FREDERICKSBURG, VIRGINIA

Comprehensive Annual Financial Report . . .

. . . for fiscal year ended _____

JUNE 30, 2018

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2018

Prepared By:

Department of Finance
Robyn E. Shugart, Director of Finance
David E. MacIndoe, Assistant Director of Finance

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2018

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Timothy J. Baroody
City Manager

D. Mark Whitley
Assistant City Manager

P. Douglas Fawcett
Assistant City Manager

City of Fredericksburg
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November 29, 2018

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

The City of Fredericksburg, Virginia (the City) hereby issues the Comprehensive Annual Financial Report (the CAFR) for the fiscal year ended June 30, 2018. This report complies with Generally Accepted Accounting Principles (GAAP), and has been audited in accordance with generally accepted auditing standards by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. This report also complies with state law requirements that general-purpose governments, such as the City, publish within six months of the close of the fiscal year a complete set of financial statements that comply with GAAP.

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2018, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor has issued an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2018. An unmodified opinion is issued when the auditor concludes that the financial statements are presented fairly, in all material respects, and are in conformity with GAAP.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing federal Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The City's Single Audit report is included in the Compliance Section of the CAFR.

Sections of the CAFR

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

Introductory Section

The Introductory Section consists of this transmittal letter, an organizational chart, and a listing of principal officials of the City. Also included is the City's Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the CAFR for the fiscal year ended June 30, 2017.

Financial Section

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

Basic Financial Statements

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Statistical Section

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

Compliance Section

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

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is approximately an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 28,360.

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

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

Economic Condition and Outlook

The City's economy is based, to a large degree, on its strategic location along Interstate 95 approximately halfway between Richmond, Virginia and Washington, D.C. The City enjoys two major commercial development centers, Central Park and Celebrate Virginia South. Central Park is a primary retail and dining area of the City and houses more than 200 retailers including national big-box stores, restaurants and smaller local businesses. Celebrate Virginia South is home to several hotels, the Fredericksburg Expo and Conference Center, and a Wegmans supermarket. A multi-use stadium that would be home to the Potomac Nationals, a Minor League Baseball affiliate of the Washington Nationals, is planned in Celebrate Virginia South.

In addition to the major retail commercial development centers, the City is a hub for the provision of health care services to the Fredericksburg region. The center piece of health care in the City is Mary Washington Hospital, a division of Mary Washington Healthcare. Mary Washington Hospital is a 437-bed, full-service hospital that provides over 45 different medical specialties. As the region continues to grow, Mary Washington Hospital will continue to provide a majority of the increased hospital services.

The City's economy also benefits from the presence of a major higher-education institution, the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, co-educational university with an enrollment of approximately 4,400 undergraduate students. The university offers over 60 different majors and programs of study as well as several different master's degree programs.

Economic Condition and Outlook (Continued)

The City's nationally recognized 40-block Historic District continues to be a significant component of the local economy. The "Old Town" District -- with its historical attractions, antique shops, charming restaurants, specialty retail shops and beautifully restored homes -- is an attractive tourist destination.

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

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

Outside of downtown, Fredericksburg's industrial park has experienced significant success in attracting a diverse group of businesses, and additional activity is likely in the year to come. A new development along U.S. 1 called Cowan Crossing has brought in an attractive mix of retail, office and restaurant space. Additional re-development along the U.S. 1 and State Route 3 corridors is likely in the years to come. The Department of Veterans Affairs has announced plans to build what could be the largest VA outpatient clinic in the nation in the Fredericksburg region, and a 90-acre property in the City is a strong contender to land this impactful project. The City continues to also aggressively pursue additional amenities that can facilitate more events and opportunities for local residents. As the region's population grows, Fredericksburg's status as the center of commerce for the entire region will continue to pay dividends and generate tax revenue for the City.

Major Capital Initiatives

During fiscal year 2018, the City continued to maintain its capacity for the substantial capital investment required to maintain and improve core public infrastructure. These improvements will continue to serve the community and maintain economic and cultural vitality.

Major Capital Initiatives (Continued)

Several major capital initiatives designed to enhance the City's utility infrastructure were completed during the fiscal year. The replacement and upgrade of a major water line on Caroline Street, from Amelia Street to the southern end of Caroline Street, was completed at a total cost of $2.41 million. The new water line will enhance the supply along a commercial/residential section of the City's Historic District. In conjunction with the water line project, the City also replaced a section of sewer line along Caroline Street at a cost of $576,000.

To keep the City's Wastewater Treatment Plant working efficiently and in compliance with environmental standards, the City rehabilitated and replaced various components of the plant. One of the primary components in the process of treating wastewater was addressed through the replacement of the belt filter press. The installation of the press, which cost $1.25 million, was completed and fully operational in October 2017.

Each year the City uses local funds and Virginia Department of Transportation (VDOT) grant funds to complete asphalt reconstruction and repaving projects as part of its Annual Pavement Rehabilitation Program (the program). Also included in the program is the installation of concrete work to include stormwater drainage features and sidewalks. Major transportation roads in the City are candidates for the VDOT funding while less travelled neighborhood streets are locally funded. During the fiscal year $1.35 million was spent towards the improvement of several City roadways to include both primary and major arterial roads. Of that amount, $498,670 was funded with VDOT grant funds.

A project to modernize traffic signals at five intersections located within the downtown area of the City was completed during the fiscal year at a total cost of $1.36 million. This project allowed for the signals to be updated with the most efficient equipment along with the ability to be optimized to current travel conditions, creating the safest and best-flowing traffic pattern. The new signals feature mast arms and signal poles with decorative, architectural-style ornamentation to compliment the streetscape of the Historic District. Close to half the cost of the project was funded through VDOT grants.

In late fiscal year 2018, the City entered into a comprehensive agreement for the performance of several water, sanitary sewer, and storm water infrastructure replacement projects. These projects will allow the City to continue to replace aged utility lines in various areas of the City. The work is scheduled be completed during fiscal year 2019 at a cost of $4,926,385.

A major renovation of the Walker-Grant Center, formally Original Walker-Grant School, was finished in the fall of 2017 at a total cost of $13.26 million. The project involved a complete renovation of the building to include upgrades to the building envelope, a new roof, new windows and doors, and masonry repairs. Mechanical, electrical, and plumbing systems were also replaced. Exterior site work was also completed and included parking upgrades, stormwater management, sidewalk improvements, and upgraded playground areas. These improvements have created an updated and modern environment for various special education programs while providing new and expanded office space for the School Board administrative offices.

Design work continued for the Riverfront Park project, which will be a significant new public space in downtown Fredericksburg. The park, to be developed along Sophia Street between Hanover Street and just south of Charlotte Street, will feature a stage and lawn for concerts and other events,

Major Capital Initiatives (Continued)

an interactive water feature, and children's play areas. The current schedule for the project provides for construction to begin during fiscal year 2019 with $5 million budgeted towards the completion of the project.

The City entered into a $1.37 million contract for a new Enterprise Resource Planning (ERP) system. The new ERP package, which will transition the City from an AS400 server environment to a virtualized Microsoft Windows based environment, will replace many of the City's current financial, human resources, assessment, community development and other systems. The new ERP system will allow for greater efficiencies in the way the City processes data and provide more opportunities to better serve its citizens. The transition and conversion process, scheduled to take place over a three-year period, is expected to be completed early in fiscal year 2021.

Key Financial Policies

Budgetary Control

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

The annual budgets are prepared by fund and department. All appropriations lapse at year end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund this comparison is presented in Exhibit 13. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 39.

Fund Balance Policy

The City's adopted Financial Management Policy establishes guidelines aimed at maintaining the financial health of the City. The Financial Management Policy identifies the Unassigned General Fund balance as a source that will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The policy establishes a goal of maintaining a 12 percent Unassigned General Fund balance, but not less than 7 percent, of the actual General Fund revenues for the preceding fiscal year. The current level of Unassigned Fund Balance well exceeds the 12 percent target, at 19.0% of the fiscal year 2017 General Fund revenue total.

Key Financial Policies (Continued)

Long-Term Financial Planning

The City prepares a five-year Capital Improvement Plan annually. This plan is used as a tool to project future capital and financing needs over a five year period and seeks to maintain or enhance budgetary objectives of the City Council. The current Capital Improvements Plan calls for several major capital initiatives over the coming years. Future capital endeavors include development of a riverfront park, construction of a new fire station, several utility system infrastructure upgrades, and the expansion of school facilities. Financing for these projects will be provided through a combination of bonds, grants, and local funding.

Cash Management Policies and Practices

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

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

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

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

Pension and Other Post-Employment Benefits

The City and Component Unit School Board participate in the Virginia Retirement System pension plans. A description of the plan and details of the actuarial report for both the City and Component Unit School Board can be found in Note 12 in the Notes to Basic Financial Statements section of this report.

The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. During fiscal year 2016, the City Council established an Other Post-Employment Benefits (OPEB) Trust (the Trust) and funded $1 million towards the City's liability for OPEB. Through a combination of additional contributions to the Trust and overall gains in the Trust's investments, the market value of the Trust has grown to $1,351,925 as of June 30, 2018. The City established a $200,000 assignment of General Fund balance in fiscal year 2018 which can be used for future contributions to the Trust.

Pension and Other Post-Employment Benefits (Continued)

Effective for fiscal year 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement improves accounting and financial reporting by state and local governments for post-employments benefits other than pensions. A description of the City's post-employment benefits program can be found in Notes 19 and 22 in the Notes to Basic Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the twenty-eighth consecutive year that the City has received this prestigious award. This report satisfied both GAAP and applicable legal requirements.

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

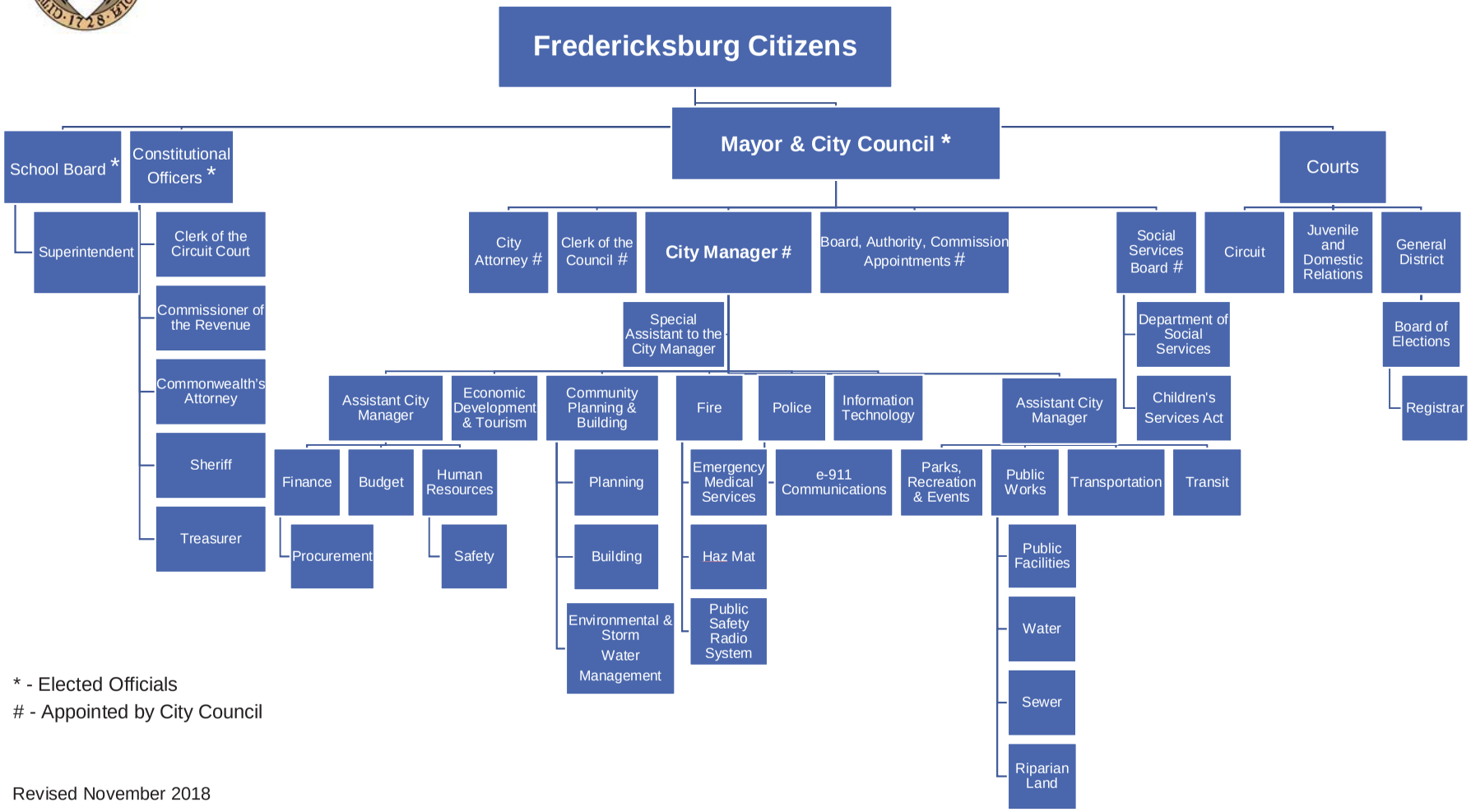
The preparation of this report was made possible by the efficient and dedicated services of the staff of the Finance Department. In addition, this report could not have been completed without the assistance from individuals in various other departments. We would like to express our appreciation to everyone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

Sincerely,

Timothy J. Baroody
City Manager

Robyn E. Shugart
Director of Finance

Organizational Chart



* - Elected Officials

\# - Appointed by City Council

Revised November 2018

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2018

CITY COUNCIL

Mary Katherine Greenlaw ..... Mayor, At-Large
William C. Withers, Jr. ..... Vice Mayor, Ward 2
Kerry P. Devine ..... At-Large
Matthew J. Kelly ..... At-Large
Bradford C. Ellis ..... Ward 1
Timothy P. Duffy, Ph.D. ..... Ward 3
Charlie L. Frye, Jr. ..... Ward 4

CONSTITUTIONAL OFFICERS

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

CITY ADMINISTRATIVE OFFICERS

Timothy J. Baroody ..... City Manager
D. Mark Whitley ..... Assistant City Manager
P. Douglas Fawcett ..... Assistant City Manager
Kathleen A. Dooley ..... City Attorney
Tonya B. Lacey ..... Clerk of the City Council
Edwin L. Allen, Jr. ..... Chief, Fire Department
David W. Nye ..... Chief, Police Department
Clarence A. Robinson ..... Director, Fiscal Affairs
William G. Freehling ..... Director, Economic Development and Tourism
Robert F. Bell, Jr. ..... Director, Human Resources
Suzanne R. Tills ..... Chief Information Officer, Information Technology
Jane C. Shelhorse ..... Director, Parks, Recreation and Events
Charles R. Johnston. ..... Director, Community Planning and Building
David J. King ..... Director, Public Works
Christen C. Gallik ..... Director, Social Services
Marc C. Hoffman ..... General Registrar
Wendy L. Kimball ..... Director, Transit

SCHOOL BOARD

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

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dr. David G. Melton ..... Superintendent

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fredericksburg Virginia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, and 85, Omnibus 2017.*

Restatement of Beginning Balances

As described in Note 25 to the financial statements, in 2018, the City restated beginning balances to reflect the requirements of GASB Statement No. 75 and to restate Capital Assets. 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, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-19, 143-148, and 149-164 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fredericksburg, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Information (continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018 on our consideration of the City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Fredericksburg, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2018

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Management's Discussion and Analysis

As management of the City of Fredericksburg, Virginia (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- Total net position for governmental activities was $86,690,767 at the end of fiscal year 2018. This figure is based on assets and deferred outflows of resources totaling $222,524,365 and liabilities and deferred inflows of resources of $135,833,598.

- Total net position for business-type activities was $69,322,544 at the end of fiscal year 2018. The largest portion of this total is related to the water, sewer, and transit enterprise operations valued at $23,421,151, $20,050,777, and $21,323,225, respectively.

- Total net position for the primary government was $156,013,311 at the end of fiscal year 2018. Current assets were $74,163,048 as compared to total current liabilities of $19,667,523. The resulting net working capital of $54,495,525 represents a favorable liquidity position for the City.

- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was $16,944,452, or 21.4%, of total General Fund expenditures amount of $79,065,057.

- The City has an established Financial Management Policy that specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2018 unassigned General Fund balance was 19.0% of the fiscal year 2017 General Fund revenue total of $89,181,564.

- General Fund revenues increased $3,585,382 as revenue from general property taxes and other local taxes increased $2,016,878 and $825,961, respectively, as compared to the preceding fiscal year.

- General Fund expenditures decreased $179,344 as public works expenditures for refuse disposal were $1,139,512 less as compared to fiscal year 2017.

- Governmental activities general obligation bond debt decreased $4,775,957 to a total outstanding balance of $80,245,609. Of the total general obligation debt outstanding, $30,515,000 is related to the construction of two new schools, $10,880,000 for a major school renovation, and $29,380,000 for the construction and renovation of court facilities.

- Business-type activities general obligation debt decreased $2,042,043 to a total outstanding balance of $21,524,391.

Overview of the Financial Statements

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

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.

Overview of the Financial Statements: (Continued)

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

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

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

The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development and tourism, and culture and recreation. The business-type activities of the City include water, sewer, transit, and parking operations.

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

The government-wide financial statements can be found on pages 25-27 of this report.

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

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

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

The City maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, which is considered to be a major fund. Data from the other 15 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Overview of the Financial Statements: (Continued)

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate budgetary compliance.

The basic governmental fund financial statements can be found on pages 31-34 of this report.

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

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

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

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

The basic fiduciary fund financial statements can be found on pages 38 and 39 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-140 of this report.

Government-wide Financial Analysis

Statement of Net Position:

Under GASB 34, governmental entities are required to report on their net position. The Statement of Net Position presents the value of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $156,013,311 at the close of fiscal year 2018.

A large portion of the City's net position, $132,741,733, or 85.1%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The $23,271,578 balance of *unrestricted net position* is a combination of both governmental activities and business-type activities and may be used to meet the City's ongoing obligations to citizens and creditors.

Government-wide Financial Analysis: (Continued)

Statement of Net Position: (Continued)

At the end of the current fiscal year, the City is able to report positive balances in total net position in both the governmental and business-type activities.

The following table presents the condensed Statement of Net Position:

TABLE 1
Summary of Net Position
As of June 30, 2018
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17
Assets:								
Current and other assets	$ 49.33	$ 51.53	$ 29.95	$ 31.73	$ 79.28	$ 83.26	$ 10.46	$ 10.75
Capital assets	169.49	174.04	66.89	67.69	236.38	241.73	27.65	24.45
Total assets	$ 218.82	$ 225.57	$ 96.84	$ 99.42	$ 315.66	$ 324.99	$ 38.11	$ 35.20
Deferred Outflow of Resources:								
Pension related items	$ 3.36	$ 5.90	$ 0.33	$ 0.57	$ 3.69	$ 6.47	$ 5.51	$ 7.58
OPEB related items	0.11	-	0.01	-	0.12	-	0.43	-
Deferred charge on refunding	0.23	0.26	0.47	0.53	0.70	0.79	-	-
Total Deferred Outflows of Resources	$ 3.70	$ 6.16	$ 0.81	$ 1.10	$ 4.51	$ 7.26	$ 5.94	$ 7.58
Liabilities:								
Current and other liabilities	$ 13.94	$ 16.23	$ 5.73	$ 7.21	$ 19.67	$ 23.44	$ 5.36	$ 5.51
Long-term liabilities	116.21	116.25	22.16	24.51	138.37	140.76	48.36	46.20
Total Liabilities	$ 130.15	$ 132.48	$ 27.89	$ 31.72	$ 158.04	$ 164.20	$ 53.72	$ 51.71
Deferred Inflows of Resources:								
Unavailable revenue - property taxes	$ 0.82	$ 0.64	$ -	$ -	$ 0.82	$ 0.64	$ -	$ -
Pension related items	3.47	1.51	0.38	0.20	3.85	1.71	4.13	1.40
OPEB related items	1.39	-	0.06	-	1.45	-	0.42	-
Total Deferred Inflows of Resources	$ 5.68	$ 2.15	$ 0.44	$ 0.20	$ 6.12	$ 2.35	$ 4.55	$ 1.40
Net assets:								
Net invested in capital assets	$ 86.99	$ 88.86	$ 45.75	$ 44.97	$ 132.74	$ 133.83	$ 24.87	$ 21.44
Unrestricted	(0.30)	8.24	23.57	23.63	23.27	31.87	(39.09)	(31.77)
Total net position	$ 86.69	$ 97.10	$ 69.32	$ 68.60	$ 156.01	$ 165.70	$ (14.22)	$ (10.33)

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

Note: FY2018 was the first year of implementation of GASB Statement No. 75, and prior year comparative information was unavailable. As a consequence, the FY2017 information in Table 1 above has not been restated to reflect the requirements of GASB Statement No. 75.

Government-wide Financial Analysis: (Continued)

Changes in Net Position:

Governmental Activities

Generally, net position changes are the result of the difference between revenues and expenses. During fiscal year 2018 the net position of the governmental activities increased $4,051,635 as total revenues of $103,292,890 outpaced the total expense amount of $99,241,255. Governmental Activities revenues were favorably impacted through the continued strong performance of general property taxes and other local taxes. Revenues from general property taxes rose $2,634,901, or 6.6%, in response to growth in the City's tax base and higher collection rates. The growth in other local tax revenue of $950,961, or 2.7%, was propelled by the continued strong performance of meal tax collections.

Other positive impacts to the governmental activities net position was the financial performance of the Rappahannock Regional Solid Waste Management Board (R-Board) and land donated to the City during the fiscal year. The R-Board is a joint venture of the City of Fredericksburg and Stafford County for the disposal of waste (see Notes to the Financial Statements, Note 1). The City and Stafford County equally share the operating income or losses of the R-Board. Due to an increase in fees and the implementation of flow-control measures, the R-Board's financial performance has experienced a dramatic turnaround the past few years. For fiscal year 2018 the City's net position increased $428,567 from the positive operating results of the R-Board.

An increase to the capital grants and contributions revenue was for several parcels of land donated to the City during the fiscal year. One parcel, comprised of approximately 4.9 acres with a current assessed value of $592,000, will provide the access needed to establish an entry road to land previously donated to the City that is envisioned to be a future park. The City also received a donation of land from the Central Rappahannock Regional Library valued at $237,400. The land, located next to the Library's downtown branch, was combined with other City-owned land for the expansion of the parking lot behind the Library. Also donated to the City were two parcels located within the Village of Idlewild development, with a value of $541,150. The current zoning of the two parcels is Planned Development – Residential with proffered conditions. One of the conditions stipulates that the land be designated as open space, which in essence precludes the land from being developed.

Fiscal year 2018 showed a drop off in capital grants and contributions revenue related to projects funded through the Virginia Department of Transportation (VDOT). Federal and state grant revenue received under the VDOT Revenue Sharing Program decreased $98,751 due to less transportation related project activity during the 2018 fiscal year. Also, in fiscal year 2017, the City received $1,741,281 in contributed assets for road and bridge improvement projects which were administered and funded by VDOT.

Operating grant revenue rose $692,835, or 6.0%, the majority of which resulted from an increase in Social Services and Children's Services Act mandated costs. Much of the increase in costs was funded through federal and state grants, which rose $409,830 during fiscal year 2018.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Governmental Activities: (Continued)

Total governmental activities expenses increased $2,257,929, or 2.3%, to a total expense amount of $99,241,255. Of this amount, $18,999,084, or 19.1%, was funded with program revenues consisting of $4,061,430 in charges for services and $14,937,654 for grants and contributions. The remaining funding for the City's expenses were from general revenues such as general property taxes, local tax revenue sources, and unrestricted grants from the state.

Education continues to be the City's largest program, with education expenses representing 33.8% of the total expenses for governmental activities in fiscal year 2018. The amount transferred from the City for school operations and capital improvements, to include completed school capital projects funded in the City's School Bond Funded Capital Fund, increased $3,453,900 as the City's school system continues to grow in response to City's expanding population and the relative increase in student enrollment.

The largest decrease in governmental expenses occurred with public works, more specifically in the amount spent for refuse disposal. During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced $1,175,534 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of a major piece of equipment. The R-Board is expected to repay the City the amount of the advance over seven years, commencing in fiscal year 2018.

Business-type Activities

During the fiscal year, the most notable increases to net position occurred in the Water Fund and Sewer Fund. The positive growth in the net position in the Water Fund of $582,314 and Sewer Fund of $930,309 continue the reversal of a trend of sub-par operating results and a corresponding erosion of net position experienced in past years. A primary factor in reversing the trend was the implementation of a series of rate increases beginning in fiscal year 2013. The improved financial stability of these two funds in recent years has afforded the City the opportunity to more effectively meet operational costs and to fund needed improvements to an aged infrastructure system.

For fiscal year 2018, the water and sewer rates and fees were increased 2% and 4%, respectively. The rate increases impacted the fixed meter charges as well as the commodity charge. Since the City started implementing rate increases, service fee revenue has increased 37.4% in the Water Fund and 39.8% in the Sewer Fund. During that same time period, the operating expenses in the Water Fund and Sewer Fund showed a much smaller increase of 8.0% and 4.9%, respectively. For fiscal year 2018, revenue from service fees outpaced operating expenses by $332,286 in the Water Fund and $798,695 in the Sewer Fund.

Revenue from availability and connection fees were favorably impacted by new construction of residential housing units. The revenues from these fees increased in the Water Fund by $127,033, or 37.6%, while the Sewer Fund fees had an increase of $263,700, or 51.5%. These fees helped to absorb non-operating expenses and contributed to the net income totals of $883,663 in the Water Fund and $1,234,625 in the Sewer Fund.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Component Units

During the fiscal year, the School Board's net position increased $3,725,507, mostly as a result of City funded capital assets transferred from the City. The overall deficit net position of $15,366,898 is related to the School Board's net pension liability totaling $35,499,000 and net OPEB liability of $9,783,859.

The net position of the Economic Development Authority decreased $303,531 as economic development grants and other expenses were greater than interest revenue and bond issuance fees.

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

TABLE 2
Changes in Net Position
For the Fiscal Year ended June 30, 2018
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17	FY 18	FY 17
Revenues:								
Program Revenues:								
Charges for services	$ 4.06	$ 3.69	$ 9.58	$ 9.31	$ 13.64	$ 13.00	$ 0.58	$ 0.57
Operating grants and contributions	12.29	11.60	4.46	3.99	16.75	15.59	19.81	19.38
Capital grants and contributions	2.64	3.19	-	1.68	2.64	4.87	-	-
General Revenues:								
Property taxes	42.66	40.02	-	-	42.66	40.02	-	-
Other local taxes	36.28	35.33	0.73	1.15	37.01	36.48	-	-
Grants and contributions not restricted	3.65	3.72	-	-	3.65	3.72	32.92	29.47
Use of property	0.12	0.10	-	-	0.12	0.10	-	-
Investment earnings	0.43	0.37	0.05	0.06	0.48	0.43	-	0.02
Miscellaneous	0.55	0.66	0.55	0.57	1.10	1.23	0.30	0.41
Total Revenues	$ 102.68	$ 98.68	$ 15.37	$ 16.76	$ 118.05	$ 115.44	$ 53.61	$ 49.85
Expenses:								
General government	$ 7.07	$ 7.07	$ -	$ -	$ 7.07	$ 7.07	$ -	$ -
Judicial administration	5.57	5.70	-	-	5.57	5.70	-	-
Public safety	22.75	22.47	-	-	22.75	22.47	-	-
Public works	11.14	12.32	-	-	11.14	12.32	-	-
Health and welfare	8.30	7.95	-	-	8.30	7.95	-	-
Education	33.55	30.43	-	-	33.55	30.43	49.50	49.18
Parks, recreation, and cultural	5.02	5.03	-	-	5.02	5.03	-	-
Community development	2.71	2.65	-	-	2.71	2.65	0.69	0.63
Interest	3.13	3.36	-	-	3.13	3.36	-	-
Water	-	-	3.21	3.13	3.21	3.13	-	-
Sewer	-	-	5.30	5.49	5.30	5.49	-	-
Transit	-	-	4.80	4.67	4.80	4.67	-	-
Parking	-	-	0.46	0.49	0.46	0.49	-	-
Total Expenses	$ 99.24	$ 96.98	$ 13.77	$ 13.78	$ 113.01	$ 110.76	$ 50.19	$ 49.81
Excess (deficiency) of revenues over expenses before transfers	$ 3.44	$ 1.70	$ 1.60	$ 2.98	$ 5.04	$ 4.68	$ 3.42	$ 0.04
Transfers	0.61	0.62	(0.61)	(0.62)	-	-	-	-
Change in net position	$ 4.05	$ 2.32	$ 0.99	$ 2.36	$ 5.04	$ 4.68	$ 3.42	$ 0.04
Net Position, beginning of year, as restated	82.64	94.78	68.33	66.24	150.97	161.02	(17.64)	(10.37)
Net Position, end of year	$ 86.69	$ 97.10	$ 69.32	$ 68.60	$ 156.01	$ 165.70	$ (14.22)	$ (10.33)

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

Note: FY2018 was the first year of implementation of GASB Statement No. 75, and prior year comparative information was unavailable. As a consequence, the FY2017 information in Table 2 above has not been restated to reflect the requirements of GASB Statement No. 75.

