766 | 35.1 | 79.7% | 29.7% | 3,979 | 6.60% |
| 2013 | 26,881 | 942,125 | 35,048 | 35.1 | 82.2% | 29.2% | 4,085 | 6.60% |
| 2014 | 27,216 | 1,005,767 | 36,955 | 35.6 | 81.9% | 29.5% | 4,147 | 5.10% |

Sources:

- (1) U.S. Census Bureau
- (2) Bureau of Economic Analysis
- (3) Virginia Employment Commission
- (4) U.S. Census Bureau - Data presented is percentage of persons 25 years or older attaining the described educational status; 2010 census is latest available data.
- (5) City of Winchester School Board.

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

Table 15

| <u>Employer</u> | <u>December 31, 2013</u> | | | <u>December 31, 2004</u> | | |
|--------------------------------------|--------------------------|-------------|--|--------------------------|-------------|--|
| | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
| Valley Health System | 1,000 and over | 1 | 7.16% | 1,000 and over | 1 | 7.47% |
| Shenandoah University | 500 - 999 | 2 | 3.58% | 500 - 999 | 4 | 3.74% |
| Winchester City Public Schools | 500 - 999 | 3 | 3.58% | 500 - 999 | 3 | 3.74% |
| Rubbermaid Commercial Products | 500 - 999 | 4 | 3.58% | 500 - 999 | 2 | 3.74% |
| Wal Mart | 500 - 999 | 5 | 3.58% | 500 - 999 | 5 | 3.74% |
| City of Winchester | 500 - 999 | 6 | 3.58% | 250 - 499 | 9 | 1.87% |
| U.S. Department of Defense | 500 - 999 | 7 | 3.58% | | | |
| U.S. Federal Bureau of Investigation | 250 - 499 | 8 | 1.79% | | | |
| Osullivan Films Inc | 250 - 499 | 9 | 1.79% | | | |
| Grafton School, Inc. | 250 - 499 | 10 | 1.79% | | | |
| Axiom Staffing Group | | | | 250 - 499 | 10 | 1.87% |
| Lear Operations Corporation | | | | 500 - 999 | | 3.74% |
| Kohl's Department Stores | | | | 500 - 999 | 6 | 3.74% |
| Kraft Foods | | | | 500 - 999 | 7 | 3.74% |
| Polyone Engineered Films | | | | 250 - 499 | 8 | 1.87% |
| Total | <u>4,750</u> | | <u>34.03%</u> | <u>5,000</u> | | <u>39.24%</u> |

Source: Virginia Employment Commission

Percentage calculations and totals are based on the minimum number of employees in the respective range.

CITY OF WINCHESTER, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Nine Fiscal Years (1)

Table 16

| | Full-Time Equivalent Employees as of June 30 | | | | | | | | |
|-----------------------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| <u>Function/Program</u> | | | | | | | | | |
| General government administration | 45 | 46 | 46 | 43 | 41 | 37 | 39 | 38 | 44 |
| Judicial administration | 38 | 38 | 38 | 42 | 41 | 46 | 46 | 44 | 45 |
| Public safety | 228 | 243 | 234 | 200 | 204 | 219 | 223 | 228 | 216 |
| Public works | 39 | 59 | 60 | 58 | 59 | 61 | 59 | 61 | 56 |
| Health and welfare | 45 | 41 | 43 | 43 | 44 | 46 | 44 | 40 | 43 |
| Parks, recreation, and culture | 50 | 40 | 50 | 53 | 52 | 58 | 55 | 46 | 46 |
| Community development | 13 | 20 | 19 | 14 | 13 | 13 | 11 | 12 | 12 |
| Water and sewer | 60 | 64 | 67 | 61 | 58 | 66 | 66 | 67 | 61 |
| Transit service | 15 | 13 | 13 | 13 | 13 | 14 | 14 | 15 | 18 |
| Parking authority | 12 | 10 | 8 | 8 | 8 | 8 | 6 | 6 | 6 |
| Schools | 685 | 685 | 687 | 687 | 683 | 677 | 687 | 668 | 674 |
| Total | <u>1,230</u> | <u>1,259</u> | <u>1,265</u> | <u>1,222</u> | <u>1,216</u> | <u>1,245</u> | <u>1,250</u> | <u>1,225</u> | <u>1,221</u> |

City FTE :

A full-time employee is scheduled to work 80 hours per biweekly pay period (including annual leave, sick leave, overtime, etc.). FTE employment is calculated by dividing total labor hours per pay period by 80.

