

FREDERICKSBURG, VIRGINIA

*Comprehensive
Annual
Financial
Report . . .*



*. . . for fiscal
year ended _____*

JUNE 30, 2013

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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Beverly R. Cameron
City Manager

D. Mark Whitley
Assistant City Manager



City of Fredericksburg
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Fredericksburg, VA 22404-7447
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Fax: 540 372-1201

November 20, 2013

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Fredericksburg, Virginia (the “City”) for the fiscal year ended June 30, 2013.

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

The City’s financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditors’ report is presented as the first component of the financial section of this report.

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

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

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is less than an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 27,307.

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

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

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

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

Economic Condition and Outlook

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

Economic Condition and Outlook: (Continued)

A continued opportunity for economic growth rests with the University of Mary Washington Foundation's Eagle Village development project. This project involves transforming a 1950's era shopping center into the City's first mixed-use complex. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Phase II will also include a five-story Hyatt Place hotel, which is scheduled to open during fiscal year 2014. The hotel will feature 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel will be located between Mary Washington Hospital and the University of Mary Washington and provide visitors a convenient lodging option within the Route One corridor.

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

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

Major Initiatives

During fiscal year 2013 the City continued to maintained its capacity to provide a high level of service to its residents in the form of major capital initiatives. The following narrative highlights the primary projects worked on during fiscal year 2013.

Work was nearing completion on a new state-of-the-art operations and maintenance facility for Fredericksburg Regional Transit. Two new buildings are being constructed, a fleet maintenance building and an operations building, as well as two bus canopies. The fleet maintenance building, designed for future expansion, if necessary, includes three interior service bays, lifts, and a separate wash bay. Natural day lighting and ventilation will allow for annual operational savings. The operations building will house operations staff including drivers, dispatchers, and supervisors. A large classroom/training room, staff lockers, and operational support spaces comprise the non-office spaces. The completion of the project is scheduled for November 2013 at an estimated cost of \$5,566,000.

The primary transportation project involves the replacement of the Fall Hill Avenue Bridge over the Rappahannock Canal. This project includes increasing the bridge's load capacity while providing a connection point between the Rappahannock Canal bicycle and walking path with the recently completed Rappahannock River Heritage Trail. The engineering phase of this project is nearing completion with construction scheduled to begin in February 2014. The cost of the project is estimated to be \$3,000,000.

Major Initiatives: (Continued)

Implementation of the City's comprehensive bicycle/foot trail plan, Fredericksburg Pathways, continued during fiscal year 2013. Fredericksburg Pathways is designed to improve the overall transportation system in and around the Fredericksburg area by developing a network of routes for bicycle and pedestrian traffic. These routes will reduce traffic congestion by providing non-motorized transportation and recreation connections between neighborhoods, shopping areas, and popular destinations. One phase of the project, the Rappahannock River Heritage Trail, was completed during fiscal year 2013 at a cost of \$2,040,000. Construction of another phase, the Virginia Central Railway Trail, is scheduled to be completed during fiscal year 2014 at an estimated cost of \$3,100,000.

The most significant capital endeavor for the City is the construction and renovation of various court facilities. The primary components of this project are the relocation of the Juvenile and Domestic Relations Court to the Executive Plaza building, the construction of a new 78,000-square-foot courthouse building, which will house the Circuit Court and the General District Court, and the renovation of the existing General District Court building for the permanent use of the Juvenile and Domestic Relations Court. Renovation work for the Juvenile and Domestic Relations Court was completed at the Executive Plaza building during fiscal year 2012 at a cost of \$1,530,387. Construction on the new courthouse began during fiscal year 2013. Renovation of the existing General District Court building will not take place until the new courthouse is completed, which is scheduled for June 2014. The total cost of all three projects is approximately \$33,860,000.

Budgetary Control

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

Financial Management Policy

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

Long-Term Financial Planning

The City's Capital Improvements Plan is used as a tool to project future capital and financing needs over a five year period. The current Capital Improvements Plan calls for several major capital projects over the next several years with the primary project being the construction of a new courthouse building. To finance this project, the City issued \$36,665,000 in general obligation debt during fiscal year 2012, with \$2,945,000 being used towards refunding existing debt. In fiscal year 2014, besides the courthouse building, the City is planning \$3,650,000 for its share of upgrade and repair work to be performed on the Spotsylvania County-owned water and sewer treatment facilities as well as \$1,715,000 for water system upgrades within the College Heights neighborhood. An additional \$2,100,000 is also planned to replace the Fall Hill Avenue Bridge over the canal. The primary projects planned for fiscal year 2015 are the Fall Hill widening project for \$2,880,000 and \$1,200,000 for roof replacement at Walker-Grant Middle School. Major initiatives planned for fiscal year 2016 are \$3,000,000 for a second downtown parking garage, to be located next to the train station, \$8,100,000 for the renovation of the Old Walker-Grant School, and \$5,500,000 to renovate the Renwick building, which currently houses the Circuit Court. The most significant projects planned for fiscal year 2017 are \$2,000,000 for further development of Riverfront Park, \$6,000,000 to complete construction of the new parking garage, \$2,040,000 for a study and upgrade of the public safety radio system, and \$4,500,000 for various wastewater projects. Financing for these projects will be provided through a combination of bonds, grants, and local funding.

Cash Management Policies and Practices

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

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

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

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

Pension and Other Post-Employment Benefits

The City and Component Unit School Board participate in the Virginia Retirement System defined benefit pension plan. A description of the plan can be found in Note 11 in the Notes to Basic Financial Statements section of this report. The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. A description of the City's post-employment benefits program can be found in Note 18 in the Notes to Basic Financial Statements section of this report.

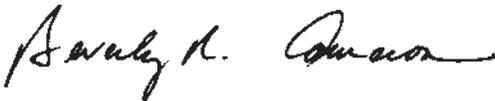
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements

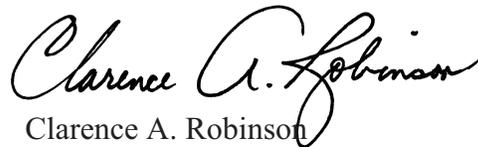
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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