Government-wide Financial Analysis: (Continued)

Financial Analysis of the City's Governmental Funds

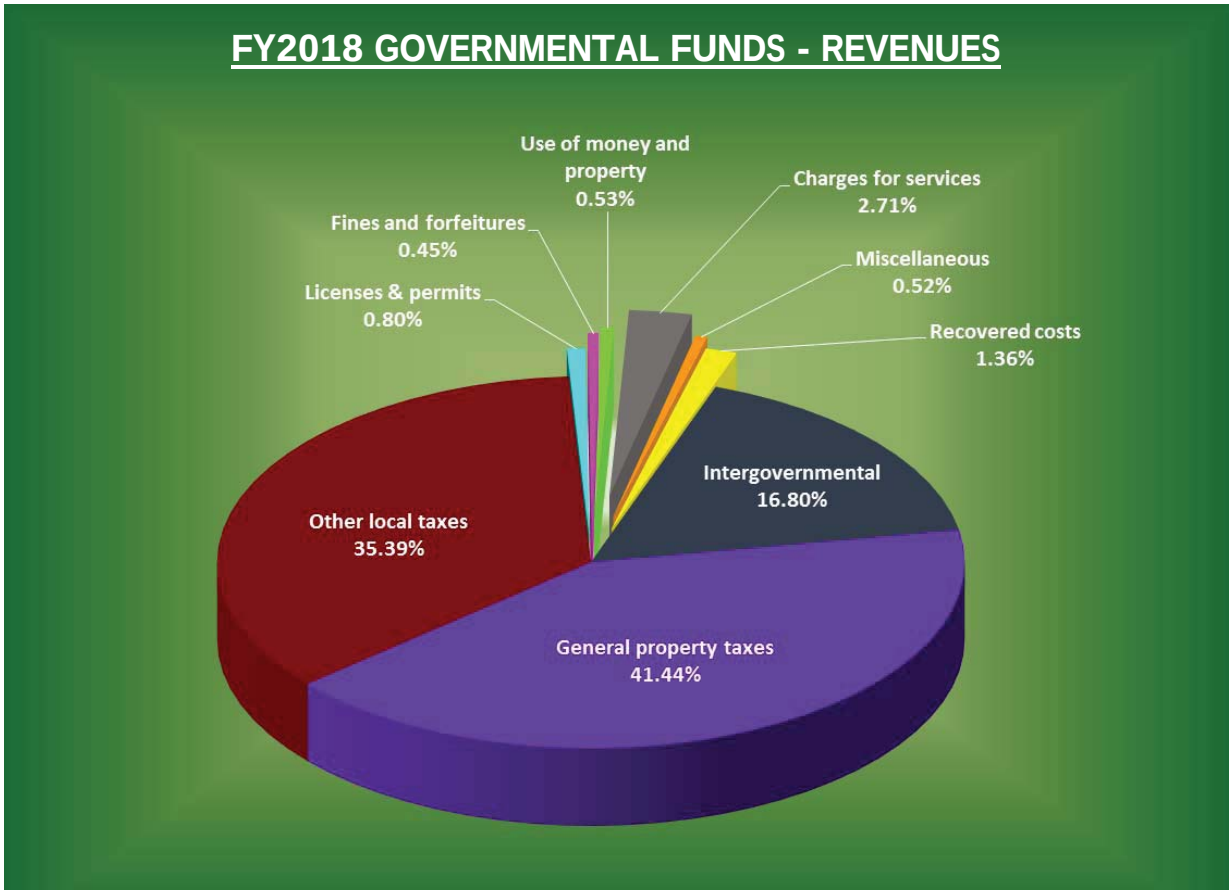
The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2018 and 2017 is presented below:

TABLE 3
Governmental Funds - Revenues

	FY 2018	FY 2017	Percentage of Total Revenues FY 2018	Increase (Decrease) from FY 2017
General property taxes	$ 42,480,519	$ 40,074,290	41.44%	$ 2,406,229
Other local taxes	36,280,205	35,329,244	35.39%	950,961
Licenses and permits	823,463	700,197	0.80%	123,266
Fines and forfeitures	460,046	312,851	0.45%	147,195
Use of money and property	545,326	468,252	0.53%	77,074
Charges for services	2,777,921	2,673,100	2.71%	104,821
Miscellaneous	530,385	644,920	0.52%	(114,535)
Recovered costs	1,393,098	1,119,710	1.36%	273,388
Intergovernmental	17,220,106	16,776,523	16.80%	443,583
Totals	$ 102,511,069	$ 98,099,087	100.00%	$ 4,411,982



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

Revenues: (Continued)

The City's total revenues in the governmental funds were $102,511,069 in fiscal year 2018, an increase of $4,411,982, or 4.5%, compared to fiscal year 2017. Much of the increase can be attributed to general property taxes, which grew $2,406,229 during the fiscal year. The City's real estate tax, comprising 34.0% of the total General Fund revenue, increased to $31,559,290, which was $1,514,531 more than the $30,044,759 collected in fiscal year 2017. Included within that total are real estate collections for prior years. Delinquent tax collections increased $160,403, or 27.9%, during the fiscal year.

It is important to note that effective for fiscal year 2018 and beyond, $0.01 of the real estate tax rate, which is $0.80 per $100 valuation for fiscal year 2018, will be dedicated for operating and capital costs of the Stormwater Management Fund, which is a special revenue fund. The additional funds will enhance the City's ability to manage stormwater runoff. Real estate revenue for that fund totaled $389,351 for the 2018 fiscal year.

Revenue from other local taxes grew $950,961 during the fiscal year. The City's diverse and well-established retail centers and restaurants led to increases in such local taxes as sales tax, amusement tax, hotel lodging tax, business license tax, and meals tax. A majority of the increase, $825,961, occurred in the General Fund, with sales tax and meals tax showing the most significant increases. The sales tax revenue continued its pattern of growth experienced the past several years. Sales tax revenue hit a 10 year high during the fiscal year to a total of $11,580,437. For fiscal year 2018, sales tax collections grew $204,135, or 1.8%. Sales tax revenue accounted for 12.5% of total General Fund revenues for fiscal year 2018.

Meals tax revenue, which accounted for 12.7% of General Fund revenues for fiscal year 2018, continues to grow at a significant pace. For the second year in a row, meals tax revenue exceeded $11 million to a total of $11,765,352. This represents a growth of $623,749, or 5.6%, from the previous fiscal year total of $11,141,603.

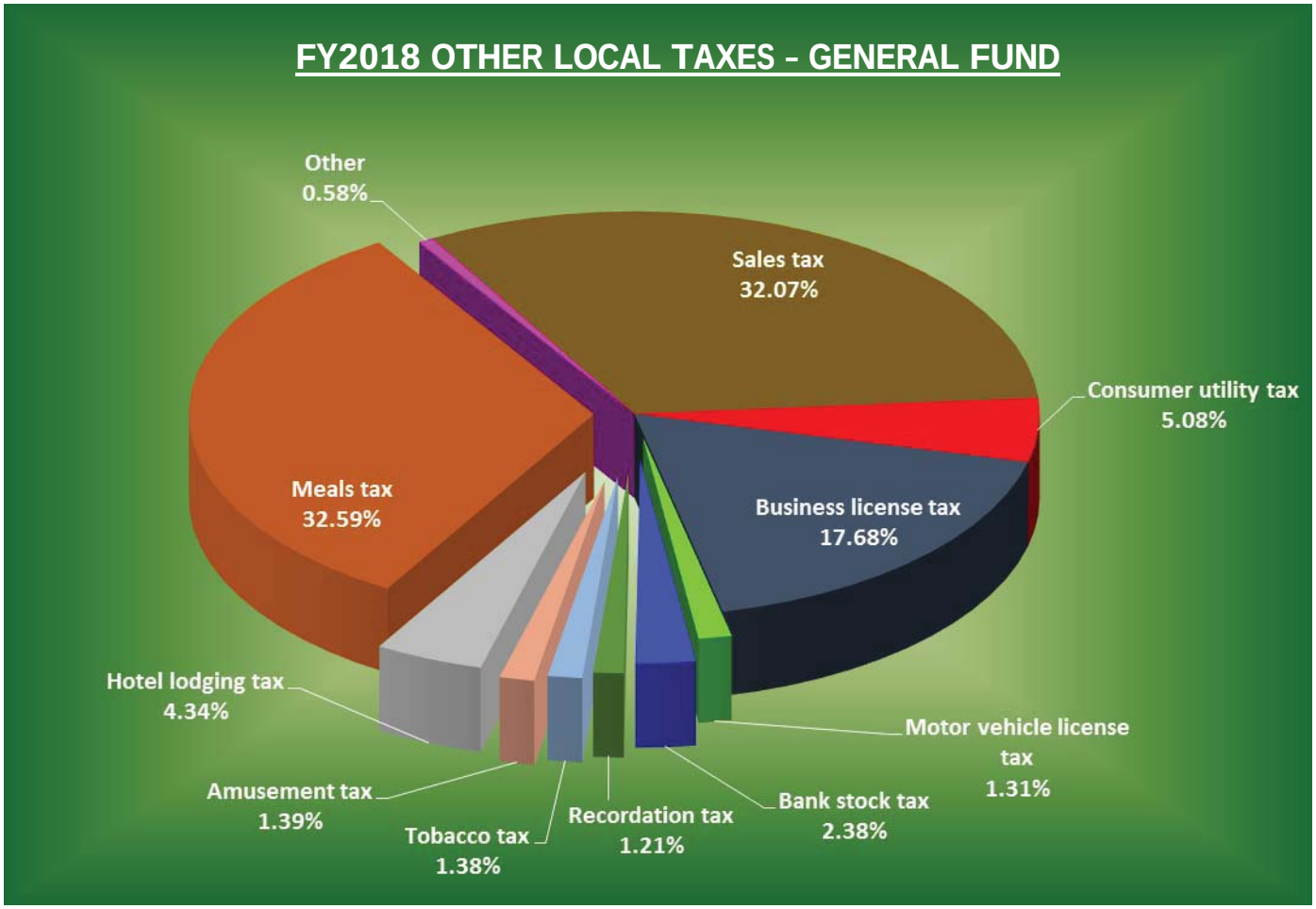
The following table reflects other local tax revenue for the General Fund for fiscal years 2018 and 2017:

TABLE 4
Other Local Taxes - General Fund

	FY 2018	FY 2017	Percentage of Total Revenues FY 2018	Increase (Decrease) from FY 2017
Sales and use tax	$ 11,580,437	$ 11,376,302	32.07%	$ 204,135
Consumer utility tax	1,834,078	1,808,256	5.08%	25,822
Business license tax	6,382,569	6,320,104	17.68%	62,465
Motor vehicle license tax	473,299	486,096	1.31%	(12,797)
Bank stock tax	861,080	862,442	2.38%	(1,362)
Recordation tax	435,488	567,144	1.21%	(131,656)
Tobacco tax	498,154	509,819	1.38%	(11,665)
Amusement tax	500,907	462,665	1.39%	38,242
Hotel lodging tax	1,565,938	1,524,371	4.34%	41,567
Meals tax	11,765,352	11,141,603	32.59%	623,749
Other	207,903	220,442	0.58%	(12,539)
Totals	$ 36,105,205	$ 35,279,244	100.00%	$ 825,961

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

Revenues: (Continued)



Expenditures:

The expenditures of governmental funds in fiscal year 2018 totaled $104,470,364, a decrease of $6,317,989, or 5.7%, from the preceding fiscal year. The most significant decreases occurred in the public works and capital projects areas. Public works expenditures decreased $1,627,341 in the General Fund as the City made a $1,175,534 one-time expenditure to the R-Board in fiscal year 2017 for construction costs to close three landfill cells and the purchase of equipment. Also contributing to the decrease was the transfer of the four-person drainage crew, which assists in maintaining the City's stormsewer system, from the General Fund to the Stormwater Management Fund. Fiscal year 2017 expenditures for the Drainage Department totaled $284,131.

Total capital project expenditures decreased $7,300,630 during the year. Most of the drop off in these expenditures occurred in the School Bond Funded Capital Fund as an additional $6,935,832 was spent in fiscal year 2017 for the renovation of the Walker-Grant Center. The Public Safety Capital Fund also showed a reduction in capital activity as a majority of the $912,000 cost of a public safety radio system occurred during the prior fiscal year.

Public Facilities Capital Fund expenditures increased $542,529 during the fiscal year as the City began the process of implementing to a new Enterprise Resource Planning (ERP) system. A total of $315,825 was spent towards completing the first phase of the implementation. The City has budgeted $1.5 million for the new ERP system, which is scheduled to be completed early in fiscal year 2021.

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

Expenditures: (Continued)

Other substantial capital project activity occurred in the Public Works Capital Fund. The more notable public works projects include $1,479,329 for the Pavement Rehabilitation Program, $834,998 for pedestrian signal upgrades at five downtown intersections, and $381,017 for the design of Riverfront Park.

Some of the more significant increases to governmental expenditures occurred for education, health and welfare, and debt service. The City's school system is a critical service provided to its citizens. In fiscal year 2018, the City demonstrated a continued commitment to ensuring high-quality public education. In response to high growth in pupil enrollment and the related increase to the cost of operations, the City's financial commitment to its school system has seen a steady growth over the past several years. In fiscal year 2018, total appropriations to the school system for operating costs and capital improvements totaled $29,020,210, or 36.7%, of the General Fund's total expenditures. This represents a $738,000 increase over the amount transferred to the school system in fiscal year 2017. The expenditure increases to the school system are due to hiring additional teachers, and higher salary and benefit costs in a competitive labor market for educators.

Expenditures for Health and Welfare in the Special Revenue Funds increased significantly during the fiscal year. The expenditure total in the Virginia Public Assistance Fund, which accounts for the operations of the City's Department of Social Services, increased $409,596 for additional mandated services. The increase was absorbed through additional federal and state grant revenue of $404,956.

Debt service payments had a modest increase of $371,843 as fiscal year 2018 was the first year a principal payment was made for the larger portion of the 2016A General Obligation debt, which was used as the primary funding source for the renovation of the Walker-Grant Center. The amount of the principal payment for the school renovation project was $345,000.

An additional increase to governmental expenditures relates to a major classification and compensation study. The study involved a job analysis of the City's workforce and compare it to market conditions in other nearby localities in Virginia. As a result of the study, the City needed to change job titles and descriptions. In addition, the spread between the minimum and maximum in pay ranges was expanded. The result was a pay raise for all City employees in fiscal year 2018, with a median pay increase of 4.8% and an average pay increase of 5.2%. The pay increase allows the City to be more competitive with other localities when hiring employees. The budgeted impact to the General Fund for the pay adjustments was $655,920.

For fiscal year 2018 the City changed health insurance carriers which resulted in lower costs for premiums. This reduction in premiums reversed a long trend of increasing medical costs for employee health insurance. The fiscal year 2018 budget for employee health insurance in the General Fund was $417,800 lower as a result of the reduced premiums.

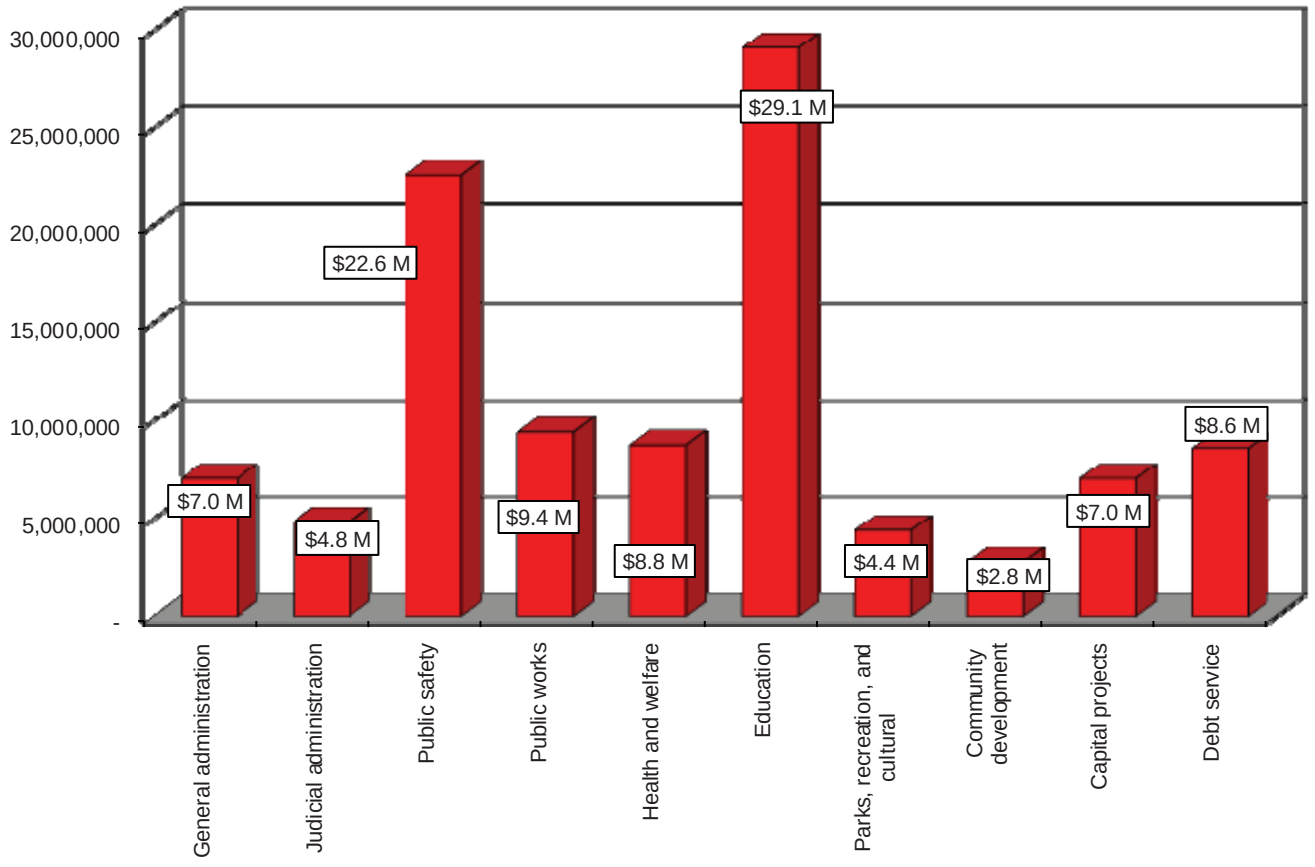
Financial Analysis of the City's Governmental Funds: (Continued)

Expenditures: (Continued)

TABLE 5
Governmental Funds - Expenditures

	FY 2018	FY 2017	Percentage of Total Expenditures FY 2018	Increase (Decrease) from FY 2017
General administration	$ 7,034,405	$ 6,941,265	6.73%	$ 93,140
Judicial administration	4,825,345	4,842,421	4.62%	(17,076)
Public safety	22,571,905	21,862,258	21.61%	709,647
Public works	9,407,885	10,799,421	9.01%	(1,391,536)
Health and welfare	8,750,439	8,193,779	8.38%	556,660
Education	29,088,569	28,350,929	27.84%	737,640
Parks, recreation, and cultural	4,384,188	4,354,413	4.20%	29,775
Community development	2,784,571	2,817,023	2.67%	(32,452)
Capital projects	7,031,684	14,332,314	6.73%	(7,300,630)
Nondepartmental	-	75,000	0.00%	(75,000)
Debt service	8,591,373	8,219,530	8.22%	371,843
Totals	$ 104,470,364	$ 110,788,353	100.00%	$ (6,317,989)

FY 2018 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2018, the City Council amended the City budget. These budget changes included various budget adjustments for:

- Amendments and appropriations approved after the beginning of the year to reflect prior year encumbrances that must be re-authorized for expenditure in the new budget year.

- Increases in appropriations for budget items occurring during the year that were not part of the original budget.

For fiscal year 2018, total final General Fund budgeted expenditures increased $903,457 and total final General Fund budgeted revenues increased $3,632,835.

Actual General Fund expenditures were $79,065,057 compared to the final budgeted expenditures totaling $81,612,811. This resulted in a favorable budget variance of $2,547,754. General Government Administration, Public Safety and Public Works experienced the most significant favorable variance of $1,014,035, $530,930 and $680,222, respectively.

Actual General Fund revenues were $92,766,946 compared to the final budgeted revenues totaling $89,976,657. This resulted in a favorable budget variance of $2,790,289. There were two major categories, general property taxes and other local taxes, which experienced the most significant favorable variance of $1,010,668 and $1,348,775, respectively.

The General Fund budget for fiscal year 2018 included a use of fund balance totaling $3,794,255. Due to favorable financial results, the City's increase to fund balance was $1,559,796.

Capital Asset and Debt Administration

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

TABLE 6
Change in Capital Assets
City Governmental Funds

	Balance June 30, 2017 as Restated	Net Additions/ Deletions	Balance June 30, 2018
Capital assets not being depreciated:			
Land	$ 20,115,098	$ 1,253,520	$ 21,368,618
Construction in progress	11,984,986	(11,146,205)	838,781
Other capital assets:			
Land improvements	16,264,971	338,311	16,603,282
Buildings and building improvements	63,200,730	471,340	63,672,070
Joint tenancy assets	32,320,000	9,075,000	41,395,000
Machinery, equipment, and vehicles	25,669,798	1,199,716	26,869,514
Infrastructure	85,926,070	2,206,116	88,132,186
Accumulated depreciation	(82,997,423)	(6,392,938)	(89,390,361)
Totals	$ 172,484,230	$ (2,995,140)	$ 169,489,090

Capital Asset and Debt Administration: (Continued)

The net decrease in capital assets during the fiscal year was $2,995,140. Decreases to capital assets totaled $9,340,514, of which $7,753,501 was for depreciation expense recognized in fiscal year 2018. Another significant reduction to capital assets was a $1,469,983 transfer of joint tenancy assets, net of accumulated depreciation, from the City to the School Board. Increases to capital assets totaled $6,345,374 and include $2,752,493 for infrastructure improvements, $1,370,550 for land donated to the City, $370,282 for the design of Riverfront Park, and $1,362,660 for furniture, equipment and vehicle purchases.

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

Long-term Debt

The City is authorized to issue general obligation bonds to finance general capital improvement projects. These bonds are secured by a pledge of the City's full faith and credit. The City is currently rated AA+ by Fitch Investors Services, Aa2 by Moody's Investors Services and AA by Standard and Poor's Investor Services. In October 2018, the City met with Fitch, Moody's, and Standard and Poor's to present current financial and economic information pertaining to the City, and to obtain a rating for bonds the City wished to issue for various fiscal year 2019 capital projects. In response to the presentations and after evaluating the City's current financial condition, the City's credit ratings were affirmed by each of the three rating agencies. Moody's did provide an increased rating of Aa1 to the bonds currently being issued to give effect to a state-aid intercept program in the event of default. The underlying Moody's rating of Aa2 and the Standard and Poor's and Fitch ratings were based solely on their assessment of the creditworthiness of the City. The 2018A General Obligation Bonds are scheduled for closing in early December 2018.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2018, the City's outstanding long-term indebtedness amount totaled $103,225,000. After an adjustment to reflect the reserve of $1,846,607 for education debt service and $1,455,000 of revenue bonded debt, the remaining net debt applicable to the debt limit of $99,923,393 is far below the legal debt limit of $260,013,047.

The table below reflects a summary of the City's long-term debt outstanding for fiscal years 2018 and 2017:

TABLE 7
Long-Term Debt
As of June 30, 2018

	Governmental Activities		Business-type Activities		Total	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
General obligation bonds	$ 38,850,609	$ 41,476,566	$ 21,524,391	$ 23,566,434	$ 60,375,000	$ 65,043,000
General obligation school bonds	41,395,000	43,545,000	-	-	41,395,000	43,545,000
Revenue bonds	1,455,000	1,660,000	-	-	1,455,000	1,660,000
Total long-term debt	$ 81,700,609	$ 86,681,566	$ 21,524,391	$ 23,566,434	$ 103,225,000	$ 110,248,000

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

Economic Factors and Next Year's Budget

The City government continues to maintain a stable financial condition as reflected by the financial statements and schedules in this report. Through fiscally responsible budget oversight, cost containment monitoring, and a stable economic base, the City has continued to expand services to its citizens while maintaining appropriate General Fund reserves. The City's strategic location at the center of one of the fastest-growing regions in the Commonwealth, coupled with its established and expanding commercial centers, has provided the City stable economic traction moving forward.

The City is setting the standard in the region for innovative, upscale and mixed-use development. These developments produce significantly higher property values and support the vitality of the downtown business climate. Downtown Fredericksburg has been transformed into a walkable, mixed-use environment that is attractive to residents, tourists and daytime workers alike. Many revitalization projects have been completed in recent years with several more projects in the pipeline.

The favorable economic climate of the City has allowed the City to produce a budget for Fiscal Year 2019 that represents a responsible spending plan that maintains the current tax and fee rates in the General Fund. The spending plan for the 2019 fiscal year advances City Council's Vision and Priorities, strengthens public safety, supports the City's workforce, all while meeting the needs of a growing community.

The fiscal year 2019 adopted budget includes expenditures of $96,050,000, or a 2.75% increase over the fiscal year 2018 original adopted budget. High points of the budget include a 1.5% increase in salary for full-time permanent and part-time permanent employees, which is effective November 2018, an increase in transfers to the City's School Board in the amount of $500,000, funding of $275,000 for a general property re-assessment, and five new full-time positions, with four of those not being filled until January 2019. Personnel costs in the areas of health insurance and retirement are projected to remain relatively unchanged.

Budgeted revenues increased modestly to $92,095,000, or 1.42%, over the original adopted budget for Fiscal Year 2018. The real estate tax rate remains unchanged at $0.80 per $100 valuation. Of the $0.80 tax rate, $0.79 is to help fund General Fund operations, while $0.01 is earmarked for the Stormwater Management Fund for the funding of capital projects needed enhance the City's ability to manage stormwater runoff. Most local tax revenue sources are anticipated to generally remain stable; however, the budget increase for meals tax and lodging tax are 3.6% and 10.3%, respectively.

Requests for Information

This financial report is designed to provide a general overview of the City of Fredericksburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, P.O. Box 7447, Fredericksburg, Virginia, 22404; or visit our website at www.fredericksburgva.gov.

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BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Position
At June 30, 2018

	Governmental Activities	Business-type Activities	Total	Component Units: School Board	Component Units: Economic Development Authority
Assets:					
Cash and cash equivalents	$ 37,502,097	$ 23,223,100	$ 60,725,197	$ 6,994,636	$ 1,171,976
Receivables, net of allowance for uncollectibles	1,556,452	1,814,945	3,371,397	14,416	18,673
Due from other governments	4,796,332	4,081,063	8,877,395	1,450,594	-
Inventory, at cost	25,274	148,987	174,261	-	-
Prepaid items	325,854	14,100	339,954	343,162	-
Investment in joint venture	5,125,357	-	5,125,357	-	-
Net pension asset	-	-	-	469,261	-
Restricted:					
Cash and cash equivalents	-	674,844	674,844	-	-
Capital assets:					
Land, construction in progress and other	22,207,399	2,571,868	24,779,267	472,679	-
Other capital assets, net of accumulated depreciation	147,281,691	64,314,370	211,596,061	27,176,538	-
Capital assets, net	$ 169,489,090	$ 66,886,238	$ 236,375,328	$ 27,649,217	$ -
Total assets	$ 218,820,456	$ 96,843,277	$ 315,663,733	$ 36,921,286	$ 1,190,649
Deferred Outflows of Resources:					
Pension related items	$ 3,365,559	$ 330,403	$ 3,695,962	$ 5,511,229	$ -
OPEB related items	111,938	11,139	123,077	424,000	-
Deferred charge on refunding	226,412	471,590	698,002	-	-
Total deferred outflows of resources	$ 3,703,909	$ 813,132	$ 4,517,041	$ 5,935,229	$ -
Liabilities:					
Accounts payable	$ 1,491,577	$ 948,153	$ 2,439,730	$ 550,424	$ 44,714
Accrued liabilities	2,994,310	329,862	3,324,172	3,953,350	-
Unearned revenue	449,442	1,642,468	2,091,910	-	-
Claims payable	609,279	-	609,279	-	-
Amounts held for others	919,565	-	919,565	-	-
Liabilities payable from restricted assets	-	674,844	674,844	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	2,127,450	202,823	2,330,273	577,404	-
Revenue bonds	215,000	-	215,000	-	-
General obligation bonds	5,041,624	1,931,126	6,972,750	-	-
Accrued landfill post-closure costs	90,000	-	90,000	-	-
Capital lease	-	-	-	238,000	-
Due in more than one year:					
Compensated absences	1,303,921	115,814	1,419,735	532,987	-
Net OPEB liability	15,850,590	609,538	16,460,128	9,783,859	-
Revenue bonds	1,240,000	-	1,240,000	-	-
General obligation bonds	78,672,479	19,677,095	98,349,574	-	-
Capital lease	-	-	-	2,542,000	-
Net pension liability	17,769,202	1,764,940	19,534,142	35,499,000	-
Accrued landfill post-closure costs	1,376,276	-	1,376,276	-	-
Total liabilities	$ 130,150,715	$ 27,896,663	$ 158,047,378	$ 53,677,024	$ 44,714
Deferred Inflows of Resources:					
Deferred revenue - property taxes	$ 825,235	$ -	$ 825,235	$ -	$ -
Pension related items	3,469,538	379,530	3,849,068	4,127,733	-
OPEB related items	1,388,110	57,672	1,445,782	418,656	-
Total deferred inflows of resources	$ 5,682,883	$ 437,202	$ 6,120,085	$ 4,546,389	$ -
Net Position:					
Net investment in capital assets	$ 86,992,126	$ 45,749,607	$ 132,741,733	$ 24,869,217	$ -
Unrestricted	(301,359)	23,572,937	23,271,578	(40,236,115)	1,145,935
Total net position	$ 86,690,767	$ 69,322,544	$ 156,013,311	$ (15,366,898)	$ 1,145,935

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	$ 7,073,403	$ 144,698	$ 292,790	$ -
Judicial administration	5,566,589	222,654	980,535	-
Public safety	22,748,234	2,169,937	2,140,391	-
Public works	11,144,393	1,017,049	2,938,760	1,084,533
Health and welfare	8,303,383	-	5,910,319	-
Education	33,548,965	-	-	-
Parks, recreation and cultural	5,020,617	507,083	31,253	1,370,550
Community development	2,705,777	9	-	188,523
Interest on long-term debt	3,129,894	-	-	-
Total governmental activities	$ 99,241,255	$ 4,061,430	$ 12,294,048	$ 2,643,606
Business-type activities				
Water	$ 3,212,402	$ 3,363,456	$ 464,582	$ -
Sewer	5,299,352	5,611,484	833,176	-
Transit	4,797,484	333,462	2,794,901	370,811
Parking	465,613	276,452	-	-
Total business-type activities	$ 13,774,851	$ 9,584,854	$ 4,092,659	$ 370,811
Total Primary Government	$ 113,016,106	$ 13,646,284	$ 16,386,707	$ 3,014,417
Component Units				
Fredericksburg City Public Schools	$ 49,504,789	$ 371,704	$ 19,750,586	$ -
Fredericksburg Economic Development Authority	684,770	208,923	62,669	-
Total Component Units	$ 50,189,559	$ 580,627	$ 19,813,255	$ -