Schools FTE:

Teacher FTE is based on 200 days at 7 hours per day.

Notes:

(1) Information is only available for last nine fiscal years. Data will be added until a 10 year comparison is achieved.

CITY OF WINCHESTER, VIRGINIA
OPERATING INDICATORS BY FUNCTION
Last Nine Fiscal Years (1)

Table 17

| Function | Fiscal Year | | | | | | | | |
|---|-------------|---------|---------|----------|----------|----------|----------|---------|---------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| General Government | | | | | | | | | |
| Building permits issued | 780 | 762 | 600 | 486 | 470 | 942 | 1,508 | 1,463 | 1,709 |
| Building inspections conducted (commercial and residential) | 11,904 | 11,858 | 10,074 | 8,154 | 8,186 | 7,342 | 6,987 | 6,025 | 7,408 |
| Police | | | | | | | | | |
| Physical arrests | 4,855 | 3,567 | 2,701 | 3,231 | 2,611 | 2,854 | 4,090 | 3,018 | 3,802 |
| Parking violations | 8,524 | 8,048 | 7,647 | 7,429 | 6,634 | 7,128 | 5,977 | 4,526 | 4,226 |
| Traffic violations | 5,168 | 4,531 | 4,087 | 4,524 | 3,709 | 4,070 | 5,406 | 4,304 | 4,580 |
| Fire | | | | | | | | | |
| Emergency responses | 5,560 | 5,623 | 5,498 | 5,470 | 5,377 | 5,549 | 5,781 | 5,518 | 5,804 |
| Structure fires | 70 | 56 | 54 | 60 | 45 | 87 | 43 | 57 | 55 |
| On-site fire inspections | 378 | 97 | 143 | 334 | 361 | 388 | 360 | 377 | 486 |
| Fire suppression inspection tests | 112 | 167 | 106 | 152 | 112 | 45 | 64 | 61 | 82 |
| Refuse Collection | | | | | | | | | |
| Refuse collected (tons per year -- residential and non-residential) | 8,696 | 7,579 | 7,117 | 6,649 | 6,537 | 6,430 | 6,520 | 6,681 | 6,608 |
| Recyclables collected (tons per year -- does not include cardboard or yard waste) | 1,923 | 2,014 | 2,032 | 2,117 | 2,908 | 2,931 | 3,252 | 3,312 | 3,068 |
| Recyclable scrap | - | 11 | 19 | 9 | 21 | 20 | 18 | 21 | 13 |
| Other Public Works | | | | | | | | | |
| Street resurfacing (miles) | 2 | 5 | 3 | 7.4 | 7 | 1.1 | 1.8 | 5.6 | 5 |
| Parks and Recreation | | | | | | | | | |
| Shelter permits issued | 493 | 448 | 681 | 472 | 821 | 839 | 911 | 691 | 493 |
| Indoor/Outdoor pool attendance (does not include user groups e.g., teams, etc.) | 34,457 | 30,126 | 38,061 | 43,154 | 48,108 | 49,774 | 47,201 | 25,156 | 25,776 |
| Racquetball court users (2) | 2,774 | 1,341 | 1,345 | 1,196 | 2,474 | 2,407 | 2,324 | 2,506 | 2,445 |
| Indoor fitness room users (2) | 7,280 | 6,077 | 8,136 | 5,167 | 13,487 | 9,901 | 9,316 | 7,375 | 6,067 |
| Water | | | | | | | | | |
| Average daily production | 7.3 mgd | 7.9 mgd | 7.9 mgd | 6.85 mgd | 6.34 mgd | 6.43 mgd | 6.83 mgd | 6.14mgd | 5.95mgd |
| New connections | 179 | 38 | 55 | 32 | 42 | 40 | 28 | 26 | 28 |
| Total connections | 10,930 | 10,824 | 10,879 | 10,911 | 10,953 | 10,993 | 11,021 | 11,047 | 11,075 |
| Water main breaks | 58 | 55 | 60 | 56 | 30 | 55 | 40 | 29 | 42 |
| Average daily consumption | 5.8 mgd | 5.9 mgd | 6.1 mgd | 5.25 mgd | 4.8 mgd | 4.9 mgd | 4.67 mgd | 4.5mgd | 5.09mgd |
| Wastewater | | | | | | | | | |
| Average daily flow (12 month period) | 4.4 mgd | 4.9 mgd | 4.8 mgd | 4.6 mgd | 5.37 mgd | 4.8 mgd | 4.52 mgd | 4.96mgd | 4.87mgd |
| Peak Flow (12 month period) | 22.4 mgd | 9.7 mgd | 9.8 mgd | 9.8 mgd | 8.45 mgd | 9.8 mgd | 23.1 mgd | 22.0mgd | 25.9mgd |
| Transit | | | | | | | | | |
| Passenger trips | 149,796 | 148,169 | 139,672 | 130,494 | 120,656 | 128,876 | 136,501 | 130,190 | 120,758 |
| Schools | | | | | | | | | |
| Number of teachers, Elementary (K-4) | 142 | 132 | 121 | 121 | 131 | 143 | 143 | 143 | 147 |
| Number of teachers, Middle 5-8) | 85 | 99 | 99 | 99 | 94 | 90 | 97 | 95 | 98 |
| Number of teachers, Secondary (9-12) | 94 | 100 | 102 | 102 | 99 | 96 | 96 | 98 | 99 |
| Number of students, Elementary (K-4) | 1,712 | 1,417 | 1,447 | 1,529 | 1,605 | 1,649 | 1,684 | 1,776 | 1,707 |
| Number of students, Middle (5-8) | 817 | 1,101 | 1,063 | 1,073 | 1,074 | 1,084 | 1,178 | 1,190 | 1,177 |
| Number of students, Secondary (9-12) | 1,113 | 1,190 | 1,142 | 1,112 | 1,066 | 1,096 | 1,117 | 1,119 | 1,263 |