Sincerely,



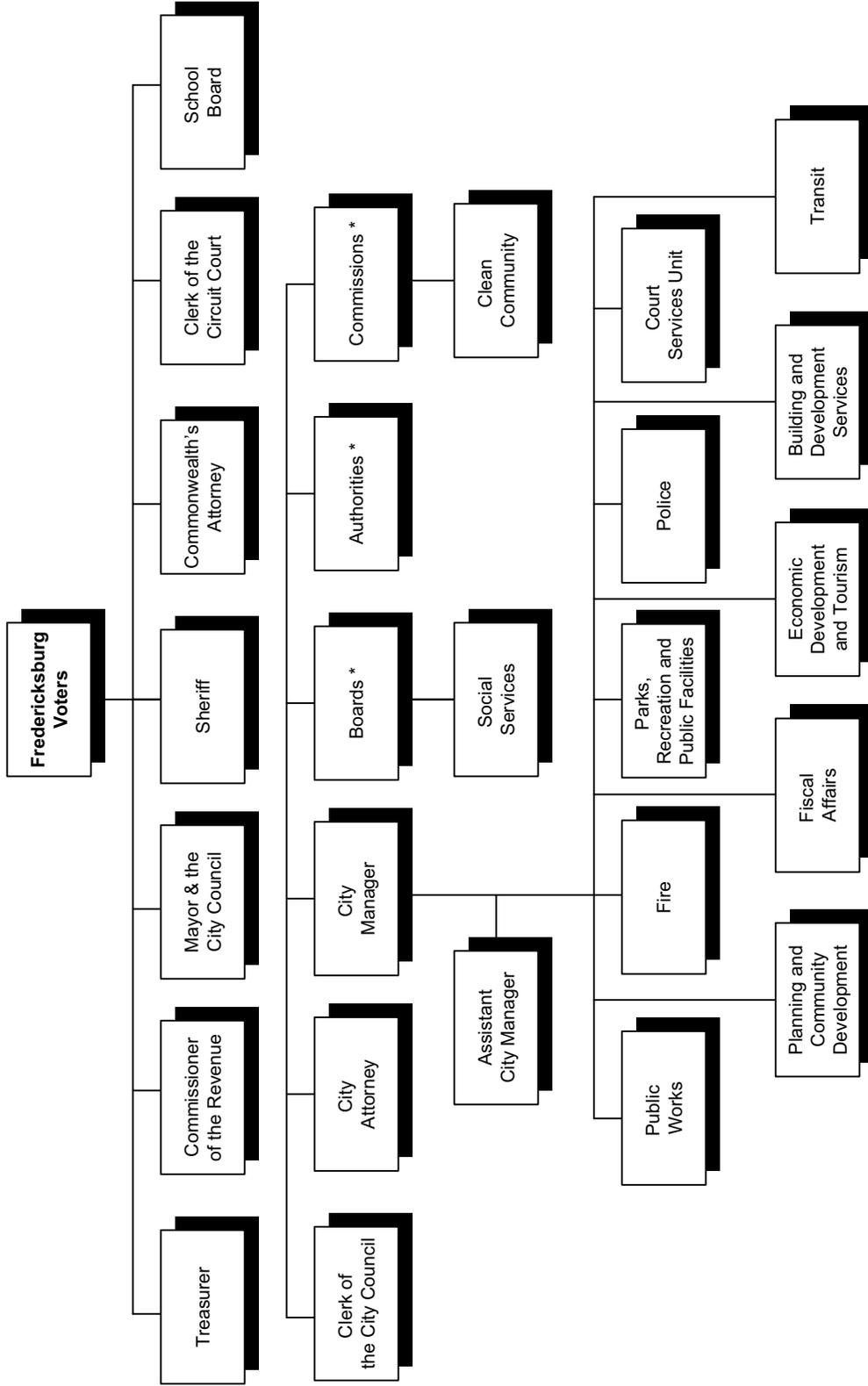
Beverly R. Cameron
City Manager



Clarence A. Robinson
Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



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

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
June 30, 2013

CITY COUNCIL

Mary Katherine Greenlaw Mayor, At-Large
Bradford C. Ellis Vice Mayor, Ward 1
Kerry P. Devine At-Large
Matthew J. Kelly At-Large
George C. Solley Ward 2
Frederic N. Howe, III Ward 3
Beatrice R. Paolucci 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
G. M. Haney Treasurer

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

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

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, 2012

Executive Director/CEO

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Independent Auditors' Report

**To the Honorable Members of the 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 City of Fredericksburg, Virginia, as of and for the year ended June 30, 2013, 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, 2013, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-17, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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.

Other Matters (continued)

Other Information (continued)

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 20, 2013, on our consideration of the City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia

November 20, 2013

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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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- Total net position for governmental activities was \$112,496,767 at the end of fiscal year 2013. This figure is based on assets totaling \$217,019,276, liabilities of \$102,693,459 and deferred inflows of resources of \$1,829,050. Of the total net position amount, \$31,143,089 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for business-type activities was \$61,514,987 at the end of fiscal year 2013. The largest portion of this total is related to the water and sewer enterprise operations, valued at \$39,208,979.
- Total net position for the primary government totaled \$174,011,754. Current assets were \$98,536,655 as compared to total current liabilities of \$20,193,677. The resulting net working capital of \$78,342,978 represents a favorable liquidity position for the City.
- Total net position for the Component Unit School Board at the end of the fiscal year was \$20,556,604. Of this total, \$17,507,967 represents investment in capital assets, net of related debt.
- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was \$18,571,037, or 26.7% of total General Fund expenditures amount of \$69,650,089.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2013 unassigned General Fund balance was 23.1% of the fiscal year 2012 General Fund revenue total of \$80,278,664.
- General Fund revenues decreased \$474,249 as compared to the preceding fiscal year. The decrease is related to one-time payments totaling \$2,310,000 that were received in fiscal year 2012.
- General Fund expenditures increased \$3,279,919 or 4.9% compared to the preceding fiscal year. The largest increase occurred in the school allocation for capital projects.
- Governmental activities general obligation bond debt decreased by \$2,704,885. The balance at the end of the fiscal year was \$83,369,615. Of this amount, \$38,680,000 is related to the construction of two schools and \$36,665,000 is associated with the construction and renovation of court facilities. Business-type activities general obligation and revenue bond debt decreased by \$2,055,354.

Overview of the Financial Statements

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

Overview of the Financial Statements: (Continued)

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

The *statements of net position* present information on all of the City's assets, liabilities, and deferred inflows of resources, with the excess of assets over liabilities and deferred inflows of resources 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 culture and recreation. The business-type activities of the City include a Water Fund, a Sewer Fund, a Transit Fund, and a Parking Garage Fund.

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

The government-wide financial statements can be found on pages 23-25 of this report.

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

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

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

Overview of the Financial Statements: (Continued)

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

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

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

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

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

The basic proprietary fund financial statement can be found on pages 33-35 of this report.

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

The basic fiduciary fund financial statements can be found on pages 36 and 37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-86 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, liabilities, and deferred inflows of resources, with the excess of assets over 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 exceeded liabilities by \$174,011,754 at the close of fiscal year 2013.

A large portion of the City's net position, \$126,163,153 or 72.5%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The \$47,848,601 balance of *unrestricted net position* 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 all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities and component units.

The following table presents the condensed Statement of Net Position:

TABLE 1
Summary of Net Position
As of June 30, 2013
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 13	FY 12	FY 13	FY 12	FY 13	FY 12	FY 13	FY 12
Assets:								
Current and other assets	\$ 76.39	\$ 78.30	\$ 22.14	\$ 21.34	\$ 98.53	\$ 99.64	\$ 12.54	\$ 8.74
Capital assets	140.63	137.90	62.32	59.90	202.95	197.80	19.42	16.20
Total assets	\$ 217.02	\$ 216.20	\$ 84.46	\$ 81.24	\$ 301.48	\$ 297.44	\$ 31.96	\$ 24.94
Liabilities:								
Current and other liabilities	\$ 13.65	\$ 11.03	\$ 6.54	\$ 5.84	\$ 20.19	\$ 16.87	\$ 5.00	\$ 4.23
Long-term liabilities	89.04	92.47	16.41	17.93	105.45	110.40	5.33	1.57
Total Liabilities	\$ 102.69	\$ 103.50	\$ 22.95	\$ 23.77	\$ 125.64	\$ 127.27	\$ 10.33	\$ 5.80
Deferred Inflows of Resources:								
Unavailable revenue	\$ 1.83	\$ 1.66	-	-	\$ 1.83	\$ 1.66	-	-
Net position:								
Net investment in capital assets	\$ 81.36	\$ 80.27	\$ 44.81	\$ 40.31	\$ 126.17	\$ 120.58	\$ 17.51	\$ 16.20
Unrestricted	31.14	30.77	16.70	17.16	47.84	47.93	4.12	2.94
Total net position	\$ 112.50	\$ 111.04	\$ 61.51	\$ 57.47	\$ 174.01	\$ 168.51	\$ 21.63	\$ 19.14

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

Government-wide Financial Analysis: (Continued)

Changes in Net Position:

Governmental Activities

The net position of the governmental activities increased to \$112,496,767 during fiscal year 2013 as total revenues outpaced total expenses by \$1,456,572. Governmental activities general revenues increased \$2,408,051 or 3.4% during fiscal year 2013. Much of this increase occurred as revenue from local sources increased \$1,096,381 or 3.5% with sales tax and meals tax increasing \$528,965 and \$284,494, respectively. General property tax revenue exhibited an increase of \$704,116 or 2.1% as population and business growth in the City continued to provide a boost to the real estate and personal property tax base. Governmental expenses increased \$4,008,868 or 4.8% during the fiscal year. The most notable increases occurred related to personnel costs, school capital costs, and interest on long-term debt. Personnel costs increased in response to a 2.5% cost of living adjustment, an increase in the Virginia Retirement System contribution rate from 15.8% to 19.65%, and growing health insurance costs. Capital needs for the City's school system has increased as a direct result of the City's growing population and the relative increase in student enrollment. Interest costs have spiked the past couple years associated with the debt service for court related construction projects.

Business-type Activities

The net position of the business-type activities increased \$4,045,998 to a total net position of \$61,514,987. Much of this increase took place in the Transit Fund with the receipt of \$4,397,886 of federal and state capital grants for the construction of a new training and maintenance facility and the replacement of buses.