General Revenues
Taxes:
General property taxes, real and personal
Local sales and use taxes
Consumer utility taxes
Business license taxes
Hotel/lodging taxes
Meals taxes
Other local taxes
Payment from City of Fredericksburg:
Education
Grants and contributions not restricted to specific programs
Use of property
Interest and investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position, beginning of year, as restated
Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (6,635,915)	$ -	$ (6,635,915)	$ -
(4,363,400)	-	(4,363,400)	-
(18,437,906)	-	(18,437,906)	-
(6,104,051)	-	(6,104,051)	-
(2,393,064)	-	(2,393,064)	-
(33,548,965)	-	(33,548,965)	-
(3,111,731)	-	(3,111,731)	-
(2,517,245)	-	(2,517,245)	-
(3,129,894)	-	(3,129,894)	-
$ (80,242,171)	$ -	$ (80,242,171)	$ -
$ -	$ 615,636	$ 615,636	$ -
-	1,145,308	1,145,308	-
-	(1,298,310)	(1,298,310)	-
-	(189,161)	(189,161)	-
$ -	$ 273,473	$ 273,473	$ -
$ (80,242,171)	$ 273,473	$ (79,968,698)	$ -
			$ (29,382,499)
			(413,178)
			$ (29,795,677)
$ 42,657,551	$ -	$ 42,657,551	$ -
11,580,437	-	11,580,437	-
1,834,078	-	1,834,078	-
6,382,569	-	6,382,569	-
1,565,938	-	1,565,938	-
11,765,352	-	11,765,352	-
3,151,831	725,117	3,876,948	-
-	-	-	32,916,213
3,653,002	-	3,653,002	-
120,277	-	120,277	-
425,049	47,630	472,679	3,937
552,057	545,583	1,097,640	297,503
605,665	(605,665)	-	-
$ 84,293,806	$ 712,665	$ 85,006,471	$ 33,217,653
$ 4,051,635	$ 986,138	$ 5,037,773	$ 3,421,976
82,639,132	68,336,406	150,975,538	(17,642,939)
$ 86,690,767	$ 69,322,544	$ 156,013,311	$ (14,220,963)

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Fund Financial Statements

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Balance Sheet
Governmental Funds
At June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	$ 25,077,120	$ 11,047,420	$ 36,124,540
Receivables (net of allowances for uncollectibles):			
Property taxes	1,002,571	7,030	1,009,601
Accounts	120,204	-	120,204
Accrued revenue	304,581	121,925	426,506
Inventory, at cost	25,274	-	25,274
Prepaid items	324,087	1,767	325,854
Due from other governments	3,086,327	1,710,005	4,796,332
Total assets	$ 29,940,164	$ 12,888,147	$ 42,828,311
Liabilities:			
Accounts payable	$ 502,488	$ 989,089	$ 1,491,577
Accrued liabilities	1,245,206	292,771	1,537,977
Amounts held for others	919,565	-	919,565
Unearned revenue	72,817	376,625	449,442
Total liabilities	$ 2,740,076	$ 1,658,485	$ 4,398,561
Deferred Inflows of Resources:			
Unavailable revenue - property taxes	$ 1,364,899	$ 4,794	$ 1,369,693
Fund Balances:			
Nonspendable	$ 349,361	$ 1,767	$ 351,128
Restricted	-	100,000	100,000
Committed	7,214,757	6,270,150	13,484,907
Assigned	1,326,619	4,852,951	6,179,570
Unassigned	16,944,452	-	16,944,452
Total fund balances	$ 25,835,189	$ 11,224,868	$ 37,060,057
Total liabilities, deferred inflows of resources and fund balances	$ 29,940,164	$ 12,888,147	$ 42,828,311

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2018

Total fund balances for governmental funds (Exhibit 3)		$ 37,060,057
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	$ 21,368,618	
Construction in progress	838,781	
Land improvements, net of accumulated depreciation	12,071,222	
Buildings and improvements, net of accumulated depreciation	45,411,259	
Joint tenancy assets, net of accumulated depreciation	34,664,202	
Infrastructure, net of accumulated depreciation	42,742,874	
Machinery, vehicles, and equipment, net of accumulated depreciation	12,392,134	
Total capital assets		169,489,090
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.		768,419
Other assets used in govenmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Investment in joint venture		5,125,357
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Deferred charge on refunding	$ 226,412	
Pension related items	3,365,559	
OPEB related items	111,938	3,703,909
Some of the City's property and other taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures and, therefore, are reported as deferred revenue in the funds.		544,458
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Accrued interest on debt	$ (1,456,333)	
Bonds and notes payable	(81,700,609)	
Premium on long-term debt, net of accumulated amortization	(3,468,494)	
Net pension liability	(17,769,202)	
Net OPEB liability	(15,850,590)	
Landfill post-closure costs	(1,466,276)	(121,711,504)
Compensated absences not reported as fund liabilities		(3,431,371)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	$ (3,469,538)	
OPEB related items	(1,388,110)	(4,857,648)
Total net position of governmental activities (Exhibits 1 and 2)		$ 86,690,767

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	$ 42,091,168	$ 389,351	$ 42,480,519
Other local taxes	36,105,205	175,000	36,280,205
Permits, privilege fees and regulatory licenses	786,182	37,281	823,463
Fines and forfeitures	451,584	8,462	460,046
Use of money and property	286,545	258,781	545,326
Charges for services	2,690,687	87,234	2,777,921
Miscellaneous	146,582	383,803	530,385
Recovered costs	715,313	677,785	1,393,098
Intergovernmental:			
Revenue from the Commonwealth	9,396,598	4,279,981	13,676,579
Revenue from the Federal Government	97,082	3,446,445	3,543,527
Total revenues	$ 92,766,946	$ 9,744,123	$ 102,511,069
Expenditures			
Current:			
General government administration	$ 7,034,405	$ -	$ 7,034,405
Judicial administration	4,587,988	237,357	4,825,345
Public safety	22,022,660	549,245	22,571,905
Public works	8,957,193	450,692	9,407,885
Health and welfare	1,045,401	7,705,038	8,750,439
Education - local community college and other	68,359	-	68,359
Education - public school system	29,020,210	-	29,020,210
Parks, recreation and cultural	4,290,034	94,154	4,384,188
Community development	2,038,807	745,764	2,784,571
Capital projects	-	7,031,684	7,031,684
Debt service:			
Principal payments	-	4,980,957	4,980,957
Interest and fiscal charges	-	3,610,416	3,610,416
Total expenditures	$ 79,065,057	$ 25,405,307	$ 104,470,364
Excess (deficiency) of revenues over (under) expenditures	$ 13,701,889	$ (15,661,184)	$ (1,959,295)
Other financing sources (uses)			
Proceeds from the sale of capital assets	$ 13,301	$ 2,115	$ 15,416
Transfers in	600,000	12,848,403	13,448,403
Transfers out	(12,755,394)	(87,344)	(12,842,738)
Total other financing sources (uses)	$ (12,142,093)	$ 12,763,174	$ 621,081
Net change in fund balance	$ 1,559,796	$ (2,898,010)	$ (1,338,214)
Fund balances, beginning of year	24,275,393	14,122,878	38,398,271
Fund balances, end of year	$ 25,835,189	$ 11,224,868	$ 37,060,057

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances - total governmental funds (Exhibit 5)		$ (1,338,214)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 7,307,458	
Depreciation	(7,681,096)	(373,638)
Transfer of joint tenancy assets and other capital assets from Primary Government to the Component Unit School Board		(3,802,617)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		1,181,115
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net position revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.		177,032
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in joint venture investment		428,567
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Debt issued:		
Amortization of premium on long-term debt	$ 428,125	
Repayments of long-term debt:		
General obligation bonds	4,980,957	
Net adjustment		5,409,082
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:		
Compensated absences	$ (389,142)	
OPEB expense	309,711	
Pension expense	1,705,068	
Accrued interest on bonds and loans	80,929	
Amortization of deferred charge on refunding	(28,532)	
Accrued landfill post-closure costs	33,238	
Net adjustment		1,711,272
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities.		659,036
Change in net position of governmental activities (Exhibit 2)		$ 4,051,635

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

Statement of Net Position
Proprietary Funds
At June 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Assets:						
Current assets:						
Cash and cash equivalents	$ 8,397,271	$ 7,143,311	$ 6,935,920	$ 746,598	$ 23,223,100	$ 1,377,557
Accounts receivable, net of allowance for uncollectibles	656,921	1,098,288	-	-	1,755,209	-
Accrued revenue	8,096	21,011	10,588	20,041	59,736	141
Inventory, at cost	122,489	26,498	-	-	148,987	-
Prepaid items	607	-	11,493	2,000	14,100	-
Due from other governments	50,000	174,643	3,856,420	-	4,081,063	-
Restricted assets:						
Cash and cash equivalents	674,844	-	-	-	674,844	-
Total current assets	$ 9,910,228	$ 8,463,751	$ 10,814,421	$ 768,639	$ 29,957,039	$ 1,377,698
Capital Assets:						
Land	$ 701,345	$ 114,880	$ 550,686	$ 782,125	$ 2,149,036	$ -
Construction in progress	330,702	92,130	-	-	422,832	-
Land improvements	-	-	976,403	-	976,403	-
Dams and reservoirs	2,531,502	-	-	-	2,531,502	-
Buildings and systems	20,911,706	42,136,492	9,867,983	6,682,205	79,598,386	-
Furniture, machinery and equipment	536,563	4,235,179	4,803,689	223,789	9,799,220	-
Intangible assets	6,976,115	1,556,496	-	-	8,532,611	-
Total property, plant and equipment	$ 31,987,933	$ 48,135,177	$ 16,198,761	$ 7,688,119	$ 104,009,990	$ -
Accumulated depreciation	(9,567,960)	(21,105,997)	(4,672,335)	(1,777,460)	(37,123,752)	-
Capital assets, net	$ 22,419,973	$ 27,029,180	$ 11,526,426	$ 5,910,659	$ 66,886,238	$ -
Total assets	$ 32,330,201	$ 35,492,931	$ 22,340,847	$ 6,679,298	$ 96,843,277	$ 1,377,698
Deferred Outflows of Resources:						
Pension related items	$ 100,516	$ 96,435	$ 126,435	$ 7,017	$ 330,403	$ -
OPEB related items	3,730	3,188	4,007	214	11,139	-
Deferred charge on refunding	20,887	381,191	-	69,512	471,590	-
Total deferred outflows of resources	$ 125,133	$ 480,814	$ 130,442	$ 76,743	$ 813,132	$ -
Liabilities:						
Current liabilities:						
Accounts payable	$ 436,579	$ 425,611	$ 85,062	$ 901	$ 948,153	$ -
Accrued liabilities	31,543	46,499	48,898	2,232	129,172	-
Interest payable	43,317	157,373	-	-	200,690	-
Compensated absences, current portion	50,708	103,239	47,601	1,275	202,823	-
Claims payable	-	-	-	-	-	609,279
Unearned revenue, current portion	27,192	50,220	-	-	77,412	-
General obligation bonds, current portion	483,341	1,196,738	-	251,047	1,931,126	-
Current liabilities payable from restricted assets:						
Customer deposits	674,844	-	-	-	674,844	-
Total current liabilities	$ 1,747,524	$ 1,979,680	$ 181,561	$ 255,455	$ 4,164,220	$ 609,279
Noncurrent liabilites:						
Unearned revenue, noncurrent portion	$ -	$ 1,565,056	$ -	$ -	$ 1,565,056	$ -
Compensated absences, noncurrent portion	31,079	18,219	65,734	782	115,814	-
Net OPEB liability	181,811	294,393	130,164	3,170	609,538	-
Net pension liability	381,425	718,717	631,448	33,350	1,764,940	-
General obligation bonds, noncurrent portion	6,584,186	11,163,613	-	1,929,296	19,677,095	-
Total noncurrent liabilities	$ 7,178,501	$ 13,759,998	$ 827,346	$ 1,966,598	$ 23,732,443	$ -
Total liabilities	$ 8,926,025	$ 15,739,678	$ 1,008,907	$ 2,222,053	$ 27,896,663	$ 609,279
Deferred Inflows of Resources:						
Pension related items	$ 91,531	$ 155,966	$ 125,832	$ 6,201	$ 379,530	$ -
OPEB related items	16,627	27,324	13,325	396	57,672	-
Total deferred inflows of resources	$ 108,158	$ 183,290	$ 139,157	$ 6,597	$ 437,202	$ -
Net Position:						
Net investment in capital assets	$ 15,373,333	$ 15,050,020	$ 11,526,426	$ 3,799,828	$ 45,749,607	$ -
Unrestricted	8,047,818	5,000,757	9,796,799	727,563	23,572,937	768,419
Total net position	$ 23,421,151	$ 20,050,777	$ 21,323,225	$ 4,527,391	$ 69,322,544	$ 768,419

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

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Operating revenues:						
Charges for services	$ 3,363,456	$ 5,611,484	$ 333,462	$ 276,452	$ 9,584,854	$ 6,314,222
Operating expenses:						
Personal services	$ 524,566	$ 945,909	$ 2,140,374	$ 106,292	$ 3,717,141	$ -
Fringe benefits	213,822	365,018	455,505	22,396	1,056,741	4,452,883
Contractual services	1,349,685	1,407,467	407,839	45,837	3,210,828	-
Other operating expenses	296,888	570,860	821,277	69,508	1,758,533	1,202,303
Depreciation expense	646,209	1,523,535	972,489	157,071	3,299,304	-
Total operating expenses	$ 3,031,170	$ 4,812,789	$ 4,797,484	$ 401,104	$ 13,042,547	$ 5,655,186
Total operating income (loss)	$ 332,286	$ 798,695	$ (4,464,022)	$ (124,652)	$ (3,457,693)	$ 659,036
Nonoperating revenues (expenses):						
Interest income	$ 12,546	$ 12,634	$ 11,225	$ 11,225	$ 47,630	$ -
Gasoline tax receipts	-	-	480,000	245,117	725,117	-
Availability/connection fees	464,582	775,700	-	-	1,240,282	-
Miscellaneous	255,481	76,683	213,123	296	545,583	-
State and local grant funds	-	-	1,654,534	-	1,654,534	-
Federal grant funds	-	57,476	1,140,367	-	1,197,843	-
Interest expense	(181,232)	(486,563)	-	(64,509)	(732,304)	-
Total nonoperating revenues (expenses)	$ 551,377	$ 435,930	$ 3,499,249	$ 192,129	$ 4,678,685	$ -
Income (loss) before contributions and transfers	$ 883,663	$ 1,234,625	$ (964,773)	$ 67,477	$ 1,220,992	$ 659,036
Capital grants and contributions:						
State and local grant funds	$ -	$ -	$ 12,476	$ -	$ 12,476	$ -
Federal grant funds	-	-	358,335	-	358,335	-
Total capital grants and contributions	$ -	$ -	$ 370,811	$ -	$ 370,811	$ -
Transfers:						
Transfers out	$ (301,349)	$ (304,316)	$ -	$ -	$ (605,665)	$ -
Change in net position	$ 582,314	$ 930,309	$ (593,962)	$ 67,477	$ 986,138	$ 659,036
Net position, beginning of year, as restated	22,838,837	19,120,468	21,917,187	4,459,914	68,336,406	109,383
Net position, end of year	$ 23,421,151	$ 20,050,777	$ 21,323,225	$ 4,527,391	$ 69,322,544	$ 768,419

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers and users	$ 3,344,378	$ 5,472,149	$ 333,912	$ 272,827	$ 9,423,266	$ 6,314,081
Other miscellaneous receipts	255,481	76,683	693,123	485,413	1,510,700	-
Payments to suppliers	(1,772,177)	(2,496,026)	(1,718,846)	(140,977)	(6,128,026)	(1,203,960)
Payments to and for employees	(805,776)	(1,362,497)	(2,637,730)	(130,117)	(4,936,120)	(4,271,680)
Net cash provided by (used for) operating activities	$ 1,021,906	$ 1,690,309	$ (3,329,541)	$ 487,146	$ (130,180)	$ 838,441
Cash flows from noncapital financing activities:						
Availability and connection fees	$ 464,582	$ 775,700	$ -	$ -	$ 1,240,282	$ -
State, federal and local grant funds	-	57,476	2,901,460	-	2,958,936	-
Transfers	(301,349)	(304,316)	-	-	(605,665)	-
Net cash provided by (used for) noncapital financing activities	$ 163,233	$ 528,860	$ 2,901,460	$ -	$ 3,593,553	$ -
Cash flows from investing activities:						
Interest income	$ 12,546	$ 12,634	$ 11,225	$ 11,225	$ 47,630	$ -
Cash flows from capital and related financing activities:						
Purchase of capital assets	$ (1,617,209)	$ (777,724)	$ (101,938)	$ -	$ (2,496,871)	$ -
State, federal and local grant funds	-	-	370,811	-	370,811	-
Principal payment on debt	(646,437)	(1,150,489)	-	(245,117)	(2,042,043)	-
Interest paid on debt	(182,061)	(469,626)	-	(54,577)	(706,264)	-
Net cash provided by (used for) capital and related financing activities	$ (2,445,707)	$ (2,397,839)	$ 268,873	$ (299,694)	$ (4,874,367)	$ -
Increase (decrease) in cash and cash equivalents for the year	$ (1,248,022)	$ (166,036)	$ (147,983)	$ 198,677	$ (1,363,364)	$ 838,441
Cash and cash equivalents (including restricted), beginning of year	10,320,137	7,309,347	7,083,903	547,921	25,261,308	539,116
Cash and cash equivalents (including restricted), end of year	$ 9,072,115	$ 7,143,311	$ 6,935,920	$ 746,598	$ 23,897,944	$ 1,377,557
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ 332,286	$ 798,695	$ (4,464,022)	$ (124,652)	$ (3,457,693)	$ 659,036
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	646,209	1,523,535	972,489	157,071	3,299,304	-
Other miscellaneous receipts	255,481	76,683	693,123	485,413	1,510,700	-
Changes in assets and liabilities:						
Accounts receivable	(16,136)	(53,541)	-	-	(69,677)	-
Inventory	14,970	153,470	-	-	168,440	-
Accrued revenue	(1,619)	(15,237)	450	(3,625)	(20,031)	(141)
Prepaid items	575	2,557	(1,962)	(700)	470	443,784
Due from other governments	-	(14,645)	-	-	(14,645)	-
Deferred outflows of resources - pension related items	41,092	132,070	66,530	7,333	247,025	-
Deferred outflows of resources - OPEB related items	(1,302)	1,013	(342)	(12)	(643)	-
Accounts payable	(61,521)	(594,827)	(488,167)	(24,932)	(1,169,447)	(1,657)
Accrued liabilities	(79,628)	(78,899)	399	103	(158,025)	-
Net OPEB liability	(30,085)	(47,393)	(12,574)	(635)	(90,687)	-
Net pension liability	(171,451)	(237,975)	(203,286)	(12,722)	(625,434)	-
Unearned revenue	2,185	(55,912)	-	-	(53,727)	-
Claims payable	-	-	-	-	-	(262,581)
Compensated absences	20,451	25,837	29,419	647	76,354	-
Deferred inflows of resources - pension related items	57,280	47,554	65,077	3,461	173,372	-
Deferred inflows of resources - OPEB related items	16,627	27,324	13,325	396	57,672	-
Deposits payable from restricted assets	(3,508)	-	-	-	(3,508)	-
Net cash provided by (used for) operating activities	$ 1,021,906	$ 1,690,309	$ (3,329,541)	$ 487,146	$ (130,180)	$ 838,441

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

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

Statement of Fiduciary Net Position
Fiduciary Funds
At June 30, 2018

	Agency Funds	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
Assets:			
Cash and cash equivalents	$ 1,865,166	$ -	$ 1,597,190
Accounts receivable	131,023	-	21,910
Investments at fair value:			
Investment in pooled funds	-	1,351,925	-
Capital assets:			
Machinery and equipment, net of accumulated depreciation	-	-	15,397
Total assets	$ 1,996,189	$ 1,351,925	$ 1,634,497
Deferred Outflows of Resources:			
Pension related items	$ -	$ -	$ 8,401
OPEB related items	-	-	290
Total deferred outflows of resources	$ -	$ -	$ 8,691
Liabilities:			
Accounts payable	$ 62,101	$ -	$ 247
Accrued liabilities	61,375	-	16,308
Net OPEB liability	-	-	15,123
Net pension liability	-	-	45,333
Amounts held for others	1,872,713	-	-
Total liabilities	$ 1,996,189	$ -	$ 77,011
Deferred Inflows of Resources:			
Pension related items	$ -	$ -	$ 9,108
OPEB related items	-	-	1,437
Total deferred inflows of resources	$ -	$ -	$ 10,545
Net Position:			
Held in trust for OPEB benefits and other purposes	$ -	$ 1,351,925	$ 1,555,632

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2018

	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
Additions:		
Contributions:		
Contributions	$ -	$ 52,100
Investment income:		
Interest earned on investments	118,262	13,948
Total additions	$ 118,262	$ 66,048
Deductions:		
Payments for property management	$ -	$ 95,660
Other charges	1,857	1,263
Total deductions	$ 1,857	$ 96,923
Net increase (decrease) in plan assets	$ 116,405	$ (30,875)
Net position held in trust for OPEB benefits and other purposes:		
Balance, beginning of year, as restated	1,235,520	1,586,507
Balance, end of year	$ 1,351,925	$ 1,555,632

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
Component Units
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
School Board				
Education	$ 49,444,388	$ 371,704	$ 19,750,586	$ -
Interest on long-term debt	60,401	-	-	-
Total School Board	$ 49,504,789	$ 371,704	$ 19,750,586	$ -
Economic Development Authority				
Community development	$ 684,770	$ 208,923	$ 62,669	$ -
Total Component Units	$ 50,189,559	$ 580,627	$ 19,813,255	$ -

General revenues

Payment from/(to) City of Fredericksburg
Interest and investment income
Miscellaneous

Total general revenues

Change in net position

Net position, beginning of year, as restated

Net position, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Position		
School Board	Economic Development Authority	Totals
$ (29,322,098)	$ -	$ (29,322,098)
(60,401)	-	(60,401)
$ (29,382,499)	$ -	$ (29,382,499)
$ -	$ (413,178)	$ (413,178)
$ (29,382,499)	$ (413,178)	$ (29,795,677)
$ 32,822,827	$ 93,386	$ 32,916,213
400	3,537	3,937
284,779	12,724	297,503
$ 33,108,006	$ 109,647	$ 33,217,653
$ 3,725,507	$ (303,531)	$ 3,421,976
(19,092,405)	1,449,466	(17,642,939)
$ (15,366,898)	$ 1,145,935	$ (14,220,963)

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Note 1—Summary of Significant Accounting Policies:

Narrative Profile

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

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

A. Financial Reporting Entity

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

Government-wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, effects of interfund activity have been removed from these statements; however, interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

A. Financial Reporting Entity: (Continued)

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

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

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

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

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

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

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

A. Financial Reporting Entity: (Continued)

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided $4,327,955 in operating and other funds to the Center in 2018.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided $1,250,471 in operating funds to the Library in 2018.

c. Rappahannock Regional Solid Waste Management Board

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The City's equity interest as of June 30, 2018 was $5,125,357.

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $7.5 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2018 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One-hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and post-closure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

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

d. Rappahannock Area Community Services Board

The Board was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of $261,895 to the Board in 2018.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

e. Rappahannock Area Agency on Aging

The Agency was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $7,880 in operating grants to the Agency in 2018.

f. George Washington Regional Commission

The Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $22,349 in operating grants to the Commission in 2018.

g. Rappahannock Juvenile Detention Center

The Center was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of $368,810 to the Center in 2018.

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

The Home was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $69,783 in operating funds to the Home in 2018.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

   i. Stafford Regional Airport Commission

   The Commission was created by City Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $21,430 in operating funds to the Commission in 2018.

   Obtaining of Financial Statements for Jointly Governed Organizations

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2018.

1. Governmental Funds:

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

Stormwater Management Fund - This fund accounts for the revenues, expenditures, and other financing resources for stormwater management and other environmental purposes.

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

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

Fredericksburg Opportunity Fund - This fund accounts for the revenues, expenditures and other financing resources for economic development opportunities.

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

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

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

2. Proprietary Funds:

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

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

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

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

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

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

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

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

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

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

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

b. Economic Development Authority:

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

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

C. Basis of Accounting

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

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

D. Budgets and Budgetary Accounting: (Continued)

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2018. Budgetary and appropriation control is maintained at the department level. Encumbrances outstanding at year-end are reappropriated in the following fiscal year.

There were no additional appropriations that would have a material effect on the financial statements at June 30, 2018.

E. Cash and Cash Equivalents

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

F. Investments

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

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2018, the allowance totaled $1,613,001 with $1,036,107 in the General Fund and $576,894 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Items

Prepaid expenses are reported on the consumption method.

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

J. Capital Assets

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

Land improvements	20 to 50 years
Buildings and improvements	20 to 40 years
Furniture and other equipment	5 to 20 years
Infrastructure	10 to 50 years
Joint tenancy assets	40 years

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

Land improvements	20 to 50 years
Buildings	10 to 50 years
Furniture, machinery, and equipment	2 to 10 years
Water and wastewater systems	30 to 50 years
Intangible Assets	30 to 50 years

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2018.

K. Compensated Absences

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

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

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Another item is comprised of certain items related to the measurement of the net pension and OPEB assets or liabilities. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension and OPEB plan investments. Lastly, the City reports contributions to the pension and OPEB plans made during the current year and subsequent to the net pension and OPEB asset or liability measurement date, which will be recognized as a reduction of the net pension or OPEB asset or liability next fiscal year. For more detailed information on these items, reference Notes 12, 19, 20, 21, and 22.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30th, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension and OPEB liabilities are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension or OPEB plan investments. For more detailed information on these items, reference Notes 12, 19, 20, 21, and 22.

M. Pensions

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

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

N. Use of Estimates

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

O. Unbilled Revenue

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

P. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Bond premium amortization for fiscal year ended June 30, 2018 was $428,125 and $11,747 for the governmental and business-type activities, respectively.

Q. Long-term Obligations

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

R. Net Position

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

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

S. Net Position Flow Assumption

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

T. Fund Equity

The City reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

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

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

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

T. Fund Equity: (Continued)

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

	General Fund	Other Governmental Funds	Total
Fund Balances:			
Nonspendable:			
Inventory	$ 25,274	$ -	$ 25,274
Prepaids	324,087	1,767	325,854
Total Nonspendable Fund Balance	$ 349,361	$ 1,767	$ 351,128
Restricted:			
Housing initiatives	$ -	$ 100,000	$ 100,000
Total Restricted Fund Balance	$ -	$ 100,000	$ 100,000
Committed:			
Social services	$ -	$ 548,981	$ 548,981
Comprehensive services	-	304,068	304,068
Cowan Boulevard debt service	-	262,519	262,519
Public safety construction projects	-	1,721	1,721
Public facilities construction projects	-	1,067,324	1,067,324
Public works construction projects	-	1,087,222	1,087,222
Blight abatement	-	211,427	211,427
Economic development opportunities	-	75,000	75,000
Grant related expenditures	-	688,907	688,907
Forfeited asset sharing program	-	63,328	63,328
Stormwater management	-	113,046	113,046
Education debt service	-	1,846,607	1,846,607
City capital projects	5,188,550	-	5,188,550
School capital projects	1,000,000	-	1,000,000
Health insurance claims	800,000	-	800,000
Other purposes	226,207	-	226,207
Total Committed Fund Balance	$ 7,214,757	$ 6,270,150	$ 13,484,907
Assigned:			
Public works construction projects	$ -	$ 2,094,971	$ 2,094,971
Public facilities construction projects	-	507,201	507,201
Public safety construction projects	-	1,225,681	1,225,681
Court facilities construction projects	-	1,025,098	1,025,098
Detention stabilization	976,619	-	976,619
Economic development opportunities	150,000	-	150,000
OPEB trust contribution	200,000	-	200,000
Total Assigned Fund Balance	$ 1,326,619	$ 4,852,951	$ 6,179,570
Unassigned	$ 16,944,452	$ -	$ 16,944,452
Total Fund Balances	$ 25,835,189	$ 11,224,868	$ 37,060,057

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

U. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2018. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. All required disclosures are located in Notes 19 to 22. The implementation of this Statement resulted in restatements of net position located at Note 25.

Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

V. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

V. Other Postemployment Benefits (OPEB): (Continued)

Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the VRS Teacher Employee HIC Program; and the additions to/deductions from the VRS Teacher Employee HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2—Deposits and Investments:

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

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

Custodial Credit Risk (Investments) - The City's investments at June 30, 2018 were held by the City or in the City's name by the City's custodial banks; except for U.S. Agency investments, U.S. Treasuries, Corporate Debt investments, municipal public bonds, and commercial paper, where the underlying securities were uninsured and held by an investment broker.