Source: Various Departments in the City

Notes:

- (1) Information is only available for last nine fiscal years. Data will be added until a 10 year comparison is achieved.
- (2) FY07 numbers exclude monthly pass users, due to loss of daily computer records.
- (3) In FY07, 5th grade was moved from Elementary totals to the Middle School totals.

CITY OF WINCHESTER, VIRGINIA
CAPITAL ASSETS STATISTICS BY FUNCTION
Last Nine Fiscal Years (1)

Table 18

| Function | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Police | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| SubStations | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | - |
| Patrol cars | 67 | 74 | 76 | 77 | 76 | 76 | 79 | 76 | 73 |
| Fire | | | | | | | | | |
| Fire Stations | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Refuse Collection | | | | | | | | | |
| Collection Trucks | 8 | 8 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Other Public Works | | | | | | | | | |
| Streets (miles) | 284 | 205 | 205 | 219 | 221 | 221 | 221 | 221 | 221 |
| Streetlights | 72 | 72 | 72 | 63 | 63 | 63 | 63 | 63 | 63 |
| Traffic signals | 62 | 64 | 63 | 60 | 56 | 56 | 56 | 56 | 56 |
| Parks and Recreation | | | | | | | | | |
| Number of parks | 15 | 15 | 15 | 15 | 14 | 14 | 14 | 14 | 14 |
| Acreage | 241 | 248 | 248 | 248 | 248 | 248 | 248 | 248 | 247 |
| Playgrounds | 11 | 10 | 10 | 10 | 9 | 9 | 9 | 9 | 9 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Baseball/softball diamonds | 8 | 9 | 8 | 9 | 9 | 9 | 9 | 9 | 9 |
| Soccer/football fields | 5 | 5 | 5 | 6 | 6 | 6 | 9 | 9 | 9 |
| Basketball courts | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Tennis courts | 7 | 7 | 7 | 7 | 7 | 7 | 8 | 8 | 8 |
| Volleyball court | 1 | 1 | 1 | 1 | 1 | - | - | - | - |
| Horseshoe courts | 26 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| Water | | | | | | | | | |
| Miles of water mains | 172 | 125 | 125 | 125 | 125 | 126 | 126 | 126 | 126 |
| Fire hydrants | 1,082 | 1,082 | 1,082 | 1,082 | 1,085 | 1,085 | 1,085 | 1,085 | 1,085 |
| Water storage capacity | 11mg | 11 mg | 11 mg | 11 mg | 11mg | 12mg | 12mg | 12mg | 12mg |
| Wastewater | | | | | | | | | |
| Miles of storm sewers | 80 | 80 | 80 | 81 | 82 | 82 | 82 | 82 | 82 |
| Miles of sanitary sewers | 122 | 122 | 122 | 122 | 122 | 122 | 122 | 122 | 122 |
| Opequon wastewater treatment capacity (2) | 6.1 mgd | 6.1 mgd | 6.1 mgd | 6.1 mgd | 6.1 mgd | 7.1 mgd | 7.1 mgd | 7.1 mgd | 7.1mgd |
| Transit | | | | | | | | | |
| Minibuses | 9 | 8 | 8 | 7 | 7 | 7 | 7 | 7 | 7 |
| Trolleys | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Vans | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 |
| Schools | | | | | | | | | |
| Attendance Centers, Elementary | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Attendance Centers, Middle | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Attendance Centers, Secondary | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of classrooms, Elementary | 164 | 164 | 123 | 123 | 123 | 123 | 127 | 127 | 127 |
| Number of classrooms, Middle | 85 | 90 | 90 | 90 | 90 | 90 | 90 | 90 | 90 |
| Number of classrooms, Secondary | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 | 95 |