The water and wastewater operations experienced a modest decrease in net position of \$155,544 and \$98,412, respectively. As in prior fiscal years, pressures on operating revenues to keep pace with operating expenses continued in fiscal year 2013. In response to rising costs for operations and maintenance, the City increased water and sewer consumption rates 9.47% and 5.75%, respectively, for fiscal year 2013. This had a favorable result as revenue from water and sewer fees increased 9.8% and 12.8%, respectively. However, in the water fund, the increase in revenue was offset by an increase to operating expenses of 4.9% as the City's share of operating cost associated with the Spotsylvania County-owned Motts Run regional water treatment plant increased approximately \$149,000 compared to fiscal year 2012. This, along with increases in personnel related expenses, resulted in an operating loss of \$254,496. Sewer fund operating expenses decreased 7.0% during the fiscal year as the cost for sludge removal decreased \$162,000 as a consequence to changes implemented in the sludge handling process. This cost savings measure, along with the increase in operating revenue, were key contributors to the \$258,845 operating income experienced in the sewer fund.

In the past, availability and connections fees were substantial enough to absorb operating deficits in the water and wastewater funds. The revenue collected for these fees dropped significantly during the fiscal year as considerable fees related to large multi-family residential housing projects were realized in fiscal year 2012. The reduction in these fees was a major contributor to the decrease in net position in the water and wastewater funds.

Overall, the Water and Sewer Funds have experienced an eroding net position the past few years. Minimal rate increases along with efforts to control the day-to-day operating expenses provided some help in stabilizing the financial position of these funds. However, with ongoing needs for capital improvements and ever growing pressures to control operating expenses, the City commissioned a rate and management study of its water and sewer operations. One of the study's key recommendations is for a significant increase in water and wastewater consumption rates. Accordingly, the City approved consumption rate increases which will be phased in over a three year period, beginning in fiscal year 2013. In response to another proposal in the study, the City has also approved a restructuring of availability and connection fees, which transitions to a graduated fee structure based on meter size.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Component Units

The net position of the School Board was \$20,556,604. Capital assets, net of related debt, comprised the majority of this amount.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 13	FY 12	FY 13	FY 12	FY 13	FY 12	FY 13	FY 12
Revenues:								
Program Revenues:								
Charges for services	\$ 3.54	\$ 3.44	\$ 7.87	\$ 7.09	\$ 11.41	\$ 10.53	\$ 0.83	\$ 0.91
Operating grants and contributions	9.68	11.76	3.52	5.49	13.20	17.25	42.83	38.47
Capital grants and contributions	2.97	1.73	4.40	0.76	7.37	2.49	-	-
General Revenues:								
Property taxes	34.60	33.90	-	-	34.60	33.90	-	-
Other local taxes	32.41	31.31	0.90	0.73	33.31	32.04	-	-
Grants not restricted	4.70	3.74	-	-	4.70	3.74	-	-
Use of property	0.11	0.11	-	-	0.11	0.11	-	-
Investment earnings	0.24	0.32	0.03	0.09	0.27	0.41	0.02	0.01
Miscellaneous	0.24	0.51	0.44	0.60	0.68	1.11	0.42	0.18
Total Revenues	\$ 88.49	\$ 86.82	\$ 17.16	\$ 14.76	\$ 105.65	\$ 101.58	\$ 44.10	\$ 39.57
Expenses:								
General government	\$ 6.89	\$ 5.83	\$ -	\$ -	\$ 6.89	\$ 5.83	\$ -	\$ -
Judicial administration	4.34	3.88	-	-	4.34	3.88	-	-
Public safety	19.58	19.32	-	-	19.58	19.32	-	-
Public works	11.58	10.90	-	-	11.58	10.90	-	-
Health and welfare	6.43	6.79	-	-	6.43	6.79	-	-
Education	28.63	27.25	-	-	28.63	27.25	41.34	39.03
Parks, recreation, and cultural	4.55	4.34	-	-	4.55	4.34	-	-
Community development	2.17	2.15	-	-	2.17	2.15	0.27	0.53
Interest	3.49	3.19	-	-	3.49	3.19	-	-
Water	-	-	3.00	2.88	3.00	2.88	-	-
Sewer	-	-	4.87	5.26	4.87	5.26	-	-
Transit	-	-	4.16	4.10	4.16	4.10	-	-
Parking	-	-	0.46	0.48	0.46	0.48	-	-
Total Expenses	\$ 87.66	\$ 83.65	\$ 12.49	\$ 12.72	\$ 100.15	\$ 96.37	\$ 41.61	\$ 39.56
Excess (deficiency) of revenues over expenses before transfers	\$ 0.83	\$ 3.17	\$ 4.67	\$ 2.04	\$ 5.50	\$ 5.21	\$ 2.49	\$ 0.01
Transfers	0.62	0.60	(0.62)	(0.60)	-	-	-	-
Change in net position	\$ 1.45	\$ 3.77	\$ 4.05	\$ 1.44	\$ 5.50	\$ 5.21	\$ 2.49	\$ 0.01

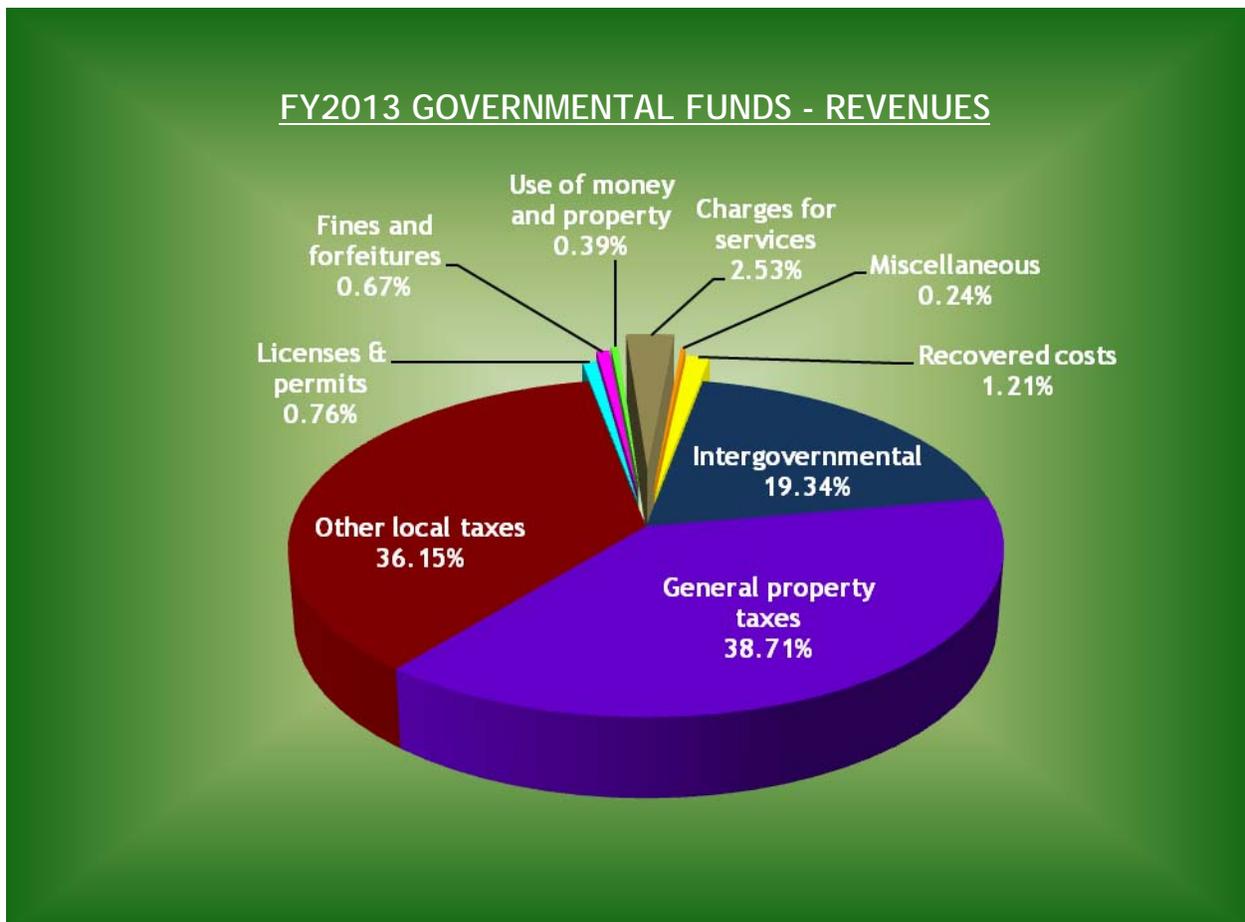
Financial Analysis of the City's Governmental Funds