Note 2—Deposits and Investments: (Continued)

Credit Risk of Debt Securities

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

The City's rated debt investments as of June 30, 2018 were rated by Standard and Poor's or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings						
	AAAm	AAA	AA+	AA	AA-	A-1	A+
U.S. Agencies	$ -	$ -	$ 25,374,547	$ -	$ -	$ -	$ -
U.S. Treasuries	-	-	4,384,059	-	-	-	-
Corporate Debt	-	2,420,347	1,677,008	1,139,806	1,736,278	-	1,088,467
Commercial Paper	-	-	-	-	-	5,954,915	-
Virginia State Non-Arbitrage Program	1,176,298	-	-	-	-	-	-
Money Market Mutual Fund	22,437,833	-	-	-	-	-	-
Total	$ 23,614,131	$ 2,420,347	$ 31,435,614	$ 1,139,806	$ 1,736,278	$ 5,954,915	$ 1,088,467

Interest Rate Risk

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

Investment Maturities (in years)

Investment Type	Fair Value	Within 1 Year	1-5 Years
U.S. Agencies	$ 25,374,547	$ 7,406,147	$ 17,968,400
U.S. Treasuries	4,384,059	672,435	3,711,624
Commercial Paper	5,954,915	5,954,915	-
Virginia State Non-Abitrage Program	1,176,298	1,176,298	-
Corporate Debt	8,061,905	2,691,490	5,370,415
Total	$ 44,951,724	$ 17,901,285	$ 27,050,439

Note 2—Deposits and Investments: (Continued)

External Investment Pool

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

Note 3—Fair Value Measurements:

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

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date

- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices

- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

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

Note 3—Fair Value Measurements: (Continued)

The City has the following recurring fair value measurements as of June 30, 2018:

Investment	June 30, 2018	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)
U.S. Agencies	$ 25,374,547	$ 25,374,547
U.S. Treasuries	4,384,059	4,384,059
Commercial Paper	5,954,915	5,954,915
Money Market Mutual Fund	22,437,833	22,437,833
Corporate Debt	8,061,905	8,061,905
Total	$ 66,213,259	$ 66,213,259

Note 4—Real and Personal Property Tax Data:

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

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

Note 5—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2018 consist of the following:

Primary Government:

	Governmental Activities				
	General	Special Revenue	Capital Projects	Total	Business-Type Activities
Property taxes	$ 2,002,074	$ 7,030	$ -	$ 2,009,104	$ -
Water charges	-	-	-	-	920,115
Wastewater charges	-	-	-	-	1,411,988
EMS fees	101,128	-	-	101,128	-
Refuse disposal fees	152,679	-	-	152,679	-
Investment earnings	32,382	-	97,146	129,528	32,384
Other	175,200	24,779	-	199,979	27,352
Total	$ 2,463,463	$ 31,809	$ 97,146	$ 2,592,418	$ 2,391,839
Allowance for uncollectibles	(1,036,107)	-	-	(1,036,107)	(576,894)
Net receivables	$ 1,427,356	$ 31,809	$ 97,146	$ 1,556,311	$ 1,814,945

Component Units and Fiduciary Activities:

	School Board	Economic Development Authority	Fiduciary Activities
Other	$ 14,416	$ 18,673	$ 152,933
Total	$ 14,416	$ 18,673	$ 152,933
Allowance for uncollectibles	-	-	-
Net receivables	$ 14,416	$ 18,673	$ 152,933

Note 6—Due From Other Governmental Units:

	Governmental Activities					Component Unit School Board
	General	Special Revenue	Capital Projects	Total	Business-Type Activities	
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	$ 2,010,690	$ -	$ -	$ 2,010,690	$ -	$ -
Telecommunication sales tax	130,200	-	-	130,200	-	-
PPTRA	676,647	-	-	676,647	-	-
Library of Virginia	-	12,592	-	12,592	-	-
Children's Services Act	-	349,450	-	349,450	-	-
Shared expenses and grants	166,576	-	-	166,576	-	-
Virginia Department of Historic Resources	-	16,753	-	16,753	-	-
Virginia Department of Rail and Transportation	-	-	-	-	57,233	-
Virginia Department of Transportation	-	-	498,700	498,700	-	-
Virginia Department of Motor Vehicles	-	4,080	-	4,080	-	-
Virginia Department of Emergency Management	8,237	10,680	-	18,917	-	-
Virginia Department of Criminal Justice Services	-	51,716	-	51,716	-	-
Noncategorical aid	55,569	-	-	55,569	-	-
Wireless grants	16,113	-	-	16,113	-	-
State police	-	5,458	-	5,458	-	-
Department of Health	-	4,328	-	4,328	-	-
Social services grants	-	690,781	-	690,781	-	-
Other	15,077	-	-	15,077	-	-
Federal government:						
Community Development Block Grant	-	45,322	-	45,322	-	-
Transit grants	-	-	-	-	3,799,186	-
Criminal justice grants	5,675	20,145	-	25,820	-	-
Interest subsidy	-	-	-	-	21,597	-
Others:						
University of Mary Washington	-	-	-	-	50,000	-
University of Virginia	630	-	-	630	-	-
Local government reimbursements:						
County of Westmoreland	913	-	-	913	-	-
County of Spotsylvania	-	-	-	-	153,047	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	467,448
State school funds	-	-	-	-	-	26,061
Federal pass-through:						
School funds	-	-	-	-	-	705,814
Federal government:						
Head Start	-	-	-	-	-	251,271
Total	$ 3,086,327	$ 1,211,305	$ 498,700	$ 4,796,332	$ 4,081,063	$ 1,450,594

Note 7—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2018:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	$ 1,040,000
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	303,000
Transfer to the Children's Services Act Fund for the local share of the program costs	852,619
Transfers to the Stormwater Management Fund to pay stormwater related costs	100,000
Transfer to the Fredericksburg Opportunity Fund for future economic development projects	75,000
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	4,052,351
Transfers to the Education Debt Service Fund to pay school debt service and related costs	4,103,517
Transfers to the Public Works Capital Fund to fund infrastructure and related capital projects	962,000
Transfers to the School Bond Funded Capital Fund to fund capital project	621,616
Transfers to the Public Facilities Capital Fund to fund building improvements and related costs	738,300
Total transfers in - other governmental funds	$ 12,848,403
Transfers to the General Fund for various programs	$ 600,000
Total transfers	$ 13,448,403

Reconciliation of transfers:

Transfers out from governmental funds	$ 12,842,738
Transfers from enterprise funds to governmental funds	605,665
Total transfers	$ 13,448,403

Component Unit School Board:

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

Note 8—Capital Assets:

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

Primary Government:

Governmental Activities:

	July 1, 2017 As Restated	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 20,115,098	$ 1,370,550	$ 117,030	$ 21,368,618
Construction in progress:				
Infrastructure	$ 522,619	$ 898,204	$ 1,357,617	$ 63,206
Land improvements	173,058	373,282	-	546,340
Joint tenancy assets	11,057,581	2,500,054	13,557,635	-
Buildings	231,728	141,444	143,937	229,235
Total construction in progress	$ 11,984,986	$ 3,912,984	$ 15,059,189	$ 838,781
Total capital assets not being depreciated	$ 32,100,084	$ 5,283,534	$ 15,176,219	$ 22,207,399
Other capital assets:				
Land improvements	$ 16,264,971	$ 372,741	$ 34,430	$ 16,603,282
Buildings and improvements	63,200,730	471,340	-	63,672,070
Joint tenancy assets	32,320,000	11,225,000	2,150,000	41,395,000
Infrastructure	85,926,070	2,689,287	483,171	88,132,186
Machinery, equipment and vehicles	25,669,798	1,362,660	162,944	26,869,514
Total other capital assets	$ 223,381,569	$ 16,121,028	$ 2,830,545	$ 236,672,052
Accumulated depreciation:				
Land improvements	$ 4,060,247	$ 495,914	$ 24,101	$ 4,532,060
Buildings and improvements	16,483,398	1,777,413	-	18,260,811
Joint tenancy assets	6,647,941	762,875	680,018	6,730,798
Infrastructure	42,896,117	2,914,290	421,095	45,389,312
Machinery, equipment and vehicles	12,909,720	1,730,604	162,944	14,477,380
Total accumulated depreciation	$ 82,997,423	$ 7,681,096	$ 1,288,158	$ 89,390,361
Other capital assets, net	$ 140,384,146	$ 8,439,932	$ 1,542,387	$ 147,281,691
Net capital assets	$ 172,484,230	$ 13,723,466	$ 16,718,606	$ 169,489,090

Depreciation is allocated to:	
General government administration	$ 335,420
Judicial administration	995,559
Public safety	1,431,243
Public works	3,357,139
Health and welfare	86,437
Education	762,875
Parks and recreation	704,546
Community development	7,877
Total	$ 7,681,096

Note 8—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 2,149,036	$ -	$ -	$ 2,149,036
Construction in progress	5,344,515	1,733,844	6,655,527	422,832
Total capital assets not being depreciated	$ 7,493,551	$ 1,733,844	$ 6,655,527	$ 2,571,868
Other capital assets:				
Land improvements	$ 976,403	$ -	$ -	$ 976,403
Buildings and systems	76,409,945	3,517,082	328,641	79,598,386
Dams and reservoirs	663,536	1,867,966	-	2,531,502
Intangible assets	8,532,611	-	-	8,532,611
Furniture, machinery and equipment	8,780,898	2,064,651	1,046,329	9,799,220
Total other capital assets	$ 95,363,393	$ 7,449,699	$ 1,374,970	$ 101,438,122
Accumulated depreciation:				
Land improvements	$ 107,961	$ 35,987	$ -	$ 143,948
Buildings and systems	27,402,252	1,795,358	328,641	28,868,969
Dams and reservoirs	182,672	13,357	-	196,029
Intangible assets	2,226,574	270,639	-	2,497,213
Furniture, machinery and equipment	5,244,727	1,183,963	1,011,097	5,417,593
Total accumulated depreciation	$ 35,164,186	$ 3,299,304	$ 1,339,738	$ 37,123,752
Other capital assets, net	$ 60,199,207	$ 4,150,395	$ 35,232	$ 64,314,370
Net capital assets	$ 67,692,758	$ 5,884,239	$ 6,690,759	$ 66,886,238

Depreciation is allocated to:	
Water operations	$ 646,209
Wastewater operations	1,523,535
Parking garage operations	972,489
Transit operations	157,071
Total	$ 3,299,304

Note 8—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 472,679	$ -	$ -	$ 472,679
Construction in progress	25,000	-	25,000	-
Total capital assets not being depreciated	$ 497,679	$ -	$ 25,000	$ 472,679
Other capital assets:				
Land improvements	$ 217,653	$ 102,545	$ 61,396	$ 258,802
Buildings and improvements	39,254,425	4,865,593	271,796	43,848,222
Machinery, equipment and vehicles	5,494,795	610,898	6,985	6,098,708
Total other capital assets	$ 44,966,873	$ 5,579,036	$ 340,177	$ 50,205,732
Accumulated depreciation:				
Land improvements	$ 97,130	$ 22,758	$ 61,396	$ 58,492
Buildings and improvements	17,654,193	1,847,188	271,796	19,229,585
Machinery, equipment and vehicles	3,266,227	481,875	6,985	3,741,117
Total accumulated depreciation	$ 21,017,550	$ 2,351,821	$ 340,177	$ 23,029,194
Other capital assets, net	$ 23,949,323	$ 3,227,215	$ -	$ 27,176,538
Net capital assets	$ 24,447,002	$ 3,227,215	$ 25,000	$ 27,649,217
Depreciation allocated to education		$ 2,351,821		

Note 9—Deferred/Unearned Revenue:

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

	Unearned Revenue	
	Government-wide Statements	
	Governmental Activities	Business-Type Activities
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	$ -	$ 1,615,276
Other	449,442	27,192
Total unearned revenue	$ 449,442	$ 1,642,468

	Deferred/Unavailable Revenue	
	Balance Sheet	Government-wide Statements
	Governmental Funds	Governmental Activities
Deferred property tax revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	$ 825,235	$ 825,235
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	544,458	-
Total deferred/unavailable revenue	$ 1,369,693	$ 825,235

Note 10—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017 As Restated	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2018	Current Portion
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	$ 41,476,566	$ -	$ 2,625,957	$ 38,850,609	$ 2,380,064
General obligation school bonds	43,545,000	-	2,150,000	41,395,000	2,260,000
Revenue bonds	1,660,000	-	205,000	1,455,000	215,000
Add: Unamortized bond premium	3,896,619	-	428,125	3,468,494	401,560
Landfill post-closure costs	1,499,514	-	33,238	1,466,276	90,000
Compensated absences	3,042,229	2,275,324	1,886,182	3,431,371	2,127,450
Net pension liability	23,976,917	10,189,956	16,397,671	17,769,202	-
Net OPEB liability	17,541,753	1,205,823	2,896,986	15,850,590	-
Total	$ 136,638,598	$ 13,671,103	$ 26,623,159	$ 123,686,542	$ 7,474,074
Long-term obligations payable from business-type activities:					
General obligation bonds	$ 23,566,434	$ -	$ 2,042,043	$ 21,524,391	$ 1,919,936
Add: Unamortized bond premium	95,576	-	11,746	83,830	11,190
Compensated absences	242,283	231,779	155,425	318,637	202,823
Net pension liability	2,390,374	1,039,320	1,664,754	1,764,940	-
Net OPEB liability	700,229	44,695	135,386	609,538	-
Total	$ 26,994,896	$ 1,315,794	$ 4,009,354	$ 24,301,336	$ 2,133,949
Total primary government	$ 163,633,494	$ 14,986,897	$ 30,632,513	$ 147,987,878	$ 9,608,023
Component Unit School Board:					
Long-term obligations payable from component unit School Board activities:					
Capital lease	$ 3,005,000	$ -	$ 225,000	$ 2,780,000	$ 238,000
Compensated absences	1,149,669	558,550	597,828	1,110,391	577,404
Net pension liability	40,555,000	6,187,000	11,243,000	35,499,000	-
Net OPEB liability	9,992,813	733,105	942,059	9,783,859	-
Total component unit School Board	$ 54,702,482	$ 7,478,655	$ 13,007,887	$ 49,173,250	$ 815,404

Note 10—Long-term Obligations: (Continued)

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2018:

Year Ending	General Obligation Bonds		Revenue Bonds		Capital Lease	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 6,560,000	$ 3,964,324	$ 215,000	$ 65,859	$ 238,000	$ 55,878
2020	6,805,000	3,709,280	225,000	54,584	251,000	51,094
2021	6,120,000	3,442,758	235,000	44,397	266,000	46,049
2022	6,365,000	3,186,046	245,000	33,697	272,000	40,703
2023	6,410,000	2,931,908	260,000	20,756	278,000	35,235
2024	6,670,000	2,680,142	275,000	7,047	283,000	29,648
2025	6,925,000	2,412,023	-	-	289,000	23,959
2026	7,200,000	2,135,994	-	-	295,000	18,150
2027	6,485,000	1,864,597	-	-	301,000	12,221
2028	6,745,000	1,596,415	-	-	307,000	6,170
2029	6,195,000	1,328,058	-	-	-	-
2030	6,460,000	1,057,202	-	-	-	-
2031	2,840,000	855,197	-	-	-	-
2032	2,940,000	752,505	-	-	-	-
2033	3,045,000	647,337	-	-	-	-
2034	3,155,000	539,530	-	-	-	-
2035	3,270,000	418,665	-	-	-	-
2036	2,685,000	284,884	-	-	-	-
2037	2,805,000	162,047	-	-	-	-
2038	2,090,000	49,638	-	-	-	-
	$ 101,770,000	$ 34,018,550	$ 1,455,000	$ 226,340	$ 2,780,000	$ 319,107

The above schedule does not include premiums.

Note 10—Long-term Obligations: (Continued)

At June 30, 2018, the City's long-term obligations consisted of the following:

Details of Long-term Obligations:

	Issued	Due Date	Rate(s)	Amount Outstanding	Current Portion
Primary Government:					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	$ 30,515,000	$ 1,900,000
2007E General Obligation Bonds	2008	2019	3.5-5.0%	520,000	520,000
2010A General Obligation Bonds	2010	2030	6.07%	970,000	-
2010B General Obligation Bonds	2010	2028	5.6-5.9%	1,735,000	-
2010C General Obligation Bonds	2010	2023	2.0-4.0%	1,545,000	285,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	30,165,000	1,210,000
2014A General Obligation Refunding Bonds	2015	2026	2.37%	5,515,000	635,000
2014B General Obligation Refunding Bonds	2015	2028	2.55%	6,600,000	110,000
2015A General Obligation Bonds	2015	2035	2.32%	11,870,000	1,390,000
2016A General Obligation Bonds	2016	2037	3.8-5.125%	12,335,000	510,000
Total general obligation bonds				$ 101,770,000	$ 6,560,000
Revenue bonds:					
Virginia Resources Authority Revenue Bonds	2016	2024	3.125-5.125%	$ 1,455,000	$ 215,000
Unamortized bond premium:					
2004A General Obligation School Bonds				$ 500,225	$ 74,292
2010 General Obligation Bonds				83,828	11,190
2011A General Obligation Bonds				991,539	96,392
2015D Virginia Resources Authority Revenue Bonds				144,850	42,147
2016A General Obligation Bonds				1,831,882	188,729
Total unamortized bond premium				$ 3,552,324	$ 412,750
Net pension liability				$ 19,534,142	$ -
Compensated absences				$ 3,750,008	$ 2,330,273
Net OPEB liability				$ 16,460,128	$ -
Landfill post-closure costs				$ 1,466,276	$ 90,000
Total primary government				$ 147,987,878	$ 9,608,023
Component Unit School Board:					
Capital lease	2013	2028	2.0%	$ 2,780,000	$ 238,000
Compensated absences				$ 1,110,391	$ 577,404
Net pension liability				$ 35,499,000	$ -
Net OPEB liability				$ 9,783,859	$ -
Total component unit School Board				$ 49,173,250	$ 815,404

Note 10—Long-term Obligations: (Continued)

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

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

Conduit Debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2018 totaled approximately $204,956,961. The City has no responsibility for the repayment of these debt obligations.

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

Note 11—Compensated Absences:

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the City and School Board record liabilities for accrued vacation pay and other compensated absences. The following describes the City and School Board policies.

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

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

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018	Current Portion
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	$ 3,042,229	$ 2,275,324	$ 1,886,182	$ 3,431,371	$ 2,127,450
Business-type activities	242,283	231,779	155,425	318,637	202,823
Total primary government	$ 3,284,512	$ 2,507,103	$ 2,041,607	$ 3,750,008	$ 2,330,273
Component Unit School Board	1,149,669	558,550	597,828	1,110,391	577,404
Total	$ 4,434,181	$ 3,065,653	$ 2,639,435	$ 4,860,399	$ 2,907,677

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

Note 12—Pension Plan:

Plan Description

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

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • 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.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) 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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as Plan 1.	**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.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **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 Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for their plan. Members also must be vested to receive a full refund of	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.) their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting (Cont.)** Same as Plan 1.	**Vesting (Cont.)** **Defined Benefit Component: (Cont.)** Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions 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.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **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 A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Same as Plan 2 **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Note 12—Pension Plan: (Continued)

Pension Plan Data

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Contributions

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

The City's contractually required employer contribution rate for the year ended June 30, 2018 was 12.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were $2,914,541 and $2,877,223 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the City reported a liability of $19,534,142 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2018 and 2017 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2018 and 2017, the City's proportion was 97.82% and 97.29%, respectively.

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – General Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Note 12—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the City of Fredericksburg, Virginia Retirement Plan, Fredericksburg City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Note 12—Pension Plan: (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability (Asset)	$ 34,864,188	$ 19,534,142	$ 6,738,358

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

For the year ended June 30, 2018, the City recognized pension expense of $861,610. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 579,008	$ 2,245,034
Change in assumptions	-	110,359
Changes in proportion and differences between employer contributions and proportionate share of contributions	202,413	30,451
Net difference between projected and actual earnings on pension plan investments	-	1,463,224
Employer contributions subsequent to the measurement date	2,914,541	-
Total	$ 3,695,962	$ 3,849,068

Note 12—Pension Plan: (Continued)

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

$2,914,541 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government
2019	$ (1,915,498)
2020	(65,022)
2021	(143,912)
2022	(943,215)

Component Unit School Board (nonprofessional)

Plan Description

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

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Component Unit School Board (nonprofessional)
Inactive members or their beneficiaries currently receiving benefits	10
Inactive members:	
Vested inactive members	3
Non-vested inactive members	4
Inactive members active elsewhere in VRS	4
Total inactive members	21
Active members	32
Total covered employees	53

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Contributions

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2018 was 4.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were $49,268 and $53,315 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability (asset) was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Changes in Net Pension Liability (Asset)

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 4,389,804	$ 4,478,506	$ (88,702)
Changes for the year:			
Service cost	$ 133,150	$ -	$ 133,150
Interest	303,206	-	303,206
Change in assumptions	(96,351)	-	(96,351)
Differences between expected and actual experience	(62,000)	-	(62,000)
Contributions - employer	-	50,600	(50,600)
Contributions - employee	-	62,163	(62,163)
Net investment income	-	549,409	(549,409)
Benefit payments, including refunds of employee contributions	(116,566)	(116,566)	-
Administrative expenses	-	(3,117)	3,117
Other changes	-	(491)	491
Net changes	$ 161,439	$ 541,998	$ (380,559)
Balances at June 30, 2017	$ 4,551,243	$ 5,020,504	$ (469,261)

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	$ 61,226	$ (469,261)	$ (920,387)

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

For the year ended June 30, 2018, the Component Unit School Board (nonprofessional) recognized pension expense of ($59,286). At June 30, 2018, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 95,018
Change in assumptions	-	72,020
Net difference between projected and actual earnings on pension plan investments	-	75,695
Employer contributions subsequent to the measurement date	49,268	-
Total	$ 49,268	$ 242,733

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

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

$49,268 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (nonprofessional)
2019	$ (123,853)
2020	(31,071)
2021	(40,576)
2022	(47,233)

Component Unit School Board (professional)

Plan Description

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

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were $3,717,961 and $3,334,139 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

At June 30, 2018, the school division reported a liability of $35,499,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was .28866% as compared to .28939% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of $3,129,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 2,513,000
Change in assumptions	518,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,226,000	82,000
Net difference between projected and actual earnings on pension plan investments	-	1,290,000
Employer contributions subsequent to the measurement date	3,717,961	-
Total	$ 5,461,961	$ 3,885,000

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

$3,717,961 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (professional)
2019	$ (884,000)
2020	353,000
2021	(266,000)
2022	(1,205,000)
2023	(139,000)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions: (Continued)

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		Teacher Employee Retirement Plan
Total Pension Liability	$	45,417,520
Plan Fiduciary Net Position		33,119,545
Employers' Net Pension Liability (Asset)	$	12,297,975
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		72.92%

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Net Pension Liability: (Continued)

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Asests	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each one of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportinate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	$ 53,012,000	$ 35,499,000	$ 21,012,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annualreport pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13—Deferred Compensation Plan:

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

Note 14—Commitments and Contingencies:

State and Federal Programs

Federal programs in which the City and all discretely presented component units participate are audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements,* Cost Principles, and Audit Requirements for Federal Awards. Pursuant to the provisions of this code all major programs are tested for compliance with applicable grant requirements.

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

Environmental Matters

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

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

Construction Commitments

At June 30, 2018, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately $670,968 at June 30, 2018.

Note 15—Litigation:

The City has been named as defendant in various matters. It is not known what liability, if any, the City faces.

Note 16—Landfill Post-closure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to post-closure monitoring. The estimated post-closure care cost for the next seven years has been recorded as a liability at June 30, 2018. The $1,466,276 reported as landfill post-closure liability at June 30, 2018 represents the estimated liability for post-closure monitoring as well as corrective action costs. All post-closure care and monitoring cost amounts are based on what it would cost to perform all post-closure care based on 2018 costs. These may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

Note 16—Landfill Post-closure Costs: (Continued)

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

Balance at July 1, 2017	$	1,499,514
Increase/(Decrease) in estimate		(33,238)
Balance at June 30, 2018	$	1,466,276

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

Note 17—Surety Bonds:

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

Note 18—Self Insurance/Risk Management:

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

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

Note 18—Self Insurance/Risk Management: (Continued)

Employee Health Insurance

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

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

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

Internal Service Fund: Liability for estimated claims incurred but not reported	$ 526,779
City General Fund: Committed Fund Balance for estimated reserves	800,000
Total	$ 1,326,779

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

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims and Payments	End of Fiscal Year Liability
2016	$ 389,602	$ 4,743,270	$ 4,737,599	$ 395,273
2017	395,273	5,897,554	5,627,093	665,734
2018	665,734	4,569,307	4,708,262	526,779

Unemployment Insurance

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

Property and Casualty Insurance

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

Note 18—Self Insurance/Risk Management: (Continued)

Property and Casualty Insurance: (Continued)

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

Note 19—Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Primary Government were $123,077 and $115,775 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions to School Professional Plan were $121,000 and $117,000 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions to the School Nonprofessional Plan were $7,000 and $6,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Primary Government, School Board (Professional) and School Board (Nonprofessional) reported liabilities of $1,856,586, $1,863,000, and $105,000, for their proportionate share of the Net GLI OPEB Liability, respectively. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, School Board (Professional) and School Board (Nonprofessional)'s proportion were .12382% and .00697% respectively, as compared to .12308% and .00697% at June 30, 2016.

The City of Fredericksburg proportionate share was .12611% at June 30, 2017 compared to .12791% at June 30, 2016. However, there are other entities not reported in these financial statements which are included in the employer proportionate share. The Primary Government's proportionate share of the overall City share was 97.818% at June 30, 2017 compared to 97.29% at June 30, 2016.

For the year ended June 30, 2018, the Primary Government, School Board (Professional) and School Board (Nonprofessional) recognized GLI OPEB expense of $15,651, $23,000, and $1,000, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		School Professional		School Nonprofessional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 41,084	$ -	$ 41,000	$ -	$ 3,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	69,451	-	70,000	-	4,000
Change in assumptions	-	95,862	-	96,000	-	5,000
Changes in proportion	-	25,433	11,000	-	-	-
Employer contributions subsequent to the measurement date	123,077	-	121,000	-	7,000	-
Total	$ 123,077	$ 231,830	$ 132,000	$ 207,000	$ 7,000	$ 12,000

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

$123,077, $121,000, and $7,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the respective Primary Government, School Board (Professional) and School Board (Nonprofessional)'s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government	School Professional	School Nonprofessional
2019	$ (47,931)	$ (41,000)	$ (2,000)
2020	(47,931)	(41,000)	(2,000)
2021	(47,931)	(41,000)	(2,000)
2022	(47,931)	(41,000)	(2,000)
2023	(30,324)	(23,000)	(1,000)
Thereafter	(9,782)	(9,000)	(3,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – SPORS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – JRS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	$	1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 19—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Proportionate share of the Group Life Insurance Program Net OPEB Liability:			
Primary Government	$ 2,400,454	$ 1,856,586	$ 1,414,448
School Professional	2,410,000	1,863,000	1,420,000
School Nonprofessional	136,000	105,000	80,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description: (Continued)

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS
Eligible Employees The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts
 	
The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:
• **At Retirement** – For Teacher and other professional school employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
• **Disability Retirement** – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:
  o $4.00 per month, multiplied by twice the amount of service credit, or
  o $4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Health Insurance Credit Program Notes: • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Contributions

The contribution requirements for active employees are governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Health Insurance Credit Program were $285,000 and $252,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of $3,655,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was .28813% as compared to .28938% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of $295,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	$ -	$ 7,000
Change in assumptions	-	37,000
Change in proportion	-	14,000
Employer contributions subsequent to the measurement date	285,000	-
Total	$ 285,000	$ 58,000

$285,000 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (9,000)
2020	(9,000)
2021	(9,000)
2022	(9,000)
2023	(8,000)
Thereafter	(14,000)

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

Mortality Rates – Teachers

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	$	1,364,702
Plan Fiduciary Net Position		96,091
Teacher Employee net HIC OPEB Liability (Asset)	$	1,268,611
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Note 20—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	$ 4,080,000	$ 3,655,000	$ 3,295,000

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 21—Health Insurance – Pay-as-you-Go (OPEB Plan) – School Board:

Plan Description

In addition to the pension benefits described in Note 12, the School Board administers a single-employer defined benefit healthcare plan, The Fredericksburg City Public Schools OPEB Plan. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 50, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan. The plan has no separate financial report.

Benefits Provided

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

Note 21—Health Insurance – Pay-as-you-Go (OPEB Plan) – School Board: (Continued)

Plan Membership

At January 1, 2018 (valuation date), the following employees were covered by the benefit terms:

Total active employees with coverage	582
Total retirees and surviving spouses with coverage	10
Total	592

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School for OPEB as the benefits came due during the year ended June 30, 2018 was $123,551.

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.50% to 5.35% based on years of service
Discount Rate	3.50% for accounting and funding disclosures as of June 30, 2017
	3.87% for accounting and funding disclosures as of June 30, 2018

Mortality rates for Active employees and healthy retirees were based on a RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related. Mortality rates for retired employees were based on RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; female's setback 1 year with 1.5% increase compounded from ages 70 to 85.

The date of the most recent actuarial experience study for which significant assumptions were based was June 30, 2016.

Note 21—Health Insurance – Pay-as-you-Go (OPEB Plan) – School Board: (Continued)

Discount Rate

The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement dates. The final equivalent single discount rate used for this year's valuation is 3.87% as of the end of the fiscal year with the expectation that the School Board will continue paying the pay-go cost.

Changes in Total OPEB Liability

Changes in Net OPEB Liability - School Board

		Component Unit School Board Total OPEB Liability
Balances at June 30, 2017	$	4,047,813
Changes for the year:		
Service cost		254,662
Interest		148,443
Changes in assumptions		(166,508)
Benefit payments		(123,551)
Net changes	$	113,046
Balances at June 30, 2018	$	4,160,859

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

Rate		
1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
$ 4,625,053	$ 4,160,859	$ 3,741,816

Note 21—Health Insurance – Pay-as-you-Go (OPEB Plan) – School Board: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (2.50% increasing to an ultimate rate of 3.20%) or one percentage point higher (4.50% increasing to an ultimate rate of 5.20%) than the current healthcare cost trend rates:

Rates		
1% Decrease (2.50% increasing to 3.20%)	Healthcare Cost Trend (3.50% increasing to 4.20%)	1% Increase (4.50% decreasing to 5.20%)
$ 3,582,479	$ 4,160,859	$ 4,859,902

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the School Board recognized OPEB expense in the amount of $378,253. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resouces	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 141,656

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (24,852)
2020	(24,852)
2021	(24,852)
2022	(24,852)
2023	(24,852)
Thereafter	(17,396)

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

Note 22—Health Insurance – (OPEB Plan) - City:

Plan Description

In addition to the pension benefits described in Note 12, the City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (e.g. 50 years of age and 30 years of continuous service) and complete 10 years of service at the City will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the City will provide 100% supplemental insurance benefits. Individuals employed on or after July 1, 1996, and who retire from City service with full VRS benefits (e.g. 50 years of age and 30 years of continuous service) and complete 15 years of service at the City, will receive $1.50 per month per year of service (up to a maximum of 30 years of service) towards the individual's cost of coverage. Disabled individuals must complete 5 years of service and be eligible for both VRS and Social Security disability to be eligible for these benefits. The Plan is a single-employer plan. There is not a separate, audited GAAP basis post-employment plan report.

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

Plan Administration

The City of Fredericksburg, Virginia administers the City of Fredericksburg, Virginia OPEB Plan (the Plan), a single-employer defined benefit plan that is used to provide post-employment benefits other than pensions (OPEB) for all employees who are eligible for retirement benefits of the City. Management of the Plan is vested in the Plan Trustees, which consists of the City Manager, City Treasurer, and a citizen of the City appointed by the City Manager and the City Treasurer.

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical, Dental, and Vision. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees.