Source: Various Departments in the City

Notes:

- (1) Information is only available for last nine fiscal years. Data will be added until a 10 year comparison is achieved.
- (2) Operated by Frederick Winchester Service Authority

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**INDEPENDENT AUDITOR'S 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 City Council
City of Winchester, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Winchester, Virginia (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Winchester, Virginia's (the "City") 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 the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2014

CITY OF WINCHESTER, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

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

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Comprehensive Services Act
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls

State Agency Requirements

Education
Social Services
Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

CITY OF WINCHESTER, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion** on all major federal programs.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

| <u>Name of Program</u> | <u>CFDA #</u> |
|--|---------------|
| School Breakfast Program | 10.553 |
| National School Lunch Program | 10.555 |
| Supplemental Nutrition Assistance Program | 10.561 |
| Title I Grants to Local Educational Agencies | 84.010 |
| Temporary Assistance to Needy Families | 93.558 |
| Medical Assistance Program | 93.778 |

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City of Winchester was determined to be a **low-risk auditee**.

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

14-1: Commonwealth of Virginia Disclosure Statements

Condition:

Five out of thirty-eight members of City appointed governing bodies did not file statements of economic interest by the deadline as set forth by the *Code of Virginia*.

Recommendation:

Steps should be taken to ensure that these statements are filed by all required individuals in a timely manner.

Management's Response (unaudited):

The auditee concurs with this recommendation.

14-2: Highway Maintenance

Condition:

We noted that the motor vehicle license tax revenue reported to the state on the Highway Maintenance Survey was overstated.

Recommendation:

Steps should be taken to ensure that all reports submitted to the State are accurate.

Management's Response (unaudited):

The auditee concurs with this recommendation and has contacted the State to report the correct amount.

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

14-3: Budget and Appropriations

Condition:

We noted that expenditures exceeded appropriated amounts in the general fund, specifically the legislative department and fire and rescue services department.

Recommendation:

Steps should be taken to ensure expenditures do not exceed appropriated amounts.

Management's Response (unaudited):

The auditee concurs with this recommendation.

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

| Federal Granting Agency/Recipient State Agency/Grant Program | Federal CFDA Number | Cluster Expenditures | Federal Expenditures |
|--|----------------------------|-----------------------------|-----------------------------|
| U.S. Department of Agriculture | | | |
| Pass-through payments: | | | |
| Department of Social Services: | | | |
| State Administration Matching Grants for Supplemental Nutrition Assistance Program | 10.561 | | \$ 416,599 |
| Department of Corrections: | | | |
| National School Lunch Program | 10.555 | | 40,250 |
| Commonwealth of Virginia Department of Agriculture and Consumer Services | | | |
| National School Lunch Program | 10.555 | 1,062,072 | |
| National School Lunch Program - Commodities | 10.555 | 86,112 | |
| School Breakfast Program | 10.553 | 300,685 | |
| Total School Lunch Cluster | | | 1,448,869 |
| Fresh Fruits and Vegetables | 10.582 | | 60,294 |
| Total U.S. Department of Agriculture | | | 1,966,012 |
| U.S. Department of Homeland Security | | | |
| Pass-through payments: | | | |
| Department of Emergency Management: | | | |
| Emergency Management Performance Grant | 97.042 | | 17,810 |
| State Homeland Security Grant Program | 97.073 | | 32,914 |
| Total U.S. Department of Homeland Security | | | 50,724 |
| U.S. Department of Housing and Urban Development | | | |
| Direct payments: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | | 287,370 |
| Total U.S. Department of Housing and Urban Development | | | 287,370 |
| U.S. Department of the Interior | | | |
| Pass-through payments: | | | |
| National Park Service | | | |
| Historic Preservation Fund Grants | 15.904 | | 6,500 |
| U.S. Department of Justice | | | |
| Direct payments: | | | |
| NVRDTF Gang Grant | 16.580 | | 33,162 |
| Juvenile Accountability Block Grant | 16.523 | | 22,050 |
| Pass-through payments: | | | |
| Department of Criminal Justice Services | | | |
| Crime Victim Assistance | 16.575 | | 50,021 |
| Violence Against Women Formula Grant | 16.588 | | 17,176 |
| Sexual Assault Services Grant | 16.017 | | 11,935 |
| Office of the Attorney General | | | |
| Equitable Sharing Program | 16.922 | | 89,488 |
| Edward Byrne Memorial Justice Assistance Grant Program: | | | |
| Byrne JAG Program | 16.738 | | 4,069 |
| Law Enforcement Fitness Program | 16.738 | | 8,204 |
| Total U.S. Department of Justice | | | 236,105 |
| U.S. Department of Transportation | | | |
| Direct payments: | | | |
| Federal Transit - Capital Investment Grants | 20.500 | 127,545 | |
| Federal Transit - Formula Grants | 20.507 | 449,088 | |
| Total Federal Transit Cluster: | | | 576,633 |
| Pass-through payments: | | | |
| Virginia Department of Motor Vehicles | | | |
| Alcohol Traffic Safety and Drunk Driving Prevention | 20.601 | 29,045 | |
| Virginia Department of Transportation | | | |
| State and Community Highway Safety | 20.607 | 11,674 | |
| Total Highway Safety Cluster: | | | 40,719 |
| Total U.S. Department of Transportation | | | 617,352 |