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 2013 and 2012 is presented below:

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Percentage of Total Revenues FY 2013</u>	<u>Increase (Decrease) from FY 2012</u>
General property taxes	\$ 34,698,020	\$ 33,961,795	38.71%	\$ 736,225
Other local taxes	32,407,959	31,311,578	36.15%	1,096,381
Licenses and permits	676,892	748,371	0.76%	(71,479)
Fines and forfeitures	603,398	479,355	0.67%	124,043
Use of money and property	348,295	426,375	0.39%	(78,080)
Charges for services	2,265,931	2,216,814	2.53%	49,117
Miscellaneous	214,655	485,647	0.24%	(270,992)
Recovered costs	1,087,070	1,491,448	1.21%	(404,378)
Intergovernmental	17,337,302	17,224,690	19.34%	112,612
Totals	\$ 89,639,522	\$ 88,346,073	100.00%	\$ 1,293,449



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

Revenues: (Continued)

The City's total revenues from governmental activities were \$89,639,522 in fiscal year 2013, an increase of \$1,293,499 as compared to fiscal year 2012. The increase is lower than what was experienced the previous year as approximately \$2,310,000 in revenue was recorded in the General Fund during fiscal year 2012 for one-time payments; \$2,010,000 intergovernmental revenue from the Virginia Department of Transportation as reimbursement for debt service costs incurred for the construction of Cowan Boulevard and \$300,000 recovered cost for a health insurance reimbursement from the City's insurance carrier.

The increase in intergovernmental revenue during fiscal year 2013, as adjusted for the one-time payment in fiscal year 2012 noted above, was \$2,122,612. Much of this increase occurred in the Public Works and Public Facilities capital projects funds and the Education Debt Service Fund. Intergovernmental revenue increased \$1,107,371 in the capital projects funds as significant work was completed on several Virginia Department of Transportation Revenue Sharing projects. In July 2012 the City received a one-time \$853,204 credit related to the 2004A General Obligation School Bonds. The City elected to allocate this credit, over the remaining duration of the 2004A bond issue, to offset future debt service costs to be accounted for in the Education Debt Service Fund.

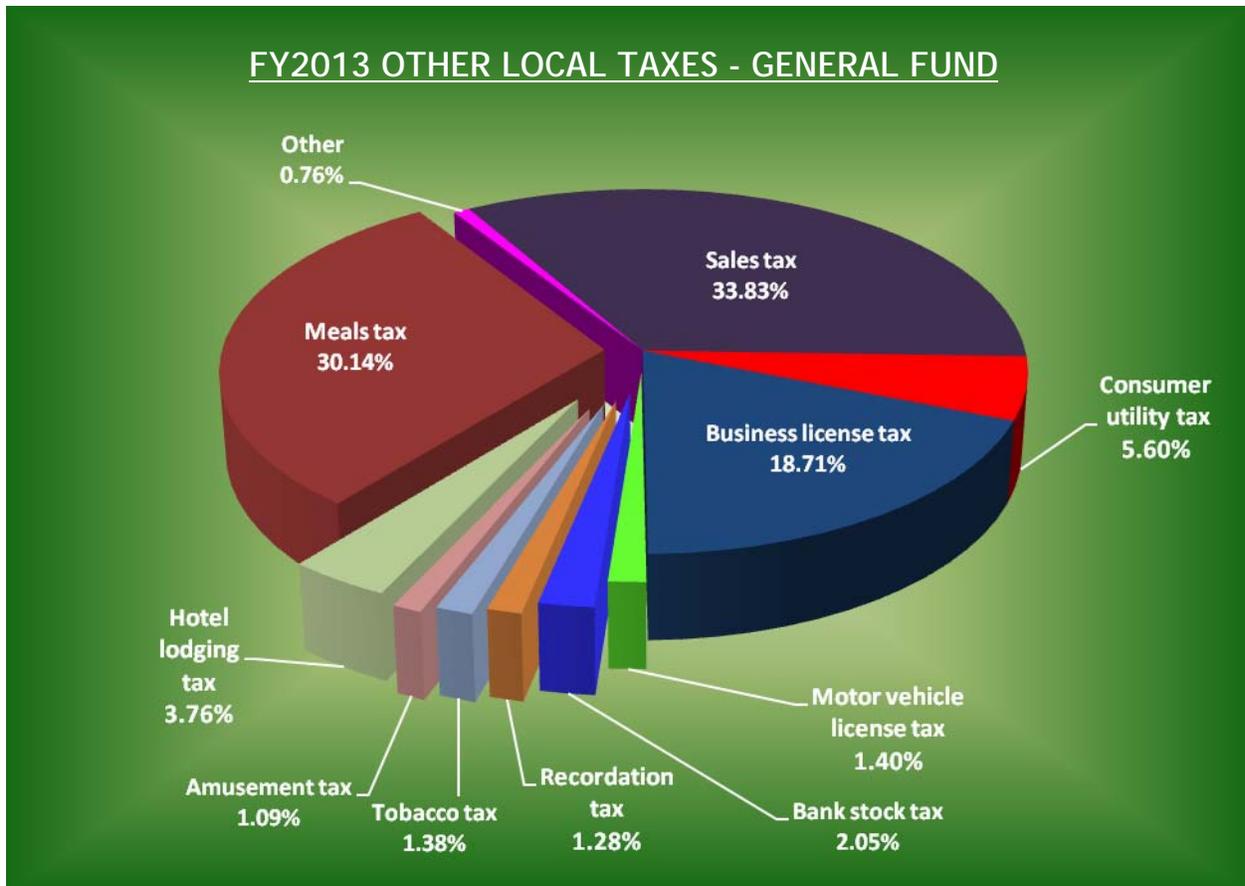
One of the more significant increases in revenue occurred as other local tax revenue increased \$1,096,381 or 3.5%. Revenues from other local taxes, which in recent years has accounted for approximately 36% of governmental revenues, have rebounded in recent years as the local economy has continued to stabilize from the economic downturn. This is evidenced in the fact that after several years of declining revenues, other local tax revenue has increased three consecutive years. The impact of this turnaround has been felt greatest in the General Fund where 98.9% of these revenues were accounted for during fiscal year 2013.

The following table reflects other local tax revenue for the General Fund for fiscal years 2013 and 2012:

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Percentage of Total Revenues FY 2013</u>	<u>Increase (Decrease) from FY 2012</u>
Sales and use tax	\$ 10,840,598	\$ 10,311,633	33.83%	\$ 528,965
Consumer utility tax	1,795,046	1,831,083	5.60%	(36,037)
Business license tax	5,994,920	5,735,557	18.71%	259,363
Motor vehicle license tax	450,126	421,393	1.40%	28,733
Bank stock tax	657,687	696,511	2.05%	(38,824)
Recordation tax	408,981	402,018	1.28%	6,963
Tobacco tax	442,569	578,303	1.38%	(135,734)
Amusement tax	349,301	368,842	1.09%	(19,541)
Hotel lodging tax	1,204,855	1,182,500	3.76%	22,355
Meals tax	9,657,796	9,373,302	30.14%	284,494
Other	242,983	272,492	0.76%	(29,509)
Totals	\$ 32,044,862	\$ 31,173,634	100.00%	\$ 871,228

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

Revenues: (Continued)



After the economic downturn various sources of local tax revenue experienced a flattening, or in some cases, a declining growth rate. A reversal of this trend, which started in fiscal year 2011, continued during fiscal year 2013 as other local taxes increased \$871,228 or 2.8%. Leading this turnaround has been the positive performance in sales tax and meals tax, which increased 5.1% and 3.0%, respectively, during the fiscal year. The growth experienced in sales tax is the largest since fiscal year 2006.

Expenditures:

Expenditures for governmental funds in fiscal year 2013 totaled \$93,839,839, an increase of \$5,029,755 or 5.4% from the preceding fiscal year. This increase represents a continuation of a trend to increase expenditures in response to revenue streams that are either growing or stabilizing from the economic recession of the past several years.

The most significant increases in expenditures took place in education, capital projects, and debt service, which increased \$1,420,001, \$890,253, and \$1,031,899, respectively. Education expenditures increased as additional funding of \$1,400,000 was needed for various capital projects, most notably the Hugh Mercer Elementary School renovation/expansion project. General Fund appropriations to the School Board for school operations remained relatively constant compared to the fiscal year 2012 total.