Plan Membership

At January 1, 2018 (valuation date), the following employees were covered by the benefit terms:

Active plan members	437
Retirees and surviving spouses	159
Spouses of current retirees	15
Total	611

Contributions

The City pre-funds benefits through contributions to the trust. The current funding policy is to contribute the Actuarially Determined Contribution as calculated by the actuary. The Actuarially Determined Contribution is the sum of the current year's normal cost plus an amount necessary to amortize the unfunded liability over a closed period. For FY 2018, the City contributed $1,112,307 towards health plans.

Note 22—Health Insurance – (OPEB Plan) - City: (Continued)

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Percentage
Core Fixed Income	19.60%
High Yield Bonds	1.40%
Large Cap US Equities	26.00%
Small Cap US Equities	10.00%
Developed Foreign Equities	13.00%
Emerging Market Equities	5.00%
Private Equity	5.00%
Hedge Funds/Absolute Return	10.00%
Real Estate (REITS)	7.00%
Commodities	3.00%
Total	100%

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return of the City's OPEB investments, net of investment expense was 9.58%. The money weighted rate of return expresses investment performance, adjusted for the changing amounts actually invested.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Discount Rate	7.00%
Investment Rate of Return	7.00%

Note 22—Health Insurance – (OPEB Plan) - City: (Continued)

Actuarial Assumptions: (Continued)

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

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

The Long-Term Expected Rate of Return on OPEB Plan investments is 7.00%.

Discount Rate

The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year tax-exempt municipal bond yield or index rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. The final equivalent single discount rate used for this year's valuation is 7.00% as of the end of the fiscal year with the expectation that the City will continue contributing the Actuarially Determined Contribution and paying the pay-go cost from the OPEB Trust.

Changes in Net OPEB Liability

Changes in Net OPEB Liability - Total City Plan

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at June 30, 2017	$ 17,302,143	$ 1,235,520	$ 16,066,623
Changes for the year:			
Service cost	127,035	-	127,035
Interest	1,081,522	-	1,081,522
Difference between expected and actual experience	-	-	-
Effect of economic/demographic gains or losses	(1,432,111)	-	(1,432,111)
Contributions - employer	-	1,112,307	(1,112,307)
Net investment income	-	118,262	(118,262)
Administrative expenses	-	(1,857)	1,857
Benefit payments	(1,112,307)	(1,112,307)	-
Net changes	(1,335,861)	116,405	(1,452,266)
Balances at June 30, 2018	$ 15,966,282	$ 1,351,925	$ 14,614,357

Note the Changes in Net OPEB Liability presented above is for the entire plan. The Primary Government's proportionate share at June 30, 2018 was 99.93% compared to 99.99% at June 30, 2017. The Primary Government's proportionate share of Net OPEB Liability at June 30, 2018 totaled $14,603,542.

Note 22—Health Insurance – (OPEB Plan) - City: (Continued)

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

The following amounts present the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	Rate		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Primary Government Porportionate Share of Net OPEB Liability	$ 16,178,272	$ 14,603,542	$ 13,257,973

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.80% decreasing to an ultimate rate of 3.10% for pre-65 benefits, 5.10% decreasing to an ultimate rate of 3.40% for post-65 benefits) or one percentage point higher (6.80% decreasing to an ultimate rate of 5.10%, 7.10% decreasing to an ultimate rate of 5.40% or post-65 benefits) than the current healthcare cost trend rates:

	Rates		
	1% Decrease	Healthcare Cost Trend	1% Increase
Primary Government Porportionate Share of Net OPEB Liability	$ 13,157,776	$ 14,603,542	$ 16,295,111

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the City recognized OPEB expense in the amount of $874,892. At June 30, 2018, the Primary Government reported deferred outflows of resources and deferred inflows of resources related to OPEB on its proportionate share from the following sources:

	Deferred Outflows of Resouces	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,188,500
Net difference between projected and actual earnings on OPEB plan investments	-	25,452
Total	$ -	$ 1,213,952

Note 22—Health Insurance – (OPEB Plan) - City: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources: (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (248,915)
2020	(248,915)
2021	(248,915)
2022	(248,915)
2023	(218,292)
Thereafter	-

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

Summary of Net OPEB Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources:

	Primary Government			Component Unit School Board		
	Net OPEB Liability	Deferred Outflows	Deferred Inflows	Net OPEB Liability	Deferred Outflows	Deferred Inflows
School Board Pay-as-you-go (Note 21)	$ -	$ -	$ -	$ 4,160,859	$ -	$ 141,656
City OPEB Plan (Note 22)	14,603,542	-	1,213,952	-	-	-
Teacher HIC Program (Note 20)	-	-	-	3,655,000	285,000	58,000
Group Life - City (Note 19)	1,856,586	123,077	231,830	-	-	-
Group Life - School Professional (Note 19)	-	-	-	1,863,000	132,000	207,000
Group Life - School Nonprofessional (Note 19)	-	-	-	105,000	7,000	12,000
Total	$ 16,460,128	$ 123,077	$ 1,445,782	$ 9,783,859	$ 424,000	$ 418,656

Note 23—Contributions-In-Aid of Construction:

During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced $1,175,535 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of equipment. The R-Board has pledged to reimburse the City and County for the capital contributions with interest over a period of seven years. Although the intent of the R-Board is to reimburse these contributions, this amount is not shown as an asset of the City since repayment is not guaranteed. The outstanding balance of the City's advance as of June 30, 2018 is $1,022,554.

Note 24—Tax Abatement Disclosures - GASB Statement No. 77:

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

Technology Zones

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

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

- New businesses locating in the City: A minimum of ten jobs or at least a $250,000 capital investment.

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

- Reduction of business license tax, up to 100% for years 1-3 and up to 50% for years 4 and 5

- Machinery and tools tax grants for up to 100% for years 1-3 and up to 50% for years 4 and 5

- Business personal property tax grants up to 30% for years 1 and 2, up to 50% for years 3 and 4 and up to 70% for year 5

Note 24—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the Fiscal Year ended June 30, 2018, the City's tax incentives totaled $43,532 under the technology zone program. There was only one participant in the technology zone incentive program for the 2018 fiscal year. Fredericksburg City Council in August 2017 approved Technology Zone incentives for three firms expanding in the City, with planned investments totaling $9 million. Each of the three companies, beginning in fiscal year 2019, will receive a full wavier on their business license tax for three years and a 50 percent wavier for the next two years.

Business/Zone/ Incentive Term/Opening Date	Performance Measures	Incentive/Cap Amount	2018 Incentive	
Exisiting company expands and remains in City 1/1/15-12/31/19 (5 Years) June, 2014 **(TERMINATES AFTER 3/1/18)**	45 Jobs $22,000/yr. in BPOL Taxes	50% BPOL Reduction Years 1-2 30% BPOL Reduction Years 3-5 Business Personal Property Tax Reduction - Years 1 & 2 - 50% Reduction - Years 3-5 - 30%	BPOL Credit Personal Property Tax Total	$ 29,477 14,055 $ 43,532

Tourism Zones

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

Eagle Village and Central Park/Celebrate Virginia South:

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

Downtown/Princess Anne Street:

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

- New businesses locating in the City: A minimum of ten jobs or at least a $250,000 capital investment.

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

Note 24—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the fiscal year ended June 30, 2018, the City's tax incentives totaled $289,627 under the tourism zones, including the following tax incentive agreements that exceeded a threshold of $10,000:

Business/Zone/ Incentive Term/Opening Date	Performance Measures	Incentive/Cap Amount	2018 Incentive	
New business locates to City CVAS Tourism Zone 7/1/09 - 7/1/19 (10 Years) June 21, 2009	450 Jobs $300,000/yr. in All Taxes $25M Capital Investment	100% BPOL Reduction $1.7 Million Total Limit	BPOL Credit	$ 176,406
New business locates to City Downtown Tourism Zone 5/1/10 - 5/1/20 (10 Years) May 1, 2010	25 Jobs $75,000/yr. in Meals/Sales Taxes Arts Display $175,000 Capital Investment	100% BPOL Waiver up to $4,000/yr 10% Sales/Meals Taxes Reimbursement up to $14,000/yr. $18,000/yr. Limit $90,000 Total Limit	BPOL Credit Meals/Sales Taxes Total	$ 2,510 7,874 $ 10,384
New business locates to City Eagle Village Tourism Zone 10 yrs. from Opening, December 13, 2014	20 FTE Jobs $130,000/yr. in Lodging, Meals, Sales and BPOL Taxes $11M Capital Investment	100% Reimbursement of 1% Local Sales Tax and 1% State Sales Tax $620,000 Limit ($310K from city)	Sales Tax	$ 31,189
New business locates to City Central Park Tourism Zone 3/1/13 - 3/1/23 (10 Years) April 1, 2013	25 Jobs Local Sales tax of at Least $34,000/yr.	100% BPOL waiver - Up to $10,000/yr. 10% Reimbursement of Local Sales Tax - up to $6,500/yr. Maximum Annual Incentive - $16,500 Maximum Total Incentive - $100,000	BPOL Credit Sales Taxes Total	$ 8,061 4,054 $ 12,115
New business locates to City Downtown Tourism Zone 7/1/14 - 7/1/20 (6 Years) May 1, 2015	58,500 Working Hours (35 Jobs) Annual Meals/Sales Taxes of $2,000,000/yr. $1,800,000 Capital Investment	EDA shall award an annual performance grant of $40,000 for five years beginning July 1, 2016 through July 1, 2020	Performance Grant	$ 40,000

Arts and Cultural District

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

Qualifying businesses include visual arts, dance, media arts, music studios, places of instruction, museums, art galleries, and various performing arts venues. The tax incentives for qualifying businesses are for a term of five years and include a reduction to business license tax of $250 for existing businesses and non-arts businesses that host year-round art exhibits, 100% for any new gross receipts for expanded businesses, and 100% for new businesses. Permit fee relief up to $2,000 is also available for new and expanded businesses. For the fiscal year 2018, the City's tax incentives for the Arts and Cultural District totaled $3,070.

Note 25—Net Position Restatements:

Net Position at the beginning of the year was restated as follows:

	Governmental Activities	Business-type Activities	Component Unit School Board
Balance as reported June 30, 2017	$ 97,102,307	$ 68,603,278	$ (11,784,388)
Implementation of GASB 75	(12,911,622)	(266,872)	(7,308,017)
Restatement of Capital Assets	(1,551,553)	-	-
Balance as restated June 30, 2017	$ 82,639,132	$ 68,336,406	$ (19,092,405)

REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

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

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Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	$ 30,990,000	$ 30,990,000	$ 31,559,290	$ 569,290
Public service corporations	870,000	870,000	1,018,142	148,142
Personal property	8,675,000	8,675,000	8,791,102	116,102
Mobile homes	-	-	1,002	1,002
Machinery and tools	110,500	110,500	121,322	10,822
Penalties	270,000	270,000	307,798	37,798
Interest	165,000	165,000	292,512	127,512
Total general property taxes	$ 41,080,500	$ 41,080,500	$ 42,091,168	$ 1,010,668
Other local taxes:				
Local sales and use taxes	$ 11,350,000	$ 11,350,000	$ 11,580,437	$ 230,437
Utility taxes	1,850,000	1,850,000	1,834,078	(15,922)
Business licenses and rental tax	6,100,000	6,100,000	6,382,569	282,569
Motor vehicle licenses	480,000	480,000	473,299	(6,701)
Bank stock taxes	725,000	725,000	861,080	136,080
Recordation taxes	600,000	600,000	435,488	(164,512)
Tobacco tax	525,000	525,000	498,154	(26,846)
Amusement tax	375,000	375,000	500,907	125,907
Hotel/lodging taxes	1,450,000	1,450,000	1,565,938	115,938
Meals taxes	11,100,000	11,100,000	11,765,352	665,352
Gasoline taxes	121,430	121,430	106,430	(15,000)
Other	80,000	80,000	101,473	21,473
Total other local taxes	$ 34,756,430	$ 34,756,430	$ 36,105,205	$ 1,348,775
Permits, privilege fees and licenses:				
Permits and other licenses	$ 649,950	$ 649,950	$ 776,098	$ 126,148
Animal licenses	10,000	10,000	10,084	84
Total permits, privilege fees and licenses	$ 659,950	$ 659,950	$ 786,182	$ 126,232
Fines and forfeitures	$ 320,000	$ 320,000	$ 451,584	$ 131,584
Revenue from use of money and property:				
Revenue from use of money	$ 160,000	$ 160,000	$ 254,533	$ 94,533
Revenue from use of property	39,750	39,750	32,012	(7,738)
Total revenue from use of money and property	$ 199,750	$ 199,750	$ 286,545	$ 86,795
Charges for services:				
Court costs	$ 111,300	$ 111,300	$ 126,449	$ 15,149
Commonwealth's Attorney	8,500	8,500	9,690	1,190
Sanitation and waste removal	1,025,000	1,025,000	1,017,049	(7,951)
Parks and recreation	457,500	457,500	506,364	48,864
Planning and community development	1,100	1,100	9	(1,091)
Fire and rescue services	900,000	900,000	886,428	(13,572)
Administrative charges	135,000	135,000	144,698	9,698
Total charges for services	$ 2,638,400	$ 2,638,400	$ 2,690,687	$ 52,287

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Payments in-lieu of taxes	$ 27,500	$ 27,500	$ 30,544	$ 3,044
Souvenir sales	23,000	23,000	21,042	(1,958)
Donations - parks and recreation	50,000	50,000	48,868	(1,132)
Other	32,120	32,120	46,128	14,008
Total miscellaneous	$ 132,620	$ 132,620	$ 146,582	$ 13,962
Recovered costs:				
Health department	$ 100,000	$ 100,000	$ 95,429	$ (4,571)
Social services	100,000	100,000	65,668	(34,332)
Transit	120,000	120,000	120,000	-
Other	165,250	251,107	434,216	183,109
Total recovered costs	$ 485,250	$ 571,107	$ 715,313	$ 144,206
Total revenue from local sources	$ 80,272,900	$ 80,358,757	$ 83,273,266	$ 2,914,509
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	$ 170,000	$ 170,000	$ 114,933	$ (55,067)
Motor vehicle rental tax	150,000	150,000	155,790	5,790
Communication sales tax	1,750,000	1,750,000	1,632,557	(117,443)
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	10,500	10,500	20,889	10,389
Total noncategorical aid	$ 3,805,500	$ 3,805,500	$ 3,653,002	$ (152,498)
Categorical aid - shared expenses:				
Commonwealth's Attorney	$ 655,000	$ 655,000	$ 645,801	$ (9,199)
Sheriff	520,000	535,800	551,559	15,759
Commissioner of Revenue	140,000	140,000	139,477	(523)
Treasurer	100,000	100,000	98,400	(1,600)
Registrar	40,000	40,000	42,321	2,321
Clerk of the Circuit Court	345,000	345,000	334,734	(10,266)
Total categorical aid - shared expenses	$ 1,800,000	$ 1,815,800	$ 1,812,292	$ (3,508)
Categorical aid - other:				
Street and highway maintenance	$ 2,950,000	$ 2,950,000	$ 2,934,432	$ (15,568)
Law enforcement assistance	810,000	810,000	803,612	(6,388)
Wireless E-911 grants	185,000	185,000	193,260	8,260
Other	21,600	21,600	-	(21,600)
Total categorical aid - other	$ 3,966,600	$ 3,966,600	$ 3,931,304	$ (35,296)
Total revenue from the Commonwealth	$ 9,572,100	$ 9,587,900	$ 9,396,598	$ (191,302)

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Intergovernmental: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public assistance - cost allocation	$ 30,000	$ 30,000	$ 97,082	$ 67,082
Total revenue from the Federal Government	$ 30,000	$ 30,000	$ 97,082	$ 67,082
Total revenues	$ 89,875,000	$ 89,976,657	$ 92,766,946	$ 2,790,289
Expenditures				
General government administration:				
Legislative:				
City Council	$ 247,480	$ 247,480	$ 236,956	$ 10,524
Clerk of Council	114,662	123,862	121,340	2,522
Total legislative	$ 362,142	$ 371,342	$ 358,296	$ 13,046
General and financial administration:				
City manager	$ 928,164	$ 989,911	$ 962,249	$ 27,662
Insurance program	1,413,000	1,366,905	826,525	540,380
Human resources	372,965	379,091	368,985	10,106
Independent auditor	79,500	81,250	81,205	45
Commissioner of the revenue	1,013,048	968,117	854,648	113,469
Board of Real Estate Assessors	1,000	1,000	-	1,000
Treasurer	838,927	807,068	767,487	39,581
Fiscal affairs	811,268	810,998	769,857	41,141
Information technology	1,455,285	1,540,274	1,361,578	178,696
Copying and postage	24,600	24,600	21,022	3,578
Safety program	117,811	116,536	102,526	14,010
Legal services	376,169	364,770	346,275	18,495
Total general and financial administration	$ 7,431,737	$ 7,450,520	$ 6,462,357	$ 988,163
Board of elections:				
Registrar and electoral board	$ 226,191	$ 226,578	$ 213,752	$ 12,826
Total general government administration	$ 8,020,070	$ 8,048,440	$ 7,034,405	$ 1,014,035
Judicial administration:				
Courts:				
Circuit Court	$ 122,234	$ 101,304	$ 94,306	$ 6,998
General District Court	29,000	29,000	20,650	8,350
Special magistrate	3,000	3,000	-	3,000
Juvenile and Domestic Relations District Court	19,200	19,200	10,479	8,721
Clerk of the Circuit Court	849,715	849,715	746,767	102,948
Sheriff	2,217,199	2,288,628	2,280,742	7,886
JDR services	108,340	114,070	114,070	-
Juries	28,000	31,000	30,728	272
Court appointed attorney	12,000	7,000	1,080	5,920
Total courts	$ 3,388,688	$ 3,442,917	$ 3,298,822	$ 144,095

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	$ 1,346,955	$ 1,367,917	$ 1,289,166	$ 78,751
Total judicial administration	$ 4,735,643	$ 4,810,834	$ 4,587,988	$ 222,846
Public safety:				
Law enforcement and traffic control:				
Police department	$ 8,112,543	$ 8,160,641	$ 7,962,508	$ 198,133
Fire and rescue:				
Fire department	$ 5,052,788	$ 5,058,694	$ 4,936,056	$ 122,638
Rescue services	257,100	257,100	257,100	-
Emergency medical services	1,497,251	1,498,048	1,493,187	4,861
Hazardous materials	41,848	41,848	26,486	15,362
E-911 communications	1,390,165	1,384,247	1,322,332	61,915
Total fire and rescue	$ 8,239,152	$ 8,239,937	$ 8,035,161	$ 204,776
Correction and detention:				
Juvenile Detention Center	$ 469,127	$ 466,492	$ 368,810	$ 97,682
Rappahannock Security Center	4,325,323	4,327,958	4,327,955	3
Total correction and detention	$ 4,794,450	$ 4,794,450	$ 4,696,765	$ 97,685
Inspections:				
Building and development services	$ 805,960	$ 780,598	$ 753,390	$ 27,208
Other protection:				
Animal control	$ 123,540	$ 123,540	$ 121,911	$ 1,629
Public safety radio system	453,424	453,424	452,325	1,099
Medical Examiner	1,000	1,000	600	400
Total other protection	$ 577,964	$ 577,964	$ 574,836	$ 3,128
Total public safety	$ 22,530,069	$ 22,553,590	$ 22,022,660	$ 530,930
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	$ 856,700	$ 887,702	$ 886,525	$ 1,177
Street maintenance	1,268,924	1,364,746	1,270,019	94,727
Street lights	420,000	420,000	383,964	36,036
Snow removal	174,030	113,806	66,885	46,921
Industrial park rail spur	15,500	15,500	-	15,500
Traffic engineering	817,068	856,762	809,425	47,337
Shop and garage	1,264,488	1,195,112	1,156,971	38,141
Total maintenance of streets, highways, bridges and sidewalks	$ 4,816,710	$ 4,853,628	$ 4,573,789	$ 279,839

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	$ 876,444	$ 900,495	$ 878,638	$ 21,857
Urban forestry program	45,000	85,200	74,373	10,827
Refuse collection	713,796	657,522	625,989	31,533
Refuse disposal	376,250	376,250	348,011	28,239
Recycling collection	138,122	147,222	141,040	6,182
Total sanitation and waste removal	$ 2,149,612	$ 2,166,689	$ 2,068,051	$ 98,638
Maintenance of buildings and grounds:				
Public facilities	$ 2,262,891	$ 2,240,308	$ 1,973,980	$ 266,328
Courthouse maintenance	288,010	313,410	313,396	14
Commuter rail	79,780	63,380	27,977	35,403
Total maintenance of buildings and grounds	$ 2,630,681	$ 2,617,098	$ 2,315,353	$ 301,745
Total public works	$ 9,597,003	$ 9,637,415	$ 8,957,193	$ 680,222
Health and welfare:				
Health:				
Supplement to local health department	$ 414,280	$ 414,280	$ 414,280	$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	$ 261,895	$ 261,895	$ 261,895	$ -
Social services:				
Other contributions	$ 371,663	$ 371,463	$ 369,226	$ 2,237
Total health and welfare	$ 1,047,838	$ 1,047,638	$ 1,045,401	$ 2,237
Education:				
Community colleges	$ 68,359	$ 68,359	$ 68,359	$ -
Appropriations to public school system	28,775,210	29,020,210	29,020,210	-
Total education	$ 28,843,569	$ 29,088,569	$ 29,088,569	$ -
Parks, recreation and cultural:				
Parks and recreation:				
Administration	$ 611,398	$ 596,498	$ 596,479	$ 19
Supervision	783,120	778,637	764,917	13,720
Maintenance	1,082,230	1,195,788	1,149,958	45,830
Motts Run	74,925	97,985	97,944	41
Dixon Park swimming pool	141,420	132,520	131,848	672
Total parks and recreation	$ 2,693,093	$ 2,801,428	$ 2,741,146	$ 60,282
Library:				
Regional library	$ 1,435,471	$ 1,250,471	$ 1,250,471	$ -
Downtown library	-	203,000	202,442	558
Total library	$ 1,435,471	$ 1,453,471	$ 1,452,913	$ 558
Cultural:				
Museums	$ 95,975	$ 95,975	$ 95,975	$ -
Total parks, recreation and cultural	$ 4,224,539	$ 4,350,874	$ 4,290,034	$ 60,840

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Community development:				
Planning and community development:				
Planning	$ 710,766	$ 675,995	$ 658,121	$ 17,874
Zoning Appeals Board	1,400	1,400	230	1,170
Transportation division	154,080	154,148	145,079	9,069
Community development	153,087	153,287	153,241	46
Architectural Review Board	2,000	2,000	-	2,000
Clean and Green Commission	3,000	3,000	2,993	7
Economic development and tourism	1,055,533	1,083,621	1,077,143	6,478
Total planning and community development	$ 2,079,866	$ 2,073,451	$ 2,036,807	$ 36,644
Environmental management:				
Soil and water conservation district	$ 2,000	$ 2,000	$ 2,000	$ -
Total community development	$ 2,081,866	$ 2,075,451	$ 2,038,807	$ 36,644
Total expenditures	$ 81,080,597	$ 81,612,811	$ 79,065,057	$ 2,547,754
Excess (deficiency) of revenues over expenditures	$ 8,794,403	$ 8,363,846	$ 13,701,889	$ 5,338,043
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	$ 30,000	$ 30,000	$ 13,301	$ (16,699)
Transfers in	600,000	600,000	600,000	-
Transfers out	(11,595,783)	(12,788,101)	(12,755,394)	32,707
Total other financing sources (uses)	$ (10,965,783)	$ (12,158,101)	$ (12,142,093)	$ 16,008
Net change in fund balance	$ (2,171,380)	$ (3,794,255)	$ 1,559,796	$ 5,354,051
Fund balance, beginning of year	2,171,380	3,794,255	24,275,393	20,481,138
Fund balance, end of year	$ -	$ -	$ 25,835,189	$ 25,835,189

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

Schedule of Employer's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2018

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
Primary Government - City Retirement Plan					
2017	97.82% $	19,534,142 $	22,725,806	85.96%	84.23%
2016	97.29%	26,367,292	22,354,388	117.95%	78.31%
2015	96.83%	20,719,184	22,248,692	93.13%	82.01%
2014	96.57%	22,917,333	21,687,751	105.67%	79.85%
Component Unit School Board (professional)					
2017	0.2887% $	35,499,000 $	22,743,104	156.09%	72.92%
2016	0.2894%	40,555,000	22,065,166	183.80%	68.28%
2015	0.2883%	36,284,000	21,447,563	169.18%	70.68%
2014	0.2730%	32,995,000	19,966,621	165.25%	70.88%

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

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

Schedule of Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 133,150	$ 125,309	$ 130,660	$ 132,328
Interest	303,206	283,678	273,318	255,208
Changes in assumptions	(96,351)	-	-	-
Differences between expected and actual experience	(62,000)	(17,054)	(143,981)	-
Benefit payments, including refunds of employee contributions	(116,566)	(109,346)	(114,651)	(142,987)
Net change in total pension liability	$ 161,439	$ 282,587	$ 145,346	$ 244,549
Total pension liability - beginning	4,389,804	4,107,217	3,961,871	3,717,322
Total pension liability - ending (a)	$ 4,551,243	$ 4,389,804	$ 4,107,217	$ 3,961,871
Plan fiduciary net position				
Contributions - employer	$ 50,600	$ 85,248	$ 84,468	$ 76,354
Contributions - employee	62,163	60,997	60,507	59,538
Net investment income	549,409	79,053	191,424	567,330
Benefit payments, including refunds of employee contributions	(116,566)	(109,346)	(114,651)	(142,987)
Administrative expense	(3,117)	(2,671)	(2,558)	(3,030)
Other	(491)	(33)	(41)	30
Net change in plan fiduciary net position	$ 541,998	$ 113,248	$ 219,149	$ 557,235
Plan fiduciary net position - beginning	4,478,506	4,365,258	4,146,109	3,588,874
Plan fiduciary net position - ending (b)	$ 5,020,504	$ 4,478,506	$ 4,365,258	$ 4,146,109
School Division's net pension liability(asset) - ending (a) - (b)	$ (469,261)	$ (88,702)	$ (258,041)	$ (184,238)
Plan fiduciary net position as a percentage of the total pension liability	110.31%	102.02%	106.28%	104.65%
Covered payroll	$ 1,284,705	$ 1,249,950	$ 1,235,088	$ 1,191,588
School Division's net pension liability as a percentage of covered payroll	36.53%	7.10%	20.89%	15.46%

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

Schedule of Employer Contributions - Pension
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2018	$ 2,983,944	$ 2,983,944	$ -	$ 24,252,928	12.30%
2017	2,915,650	2,915,650	-	23,232,269	12.55%
2016	3,662,544	3,662,544	-	22,977,066	15.94%
2015	3,608,107	3,608,107	-	22,635,550	15.94%
2014	3,138,165	3,138,165	-	21,420,920	14.65%
2013	3,070,145	3,070,145	-	20,956,620	14.65%
2012	2,193,209	2,193,209	-	20,307,488	10.80%
2011	2,169,552	2,169,552	-	20,088,443	10.80%
2010	1,902,397	1,902,397	-	20,216,761	9.41%
2009	1,970,440	1,970,440	-	20,939,846	9.41%
Component Unit School Board (nonprofessional)					
2018	$ 49,268	$ 49,268	$ -	$ 1,285,885	3.83%
2017	53,315	53,315	-	1,284,705	4.15%
2016	86,747	86,747	-	1,249,950	6.94%
2015	85,715	85,715	-	1,235,088	6.94%
2014	86,152	86,152	-	1,191,588	7.23%
2013	84,302	84,302	-	1,166,004	7.23%
2012	49,855	49,855	-	1,105,427	4.51%
2011	48,946	48,946	-	1,085,267	4.51%
2010	49,309	49,309	-	1,133,534	4.35%
2009	50,196	50,196	-	1,153,923	4.35%
Component Unit School Board (professional)					
2018	$ 3,717,961	$ 3,717,961	$ -	$ 23,210,637	16.02%
2017	3,334,139	3,334,139	-	22,743,104	14.66%
2016	3,100,340	3,100,340	-	22,065,166	14.05%
2015	3,526,396	3,526,396	-	21,447,563	16.44%

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

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Schedule of City of Fredericksburg, Virginia's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2017	0.12611%	$ 1,856,586	$ 23,262,335	7.98%	48.86%
Component Unit School Board (nonprofessional)					
2017	0.00697%	$ 105,000	$ 1,284,705	8.17%	48.86%
Component Unit School Board (professional)					
2017	0.12382%	$ 1,863,000	$ 22,839,725	8.16%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2018	$ 126,281	$ 126,281	$ -	$ 24,284,801	0.52%
2017	120,964	120,964	-	23,262,335	0.52%
2016	110,329	110,329	-	22,985,223	0.48%
2015	108,783	108,783	-	22,663,195	0.48%
2014	102,914	102,914	-	21,440,512	0.48%
2013	100,705	100,705	-	20,980,105	0.48%
2012	56,861	56,861	-	20,307,488	0.28%
2011	56,270	56,270	-	20,096,384	0.28%
2010	41,080	41,080	-	20,216,761	0.20%
2009	56,538	56,538	-	20,939,846	0.27%
Component Unit School Board (nonprofessional)					
2018	$ 6,687	$ 6,687	$ -	$ 1,285,885	0.52%
2017	6,680	6,680	-	1,284,705	0.52%
2016	6,011	6,011	-	1,252,322	0.48%
2015	5,928	5,928	-	1,235,088	0.48%
2014	5,753	5,753	-	1,198,497	0.48%
2013	5,597	5,597	-	1,166,004	0.48%
2012	3,095	3,095	-	1,105,427	0.28%
2011	3,039	3,039	-	1,085,267	0.28%
2010	2,299	2,299	-	1,133,534	0.20%
2009	3,116	3,116	-	1,153,923	0.27%
Component Unit School Board (professional)					
2018	$ 120,947	$ 120,947	$ -	$ 23,258,958	0.52%
2017	118,767	118,767	-	22,839,725	0.52%
2016	106,165	106,165	-	22,117,662	0.48%
2015	103,319	103,319	-	21,524,745	0.48%
2014	96,002	96,002	-	20,000,385	0.48%
2013	92,567	92,567	-	19,284,823	0.48%
2012	51,457	51,457	-	18,381,005	0.28%
2011	50,412	50,412	-	18,004,450	0.28%
2010	34,669	34,669	-	12,840,266	0.27%
2009	49,443	49,443	-	18,312,181	0.27%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of Fredericksburg School Board's Share of Net OPEB Liability
Teacher Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2017	0.28813%	$ 3,655,000	$ 22,743,104	16.07%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
Teacher Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 285,491	$ 285,491	$ -	$ 23,210,637	1.23%
2017	252,402	252,402	-	22,738,901	1.11%
2016	233,891	233,891	-	22,065,166	1.06%
2015	227,198	227,198	-	21,433,776	1.06%
2014	221,629	221,629	-	19,966,618	1.11%
2013	214,040	214,040	-	19,282,895	1.11%
2012	110,273	110,273	-	18,378,751	0.60%
2011	107,909	107,909	-	17,984,801	0.60%
2010	133,539	133,539	-	17,996,339	0.74%
2009	197,691	197,691	-	18,304,727	1.08%

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Component Unit School Board
For the Year Ended June 30, 2018

		2018
Total OPEB liability		
Service cost	$	254,662
Interest		148,443
Changes in assumptions		(166,508)
Benefit payments		(123,551)
Net change in total OPEB liability	$	113,046
Total OPEB liability - beginning		4,047,813
Total OPEB liability - ending	$	4,160,859
Covered payroll	$	27,400,642
School Board's total OPEB liability (asset) as a percentage of covered payroll		15.19%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Supplementary Information - Component Unit School Board Pay-As-You Go OPEB Plan
For the Year Ended June 30, 2018

Valuation Date: 1/1/2018
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.50% as of June 30, 2017 and 3.87% as of June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 3.50% in 2018 and gradually increases to 4.20% by the year 2097
Salary Increase Rates	3.50% to 5.35% based on years of service
Retirement Age	Between 50 and 65 with a service requirement
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related.