CITY OF WINCHESTER, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ended June 30, 2014

| Federal Granting Agency/Recipient State Agency/Grant Program | Federal CFDA Number | Cluster Expenditures | Federal Expenditures |
|--|----------------------------|-----------------------------|-----------------------------|
| U.S. Department of Education | | | |
| Direct payments: | | | |
| McKinney-Vento Education for Homeless Children & Youth | 84.387 | | \$ 20,542 |
| Pass-through payments: | | | |
| Commonwealth of Virginia Department of Education: | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | | 1,068,559 |
| Special Education - Grants to States | 84.027 | 799,951 | |
| Special Education - Preschool Grants | 84.173 | 29,015 | |
| Total Special Education Cluster: | | | 828,966 |
| 21st Century Community Learning Centers | 84.287 | | 169,993 |
| English Language Acquisition Grants | 84.365 | | 98,545 |
| Improving Teacher Quality State Grants | 84.367 | | 165,656 |
| Vocational Education - Basic Grants to States | 84.048 | | 64,718 |
| Department of Behavioral Health and Developmental Services | | | |
| Early Intervention | 84.181 | | 241,339 |
| Total U.S. Department of Education | | | 2,658,318 |
| Department of Health and Human Services: | | | |
| Pass-through Payments: | | | |
| Department of Social Services: | | | |
| Promoting Safe and Stable Families | 93.556 | | 14,876 |
| Temporary Assistance to Needy Families | 93.558 | | 322,250 |
| Refugee and Entrant Assistance | 93.566 | | 2,735 |
| Low Income Home Energy Assistance | 93.568 | | 27,187 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | | 45,903 |
| Chafee Education and Training Vouchers Program | 93.599 | | 2,821 |
| Child Welfare Services | 93.645 | | 2,211 |
| Foster Care - Title IV-E | 93.658 | | 279,755 |
| Adoption Assistance | 93.659 | | 221,918 |
| Social Service Block Grant | 93.667 | | 184,863 |
| Chafee Foster Care Independence Program | 93.674 | | 6,036 |
| Medical Assistance Program | 93.778 | | 363,446 |
| State Children's Insurance Program | 93.767 | | 12,739 |
| Total U.S. Department of Health and Human Services | | | 1,486,740 |
| Total Expenditures of Federal Awards | | | \$ 7,309,121 |

Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

Note 2: Non-Cash Assistance

The City of Winchester participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The Schedule of Expenditures of Federal Awards includes commodity distributions of \$86,112 from the National School Lunch Program.

Note 3: Loan Program

Included in prior year Schedule of Expenditures of Federal Awards were loan proceeds obtained through the Housing and Urban Development Fund in the total amount of \$1,500,000. The loan is through the Community Development Block Grant Program, CFDA number 14.218. The outstanding balance on the loan at June 30, 2014 is \$1,468,121.