The increase in capital project spending took place primarily in the Public Facilities and New Court Construction capital funds, which experienced expenditure increases of \$1,278,661 and \$801,170, respectively. Additional spending of \$1,348,543 took place in the Public Facilities Capital Fund towards the completion of the Rappahannock River Heritage Trail. The expenditure activity in the Public Works Capital Fund decreased \$1,082,000 as compared to fiscal year 2012; however, expenditure activity remained robust as approximately \$1,977,000 was spent towards the completion or continuation of several transportation projects, the most significant being various traffic signal enhancements, the replacement of the Fall Hill Avenue Bridge over the Rappahannock Canal, and a continued resurgence of the annual pavement rehabilitation program.

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

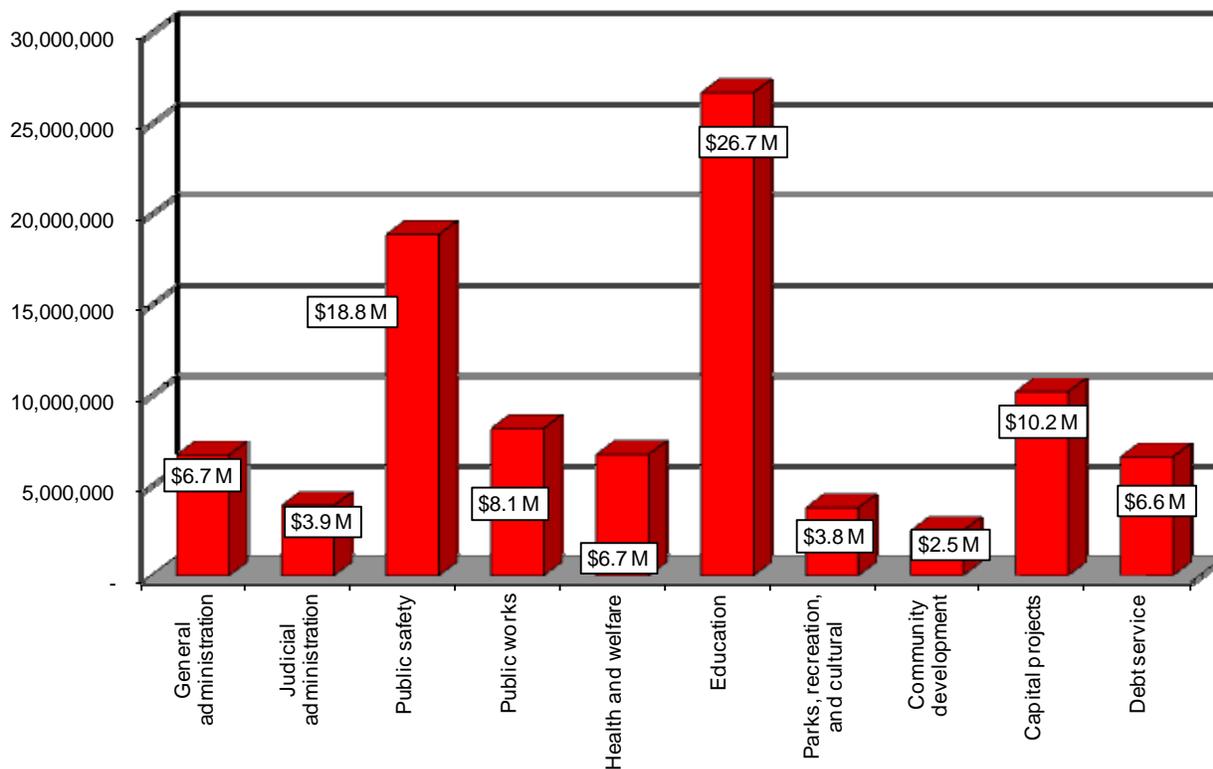
Expenditures: (Continued)

Debt Service expenditures increased \$1,031,899 for fiscal year 2013. Although the City enjoyed a decrease in debt service on most of its long-term obligations, fiscal year 2013 was the first year of debt service payments on the 2011A General Obligation Bonds, issued in December 2012. The total General Fund appropriation to cover the debt service on the 2011A bonds was \$1,386,565.

Excluding the increases in education, capital projects, and debt service, the expenditure increases in the other functional areas, particularly in the General Fund, occurred related to greater personnel costs associated with a 2.5% cost-of-living salary increase and higher contribution rates for retirement and health insurance.

	FY 2013	FY 2012	Percentage of Total Expenditures FY 2013	Increase (Decrease) from FY 2012
General administration	\$ 6,669,886	\$ 5,785,583	7.11%	\$ 884,303
Judicial administration	3,872,721	3,707,295	4.13%	165,426
Public safety	18,838,158	18,006,243	20.07%	831,915
Public works	8,134,695	7,932,048	8.67%	202,647
Health and welfare	6,692,144	7,181,433	7.13%	(489,289)
Education	26,663,850	25,243,849	28.41%	1,420,001
Parks, recreation, and cultural	3,755,802	3,733,260	4.00%	22,542
Community development	2,487,037	2,416,979	2.65%	70,058
Capital projects	10,160,076	9,269,823	10.83%	890,253
Debt service	6,565,470	5,533,571	7.00%	1,031,899
Totals	\$ 93,839,839	\$ 88,810,084	100.00%	\$ 5,029,755

FY 2013 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2013, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

Total final General Fund budgeted expenditures increased \$3,536,655 for fiscal year 2013. Total final General Fund budgeted revenues increased \$2,521,914 for fiscal year 2013.

Actual General Fund expenditures were \$69,650,089 versus the final budgeted expenditures totaling \$71,182,690. This resulted in a favorable variance of \$1,532,601. All functional areas had a favorable variance, with general government administration, public safety, and public works experiencing the most significant variance of \$366,084, \$370,413 and \$498,968, respectively.

Actual General Fund revenues were \$79,804,415 compared to final budgeted revenues totaling \$75,518,224. This resulted in a favorable variance of \$4,286,191. General property taxes and other local taxes experienced the most significant favorable variances of \$1,359,995 and \$2,493,432, respectively.

Capital Asset and Debt Administration

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

	<u>Balance June 30, 2012</u>	<u>Net Additions/ Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:			
Land	\$ 20,466,035	\$ -	\$ 20,466,035
Construction in progress	4,816,152	4,932,200	9,748,352
Other capital assets:			
Land improvements	9,799,427	2,053,166	11,852,593
Buildings and building improvements	32,732,864	(274,823)	32,458,041
Joint tenancy assets	40,075,000	(1,395,000)	38,680,000
Machinery, equipment, and vehicles	15,973,505	619,824	16,593,329
Infrastructure	73,192,203	1,618,355	74,810,558
Accumulated depreciation	(59,159,157)	(4,823,962)	(63,983,119)
Totals	<u>\$ 137,896,029</u>	<u>\$ 2,729,760</u>	<u>\$ 140,625,789</u>

Capital Asset and Debt Administration: (Continued)

Capital Assets: (Continued)

The net increase in capital assets during the fiscal year was \$2,729,760. The increase in revenues in the General Fund and the capital projects funds the past couple fiscal years has provided the City an opportunity to address equipment replacements and improvements to infrastructure and buildings, which had been deferred in prior years. Some of the more notable increases to capital assets were \$5,119,610 for construction costs related to the new courthouse building, \$1,578,639 towards the completion of the Rappahannock River Heritage Trail, and \$862,013 for the annual pavement rehabilitation program.

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

Long-term Debt

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

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2013 the City's outstanding long-term indebtedness amount totaled \$101,324,673. After adjustments to reflect the revenue bonded debt of \$545,659 and a reserve of \$805,804 for the 2004A General Obligation School Bonds, the remaining long-term debt of \$99,973,210 is far below the legal debt limit of \$212,771,995.