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

	2018	2017
Total OPEB liability		
Service cost	$ 127,035	$ 199,978
Interest	1,081,522	1,163,246
Effect of Economic/Demographic Gains or Losses	(1,432,111)	-
Benefit payments	(1,112,307)	(941,888)
Net change in total OPEB liability	$ (1,335,861)	$ 421,336
Total OPEB liability - beginning	17,302,143	16,880,807
Total OPEB liability - ending (a)	$ 15,966,282	$ 17,302,143
Plan fiduciary net position		
Contributions - employer	$ 1,112,307	$ 1,053,888
Net investment income	118,262	128,315
Benefit payments	(1,112,307)	(941,888)
Administrative expense	(1,857)	(1,347)
Net change in plan fiduciary net position	$ 116,405	$ 238,968
Plan fiduciary net position - beginning	1,235,520	996,552
Plan fiduciary net position - ending (b)	$ 1,351,925	$ 1,235,520
City's net OPEB liability - ending (a) - (b)	$ 14,614,357	$ 16,066,623
Plan fiduciary net position as a percentage of the total OPEB liability	8.47%	7.14%
Covered-employee payroll	$ 23,337,048	$ 22,344,600
City's net OPEB liability as a percentage of covered payroll	62.62%	71.90%

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

Schedule of Employer Contributions - OPEB
Last Ten Fiscal Years

Date	Actuarially Determined Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2018	$ 1,035,412	$ 1,112,307	$ (76,895)	$ 23,337,048	4.77%
2017	1,195,200	1,053,900	141,300	22,344,600	4.72%
2016	1,148,800	1,888,000	(739,200)	22,344,600	8.45%

Notes to Schedule

Valuation date: June 30, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll, closed
Amortization period	28 years
Asset valuation method	Market Value
Inflation	2.50%
Healthcare cost trend rates	For pre-65 benefits: 5.10% for 2016, 8.60% for 2017, 5.80% for 2018, gradually decreasing to an ultimate rate of 4.10% for 2085 and beyond. For post-65 benefits: 6.30% for 2016, 9.10% for 2017, 6.10% for 2018, gradually decreasing to an ultimate rate of 4.40% for 2098 and beyond.
Salary increases	3.00%
Investment rate of return	7.00%
Retirement age	In the 2018 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2018 actuarial valuation, assumed life expentancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table.

This schedule is intended to show information for 10 years. While 2016 is the first year for this presentation, additional years will be included as they become available.

Schedule of Investment Returns
Last Ten Fiscal Years

	2018	2017
Annual money-weighted rate of return, net of investment expense	9.58%	12.78%

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

OTHER SUPPLEMENTARY INFORMATION

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Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2018

	Special Revenue	Capital Projects	Debt Service	Total
Assets:				
Cash and cash equivalents	$ 1,813,038	$ 7,387,775	$ 1,846,607	$ 11,047,420
Receivables:				
Property taxes	7,030	-	-	7,030
Accrued revenue	24,779	97,146	-	121,925
Prepaid items	1,767	-	-	1,767
Due from other governments	1,211,305	498,700	-	1,710,005
Total assets	$ 3,057,919	$ 7,983,621	$ 1,846,607	$ 12,888,147
Liabilities:				
Accounts payable	$ 470,863	$ 518,226	$ -	$ 989,089
Accrued liabilities	193,219	99,552	-	292,771
Unearned revenue	20,000	356,625	-	376,625
Total liabilities	$ 684,082	$ 974,403	$ -	$ 1,658,485
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	$ 4,794	$ -	$ -	$ 4,794
Fund Balances:				
Nonspendable	$ 1,767	$ -	$ -	$ 1,767
Restricted	100,000	-	-	100,000
Committed	2,267,276	2,156,267	1,846,607	6,270,150
Assigned	-	4,852,951	-	4,852,951
Total fund balances	$ 2,369,043	$ 7,009,218	$ 1,846,607	$ 11,224,868
Total liabilities, deferred inflows of resources and fund balances	$ 3,057,919	$ 7,983,621	$ 1,846,607	$ 12,888,147

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue	Capital Projects	Debt Service	Total
Revenues				
General property taxes	$ 389,351	$ -	$ -	$ 389,351
Other local taxes	-	175,000	-	175,000
Permits, privilege fees and regulatory licenses	31,593	5,688	-	37,281
Fines and forfeitures	7,275	1,187	-	8,462
Use of money and property	3,700	255,081	-	258,781
Charges for services	28,811	58,423	-	87,234
Miscellaneous	102,181	-	281,622	383,803
Recovered costs	468,252	209,533	-	677,785
Intergovernmental:				
Revenue from the Commonwealth	3,343,966	936,015	-	4,279,981
Revenue from the Federal Government	3,297,927	148,518	-	3,446,445
Total revenues	$ 7,673,056	$ 1,789,445	$ 281,622	$ 9,744,123
Expenditures				
Current:				
Judicial administration	$ 237,357	$ -	$ -	$ 237,357
Public safety	549,245	-	-	549,245
Public works	450,692	-	-	450,692
Health and welfare	7,705,038	-	-	7,705,038
Parks, recreation and cultural	94,154	-	-	94,154
Community development	745,764	-	-	745,764
Capital projects	-	7,031,684	-	7,031,684
Debt service:				
Principal payments	-	-	4,980,957	4,980,957
Interest and fiscal charges	-	-	3,610,416	3,610,416
Total expenditures	$ 9,782,250	$ 7,031,684	$ 8,591,373	$ 25,405,307
Excess (deficiency) of revenues over (under) expenditures	$ (2,109,194)	$ (5,242,239)	$ (8,309,751)	$ (15,661,184)
Other financing sources (uses)				
Proceeds from the sale of capital assets	$ 2,115	$ -	$ -	$ 2,115
Transfers in	2,370,619	2,321,916	8,155,868	12,848,403
Transfers out	(87,344)	-	-	(87,344)
Total other financing sources (uses)	$ 2,285,390	$ 2,321,916	$ 8,155,868	$ 12,763,174
Net change in fund balance	$ 176,196	$ (2,920,323)	$ (153,883)	$ (2,898,010)
Fund balances, beginning of year	2,192,847	9,929,541	2,000,490	14,122,878
Fund balances, end of year	$ 2,369,043	$ 7,009,218	$ 1,846,607	$ 11,224,868

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2018

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Stormwater Management Fund	Forfeited Asset Sharing Program Fund	Fredericksburg Opportunity Fund	Blight Abatement Fund	Total
Assets:									
Cash and cash equivalents	$ 216,488	$ 708,885	$ 60,247	$ 262,519	$ 138,775	$ 139,071	$ 75,000	$ 212,053	$ 1,813,038
Receivables:									
Property taxes	-	-	-	-	7,030	-	-	-	7,030
Accrued revenue	9,223	15,556	-	-	-	-	-	-	24,779
Prepaid items	641	1,126	-	-	-	-	-	-	1,767
Due from other governments	468,475	171,073	571,757	-	-	-	-	-	1,211,305
Total assets	$ 694,827	$ 896,640	$ 632,004	$ 262,519	$ 145,805	$ 139,071	$ 75,000	$ 212,053	$ 3,057,919
Liabilities:									
Accounts payable	$ 45,976	$ 75,185	$ 325,331	$ -	$ 13,897	$ 9,848	$ -	$ 626	$ 470,863
Accrued liabilities	99,229	11,422	2,605	-	14,068	65,895	-	-	193,219
Unearned revenue	-	20,000	-	-	-	-	-	-	20,000
Total liabilities	$ 145,205	$ 106,607	$ 327,936	$ -	$ 27,965	$ 75,743	$ -	$ 626	$ 684,082
Deferred Inflows of Resources:									
Unavailable revenue - property taxes	$ -	$ -	$ -	$ -	$ 4,794	$ -	$ -	$ -	$ 4,794
Fund Balances:									
Nonspendable	$ 641	$ 1,126	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,767
Restricted	-	100,000	-	-	-	-	-	-	100,000
Committed	548,981	688,907	304,068	262,519	113,046	63,328	75,000	211,427	2,267,276
Total fund balances	$ 549,622	$ 790,033	$ 304,068	$ 262,519	$ 113,046	$ 63,328	$ 75,000	$ 211,427	$ 2,369,043
Total liabilities, deferred inflows of resources and fund balances	$ 694,827	$ 896,640	$ 632,004	$ 262,519	$ 145,805	$ 139,071	$ 75,000	$ 212,053	$ 3,057,919

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2018

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Stormwater Management Fund	Forfeited Asset Sharing Program Fund	Fredericksburg Opportunity Fund	Blight Abatement Fund	Total
Revenues									
General property taxes	$ -	$ -	$ -	$ -	$ 389,351	$ -	$ -	$ -	$ 389,351
Permits, privilege fees and regulatory licenses	-	9,643	-	-	21,950	-	-	-	31,593
Fines and forfeitures	-	275	-	-	7,000	-	-	-	7,275
Use of money and property	-	1,801	-	-	-	1,899	-	-	3,700
Charges for services	-	28,811	-	-	-	-	-	-	28,811
Miscellaneous	-	97,481	-	-	-	-	-	4,700	102,181
Recovered costs	50,145	383,797	-	-	1,190	-	-	33,120	468,252
Intergovernmental:									
Revenue from the Commonwealth	1,729,278	263,401	1,350,194	-	-	1,093	-	-	3,343,966
Revenue from the Federal Government	2,656,837	564,162	76,928	-	-	-	-	-	3,297,927
Total revenues	$ 4,436,260	$ 1,349,371	$ 1,427,122	$ -	$ 419,491	$ 2,992	$ -	$ 37,820	$ 7,673,056
Expenditures									
Judicial administration	$ -	$ 237,357	$ -	$ -	$ -	$ -	$ -	$ -	$ 237,357
Public safety	-	499,735	-	-	-	49,510	-	-	549,245
Public works	-	-	-	-	434,565	-	-	16,127	450,692
Health and welfare	5,415,396	-	2,289,642	-	-	-	-	-	7,705,038
Parks, recreation and cultural	-	94,154	-	-	-	-	-	-	94,154
Community development	-	745,764	-	-	-	-	-	-	745,764
Total expenditures	$ 5,415,396	$ 1,577,010	$ 2,289,642	$ -	$ 434,565	$ 49,510	$ -	$ 16,127	$ 9,782,250
Excess (deficiency) of revenues over (under) expenditures	$ (979,136)	$ (227,639)	$ (862,520)	$ -	$ (15,074)	$ (46,518)	$ -	$ 21,693	$ (2,109,194)
Other financing sources (uses)									
Transfers in	$ 1,040,000	$ 303,000	$ 852,619	$ -	$ 100,000	$ -	$ 75,000	$ -	$ 2,370,619
Transfers out	(87,344)	-	-	-	-	-	-	-	(87,344)
Proceeds from the sale of capital assets	2,115	-	-	-	-	-	-	-	2,115
Total other financing sources (uses)	$ 954,771	$ 303,000	$ 852,619	$ -	$ 100,000	$ -	$ 75,000	$ -	$ 2,285,390
Net change in fund balance	$ (24,365)	$ 75,361	$ (9,901)	$ -	$ 84,926	$ (46,518)	$ 75,000	$ 21,693	$ 176,196
Fund balances, beginning of year	573,987	714,672	313,969	262,519	28,120	109,846	-	189,734	2,192,847
Fund balances, end of year	$ 549,622	$ 790,033	$ 304,068	$ 262,519	$ 113,046	$ 63,328	$ 75,000	$ 211,427	$ 2,369,043

Combining Balance Sheet
Nonmajor Capital Projects Funds
At June 30, 2018

	Public Works Capital Fund	Public Facilities Capital Fund	Public Safety Capital Fund	New Court Capital Fund	Total
Assets:					
Cash and cash equivalents	$ 3,500,629	$ 1,665,394	$ 1,196,654	$ 1,025,098	$ 7,387,775
Accrued revenue	32,382	32,382	32,382	-	97,146
Due from other governments	498,700	-	-	-	498,700
Total assets	$ 4,031,711	$ 1,697,776	$ 1,229,036	$ 1,025,098	$ 7,983,621
Liabilities:					
Accounts payable	$ 393,341	$ 123,251	$ 1,634	$ -	$ 518,226
Accrued liabilities	99,552	-	-	-	99,552
Unearned revenue	356,625	-	-	-	356,625
Total liabilities	$ 849,518	$ 123,251	$ 1,634	$ -	$ 974,403
Fund Balances:					
Committed	$ 1,087,222	$ 1,067,324	$ 1,721	$ -	$ 2,156,267
Assigned	2,094,971	507,201	1,225,681	1,025,098	4,852,951
Total fund balances	$ 3,182,193	$ 1,574,525	$ 1,227,402	$ 1,025,098	$ 7,009,218
Total liabilities and fund balances	$ 4,031,711	$ 1,697,776	$ 1,229,036	$ 1,025,098	$ 7,983,621

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2018

	Public Works Capital Fund	Public Facilities Capital Fund	Public Safety Capital Fund	New Court Capital Fund	School Bond Funded Capital Fund	Total
Revenues						
Other local taxes	$ 175,000	$ -	$ -	$ -	$ -	$ 175,000
Permits, privilege fees and regulatory licenses	-	5,688	-	-	-	5,688
Fines and forfeitures	1,187	-	-	-	-	1,187
Use of money and property	56,040	133,165	55,203	-	10,673	255,081
Charges for services	-	-	-	58,423	-	58,423
Recovered costs	199,533	10,000	-	-	-	209,533
Intergovernmental:						
Revenue from the Commonwealth	936,015	-	-	-	-	936,015
Revenue from the Federal Government	148,518	-	-	-	-	148,518
Total revenues	$ 1,516,293	$ 148,853	$ 55,203	$ 58,423	$ 10,673	$ 1,789,445
Expenditures						
Capital projects	$ 2,923,400	$ 1,268,878	$ 496,073	$ -	$ 2,343,333	$ 7,031,684
Excess (deficiency) of revenues over (under) expenditures	$ (1,407,107)	$ (1,120,025)	$ (440,870)	$ 58,423	$ (2,332,660)	$ (5,242,239)
Other financing sources (uses)						
Transfers in	$ 962,000	$ 738,300	$ -	$ -	$ 621,616	$ 2,321,916
Net change in fund balance	$ (445,107)	$ (381,725)	$ (440,870)	$ 58,423	$ (1,711,044)	$ (2,920,323)
Fund balances, beginning of year	3,627,300	1,956,250	1,668,272	966,675	1,711,044	9,929,541
Fund balances, end of year	$ 3,182,193	$ 1,574,525	$ 1,227,402	$ 1,025,098	$ -	$ 7,009,218

Combining Balance Sheet
Nonmajor Debt Service Funds
At June 30, 2018

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Assets:			
Cash and cash equivalents	$ -	$ 1,846,607	$ 1,846,607
Fund Balances:			
Committed	$ -	$ 1,846,607	$ 1,846,607

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2018

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Revenues			
Miscellaneous	$ 281,622	$ -	$ 281,622
Expenditures			
Debt service:			
Principal	$ 2,778,542	$ 2,202,415	$ 4,980,957
Interest and fiscal charges	1,555,431	2,054,985	3,610,416
Total expenditures	$ 4,333,973	$ 4,257,400	$ 8,591,373
Excess (deficiency) of revenues over (under) expenditures	$ (4,052,351)	$ (4,257,400)	$ (8,309,751)
Other financing sources (uses)			
Transfers in	$ 4,052,351	$ 4,103,517	$ 8,155,868
Net change in fund balance	$ -	$ (153,883)	$ (153,883)
Fund balances, beginning of year	-	2,000,490	2,000,490
Fund balances, end of year	$ -	$ 1,846,607	$ 1,846,607

Combining Statement of Fiduciary Net Position
Agency Funds
At June 30, 2018

	Criminal Justice Academy	Special Welfare	Court Service Unit	Rappahannock Area Youth Services	Revenue Maximization	Community Development Authority	Total
Assets:							
Cash and cash equivalents	$ 424,956	$ 22,113	$ 167,883	$ 457,529	$ 20,451	$ 772,234	$ 1,865,166
Accounts receivable	3,265	-	4,706	123,052	-	-	131,023
Total assets	$ 428,221	$ 22,113	$ 172,589	$ 580,581	$ 20,451	$ 772,234	$ 1,996,189
Liabilities:							
Accounts payable	$ 6,214	$ -	$ 33,333	$ 22,554	$ -	$ -	$ 62,101
Accrued liabilities	25,111	-	2,601	33,663	-	-	61,375
Amounts held for others	396,896	22,113	136,655	524,364	20,451	772,234	1,872,713
Total liabilities	$ 428,221	$ 22,113	$ 172,589	$ 580,581	$ 20,451	$ 772,234	$ 1,996,189

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	$ 388,629	$ 424,956	$ 388,629	$ 424,956
Accounts receivable	-	3,265	-	3,265
Total assets	$ 388,629	$ 428,221	$ 388,629	$ 428,221
Liabilities:				
Accounts payable	$ 8,855	$ 6,214	$ 8,855	$ 6,214
Accrued liabilities	54,752	25,111	54,752	25,111
Amounts held for others	325,022	396,896	325,022	396,896
Total liabilities	$ 388,629	$ 428,221	$ 388,629	$ 428,221
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	$ 15,160	$ 37,986	$ 31,033	$ 22,113
Liabilities:				
Amounts held for others	$ 15,160	$ 37,986	$ 31,033	$ 22,113
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	$ 147,131	$ 237,595	$ 216,843	$ 167,883
Accounts receivable	-	4,706	-	4,706
Total assets	$ 147,131	$ 242,301	$ 216,843	$ 172,589
Liabilities:				
Accounts payable	$ 17,152	$ 33,333	$ 17,152	$ 33,333
Accrued liabilities	705	2,601	705	2,601
Amounts held for others	129,274	206,367	198,986	136,655
Total liabilities	$ 147,131	$ 242,301	$ 216,843	$ 172,589

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
RAPPAHANNOCK AREA YOUTH SERVICES				
Assets:				
Cash and cash equivalents	$ 285,153	$ 457,529	$ 285,153	$ 457,529
Accounts receivable	121,425	123,052	121,425	123,052
Total assets	$ 406,578	$ 580,581	$ 406,578	$ 580,581
Liabilities:				
Accounts payable	$ 18,551	$ 22,554	$ 18,551	$ 22,554
Accrued liabilities	32,522	33,663	32,522	33,663
Amounts held for others	355,505	524,364	355,505	524,364
Total liabilities	$ 406,578	$ 580,581	$ 406,578	$ 580,581
REVENUE MAXIMIZATION				
Assets:				
Cash and cash equivalents	$ 20,451	$ -	$ -	$ 20,451
Liabilities:				
Amounts held for others	$ 20,451	$ -	$ -	$ 20,451
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	$ 302,435	$ 1,159,248	$ 689,449	$ 772,234
Liabilities:				
Amounts held for others	$ 302,435	$ 1,159,248	$ 689,449	$ 772,234
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	$ 1,158,959	$ 2,317,314	$ 1,611,107	$ 1,865,166
Accounts receivable	121,425	131,023	121,425	131,023
Total assets	$ 1,280,384	$ 2,448,337	$ 1,732,532	$ 1,996,189
Liabilities:				
Accounts payable	$ 44,558	$ 62,101	$ 44,558	$ 62,101
Accrued liabilities	87,979	61,375	87,979	61,375
Amounts held for others	1,147,847	2,324,861	1,599,995	1,872,713
Total liabilities	$ 1,280,384	$ 2,448,337	$ 1,732,532	$ 1,996,189

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Recovered costs	$ 82,406	$ 82,406	$ 50,145	$ (32,261)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	$ 1,794,953	$ 1,844,953	$ 1,729,278	$ (115,675)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	$ 2,604,303	$ 2,654,303	$ 2,656,837	$ 2,534
Total revenues	$ 4,481,662	$ 4,581,662	$ 4,436,260	$ (145,402)
Expenditures				
Health and welfare	$ 5,642,469	$ 5,742,469	$ 5,415,396	$ 327,073
State, Federal and Local Grants Fund				
Revenues				
Permits and other licenses	$ 12,900	$ 12,900	$ 9,643	$ (3,257)
Fines and forfeitures	$ -	$ -	$ 275	$ 275
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 1,801	$ 1,801
Miscellaneous	$ 133,200	$ 161,924	$ 97,481	$ (64,443)
Charges for services:				
Court costs	$ 20,000	$ 20,000	$ 28,092	$ 8,092
Parks and recreation fees	8,000	8,000	719	(7,281)
Total charges for services	$ 28,000	$ 28,000	$ 28,811	$ 811
Recovered costs:				
Stafford and Spotsylvania Counties	$ 342,000	$ 342,000	$ 342,000	$ -
Other	-	-	41,797	41,797
Total recovered costs	$ 342,000	$ 342,000	$ 383,797	$ 41,797
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Records preservation grant	$ 25,000	$ 25,000	$ 12,592	$ (12,408)
Hazardous materials grant	30,000	30,000	30,000	-
Fire services program	62,311	62,311	81,192	18,881
VA domestic violence victim fund	50,000	50,000	45,000	(5,000)
Victim-witness program	32,350	32,350	32,892	542
Virginia DHR archeological grant	13,000	16,753	16,753	-
Other	83,680	357,923	44,972	(312,951)
Total revenue from the Commonwealth	$ 296,341	$ 574,337	$ 263,401	$ (310,936)
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	$ 131,815	$ 234,081	$ 145,715	$ (88,366)
Emergency management performance grant	-	-	229,924	229,924
Community development block grants	162,000	197,400	188,523	(8,877)
Total revenue from the Federal Government	$ 293,815	$ 431,481	$ 564,162	$ 132,681
Total revenues	$ 1,106,256	$ 1,550,642	$ 1,349,371	$ (201,271)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures				
Judicial administration:				
Victim-witness program	$ 180,735	$ 180,735	$ 163,633	$ 17,102
Domestic violence victim fund grant	67,601	67,601	61,132	6,469
Records preservation program	25,000	25,000	12,592	12,408
Total judicial administration	$ 273,336	$ 273,336	$ 237,357	$ 35,979
Public safety:				
Hazardous materials response program	$ 30,000	$ 46,607	$ 12,944	$ 33,663
Fire services program	104,811	125,816	76,368	49,448
Four-for-life grant	25,000	25,000	-	25,000
EMS lifepack	35,000	35,000	-	35,000
PSAP GIS grant	-	51,854	40,069	11,785
Narcotics task force	-	20,100	19,238	862
PD police memorial	-	20,000	19,521	479
Byrne JAG grant	18,500	67,766	-	67,766
Camera grant	-	76,614	76,614	-
LEMPG	10,680	10,680	10,704	(24)
ICAC grant	6,000	6,000	5,458	542
Community projects	-	15,249	10,485	4,764
Crime prevention	-	2,236	-	2,236
E-911 educational grant	2,000	2,000	1,448	552
E-summons	35,000	35,000	10,878	24,122
Prisoner extradition	-	-	21,912	(21,912)
State homeland security grant	-	195,025	150,630	44,395
OEMS grant	-	-	8,656	(8,656)
Donations	-	15,666	14,811	855
Stop bleed program	-	5,500	5,500	-
DMV grants	16,345	16,345	14,499	1,846
Total public safety	$ 283,336	$ 772,458	$ 499,735	$ 272,723
Parks, recreation and cultural:				
Soap Box Derby	$ 20,000	$ 20,000	$ -	$ 20,000
Starfires drill team	6,000	6,000	7,303	(1,303)
Farmers' market	25,631	25,631	27,773	(2,142)
Midnight madness	15,000	15,000	4,154	10,846
Fredericksburg Arts Commission	40,000	59,341	40,274	19,067
Other	29,000	47,373	14,650	32,723
Total parks, recreation and cultural	$ 135,631	$ 173,345	$ 94,154	$ 79,191
Community development:				
Community development block grant	$ 199,825	$ 235,225	$ 229,771	$ 5,454
Virginia DHR archeological grant	20,000	23,753	20,278	3,475
Regional consumer marketing	363,000	376,560	337,039	39,521
Regional group tourism	150,000	158,697	102,731	55,966
PEG access	40,200	40,200	10,040	30,160
United Way special events	20,000	20,000	31,634	(11,634)
Other	40,000	23,876	14,271	9,605
Total community development	$ 833,025	$ 878,311	$ 745,764	$ 132,547
Total expenditures	$ 1,525,328	$ 2,097,450	$ 1,577,010	$ 520,440
Children's Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Children's Services Act grants	$ 1,129,000	$ 1,470,873	$ 1,350,194	$ (120,679)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	$ 41,000	$ 41,000	$ 76,928	$ 35,928
Total revenues	$ 1,170,000	$ 1,511,873	$ 1,427,122	$ (84,751)
Expenditures				
Health and Welfare:				
Children's Services Act program	$ 1,949,468	$ 2,478,685	$ 2,289,642	$ 189,043

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
Stormwater Management Fund				
Revenues				
General property taxes	$ 395,000	$ 395,000	$ 389,351	$ (5,649)
Permits and other licenses	$ 40,000	$ 40,000	$ 21,950	$ (18,050)
Fines and forfeitures	$ 2,000	$ 2,000	$ 7,000	$ 5,000
Recovered costs	$ -	$ -	$ 1,190	$ 1,190
Total revenues	$ 437,000	$ 437,000	$ 419,491	$ (17,509)
Expenditures				
Public works:				
Drainage	$ 294,062	$ 294,062	$ 218,957	$ 75,105
VSMP administation	268,037	268,037	215,608	52,429
Total expenditures	$ 562,099	$ 562,099	$ 434,565	$ 127,534
Blight Abatement Fund				
Revenues				
Miscellaneous	$ -	$ -	$ 4,700	$ 4,700
Recovered costs	$ -	$ -	$ 33,120	$ 33,120
Total revenues	$ -	$ -	$ 37,820	$ 37,820
Expenditures				
Public works:				
Blight abatement	$ 95,000	$ 109,075	$ 16,127	$ 92,948
Forfeited Asset Sharing Program Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 1,899	$ 1,899
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Forfeited asset sharing program	$ -	$ -	$ 1,093	$ 1,093
Total revenues	$ -	$ -	$ 2,992	$ 2,992
Expenditures				
Public safety:				
Forfeited asset sharing program	$ -	$ 67,147	$ 49,510	$ 17,637
Capital Projects Funds				
Public Works Capital Fund				
Revenues				
Other local taxes:				
Gasoline taxes	$ 360,000	$ 360,000	$ 175,000	$ (185,000)
Fines and forfeitures	$ -	$ -	$ 1,187	$ 1,187
Revenue from use of money and property:				
Use of money	$ 50,000	$ 50,000	$ 56,040	$ 6,040
Recovered costs	$ 200,000	$ 200,000	$ 199,533	$ (467)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
VDOT grants	$ 2,348,861	$ 2,348,861	$ 936,015	$ (1,412,846)
Stormwater management grant	100,000	100,000	-	(100,000)
Total revenue from the Commonwealth	$ 2,448,861	$ 2,448,861	$ 936,015	$ (1,512,846)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Works Capital Fund: (continued)				
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
FEMA grant	$ -	$ -	$ 148,518	$ 148,518
Total revenues	$ 3,058,861	$ 3,058,861	$ 1,516,293	$ (1,542,568)
Expenditures				
Capital projects:				
Annual pavement rehabilitation	$ 1,791,861	$ 2,150,157	$ 1,479,329	$ 670,828
Downtown streetscape renovation	1,300,000	1,300,000	-	1,300,000
Historic district improvements	-	100,000	-	100,000
Culvert repair	125,000	197,971	110,922	87,049
Pedestrian signals	-	820,477	834,998	(14,521)
Riverfront Park	5,000,000	5,830,664	381,017	5,449,647
Rappahannock Canal repairs	-	79,342	79,341	1
Stormwater management plan	200,000	204,476	-	204,476
Fall Hill Avenue widening	-	30,298	6,463	23,835
Fall Hill Avenue/Noble Way signal	300,000	300,000	31,330	268,670
Fall Hill Avenue street lights	250,000	250,000	-	250,000
Route 3 signal optimization	147,000	147,000	-	147,000
VCR Trail bridge	20,000	20,000	-	20,000
Embrey Dam/Rappahannock Canal footbridge	-	100,000	-	100,000
Salt storage facility	367,500	350,000	-	350,000
Route 1 over Hazel Run bridge repair	-	13,250	-	13,250
Total capital projects	$ 9,501,361	$ 11,893,635	$ 2,923,400	$ 8,970,235
Public Facilities Capital Fund				
Revenues				
Permits and other licenses	$ -	$ -	$ 5,688	$ 5,688
Revenue from use of money and property:				
Use of money	$ 25,000	$ 25,000	$ 44,900	$ 19,900
Use of property	-	-	88,265	88,265
Total revenue from use of money and property	$ 25,000	$ 25,000	$ 133,165	$ 108,165
Recovered costs	$ 8,000	$ 8,000	$ 10,000	$ 2,000
Intergovernmental:				
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	$ 14,220	$ 14,220	$ -	$ (14,220)
Total revenues	$ 47,220	$ 47,220	$ 148,853	$ 101,633
Expenditures				
Capital projects:				
General parks maintenance improvements	$ -	$ 163,072	$ 130,993	$ 32,079
Roof replacements	60,000	60,000	54,762	5,238
Computer equipment replacement	300,000	366,459	287,216	79,243
Executive Plaza building	90,000	136,779	48,380	88,399
Memorial Park restroom	-	47,630	-	47,630
ERP implementation	1,500,000	1,500,000	315,825	1,184,175
Facilities improvements	-	2,814	2,454	360
Memorial Park tennis court improvements	90,000	46,500	46,500	-
Circuit Court cooling tower	-	55,000	-	55,000
Area plan updates	150,000	222,540	-	222,540
Library parking lot	175,000	175,000	122,045	52,955
Dixon Park inline skating	-	9,000	3,000	6,000
Library duct work and roof repair	84,000	72,620	59,237	13,383
IT resilience	67,270	142,628	34,522	108,106
HVAC replacements	-	21,295	20,851	444
Bass Ellison	44,000	147,300	143,093	4,207
Total capital projects	$ 2,560,270	$ 3,168,637	$ 1,268,878	$ 1,899,759