The table below shows a summary of the City's long-term debt outstanding for fiscal years 2013 and 2012:

	Governmental Activities		Business-type Activities		Total	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
General obligation bonds	\$ 44,689,615	\$ 45,999,500	\$ 16,684,399	\$ 17,675,647	\$ 61,374,014	\$ 63,675,147
General obligation school bonds	38,680,000	40,075,000	-	-	38,680,000	40,075,000
Revenue Bonds	-	-	545,659	1,609,765	545,659	1,609,765
Note Payable	725,000	725,000	-	-	725,000	725,000
Total long-term debt	\$ 84,094,615	\$ 86,799,500	\$ 17,230,058	\$ 19,285,412	\$ 101,324,673	\$ 106,084,912

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

Economic Factors

The City government continues to maintain a stable financial condition as reflected by the financial statements and schedules in this report. In recent years the City has been faced with immense budgetary challenges as revenues declined in response to deteriorating economic conditions and expanding regional competition in commercial retail development in neighboring localities. A considerable reduction in expenditures over the past several years has helped to neutralize the budgetary impacts of diminishing revenues. However, beginning in fiscal year 2011 and continuing during fiscal year 2013, revenues have experienced a moderate upward trend. This is mostly attributable to the City's diverse economic foundation and the development and expansion of some commercial centers.

A potential source for future economic growth opportunities and community revitalization continues to center around the 2,400 acre mega-development known as Celebrate Virginia and its primary retail shopping and dining component, Central Park. Started in 1995, Central Park now includes 2.2 million square feet of leased retail space housing many national big-box stores, restaurants, and smaller local businesses. Opportunities for such growth related revenues as property taxes and various local taxes are anticipated as Celebrate Virginia continues to develop. The City is under discussion with a partnership of the Hagerstown Suns minor league baseball team and Diamond Nation, which owns and operates baseball/softball training facilities, to develop a minor league baseball stadium and an adjacent training complex which would open in April 2015. It is anticipated that such a development would promote future growth of Celebrate Virginia in the form of numerous hotels and restaurants.

Another source for future economic growth is the University of Mary Washington Foundation's Eagle Village development project. This project will be developed over four phases and centers around the redevelopment of a 1960's-era strip shopping center. Phase I of this project was completed in August 2010 and includes 34,000 square feet of office space and 30,000 square feet of retail and dining. A portion of Phase II was completed in March 2012 with the completion of a pedestrian-friendly connector road from Eagle Village to the Mary Washington Hospital campus. Phase II will also include a five-story Hyatt Place hotel, which is scheduled to open during fiscal year 2014. The hotel will feature 93 studio rooms or suites, several meeting and conference rooms, and approximately 1,600 square feet of retail space. This hotel will be located between Mary Washington Hospital and the University of Mary Washington and provide visitors a convenient lodging option within the Route One corridor.

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Position
At June 30, 2013

	Component Units				
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority
Assets:					
Cash and cash equivalents	\$ 65,837,831	\$ 16,906,279	\$ 82,744,110	\$ 7,181,430	\$ 348,726
Receivables, net of allowance for uncollectibles	1,228,518	1,451,281	2,679,799	17,934	-
Notes receivable	-	-	-	-	725,000
Due from other governments	5,590,390	2,981,173	8,571,563	2,178,040	-
Inventory, at cost	27,171	149,503	176,674	-	-
Prepaid items	333,259	13,097	346,356	197,878	-
Investment in joint venture	3,376,318	-	3,376,318	-	-
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	641,835	641,835	-	-
Cash in custody of others	-	-	-	1,893,065	-
Capital assets:					
Land, construction in progress and other	30,214,387	5,686,880	35,901,267	2,979,856	-
Other capital assets, net of accumulated depreciation	110,411,402	56,632,394	167,043,796	16,435,658	-
Capital assets, net	<u>\$ 140,625,789</u>	<u>\$ 62,319,274</u>	<u>\$ 202,945,063</u>	<u>\$ 19,415,514</u>	<u>\$ -</u>
Total assets	<u>\$ 217,019,276</u>	<u>\$ 84,462,442</u>	<u>\$ 301,481,718</u>	<u>\$ 30,883,861</u>	<u>\$ 1,073,726</u>
Liabilities:					
Accounts payable	\$ 3,165,019	\$ 1,858,746	\$ 5,023,765	\$ 977,514	\$ -
Accrued liabilities	3,149,699	430,393	3,580,092	3,266,858	-
Unearned revenue	71,326	1,913,772	1,985,098	-	-
Amounts held for others	1,542,760	-	1,542,760	-	-
Liabilities payable from restricted assets	-	641,835	641,835	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,889,596	124,899	2,014,495	552,327	-
Revenue bonds	-	545,659	545,659	-	-
General obligation bonds	3,835,292	1,024,681	4,859,973	-	-
Capital lease	-	-	-	202,000	-
Due in more than one year:					
Compensated absences	1,158,138	69,600	1,227,738	509,840	-
Net OPEB obligation	4,229,456	398,411	4,627,867	1,220,718	-
Note payable	725,000	-	725,000	-	-
General obligation bonds	82,110,710	15,939,459	98,050,169	-	-
Capital lease	-	-	-	3,598,000	-
Accrued landfill post-closure costs	816,463	-	816,463	-	-
Total liabilities	<u>\$ 102,693,459</u>	<u>\$ 22,947,455</u>	<u>\$ 125,640,914</u>	<u>\$ 10,327,257</u>	<u>\$ -</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	<u>\$ 1,829,050</u>	<u>\$ -</u>	<u>\$ 1,829,050</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:					
Net investment in capital assets	\$ 81,353,678	\$ 44,809,475	\$ 126,163,153	\$ 17,507,967	\$ -
Unrestricted	<u>31,143,089</u>	<u>16,705,512</u>	<u>47,848,601</u>	<u>3,048,637</u>	<u>1,073,726</u>
Total net position	<u>\$ 112,496,767</u>	<u>\$ 61,514,987</u>	<u>\$ 174,011,754</u>	<u>\$ 20,556,604</u>	<u>\$ 1,073,726</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	\$ 6,889,501	\$ 94,773	\$ 265,969	\$ -
Judicial administration	4,341,611	209,917	856,224	-
Public safety	19,579,277	2,042,868	2,082,595	288,492
Public works	11,584,108	757,997	2,403,259	2,546,526
Health and welfare	6,426,311	-	4,072,048	-
Education	28,633,110	-	-	-
Parks, recreation and cultural	4,554,212	440,392	5,000	-
Community development	2,165,794	274	-	132,087
Interest on long-term debt	3,485,231	-	-	-
Total governmental activities	\$ 87,659,155	\$ 3,546,221	\$ 9,685,095	\$ 2,967,105
Business-type activities				
Water	\$ 2,999,771	\$ 2,689,470	\$ 274,255	\$ -
Sewer	4,875,587	4,526,072	466,282	-
Transit	4,157,157	344,624	2,781,424	4,397,886
Parking	456,999	304,003	-	-
Total business-type activities	\$ 12,489,514	\$ 7,864,169	\$ 3,521,961	\$ 4,397,886
Total Primary Government	\$ 100,148,669	\$ 11,410,390	\$ 13,207,056	\$ 7,364,991
Component Units				
Fredericksburg City Public Schools	\$ 41,338,332	\$ 662,358	\$ 15,117,662	\$ -
Fredericksburg Economic Development Authority	267,748	170,844	-	-
Total Component Units	\$ 41,606,080	\$ 833,202	\$ 15,117,662	\$ -

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.

Exhibit 2

Net (Expense) Revenue and Changes in Net Position				
Primary Government				Component Units
Governmental Activities	Business-Type Activities	Total		
\$ (6,528,759)	\$ -	\$ (6,528,759)	\$ -	
(3,275,470)	-	(3,275,470)	-	
(15,165,322)	-	(15,165,322)	-	
(5,876,326)	-	(5,876,326)	-	
(2,354,263)	-	(2,354,263)	-	
(28,633,110)	-	(28,633,110)	-	
(4,108,820)	-	(4,108,820)	-	
(2,033,433)	-	(2,033,433)	-	
(3,485,231)	-	(3,485,231)	-	
<u>\$ (71,460,734)</u>	<u>\$ -</u>	<u>\$ (71,460,734)</u>	<u>\$ -</u>	
\$ -	\$ (36,046)	\$ (36,046)	\$ -	
-	116,767	116,767	-	
-	3,366,777	3,366,777	-	
-	(152,996)	(152,996)	-	
<u>\$ -</u>	<u>\$ 3,294,502</u>	<u>\$ 3,294,502</u>	<u>\$ -</u>	
<u>\$ (71,460,734)</u>	<u>\$ 3,294,502</u>	<u>\$ (68,166,232)</u>	<u>\$ -</u>	
			\$ (25,558,312)	
			(96,904)	
			<u>\$ (25,655,216)</u>	
\$ 34,601,092	\$ -	\$ 34,601,092	\$ -	
10,840,598	-	10,840,598	-	
1,795,046	-	1,795,046	-	
5,994,920	-	5,994,920	-	
1,204,855	-	1,204,855	-	
9,657,796	-	9,657,796	-	
2,914,744	897,209	3,811,953	-	
-	-	-	27,697,936	
4,696,323	-	4,696,323	-	
112,040	-	112,040	-	
236,255	31,694	267,949	23,317	
243,201	443,029	686,230	420,558	
620,436	(620,436)	-	-	
<u>\$ 72,917,306</u>	<u>\$ 751,496</u>	<u>\$ 73,668,802</u>	<u>\$ 28,141,811</u>	
\$ 1,456,572	\$ 4,045,998	\$ 5,502,570	\$ 2,486,595	
111,040,195	57,468,989	168,509,184	19,143,735	
<u>\$ 112,496,767</u>	<u>\$ 61,514,987</u>	<u>\$ 174,011,754</u>	<u>\$ 21,630,330</u>	

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Fund Financial Statements

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Balance Sheet
 Governmental Funds
 At June 30, 2013

	<u>General</u>	<u>New Court Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 29,010,643	\$ 28,974,214	\$ 7,994,610	\$ 65,979,467
Receivables (net of allowances for uncollectibles):				
Property taxes	744,845	-	-	744,845
Accounts	86,675	-	-	86,675
Accrued revenue	323,158	113	73,727	396,998
Inventory, at cost	27,171	-	-	27,171
Prepaid items	332,069	-	1,190	333,259
Due from other governments	3,097,943	-	2,492,447	5,590,390
Total assets	\$ 33,622,504	\$ 28,974,327	\$ 10,561,974	\$ 73,158,805
Liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 141,636	\$ 141,636
Accounts payable	1,000,940	1,583,876	580,203	3,165,019
Accrued liabilities	1,164,083	229,733	75,643	1,469,459
Amounts held for others	1,542,760	-	-	1,542,760
Unearned revenue	51,326	-	20,000	71,326
Total liabilities	\$ 3,759,109	\$ 1,813,609	\$ 817,482	\$ 6,390,200
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	\$ 2,287,985	\$ -	\$ -	\$ 2,287,985
Fund Balances:				
Nonspendable	\$ 359,240	\$ -	\$ 1,190	\$ 360,430
Restricted	-	-	290,342	290,342
Committed	7,786,761	24,740,700	2,371,890	34,899,351
Assigned	858,372	2,420,018	7,081,070	10,359,460
Unassigned	18,571,037	-	-	18,571,037
Total fund balances	\$ 27,575,410	\$ 27,160,718	\$ 9,744,492	\$ 64,480,620
Total liabilities, deferred inflows of resources and fund balances	\$ 33,622,504	\$ 28,974,327	\$ 10,561,974	\$ 73,158,805

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, 2013

Total fund balances for governmental funds (Exhibit 3)	\$	64,480,620
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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	\$	20,466,035	
Construction in progress		9,748,352	
Land improvements, net of accumulated depreciation		9,569,982	
Buildings and improvements, net of accumulated depreciation		20,814,589	
Joint tenancy assets, net of accumulated depreciation		33,337,942	
Infrastructure, net of accumulated depreciation		39,806,052	
Machinery, vehicles, and equipment, net of accumulated depreciation		<u>6,882,837</u>	
 Total capital assets			 140,625,789

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

Investment in joint venture		3,376,318
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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

		458,935
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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	\$	(1,680,240)	
Bonds and notes payable		(84,094,615)	
Premium on long-term debt, net of accumulated amortization		(2,576,387)	
Landfill post-closure costs		<u>(816,463)</u>	(89,167,705)

Compensated absences not reported as fund liabilities		(3,047,734)
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Net OPEB obligation not reported as fund liabilities		<u>(4,229,456)</u>
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Total net position of governmental activities (Exhibits 1 and 2)	\$	<u><u>112,496,767</u></u>
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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, 2013

	General Fund	New Court Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 34,698,020	\$ -	\$ -	\$ 34,698,020
Other local taxes	32,044,862	-	363,097	32,407,959
Permits, privilege fees and regulatory licenses	670,827	-	6,065	676,892
Fines and forfeitures	568,400	-	34,998	603,398
Use of money and property	107,179	77,926	163,190	348,295
Charges for services	2,165,304	54,265	46,362	2,265,931
Miscellaneous	134,425	-	80,230	214,655
Recovered costs	633,674	-	453,396	1,087,070
Intergovernmental:				
Revenue from the Commonwealth	8,746,219	-	3,815,778	12,561,997
Revenue from the Federal Government	35,505	-	4,739,800	4,775,305
Total revenues	<u>\$ 79,804,415</u>	<u>\$ 132,191</u>	<u>\$ 9,702,916</u>	<u>\$ 89,639,522</u>
Expenditures				
Current:				
General government administration	\$ 6,669,886	\$ -	\$ -	\$ 6,669,886
Judicial administration	3,688,450	-	184,271	3,872,721
Public safety	18,330,987	-	507,171	18,838,158
Public works	7,986,595	-	148,100	8,134,695
Health and welfare	970,749	-	5,721,395	6,692,144
Education - local community college and other	5,750	-	-	5,750
Education - public school system	26,658,100	-	-	26,658,100
Parks, recreation and cultural	3,678,068	-	77,734	3,755,802
Community development	1,661,504	-	825,533	2,487,037
Capital projects	-	5,120,850	5,039,226	10,160,076
Debt service:				
Principal payments	-	-	2,704,885	2,704,885
Interest and fiscal charges	-	-	3,860,585	3,860,585
Total expenditures	<u>\$ 69,650,089</u>	<u>\$ 5,120,850</u>	<u>\$ 19,068,900</u>	<u>\$ 93,839,839</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 10,154,326</u>	<u>\$ (4,988,659)</u>	<u>\$ (9,365,984)</u>	<u>\$ (4,200,317)</u>
Other financing sources (uses)				
Proceeds from the sale of capital assets	\$ 28,546	\$ -	\$ -	\$ 28,546
Transfers in	1,100,000	-	9,500,181	10,600,181
Transfers out	(9,579,745)	-	(400,000)	(9,979,745)
Total other financing sources (uses)	<u>\$ (8,451,199)</u>	<u>\$ -</u>	<u>\$ 9,100,181</u>	<u>\$ 648,982</u>
Net change in fund balance	\$ 1,703,127	\$ (4,988,659)	\$ (265,803)	\$ (3,551,335)
Fund balances, beginning of year	<u>25,872,283</u>	<u>32,149,377</u>	<u>10,010,295</u>	<u>68,031,955</u>
Fund balances, end of year	<u>\$ 27,575,410</u>	<u>\$ 27,160,718</u>	<u>\$ 9,744,492</u>	<u>\$ 64,480,620</u>

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, 2013

Net change in fund balances - total governmental funds (Exhibit 5) \$ (3,551,335)

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	\$ 10,346,260	
Depreciation	<u>(6,248,186)</u>	4,098,074

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (1,002,260)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position. (377,275)

Donations of capital assets received during the current period 11,221

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. (96,928)

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		(328,136)
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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.