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Safety Capital Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ 22,000	$ 22,000	$ 55,203	$ 33,203
Expenditures				
Capital projects:				
New fire station	$ -	$ 19,650	$ 19,622	$ 28
Public safety radio system upgrade	-	4,214	4,214	-
Emergency medical vehicles	-	250,336	250,335	1
Fire station upgrades	57,000	155,361	128,950	26,411
Police camera system	-	93,421	92,952	469
Total capital projects	$ 57,000	$ 522,982	$ 496,073	$ 26,909
New Court Capital Fund				
Revenues				
Charges for services:				
Courthouse construction fees	$ -	$ -	$ 58,423	$ 58,423
Expenditures				
Capital projects:				
Renwick courthouse redevelopment	$ 250,000	$ 250,000	$ -	$ 250,000
School Bond Funded Capital Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ 10,673	$ 10,673	$ -
Expenditures				
Capital projects:				
Walker-Grant Center renovation project	$ -	$ 2,186,613	$ 2,186,612	$ 1
Walker-Grant Middle School roof replacement	1,300,000	1,553,722	156,721	1,397,001
HMES HVAC replacement	-	39,599	-	39,599
Total capital projects	$ 1,300,000	$ 3,779,934	$ 2,343,333	$ 1,436,601
Debt Service Funds				
General Obligation Bond Debt Service Fund				
Revenues				
Miscellaneous	$ 281,622	$ 281,622	$ 281,622	$ -
Expenditures				
Principal and interest	$ 4,327,664	$ 4,333,973	$ 4,333,973	$ -
Education Debt Service Fund				
Expenditures				
Principal and interest	$ 4,256,850	$ 4,257,401	$ 4,257,400	$ 1

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

Component Unit School Board
Combining Balance Sheet
At June 30, 2018

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	$ 5,660,775	$ 569,869	$ 763,992	$ 6,994,636
Accrued revenue	-	14,416	-	14,416
Due from other governments	467,448	983,146	-	1,450,594
Prepaid items	334,105	9,057	-	343,162
Total assets	$ 6,462,328	$ 1,576,488	$ 763,992	$ 8,802,808
Liabilities:				
Accounts payable	$ 407,845	$ 76,017	$ 66,562	$ 550,424
Accrued liabilities	3,489,995	463,355	-	3,953,350
Total liabilities	$ 3,897,840	$ 539,372	$ 66,562	$ 4,503,774
Fund Balances:				
Nonspendable:				
Prepaid items	$ 334,105	$ 9,057	$ -	$ 343,162
Committed:				
Grant related expenditures	-	1,028,059	-	1,028,059
Subsequent year's expenditures	250,000	-	500	250,500
Assigned:				
Capital projects	-	-	696,930	696,930
Debt service	300,000	-	-	300,000
Unassigned	1,680,383	-	-	1,680,383
Total fund balances	$ 2,564,488	$ 1,037,116	$ 697,430	$ 4,299,034
Total liabilities and fund balances	$ 6,462,328	$ 1,576,488	$ 763,992	$ 8,802,808

Component Unit School Board
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2018

Total fund balances for governmental funds (Exhibit 40)		$ 4,299,034
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	$ 472,679	
Land improvements, net of accumulated depreciation	200,310	
Buildings and improvements, net of accumulated depreciation	24,618,637	
Machinery, equipment, and vehicles, net of accumulated depreciation	2,357,591	27,649,217
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Net pension asset		469,261
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	$ 5,511,229	
OPEB related items	424,000	5,935,229
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Capital lease	$ (2,780,000)	
Net OPEB liability	(9,783,859)	
Net pension liability	(35,499,000)	
Compensated absences	(1,110,391)	(49,173,250)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	$ (4,127,733)	
OPEB related items	(418,656)	(4,546,389)
Total net position of governmental activities (Exhibits 1 and 12)		$ (15,366,898)

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Use of money and property	$ 400	$ -	$ -	$ 400
Charges for services	153,277	218,427	-	371,704
Miscellaneous	44,147	240,632	-	284,779
Recovered costs	244,710	28,730	-	273,440
Intergovernmental:				
Appropriation from primary government	28,305,210	-	715,000	29,020,210
Revenue from the Commonwealth	14,438,779	282,655	-	14,721,434
Revenue from the Federal Government	55,447	4,973,705	-	5,029,152
Total revenues	$ 43,241,970	$ 5,744,149	$ 715,000	$ 49,701,119
Expenditures				
Current:				
Education:				
Instruction	$ 32,511,006	$ 3,742,079	$ -	$ 36,253,085
Administration, attendance and health	2,869,437	-	-	2,869,437
Transportation	1,757,048	-	-	1,757,048
Facilities operations	4,157,857	-	-	4,157,857
Technology	1,729,005	-	-	1,729,005
School food service operations	163,375	1,921,652	-	2,085,027
Capital projects	-	-	789,204	789,204
Debt service:				
Principal	225,000	-	-	225,000
Interest	60,401	-	-	60,401
Total expenditures	$ 43,473,129	$ 5,663,731	$ 789,204	$ 49,926,064
Excess (deficiency) of revenues over (under) expenditures	$ (231,159)	$ 80,418	$ (74,204)	$ (224,945)
Net change in fund balance	$ (231,159)	$ 80,418	$ (74,204)	$ (224,945)
Fund balances, beginning of year	2,795,647	956,698	771,634	4,523,979
Fund balances, end of year	$ 2,564,488	$ 1,037,116	$ 697,430	$ 4,299,034

Component Unit School Board
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances - total governmental funds (Exhibit 42)	$	(224,945)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(600,402)
Transfer of joint tenancy assets and other capital assets from Primary Government to the Component Unit School Board		3,802,617
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Repayments of long-term debt:		
Capital lease		225,000
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:		
Pension expense		644,661
OPEB expense		(160,702)
Compensated absences		39,278
Change in net position of governmental activities (Exhibit 12)	$	3,725,507

Component Unit School Board
School Operating Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	$ 1,200	$ 1,200	$ 400	$ (800)
Charges for services:				
Charges for education	$ 140,979	$ 140,979	$ 153,277	$ 12,298
Miscellaneous	$ 28,200	$ 28,200	$ 44,147	$ 15,947
Recovered costs:				
Education	$ -	$ -	$ 244,710	$ 244,710
Intergovernmental:				
Appropriation from primary government	$ 28,044,710	$ 28,089,710	$ 28,305,210	$ 215,500
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	$ 3,544,521	$ 3,544,521	$ 3,390,073	$ (154,448)
Basic aid	6,632,744	6,632,744	6,660,658	27,914
Other	4,282,976	4,282,976	4,388,048	105,072
Total revenue from the Commonwealth	$ 14,460,241	$ 14,460,241	$ 14,438,779	$ (21,462)
Revenue from the Federal Government:				
Categorical aid:				
Gear up	$ -	$ -	$ 55,447	$ 55,447
Total revenues	$ 42,675,330	$ 42,720,330	$ 43,241,970	$ 521,640
Expenditures				
Current:				
Education:				
Instruction	$ 32,434,264	$ 33,278,758	$ 32,511,006	$ 767,752
Administration, attendance and health	3,090,094	3,065,094	2,869,437	195,657
Transportation	1,763,518	1,824,874	1,757,048	67,826
School food service operations	120,000	120,000	163,375	(43,375)
Facilities operations	4,328,785	4,332,595	4,157,857	174,738
Technology	1,435,169	1,758,359	1,729,005	29,354
Debt service:				
Principal	225,000	225,000	225,000	-
Interest and fiscal charges	44,000	44,000	60,401	(16,401)
Total expenditures	$ 43,440,830	$ 44,648,680	$ 43,473,129	$ 1,175,551
Excess (deficiency) of revenues over (under) expenditures	$ (765,500)	$ (1,928,350)	$ (231,159)	$ 1,697,191
Net change in fund balance	$ (765,500)	$ (1,928,350)	$ (231,159)	$ 1,697,191
Fund balance, beginning of year	765,500	1,928,350	2,795,647	867,297
Fund balance, end of year	$ -	$ -	$ 2,564,488	$ 2,564,488

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

Component Unit School Board
Special School Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	$ 388,300	$ 388,300	$ 218,427	$ (169,873)
Miscellaneous	$ -	$ 225,000	$ 240,632	$ 15,632
Recovered costs:				
Education	$ 27,000	$ 27,000	$ 28,730	$ 1,730
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	$ 64,603	$ 64,603	$ 41,891	$ (22,712)
Preschool initiative grant	168,187	168,187	183,750	15,563
VPSA techology grant	154,000	154,000	942	(153,058)
Other	26,000	26,000	56,072	30,072
Total revenue from the Commonwealth	$ 412,790	$ 412,790	$ 282,655	$ (130,135)
Revenue from the Federal Government:				
Categorical aid:				
Title I	$ 885,943	$ 885,943	$ 1,085,704	$ 199,761
School food	1,350,712	1,350,712	1,737,109	386,397
Head Start	1,119,060	1,119,060	1,169,837	50,777
Special education IDEA	661,221	661,221	653,428	(7,793)
Other	296,009	296,009	327,627	31,618
Total revenue from the Federal Government	$ 4,312,945	$ 4,312,945	$ 4,973,705	$ 660,760
Total revenues	$ 5,141,035	$ 5,366,035	$ 5,744,149	$ 378,114
Expenditures				
Current:				
Education:				
Instruction	$ 3,183,418	$ 3,504,418	$ 3,742,079	$ (237,661)
Technology	154,000	154,000	-	154,000
School food service operations	1,803,617	1,923,617	1,921,652	1,965
Total expenditures	$ 5,141,035	$ 5,582,035	$ 5,663,731	$ (81,696)
Excess (deficiency) of revenues over (under) expenditures	$ -	$ (216,000)	$ 80,418	$ 296,418
Net change in fund balance	$ -	$ (216,000)	$ 80,418	$ 296,418
Fund balance, beginning of year	-	216,000	956,698	740,698
Fund balance, end of year	$ -	$ -	$ 1,037,116	$ 1,037,116

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

Component Unit School Board
School Capital Projects Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Capital Projects Fund				
Revenues				
Recovered costs:				
Education	$ 100,000	$ 100,000	$ -	$ (100,000)
Intergovernmental:				
Appropriation from primary government	$ 515,000	$ 715,000	$ 715,000	$ -
Total revenues	$ 615,000	$ 815,000	$ 715,000	$ (100,000)
Expenditures				
Capital projects:				
School buses	$ 210,000	$ 210,000	$ 179,548	$ 30,452
School computer technology	200,000	200,000	159,890	40,110
Hugh Mercer improvements	100,000	418,941	418,941	-
School bus garage facility	105,000	6,059	-	6,059
Other	100,000	140,000	30,825	109,175
Total capital projects	$ 715,000	$ 975,000	$ 789,204	$ 185,796
Excess (deficiency) of revenues over (under) expenditures	$ (100,000)	$ (160,000)	$ (74,204)	$ 85,796
Net change in fund balance	$ (100,000)	$ (160,000)	$ (74,204)	$ 85,796
Fund balance, beginning of year	100,000	160,000	771,634	611,634
Fund balance, end of year	$ -	$ -	$ 697,430	$ 697,430

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

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Statistical Section

Contents	Tables
Financial Trends These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.	1 - 5
Revenue Capacity These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	6 - 9
Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.	10 - 14
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	15, 16
Operating Information These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	17 - 19

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

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CITY OF FREDERICKSBURG, VIRGINIA **Table 1**

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

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Governmental activities:										
Invested in capital assets, net of related debt	$ 80,177,661	$ 81,665,145	$ 80,513,796	$ 80,274,520	$ 81,353,678	$ 84,961,559	$ 88,179,245	$ 85,329,030	$ 88,860,358	$ 86,992,126
Unrestricted	24,379,848	22,042,434	23,055,185	27,061,221	31,143,089	30,874,128	6,205,397	9,448,661	8,241,949	(301,359)
Total governmental activities net position	$ 104,557,509	$ 103,707,579	$ 103,568,981	$ 107,335,741	$ 112,496,767	$ 115,835,687	$ 94,384,642	$ 94,777,691	$ 97,102,307	$ 86,690,767
Business-type activities:										
Invested in capital assets, net of related debt	$ 38,744,975	$ 39,780,366	$ 39,550,414	$ 40,307,710	$ 44,809,475	$ 47,687,656	$ 47,153,509	$ 44,280,931	$ 44,971,811	$ 45,749,607
Unrestricted	12,503,966	13,022,965	16,473,376	17,161,279	16,705,512	17,779,917	17,046,024	21,962,726	23,631,467	23,572,937
Total business-type activities net position	$ 51,248,941	$ 52,803,331	$ 56,023,790	$ 57,468,989	$ 61,514,987	$ 65,467,573	$ 64,199,533	$ 66,243,657	$ 68,603,278	$ 69,322,544
Primary government:										
Net investment in capital assets	$ 118,922,636	$ 121,445,511	$ 120,064,210	$ 120,582,230	$ 126,163,153	$ 132,649,215	$ 135,332,754	$ 129,609,961	$ 133,832,169	$ 132,741,733
Unrestricted	36,883,814	35,065,399	39,528,561	44,222,500	47,848,601	48,654,045	23,251,421	31,411,387	31,873,416	23,271,578
Total primary government net position	$ 155,806,450	$ 156,510,910	$ 159,592,771	$ 164,804,730	$ 174,011,754	$ 181,303,260	$ 158,584,175	$ 161,021,348	$ 165,705,585	$ 156,013,311

Note: The City implemented GASB Statement No. 68 beginning with fiscal year 2015. Details of the City's pension plan can be found in Note 12. The City also implemented GASB Statement No. 75 effective for fiscal year 2018. Information on the City's other post-employment benefits is located in Notes 19 and 22.

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Expenses										
Governmental activities:										
General government	$ 5,760,023	$ 5,171,028	$ 5,407,587	$ 5,833,003	$ 6,889,501	$ 6,397,126	$ 6,285,041	$ 6,866,241	$ 7,065,308	$ 7,073,403
Judicial administration	3,701,857	3,854,380	3,609,180	3,879,790	4,341,611	4,392,902	4,478,163	5,566,392	5,700,242	5,566,589
Public safety	20,056,605	20,200,427	19,937,181	19,316,975	19,579,277	20,623,797	20,645,685	21,630,457	22,472,125	22,748,234
Public works	10,194,381	10,964,359	10,707,212	10,898,437	11,584,108	12,681,384	13,162,173	12,836,598	12,324,625	11,144,393
Health and welfare	6,661,643	6,721,050	6,797,908	6,790,459	6,426,311	6,594,938	7,279,605	7,014,254	7,951,696	8,303,383
Education	27,341,339	26,228,250	26,383,137	27,249,752	28,633,110	28,797,870	28,803,904	29,862,457	30,433,939	33,548,965
Parks, recreation and cultural	4,400,464	3,936,068	4,031,435	4,340,912	4,554,212	4,765,119	4,790,452	4,748,604	5,025,061	5,020,617
Community development	1,965,407	1,819,607	1,930,369	2,154,832	2,165,794	2,186,948	2,694,020	2,882,580	2,652,990	2,705,777
Interest on long-term debt	2,859,774	2,674,176	2,542,424	3,186,127	3,485,231	3,343,630	3,150,988	3,419,833	3,357,340	3,129,894
Total governmental activities expenses	$ 82,941,493	$ 81,569,345	$ 81,346,433	$ 83,650,287	$ 87,659,155	$ 89,783,714	$ 91,290,031	$ 94,827,416	$ 96,983,326	$ 99,241,255
Business-type activities:										
Water	$ 2,748,400	$ 2,882,295	$ 2,523,517	$ 2,884,071	$ 2,999,771	$ 2,751,523	$ 2,933,514	$ 2,972,130	$ 3,125,748	$ 3,212,402
Sewer	4,476,638	4,156,245	4,975,289	5,256,052	4,875,587	4,874,582	4,795,857	5,092,925	5,485,742	5,299,352
Transit	3,893,458	3,600,428	3,887,158	4,097,929	4,157,157	4,437,179	4,275,370	4,410,391	4,671,545	4,797,484
Parking	493,920	528,819	460,950	476,315	456,999	470,905	448,933	443,485	493,395	465,613
Total business-type activities expenses	$ 11,612,416	$ 11,167,787	$ 11,846,914	$ 12,714,367	$ 12,489,514	$ 12,534,189	$ 12,453,674	$ 12,918,931	$ 13,776,430	$ 13,774,851
Total primary government expenses	$ 94,553,909	$ 92,737,132	$ 93,193,347	$ 96,364,654	$ 100,148,669	$ 102,317,903	$ 103,743,705	$ 107,746,347	$ 110,759,756	$ 113,016,106

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 93,045	$ 79,215	$ 85,191	$ 82,624	$ 94,773	$ 109,152	$ 152,025	$ 157,793	$ 149,415	$ 144,698
Judicial administration	106,210	196,474	219,127	214,894	209,917	204,046	220,427	195,804	191,999	222,654
Public safety	1,834,819	1,848,719	2,111,221	1,943,884	2,042,868	1,862,973	2,087,775	1,891,374	1,872,937	2,169,937
Public works	727,253	725,710	733,070	743,145	757,997	828,049	967,752	985,924	998,126	1,017,049
Parks, recreation and cultural	518,630	469,802	487,368	459,848	440,392	471,289	497,253	455,603	473,643	507,083
Community development	1,685	691	476	145	274	1,169	263	57	28	9
Operating grants and contributions	10,522,749	10,073,459	10,159,077	11,758,221	9,685,095	9,985,588	10,896,754	10,645,954	11,601,213	12,294,048
Capital grants and contributions	202,849	1,750,758	841,870	1,725,467	2,967,105	4,595,323	2,011,484	1,460,003	3,192,416	2,643,606
Total governmental activities program revenues	$ 14,007,240	$ 15,144,828	$ 14,637,400	$ 16,928,228	$ 16,198,421	$ 18,057,589	$ 16,833,733	$ 15,792,512	$ 18,479,777	$ 18,999,084
Business-type activities:										
Charges for services:										
Water	$ 2,180,347	$ 2,261,200	$ 2,344,438	$ 2,448,425	$ 2,689,470	$ 2,829,872	$ 3,035,359	$ 3,285,584	$ 3,322,933	$ 3,363,456
Sewer	3,457,792	3,742,221	3,821,281	4,013,111	4,526,072	4,857,512	5,144,191	5,408,049	5,426,986	5,611,484
Transit	159,741	271,610	274,395	368,072	344,624	423,081	403,921	470,343	307,579	333,462
Parking	130,281	192,461	238,240	261,991	304,003	328,385	353,532	283,741	247,274	276,452
Operating grants and contributions	4,342,760	5,270,270	6,621,263	5,493,221	3,521,961	4,784,398	3,514,732	4,336,969	3,979,565	4,463,470
Capital grants and contributions	566,957	931,897	870,726	763,564	4,397,886	2,307,225	145,599	410,573	1,682,639	-
Total business-type activities program revenues	$ 10,837,878	$ 12,669,659	$ 14,170,343	$ 13,348,384	$ 15,784,016	$ 15,530,473	$ 12,597,334	$ 14,195,259	$ 14,966,976	$ 14,048,324
Total primary government program revenues	$ 24,845,118	$ 27,814,487	$ 28,807,743	$ 30,276,612	$ 31,982,437	$ 33,588,062	$ 29,431,067	$ 29,987,771	$ 33,446,753	$ 33,047,408
Net (expense)/revenue										
Governmental activities	$ (68,934,253)	$ (66,424,517)	$ (66,709,033)	$ (66,722,059)	$ (71,460,734)	$ (71,726,125)	$ (74,456,298)	$ (79,034,904)	$ (78,503,549)	$ (80,242,171)
Business-type activities	(774,538)	1,501,872	2,323,429	634,017	3,294,502	2,996,284	143,660	1,276,328	1,190,546	273,473
Total primary government net expense	$ (69,708,791)	$ (64,922,645)	$ (64,385,604)	$ (66,088,042)	$ (68,166,232)	$ (68,729,841)	$ (74,312,638)	$ (77,758,576)	$ (77,313,003)	$ (79,968,698)

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 29,632,428	$ 29,951,918	$ 31,254,682	$ 33,896,976	$ 34,601,092	$ 35,247,134	$ 37,567,214	$ 38,983,743	$ 40,022,650	$ 42,657,551
Local sales and use taxes	11,929,648	10,043,091	10,191,895	10,311,633	10,840,598	10,663,183	10,780,677	11,176,401	11,376,302	11,580,437
Consumer utility taxes	1,517,109	1,677,699	1,644,628	1,831,083	1,795,046	1,844,379	1,856,992	1,810,911	1,808,256	1,834,078
Business license taxes	5,847,174	5,893,072	5,538,312	5,735,557	5,994,920	5,641,614	5,943,742	6,101,499	6,320,104	6,382,569
Hotel/Lodging taxes	1,050,586	1,084,542	1,175,244	1,182,500	1,204,855	1,149,906	1,329,542	1,432,190	1,524,371	1,565,938
Meals taxes	7,080,021	8,132,542	8,842,347	9,373,302	9,657,796	9,752,120	10,115,765	10,693,375	11,141,603	11,765,352
Other local taxes	2,707,109	3,147,579	2,892,598	2,877,503	2,914,744	3,837,495	4,391,651	3,911,733	3,158,608	3,151,831
Unrestricted grants and contributions	1,967,696	3,810,995	3,909,817	3,741,002	4,696,323	5,557,931	3,820,401	3,814,470	3,724,175	3,653,002
Revenues from use of money and property	1,352,809	537,035	441,779	426,375	348,295	462,109	405,457	554,699	468,252	545,326
Gain/(loss) on disposal of assets	(846,807)	-	-	-	-	-	-	-	-	-
Miscellaneous	733,896	391,890	294,113	512,888	243,201	287,916	403,665	329,387	664,489	552,057
Transfers	856,580	904,224	385,020	600,000	620,436	604,393	603,480	619,545	619,355	605,665
Total governmental activities	$ 63,828,249	$ 65,574,587	$ 66,570,435	$ 70,488,819	$ 72,917,306	$ 75,048,180	$ 77,218,586	$ 79,427,953	$ 80,828,165	$ 84,293,806
Business-type activities:										
Taxes:										
Other local taxes	$ 1,355,225	$ 321,058	$ 765,756	$ 726,653	$ 897,209	$ 961,084	$ 743,502	$ 687,620	$ 1,154,538	$ 725,117
Revenues from use of money and property	275,621	123,522	71,152	85,668	31,694	70,392	65,812	111,862	62,519	47,630
Miscellaneous	344,846	512,162	445,142	598,861	443,029	529,219	655,766	587,859	571,373	545,583
Transfers	(856,580)	(904,224)	(385,020)	(600,000)	(620,436)	(604,393)	(603,480)	(619,545)	(619,355)	(605,665)
Total business-type activities	$ 1,119,112	$ 52,518	$ 897,030	$ 811,182	$ 751,496	$ 956,302	$ 861,600	$ 767,796	$ 1,169,075	$ 712,665
Total primary government	$ 64,947,361	$ 65,627,105	$ 67,467,465	$ 71,300,001	$ 73,668,802	$ 76,004,482	$ 78,080,186	$ 80,195,749	$ 81,997,240	$ 85,006,471
Change in Net Position										
Governmental activities	$ (5,106,004)	$ (849,930)	$ (138,598)	$ 3,766,760	$ 1,456,572	$ 3,322,056	$ 2,762,288	$ 393,049	$ 2,324,616	$ 4,051,635
Business-type activities	344,574	1,554,390	3,220,459	1,445,199	4,045,998	3,952,586	1,005,260	2,044,124	2,359,621	986,138
Total primary government	$ (4,761,430)	$ 704,460	$ 3,081,861	$ 5,211,959	$ 5,502,570	$ 7,274,642	$ 3,767,548	$ 2,437,173	$ 4,684,237	$ 5,037,773

CITY OF FREDERICKSBURG, VIRGINIA **Table 3**

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

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General fund										
Reserved	$ 189,721	$ 445,308	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	15,924,951	17,272,991	-	-	-	-	-	-	-	-
Nonspendable	-	-	44,611	348,945	359,240	480,656	370,237	387,695	427,347	349,361
Restricted	-	-	-	-	-	-	-	327,422	100,466	-
Committed	-	-	5,257,805	5,004,661	7,786,761	6,236,045	6,731,037	4,347,210	6,897,202	7,214,757
Assigned	-	-	373,829	292,876	858,372	769,149	47,997	1,306,350	996,272	1,326,619
Unassigned	-	-	13,662,911	20,225,801	18,571,037	19,799,255	20,988,745	19,335,778	15,854,106	16,944,452
Total general fund	$ 16,114,672	$ 17,718,299	$ 19,339,156	$ 25,872,283	$ 27,575,410	$ 27,285,105	$ 28,138,016	$ 25,704,455	$ 24,275,393	$ 25,835,189
All other governmental funds										
Reserved	$ 1,232,229	$ 250,474	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special revenue funds	3,255,921	3,346,494	-	-	-	-	-	-	-	-
Capital projects funds	9,629,901	7,938,299	-	-	-	-	-	-	-	-
Nonspendable, reported in:										
Special revenue funds	-	-	-	-	1,190	4,569	4,876	581	9,710	1,767
Restricted, reported in:										
Special revenue funds	-	-	193,070	243,980	290,342	336,280	332,993	-	100,000	100,000
Committed, reported in:										
Special revenue funds	-	-	2,480,555	1,821,770	1,487,032	1,966,427	1,758,385	2,157,281	2,083,137	2,267,276
Capital projects funds	-	-	1,981,075	31,832,728	24,819,754	9,247,406	2,351,359	12,032,685	3,249,100	2,156,267
Debt service Funds	-	-	-	-	805,804	2,462,142	2,308,258	2,614,397	2,000,490	1,846,607
Assigned, reported in:										
Capital projects funds	-	-	7,653,041	8,261,194	9,501,088	5,784,081	8,251,305	7,939,214	6,680,441	4,852,951
Total all other governmental funds	$ 14,118,051	$ 11,535,267	$ 12,307,741	$ 42,159,672	$ 36,905,210	$ 19,800,905	$ 15,007,176	$ 24,744,158	$ 14,122,878	$ 11,224,868

Note: The City implemented GASB Statement No. 54 beginning with fiscal year 2011 - see Note 1 in the Notes to Basic Financial Statements section of the report .

Table 4

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
General property taxes	$ 29,410,334	$ 29,903,318	$ 31,240,415	$ 33,961,795	$ 34,698,020	$ 35,293,983	$ 37,516,803	$ 39,027,174	$ 40,074,290	$ 42,480,519
Other local taxes	30,131,647	29,978,525	30,285,024	31,311,578	32,407,959	32,888,697	34,418,369	35,126,109	35,329,244	36,280,205
Permits, privilege fees and regulatory licenses	717,349	822,476	945,035	748,371	676,892	598,444	726,685	691,636	700,197	823,463
Fines and forfeitures	466,213	344,897	586,421	479,355	603,398	477,161	523,547	350,564	312,851	460,046
Revenue from use of money and property	1,352,809	537,035	441,779	426,375	348,295	462,109	405,457	554,699	468,252	545,326
Charges for services	2,098,080	2,153,238	2,104,997	2,216,814	2,265,931	2,401,073	2,675,263	2,644,355	2,673,100	2,777,921
Miscellaneous	392,910	391,890	257,448	485,647	214,655	274,259	273,284	248,557	644,920	530,385
Recovered costs	1,364,758	1,256,605	1,004,106	1,491,448	1,087,070	959,739	1,143,810	1,038,569	1,119,710	1,393,098
Intergovernmental:										
Commonwealth	9,936,350	11,239,010	11,490,604	13,345,182	12,561,997	15,071,859	12,829,369	12,909,183	13,615,207	13,676,579
Federal	2,756,944	3,337,402	3,221,610	3,879,508	4,775,305	4,363,883	3,761,934	2,603,528	3,161,316	3,543,527
Total revenues	$ 78,627,394	$ 79,964,396	$ 81,577,439	$ 88,346,073	$ 89,639,522	$ 92,791,207	$ 94,274,521	$ 95,194,374	$ 98,099,087	$ 102,511,069
Expenditures										
General government administration	$ 5,402,264	$ 4,785,487	$ 5,034,113	$ 5,785,583	$ 6,669,886	$ 6,178,075	$ 6,309,106	$ 7,905,904	$ 7,016,265	$ 7,034,405
Judicial administration	3,324,483	3,326,241	3,347,017	3,707,295	3,872,721	4,058,896	4,426,162	4,757,907	4,842,421	4,825,345
Public safety	18,220,229	18,666,202	18,154,890	18,006,243	18,838,158	19,354,308	20,738,813	21,014,424	21,862,258	22,571,905
Public works	7,206,095	7,648,942	7,430,631	7,932,048	8,134,695	8,719,453	8,680,717	9,938,991	10,799,421	9,407,885
Health and welfare	6,976,070	7,004,337	7,136,173	7,181,433	6,692,144	6,878,616	7,776,388	7,343,391	8,193,779	8,750,439
Education	25,202,840	24,143,850	24,343,841	25,243,849	26,663,850	26,853,825	26,883,825	27,937,535	28,350,929	29,088,569
Parks, recreation and cultural	4,090,417	3,441,368	3,389,943	3,733,260	3,755,802	3,883,740	4,041,718	4,134,366	4,354,413	4,384,188
Community development	2,380,204	2,168,755	2,255,173	2,416,979	2,487,037	2,602,400	2,848,613	3,102,783	2,817,023	2,784,571
Capital projects	3,456,377	4,792,112	2,675,390	9,269,823	10,160,076	25,044,316	13,197,828	12,206,160	14,332,314	7,031,684
Debt service										
Principal	3,126,779	3,026,695	3,127,831	2,857,891	2,704,885	3,588,507	4,437,379	3,966,345	4,456,281	4,980,957
Interest and other fiscal charges	3,046,535	2,843,788	2,710,791	2,675,680	3,860,585	3,658,596	3,457,000	3,593,740	3,763,249	3,610,416
Total expenditures	$ 82,432,293	$ 81,847,777	$ 79,605,793	$ 88,810,084	$ 93,839,839	$ 110,820,732	$ 102,797,549	$ 105,901,546	$ 110,788,353	$ 104,470,364
Excess (deficiency) of revenues over expenditures	$ (3,804,899)	$ (1,883,381)	$ 1,971,646	$ (464,011)	$ (4,200,317)	$ (18,029,525)	$ (8,523,028)	$ (10,707,172)	$ (12,689,266)	$ (1,959,295)
Other financing sources (uses)										
Transfers in	$ 10,133,320	$ 9,732,457	$ 11,913,628	$ 9,615,156	$ 10,600,181	$ 10,924,477	$ 12,138,388	$ 12,726,061	$ 12,614,866	$ 13,448,403
Transfers out	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)	(9,979,745)	(10,320,084)	(11,534,908)	(12,106,516)	(11,995,511)	(12,842,738)
Refunding bonds issued	2,672,836	-	-	2,469,101	-	-	5,714,176	-	-	-
Bonds issued	-	-	-	33,860,000	-	-	3,832,391	14,820,000	-	-
Premium on bonds issued	-	-	-	1,760,063	-	-	-	2,490,218	-	-
Payments to refunded bond escrow agent	(2,650,207)	-	-	(2,592,336)	-	-	(5,698,218)	-	-	-
Long-term notes payable issued	-	-	-	725,000	-	-	-	-	-	-
Sale of capital assets	76,293	-	36,665	27,241	28,546	13,658	130,381	80,830	19,569	15,416
Total other financing sources (uses)	$ 955,502	$ 904,224	$ 421,685	$ 36,849,069	$ 648,982	$ 618,051	$ 4,582,210	$ 18,010,593	$ 638,924	$ 621,081
Net change in fund balances	$ (2,849,397)	$ (979,157)	$ 2,393,331	$ 36,385,058	$ (3,551,335)	$ (17,411,474)	$ (3,940,818)	$ 7,303,421	$ (12,050,342)	$ (1,338,214)
Debt service as a percentage of noncapital expenditures	7.84%	7.59%	7.53%	6.93%	7.86%	8.44%	8.84%	7.88%	8.52%	8.84%

CITY OF FREDERICKSBURG, VIRGINIA **Table 5**

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

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Business License Tax	Motor Vehicle License Tax	Bank Stock Tax	Recordation and Wills Tax	Tobacco Tax	Amusement Tax	Hotel Lodging Tax	Meals Tax	Total
2009	$ 29,410,334	$ 11,929,648	$ 1,517,109	$ 5,847,174	$ 377,547	$ 469,094	$ 460,085	$ 530,216	$ 335,918	$ 1,050,586	$ 7,080,021	$ 59,007,732
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	758,805	406,123	503,322	319,137	1,084,542	8,132,542	76,258,483
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	777,521	468,241	554,701	341,693	1,175,244	8,842,347	61,204,623
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	696,511	402,018	578,303	368,842	1,182,500	9,373,302	64,862,937
2013	34,698,020	10,840,598	1,795,046	5,994,920	450,126	657,687	408,981	442,569	349,301	1,204,855	9,657,796	66,499,899
2014	35,293,983	10,663,183	1,844,379	5,641,614	455,246	700,378	567,244	543,916	367,554	1,149,906	9,752,120	66,979,523
2015	37,516,803	10,780,677	1,856,992	5,943,742	471,438	792,451	456,665	525,413	432,380	1,329,542	10,115,765	70,221,868
2016	39,027,174	11,176,401	1,810,911	6,101,499	472,014	755,230	711,445	513,669	387,529	1,432,190	10,693,375	73,081,437
2017	40,074,290	11,376,302	1,808,256	6,320,104	486,096	862,442	567,144	509,819	462,665	1,524,371	11,141,603	75,133,092
2018	42,480,519	11,580,437	1,834,078	6,382,569	473,299	861,080	435,488	498,154	500,907	1,565,938	11,765,352	78,377,821

CITY OF FREDERICKSBURG, VIRGINIA **Table 6**

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

Fiscal Year	Real Estate	Direct Tax Rate	Personal Property	Direct Tax Rate	Machinery and Tools	Direct Tax Rate	Public Service	Service Charges	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2009	$ 4,106,387,300	0.56	$ 244,149,967	2.99	$ 9,064,237	0.80	$ 87,776,155	$ 4,060,300	$ 4,451,437,959	0.70	$ 4,451,437,959	100.00%
2010	3,501,342,300	0.68	237,860,715	3.40	20,065,271	0.80	92,224,942	3,464,100	3,854,957,328	0.85	3,854,957,328	100.00%
2011	3,542,088,600	0.68	252,413,838	3.40	33,658,145	0.80	106,522,343	3,464,100	3,938,147,026	0.86	3,938,147,026	100.00%
2012	3,606,739,500	0.72	266,300,640	3.40	34,817,018	0.80	121,621,449	3,464,100	4,032,942,707	0.90	4,032,942,707	100.00%
2013	3,519,520,600	0.74	289,788,976	3.40	29,433,766	0.80	112,250,088	3,427,400	3,954,420,830	0.94	3,954,420,830	100.00%
2014	3,596,021,600	0.74	296,590,842	3.40	25,812,744	0.80	98,288,766	3,927,400	4,020,641,352	0.94	4,020,641,352	100.00%
2015	3,626,209,900	0.79	301,993,080	3.40	22,001,821	0.80	100,894,855	3,427,400	4,054,527,056	0.99	4,054,527,056	100.00%
2016	3,651,843,200	0.82	311,513,383	3.40	16,746,858	0.80	98,498,817	3,427,400	4,082,029,658	1.02	4,082,029,658	100.00%
2017	3,956,381,500	0.77	312,718,088	3.40	15,692,250	0.80	103,541,921	3,541,360	4,391,875,119	0.96	4,391,875,119	100.00%
2018	3,996,438,900	0.80	324,731,053	3.40	15,334,580	0.80	199,976,183	3,541,360	4,540,022,076	0.99	4,540,022,076	100.00%

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA **Table 7**

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

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Total Direct Tax Rate
2009	$ 0.56	$ 2.99	$ 0.56	$ 0.80	$ 0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90
2013	0.74	3.40	0.74	0.80	0.94
2014	0.74	3.40	0.74	0.80	0.94
2015	0.79	3.40	0.79	0.80	0.99
2016	0.82	3.40	0.82	0.80	1.02
2017	0.77	3.40	0.77	0.80	0.96
2018	0.80	3.40	0.80	0.80	0.99

(1) Source: Commissioner of Revenue.
(2) Property tax rates are based on $100 of assessed value.

CITY OF FREDERICKSBURG, VIRGINIA **Table 8**

Principal Property Taxpayers
Current Year and the Period Nine Years Prior

		Fiscal Year 2018			Fiscal Year 2009		
Taxpayer	**Type Business**	**2017-2018 Assessed Valuation**	**Rank**	**% of Total Assessed Valuation (1)**	**2008-2009 Assessed Valuation**	**Rank**	**% of Total Assessed Valuation (1)**
Central Park Retail LLC	Retail	$ 73,473,800	1	1.75 %	$ -	-	- %
Mach II MCB Silver Portfolio	Central Park property	61,425,800	2	1.46	-	-	-
The Apartments at Cobblestone	New home sales	59,887,100	3	1.43	-	-	-
Virginia Electric & Power Co.	Public utility	58,489,573	4	1.39	32,294,860	6	0.77
Mid-America Apartments LP	Apartment complex	45,494,600	5	1.08	-	-	-
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	41,532,300	6	0.99	58,848,900	2	1.40
Mid-America Apts. LP Seasons at Cel. VA.	Apartment complex	38,196,000	7	0.91	-	-	-
Residences at Belmont Apts. LLC	Apartment complex	33,667,000	9	0.80	-	-	-
Central Park Marketplace Holdings LLC	Central Park property	31,914,100	8	0.76	39,960,100	4	0.95
Verizon Virginia, Inc.	Public utility	29,412,047	10	0.70	28,869,320	7	0.69
Fredericksburg 35 LLC	Central Park property	-	-	-	143,571,800	1	3.42
Celebrate Virginia South LLC	Commercial	-	-	-	49,063,400	3	1.17
Stellar Belmont LLC	Apartment complex	-	-	-	34,348,300	5	0.82
Hylton Venture LLC	Land development	-	-	-	28,811,200	8	0.69
Wal-Mart Real Estate Business	Retail	-	-	-	25,447,300	9	0.61
CVA Expo Center LLC	Trade shows, conventions	-	-	-	22,063,000	10	0.53
Total		$ 473,492,320		11.27 %	$ 463,278,180		11.04 %

Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA **Table 9**

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1) (3)	Total Collections to Date	
		Amount (1) (3)	Percentage of Levy (2)		Amount (1) (3)	Percentage of Levy (2)
2009	$ 30,902,557	$ 30,222,352	97.80%	$ 621,801	$ 30,844,153	99.81%
2010	32,129,525	31,050,501	96.64%	1,008,650	32,059,151	99.78%
2011	33,269,826	32,103,892	96.50%	1,072,167	33,176,059	99.72%
2012	35,663,960	34,417,182	96.50%	1,042,063	35,459,245	99.43%
2013	36,540,252	35,453,742	97.03%	894,827	36,348,569	99.48%
2014	37,507,994	35,982,391	95.93%	1,333,756	37,316,147	99.49%
2015	39,392,612	38,212,293	97.00%	940,480	39,152,773	99.39%
2016	40,976,073	39,725,807	96.95%	936,779	40,662,586	99.23%
2017	41,500,053	40,450,013	97.47%	732,226	41,182,239	99.23%
2018	43,566,222	42,562,250	97.70%	-	42,562,250	97.70%

(1) Exclusive of penalties and interest.
(2) Percentages are calculated using levy for fiscal year.
(3) The Commonwealth reimbursement under the Personal Property Tax Relief Act is included in total collections.

CITY OF FREDERICKSBURG, VIRGINIA **Table 10**

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities			Business-Type Activities					
Fiscal Years	General Obligation Bonds	Notes	Revenue Bonds	General Obligation Bonds	Notes	Revenue Bonds	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
2009	$ 62,766,729	$ -	$ -	$ 14,445,225	$ -	$ 4,595,059	$ 81,807,013	9.17%	3,503
2010	59,625,306	-	-	20,068,845	-	3,633,315	83,327,466	8.73%	3,431
2011	56,386,080	-	-	19,035,185	-	2,638,594	78,059,859	7.43%	3,038
2012	88,917,128	725,000	-	17,984,434	-	1,609,765	109,236,327	10.26%	4,198
2013	85,946,002	725,000	-	16,964,140	-	545,659	104,180,801	9.33%	3,815
2014	82,110,710	725,000	-	15,939,460	-	-	98,775,170	8.12%	3,511
2015	82,357,412	-	-	27,611,336	-	-	109,968,748	9.15%	3,898
2016	93,367,519	-	2,103,232	25,658,010	-	-	121,128,761	9.64%	4,308
2017	88,724,301	-	1,853,884	23,662,010	-	-	114,240,195	8.70%	4,037
2018	83,569,255	-	1,599,850	21,608,219	-	-	106,777,324	7.97%	3,765

Note: Details regarding the City's outstanding debt can be found in Note 10 in the Notes to Basic Financial Statements section of this report.

(1) See the Schedule of Demographic and Economic Statistics - Table 15.

CITY OF FREDERICKSBURG, VIRGINIA **Table 11**

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

Fiscal Year	Gross Bonded Debt	Less: Amounts Reserved for Debt Service (1)	Net Bonded Debt (2)	Ratio of Net General Obligation Debt to Assessed Value (3)	Net Bonded Debt per Capita (4)
2009	$ 77,211,954	$ -	$ 77,211,954	1.73%	3,306
2010	79,694,151	-	79,694,151	2.07%	3,281
2011	75,421,265	-	75,421,265	1.92%	2,936
2012	107,626,562	-	107,626,562	2.67%	4,136
2013	103,635,142	805,804	102,829,338	2.60%	3,766
2014	98,775,170	2,462,142	96,313,028	2.40%	3,424
2015	109,968,748	2,308,258	107,660,490	2.66%	3,816
2016	119,025,529	2,154,374	116,871,155	2.86%	4,156
2017	112,386,311	2,000,490	110,385,821	2.51%	3,901
2018	105,177,474	1,846,607	103,330,867	2.28%	3,644

(1) Includes amounts committed in the Education Debt Service Fund.
(2) Excludes revenue bonds, capital leases, compensated absences, landfill post-closure costs, net OPEB obligation payable, and net pension liability.
(3) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 6.
(4) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 15.

CITY OF FREDERICKSBURG, VIRGINIA **Table 12**

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Debt limit	$ 237,514,942	$ 207,207,276	$ 211,856,637	$ 216,056,402	$ 212,771,995	$ 215,659,654	$ 218,129,465	$ 219,586,863	$ 252,766,739	$ 260,013,047
Total net debt applicable to limit	75,597,147	78,024,146	73,892,147	104,475,147	99,973,210	93,731,873	105,466,742	112,678,626	106,587,510	99,923,393
Legal debt margin	$ 161,917,795	$ 129,183,130	$ 137,964,490	$ 111,581,255	$ 112,798,785	$ 121,927,781	$ 112,662,723	$ 106,908,237	$ 146,179,229	$ 160,089,654
Total net debt applicable to the limit as a percentage of debt limit	31.83%	37.66%	34.88%	48.36%	46.99%	43.46%	48.35%	51.31%	42.17%	38.43%

Legal Debt Margin Calculation for Fiscal Year 2018:

Assessed value	$ 4,196,415,083
Add back: exempt real property	1,220,523,400
Total assessed value	$ 5,416,938,483
Debt limit (4.8% of total assessed value)	$ 260,013,047
Net debt applicable to limit	99,923,393
Legal debt margin	$ 160,089,654

CITY OF FREDERICKSBURG, VIRGINIA **Table 13**

Pledged-Revenue Coverage
Last Ten Fiscal Years

	Water and Sewer Bonds					
				Debt Service		
Fiscal Year	Water & Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage
2009	$ 7,361,317	$ 6,559,626	$ 801,691	$ 1,514,393	$ 665,412	$ 0.37
2010	7,693,179	6,388,224	1,304,955	1,583,149	650,316	0.58
2011	10,049,028	6,710,195	3,338,833	1,860,357	788,611	1.26
2012	9,218,671	7,394,400	1,824,271	1,905,625	745,723	0.69
2013	8,241,838	7,211,193	1,030,645	1,902,540	664,165	0.40
2014	9,101,122	7,019,203	2,081,919	1,380,571	606,902	1.05
2015	9,342,915	7,097,478	2,245,437	835,936	631,893	1.53
2016	10,357,703	7,294,421	3,063,282	1,707,399	770,634	1.24
2017	10,027,275	7,889,958	2,137,317	1,742,554	721,532	0.87
2018	10,630,042	7,843,959	2,786,083	1,796,926	667,795	1.13

CITY OF FREDERICKSBURG, VIRGINIA **Table 14**

Direct and Overlapping Debt
As of June 30, 2018

	Debt Outstanding	Percentage	Share of Direct and Overlapping Debt
Direct Debt:			
Primary Government:			
General Obligation Bonds	$ 83,569,255	100.00%	$ 83,569,255
VRA Revenue Bonds	1,599,850	100.00%	1,599,850
Total Primary Government Direct Debt	$ 85,169,105		$ 85,169,105

The City has no overlapping debt.

CITY OF FREDERICKSBURG, VIRGINIA **Table 15**

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Per Capita Personal Income (2)	School Enrollment (3)	Unemploy-ment Rate (4)
2009	23,353	$ 892,131,306	$ 38,202	2,655	9.2%
2010	24,286	954,391,228	39,298	2,793	9.6%
2011	25,691	1,050,582,063	40,893	3,037	10.3%
2012	26,024	1,064,199,432	40,893	3,072	8.8%
2013	27,307	1,116,665,151	40,893	3,139	8.2%
2014	28,132	1,215,808,776	43,218	3,214	5.9%
2015	28,213	1,201,676,309	42,593	3,300	6.2%
2016	28,118	1,256,818,364	44,698	3,478	4.8%
2017	28,297	1,313,009,097	46,401	3,546	4.6%
2018	28,360	1,339,442,800	47,230	3,567	4.3%

(1) Source: Weldon Cooper Center for Public Service except for fiscal year 2010, which is from the U.S. Census Bureau.
(2) Source: Bureau of Economic Analysis. Per capita income includes the City of Fredericksburg combined with Spotsylvania County.
(3) Source: Fredericksburg School Board office.
(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA **Table 16**

Principal Employers
Current Year and the Period Nine Years Prior

	Fiscal Year 2018			Fiscal Year 2009	
Employer	**Number of Employees (1)**	**Rank**	**Percentage of Total Employment**	**Number of Employees (2)**	**Rank**
Mary Washington Healthcare	4,700	1	24.61%	1000 and over	1
University of Mary Washington	889	2	4.66%	1000 and over	2
City of Fredericksburg	757	3	3.96%	500 to 999	3
City of Fredericksburg School Board	723	4	3.79%	500 to 999	4
Medicorp Health System	500	5	2.62%	500 to 999	-
Wal-Mart	565	6	2.96%	250 to 499	5
Wegmans	549	7	2.88%	250 to 499	6
Snowden Services	469	8	2.46%	250 to 499	-
Free Lance Star Publishing, Inc.	436	9	2.29%	100 to 249	-
Rappahannock Area Community Services Board	326	10	1.71%	100 to 249	-
Virginia Department of Transportation	-	-	-	250 to 499	7
United States Postal Service	-	-	-	100 to 249	8
Lowe's Home Centers, Inc.	-	-	-	100 to 249	9
Home Depot USA, Inc.	-	-	-	100 to 249	10

(1) Source: Department of Economic Development and Tourism.
(2) For fiscal year 2009 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA **Table 17**

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

	Fiscal Year									
Function	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General government	40	38	41	41	43	44	51	52	51	50
Judicial administration	39	38	39	39	40	42	48	48	50	48
Public safety	162	164	162	166	162	156	165	159	161	164
Public works	81	75	73	74	73	78	72	73	80	82
Health and welfare	35	35	34	33	32	34	33	35	35	36
Parks and recreation	17	17	17	16	17	32	19	19	18	19
Community development	12	12	12	11	13	14	14	16	15	16
Water	10.5	10.5	10	10	9	6	11	12	12	12
Wastewater	18.5	16.5	19	19	17	12	20	21	18	18
Transit	13	13	13	13	14	15	15	14	15	17
Parking garage	1	1	1	1	1	1	1	1	1	1
Totals	429	420	421	423	421	434	449	450	456	463

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety:										
Police department:										
Physical arrests (7)	3,168	3,477	3,772	3,621	3,722	3,660	3,974	3,522	3,435	5,336
Traffic violations (1)	7,335	6,546	7,937	7,914	7,824	5,981	5,320	3,733	3,738	5,049
Parking violations	8,397	7,467	7,223	6,965	6,528	7,513	6,235	6,219	7,577	7,014
Sheriffs department:										
Civil papers (2)	41,379	48,074	48,918	50,764	63,886	58,338	58,111	59,405	59,568	62,084
Fire and rescue:										
Number of calls answered	5,885	5,882	5,825	5,471	5,407	5,311	5,344	5,462	5,554	6,185
Inspections	1,478	1,624	1,596	1,548	1,650	1,673	2,072	2,015	1,762	1,699
Building inspections:										
Permits issued	1,541	1,486	1,633	1,558	1,554	1,618	1,640	1,703	1,580	1,558
Animal control:										
Number of calls answered	811	1,015	897	864	1,022	926	520	895	876	1,223
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	277	327	517	400	309	212	248	377	359	324
Waste removal:										
Refuse collected (thousands of pounds/day)	20.6	21.4	20.7	19.3	19.0	20.6	21.1	21.4	20.4	21.2
Recycling collected:										
Leaves (cubic yards)	5,604	5,604	5,038	4,510	5,421	5,336	5,027	4,218	4,820	4,155
General services:										
Buildings maintained (thousands of square feet)	501.9	500.5	500.5	480.5	462.3	551.2	551.9	604.2	550.8	550.8
Culture and recreation:										
Parks and recreation:										
Number of programs (3)	510	464	471	514	495	414	397	377	394	402
Number of participants (3)	18,563	16,193	19,082	20,425	19,525	14,177	13,966	8,421	12,576	13,656
Community development:										
Planning:										
Zoning permits issued (4)	291	260	283	390	338	309	367	365	364	293

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water:										
Number of connections	7,351	7,453	7,614	7,718	7,801	7,861	7,911	7,950	8,047	8,115
Average daily consumption (thousands of gallons)	2,492	2,334	2,557	2,584	2,649	2,537	2,650	2,544	2,561	2,485
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,794	3,210	2,700	3,010	2,493	2,833	3,290	3,350	2,720	2,770
Transit:										
Ridership per service area: (5)										
City of Fredericksburg	273,685	261,238	274,540	278,657	279,363	259,790	238,024	214,439	193,786	160,249
UMW - Eagle Express	15,014	12,030	15,323	12,284	13,685	11,679	10,287	11,371	7,893	7,533
Spotsylvania County	113,669	97,343	96,248	116,623	117,633	114,162	114,417	94,740	79,935	69,560
South Stafford County (6)	39,234	40,830	45,288	44,341	68,614	65,033	63,781	62,618	55,409	50,800
North Stafford County (6)	77,303	74,369	70,397	72,366	39,446	33,751	38,495	34,036	32,622	29,422
Caroline County	8,160	7,155	5,882	7,352	10,425	11,094	12,168	10,192	7,397	7,216
King George County	21,550	16,792	16,993	17,033	-	-	-	-		
Component Unit - School Board:										
Education:										
Number of students	2,655	2,793	3,037	3,072	3,139	3,214	3,300	3,356	3,546	3,567
Number of teachers	257	256	258	258	264	267	265	269	304	295
Cost per pupil	$ 13,911	$ 13,276	$ 11,882	$ 12,546	$ 13,853	$ 14,235	$ 13,771	$ 13,849	$ 13,582	$ 13,997

Source: Individual city departments.

(1) Beginning in fiscal year 2014, reduction in traffic violations issued is due to Police Department staffing shortage and shift in work functions.
(2) Beginning in fiscal year 2013, increase in civil papers served is due to a higher number of jury summons for Circuit Court.
(3) Beginning in fiscal year 2014, program and participant decrease is due to elimination of unprofitable programs and change in tracking methods of new software.
(4) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.
(5) In general, ridership decreases are due to a combination of low gas prices, low unemployment, improved economic conditions, and the opening of Spotsylvania County's Virginia Railway Express station in fiscal year 2016, which has impacted the City of Fredericksburg ridership totals.
(6) Beginning in fiscal year 2013, north and south Stafford transit routes have shifted due to new census data.
(7) Physical arrest increases in FY2018 due to change in calculation method from number of persons arrested to number of arrests.

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	33	31	31	31	35	34	34	40	40	39
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	8	8	9	10	11	12	12	14	15	15
Sheriffs department:										
Patrol units	15	15	15	15	16	16	19	20	22	22
Building inspections:										
Vehicles	7	7	7	7	7	6	5	5	5	5
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	22	21	20	20	20	20	20	20	20	20
Streets (moving lane miles)	189	189	189	189	189	189	189	189	189	189
Traffic signals	61	61	61	61	61	60	61	61	56	55
Waste removal:										
Trucks/vehicles	7	8	10	10	7	7	7	7	6	6
Building maintenance:										
Trucks/vehicles	8	10	10	10	10	13	15	16	16	17
Health and welfare:										
Department of Social Services:										
Vehicles	6	6	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	15	13	13	14	14	13	15	15	15	15
Parks	13	17	18	18	18	19	19	19	19	19
Park acreage	1,015	1,051	1,055	1,055	1,055	1,085	1,085	1,085	1,085	1,090
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	5	5	5	5	5	5	5	5	5	5
School buses	36	37	38	37	41	41	42	43	44	46

Source: Individual City departments.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Fredericksburg, Virginia's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2018

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2018. City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Fredericksburg, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fredericksburg, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Fredericksburg, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2018

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Primary Government:				
Department of Agriculture:				
Pass-through Payments:				
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010118/0010117	$ 476,586	$ -
Total Department of Agriculture			$ 476,586	$ -
Department of Housing and Urban Development:				
Direct Payments:				
Community Development Block Grant/Entitlement Grants	14.218	N/A	$ 188,523	$ 51,923
Total Department of Housing and Urban Development			$ 188,523	$ 51,923
Department of Justice:				
Pass-through Payments:				
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	CJS86015/CJS7601601	$ 123,216	$ -
Total Department of Justice			$ 123,216	$ -
Department of Transportation:				
Direct Payments:				
Federal Transit - Formula Grants	20.507	N/A	$ 1,342,308	$ -
Pass-through Payments:				
Virginia Department of Transportation:				
Formula Grants for Rural Areas	20.509	42516-06/42518-06/ 42517-06	156,394	-
Virginia Department of Motor Vehicles:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	FSC-18-58336 SC-17-57200	11,869	-
National Priority Safety Programs	20.616	M60T-18-58385 M60T-17-57265	2,630	-
Total Highway Safety Cluster			$ 14,499	$ -
Total Department of Transportation			$ 1,513,201	$ -

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2018 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Primary Government: (continued)				
Department of Health and Human Services:				
Pass-through Payments:				
Department of Social Services:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760117/0760118	$ 45,370	$ -
Promoting Safe and Stable Families	93.556	0950117/0950118	14,915	-
Temporary Assistance for Needy Families	93.558	0400117/0400118	303,970	-
Refugee and Entrant Assistance State Administered Programs	93.566	0500117/0500118	8,977	-
Low-Income Home Energy Assistance	93.568	0600417/0600418	38,046	-
Chafee Education and Training Vouchers Program	93.599	9160117/9160118	2,256	-
Adoption and Legal Guardianship Incentive Payments	93.603	1130115/1130116	5,390	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	900117	860	-
Foster Care - Title IV-E	93.658	1100117/1100118	469,321	-
Adoption Assistance	93.659	1120117/1120118	608,562	-
Social Services Block Grant	93.667	1000117/1000118	288,233	-
Chafee Foster Care Independence Program	93.674	9150117/9150118	1,789	-
Children's Health Insurance Program	93.767	0540117/0540118	23,989	-
Medical Assistance Program	93.778	1200117/1200118	542,583	-
Total Department of Health and Human Services			$ 2,354,261	$ -
Department of Homeland Security:				
Pass-through Payments:				
Department of Emergency Services:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DEM0016799	$ 148,518	$ -
Homeland Security Grant Program	97.067	DEM6270500/110274 112487	227,244	-
Emergency Management Performance Grants	97.042	110273	10,680	-
Total Department of Homeland Security			$ 386,442	$ -
Total Expenditures of Federal Awards - Primary Government			$ 5,042,229	$ 51,923
Component Unit - School Board:				
Department of Agriculture:				
Pass-through Payments:				
Department of Agriculture:				
Child Nutrition Cluster:				
Food Distribution Service	10.555	201717IN109941/ 201818N109941	$ 161,757	$ -
Virginia Department of Education:				
National School Lunch Program (SL-4) (SL-11)	10.555	201717IN109941/ 201818N109941	1,198,251	-
Total 10.555			$ 1,360,008	$ -
School Breakfast Program	10.553	201717IN109941/ 201818N109941	$ 377,101	$ -
Total Child Nutrition Cluster			$ 1,737,109	$ -
Total Department of Agriculture			$ 1,737,109	$ -
Department of Health and Human Services:				
Direct Payments:				
Head Start	93.600	N/A	$ 1,169,837	$ -
Total Department of Health and Human Services			$ 1,169,837	$ -

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2018 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Component Unit - School Board: (continued)				
Department of Education:				
Pass-through Payments:				
Virginia Council on Higher Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	PS334S140027	$ 55,447	$ -
Virginia Department of Education:				
Title I Grants to Local Educational Agencies	84.010	S010A160046/ S010A170046	1,085,704	-
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	H027A170107/ H027A180107	$ 653,428	$ -
Special Education - Preschool Grants	84.173	H173A150112/ H173A160112/ H173A170112/	26,176	-
Total Special Education Cluster (IDEA)			$ 679,604	$ -
English Language Acquisition State Grants	84.365	S365A150046/ S365A160046/ S365A170046	71,338	-
Career and Technical Education - Basic Grants to States	84.048	V048A170046/ V048A160046	88,041	-
Supporting Effective Instruction State Grant	84.367	S367A160044/ S367A170044	142,072	-
Total Department of Education			$ 2,122,206	$ -
Total Expenditures of Federal Awards - Component Unit School Board			$ 5,029,152	$ -
Total Expenditures of Federal Awards - Reporting Entity			$ 10,071,381	$ 51,923

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

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Fredericksburg, Virginia under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

Note 3 - Loan Balances

The City has no loans or loan guarantees which are subject to reporting requirements for the current year.

Note 4 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:		
Primary Government:		
General Fund	$	97,082
Special Revenue Funds:		
Virginia Public Assistance Fund		2,656,837
Children's Services Act Fund		76,928
State, Federal, and Local Grants Fund		564,162
Capital Projects Funds:		
Public Works Capital Fund		148,518
Proprietary Funds:		
Transit Fund		1,498,702
Wastewater Fund		57,476
Total Primary Government	$	5,099,705
Component Unit School Board:		
School Operating Fund	$	55,447
Special School Fund		4,973,705
Total Component Unit School Board	$	5,029,152
Less:		
Build America Bonds Interest Subsidy	$	(57,476)
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	$	10,071,381

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
20.507	Federal Transit - Formula Grants
84.027/84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

There were no prior year findings.