Amortization of premium on long-term debt	\$ 266,241	
Repayments of long-term debt:		
General obligation bonds	<u>2,704,885</u>	2,971,126

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	\$ 42,764	
Net OPEB obligation	(406,144)	
Accrued interest on bonds and loans	109,113	
Accrued landfill post-closure costs	<u>(13,648)</u>	
Net adjustment		<u>(267,915)</u>

Change in net position of governmental activities (Exhibit 2)	\$	<u><u>1,456,572</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 At June 30, 2013

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 7,752,477	\$ 3,997,517	\$ 5,035,572	\$ 120,713	\$ 16,906,279
Accounts receivable, net of allowance for uncollectibles	525,752	888,664	-	-	1,414,416
Accrued revenue	4,944	4,768	12,824	14,329	36,865
Inventory, at cost	115,770	33,733	-	-	149,503
Prepaid expenses	162	162	12,773	-	13,097
Due from other governments	-	101,278	2,444,285	435,610	2,981,173
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	641,835	-	-	-	641,835
Total current assets	\$ 9,040,940	\$ 5,026,122	\$ 7,505,454	\$ 570,652	\$ 22,143,168
Capital Assets:					
Land	\$ 701,345	\$ 114,880	\$ 550,686	\$ 782,125	\$ 2,149,036
Construction in progress	159,098	92,130	3,286,616	-	3,537,844
Dams and reservoirs	663,536	-	-	-	663,536
Buildings and systems	16,111,758	39,129,182	5,972,012	6,631,862	67,844,814
Furniture, machinery and equipment	388,553	2,672,363	3,930,324	208,330	7,199,570
Intangible assets	5,153,616	1,556,496	-	-	6,710,112
Total property, plant and equipment	\$ 23,177,906	\$ 43,565,051	\$ 13,739,638	\$ 7,622,317	\$ 88,104,912
Accumulated depreciation	(7,933,251)	(15,080,705)	(1,762,534)	(1,009,148)	(25,785,638)
Capital assets, net	\$ 15,244,655	\$ 28,484,346	\$ 11,977,104	\$ 6,613,169	\$ 62,319,274
Total assets	\$ 24,285,595	\$ 33,510,468	\$ 19,482,558	\$ 7,183,821	\$ 84,462,442
Liabilities:					
Current liabilities:					
Accounts payable	\$ 825,533	\$ 185,332	\$ 843,274	\$ 4,607	\$ 1,858,746
Accrued liabilities	6,473	14,902	163,246	718	185,339
Interest payable	10,770	234,284	-	-	245,054
Compensated absences, current portion	35,723	62,170	26,276	730	124,899
Unearned revenue, current portion	18,935	55,912	-	-	74,847
Revenue bonds, current portion	-	545,659	-	-	545,659
General obligation bonds, current portion	224,457	610,456	-	189,768	1,024,681
Current liabilities payable from restricted assets:					
Customer deposits	641,835	-	-	-	641,835
Total current liabilities	\$ 1,763,726	\$ 1,708,715	\$ 1,032,796	\$ 195,823	\$ 4,701,060
Noncurrent liabilities:					
Unearned revenue, noncurrent portion	\$ -	\$ 1,838,925	\$ -	\$ -	\$ 1,838,925
Compensated absences, noncurrent portion	21,895	10,971	36,286	448	69,600
Net OPEB obligation	102,665	179,678	107,203	8,865	398,411
General obligation bonds, noncurrent portion	1,166,687	11,793,822	-	2,978,950	15,939,459
Total noncurrent liabilities	\$ 1,291,247	\$ 13,823,396	\$ 143,489	\$ 2,988,263	\$ 18,246,395
Total liabilities	\$ 3,054,973	\$ 15,532,111	\$ 1,176,285	\$ 3,184,086	\$ 22,947,455
Net Position:					
Net investment in capital assets	\$ 13,853,511	\$ 15,534,409	\$ 11,977,104	\$ 3,444,451	\$ 44,809,475
Unrestricted	7,377,111	2,443,948	6,329,169	555,284	16,705,512
Total net position	\$ 21,230,622	\$ 17,978,357	\$ 18,306,273	\$ 3,999,735	\$ 61,514,987

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, 2013

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Operating revenues:					
Charges for services	\$ 2,689,470	\$ 4,526,072	\$ 344,624	\$ 304,003	\$ 7,864,169
Operating expenses:					
Personal services	\$ 374,701	\$ 804,449	\$ 1,922,158	\$ 96,415	\$ 3,197,723
Fringe benefits	217,142	435,613	466,258	19,112	1,138,125
Contractual services	1,668,302	1,079,770	257,804	22,500	3,028,376
Other operating expenses	215,069	429,614	969,522	36,003	1,650,208
Depreciation expense	468,752	1,517,781	541,415	144,164	2,672,112
Total operating expenses	\$ 2,943,966	\$ 4,267,227	\$ 4,157,157	\$ 318,194	\$ 11,686,544
Total operating income (loss)	\$ (254,496)	\$ 258,845	\$ (3,812,533)	\$ (14,191)	\$ (3,822,375)
Nonoperating revenues (expenses):					
Interest income	\$ 6,828	\$ 11,210	\$ 6,828	\$ 6,828	\$ 31,694
Gasoline tax receipts	-	-	461,599	435,610	897,209
Availability/connection fees	274,255	406,633	-	-	680,888
Miscellaneous	178,540	89,181	175,308	-	443,029
State and local grant funds	-	-	1,650,966	-	1,650,966
Federal grant funds	-	59,649	1,130,458	-	1,190,107
Interest expense	(55,805)	(608,360)	-	(138,805)	(802,970)
Total nonoperating revenues (expenses)	\$ 403,818	\$ (41,687)	\$ 3,425,159	\$ 303,633	\$ 4,090,923
Income (loss) before contributions and transfers	\$ 149,322	\$ 217,158	\$ (387,374)	\$ 289,442	\$ 268,548
Capital grants and contributions:					
State and local grant funds	\$ -	\$ -	\$ 782,343	\$ -	\$ 782,343
Federal grant funds	-	-	3,615,543	-	3,615,543
Total capital grants and contributions	\$ -	\$ -	\$ 4,397,886	\$ -	\$ 4,397,886
Transfers:					
Transfers out	\$ (304,866)	\$ (315,570)	\$ -	\$ -	\$ (620,436)
Change in net position	\$ (155,544)	\$ (98,412)	\$ 4,010,512	\$ 289,442	\$ 4,045,998
Net position, beginning of year	21,386,166	18,076,769	14,295,761	3,710,293	57,468,989
Net position, end of year	\$ 21,230,622	\$ 17,978,357	\$ 18,306,273	\$ 3,999,735	\$ 61,514,987

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

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Cash flows from operating activities:					
Receipts from customers	\$ 2,673,899	\$ 4,378,209	\$ (1,531,353)	\$ 185,474	\$ 5,706,229
Other miscellaneous receipts	178,540	89,181	636,907	435,610	1,340,238
Payments to suppliers	(1,448,743)	(1,572,436)	(310,410)	(60,933)	(3,392,522)
Payments to and for employees	(574,676)	(1,223,330)	(2,368,178)	(113,518)	(4,279,702)
Net cash provided by (used for) operating activities	\$ 829,020	\$ 1,671,624	\$ (3,573,034)	\$ 446,633	\$ (625,757)
Cash flows from noncapital financing activities:					
Availability and connection fees	\$ 274,255	\$ 406,633	\$ -	\$ -	\$ 680,888
State, federal and local grant funds	-	59,649	2,781,424	-	2,841,073
Transfers	(304,866)	(315,570)	-	-	(620,436)
Net cash provided by (used for) noncapital financing activities	\$ (30,611)	\$ 150,712	\$ 2,781,424	\$ -	\$ 2,901,525
Cash flows from investing activities:					
Interest income	\$ 6,828	\$ 11,210	\$ 6,828	\$ 6,828	\$ 31,694
Cash flows from capital and related financing activities:					
Purchase of capital assets	\$ (531,243)	\$ (82,373)	\$ (4,465,300)	\$ (118,096)	\$ (5,197,012)
Disposal of capital assets	-	-	107,535	-	107,535
State, federal and local grant funds	-	-	4,397,886	-	4,397,886
Principal payment on debt	(237,570)	(1,664,970)	-	(181,862)	(2,084,402)
Interest paid on debt	(56,424)	(630,437)	-	(138,804)	(825,665)
Net cash provided by (used for) capital and related financing activities	\$ (825,237)	\$ (2,377,780)	\$ 40,121	\$ (438,762)	\$ (3,601,658)
Increase (decrease) in cash and cash equivalents for the year	\$ (20,000)	\$ (544,234)	\$ (744,661)	\$ 14,699	\$ (1,294,196)
Cash and cash equivalents (including restricted), beginning of year	8,414,312	4,541,751	5,780,233	106,014	18,842,310
Cash and cash equivalents (including restricted), end of year	\$ 8,394,312	\$ 3,997,517	\$ 5,035,572	\$ 120,713	\$ 17,548,114
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (254,496)	\$ 258,845	\$ (3,812,533)	\$ (14,191)	\$ (3,822,375)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	468,752	1,517,781	541,415	144,164	2,672,112
Other miscellaneous receipts	178,540	89,181	636,907	435,610	1,340,238
Changes in assets and liabilities:					
Accounts receivable	(31,183)	(78,841)	-	-	(110,024)
Inventory	28,068	5,093	-	-	33,161
Accrued revenue	(41)	(546)	(8,602)	(2,739)	(11,928)
Prepaid items	(77)	(77)	(12,773)	-	(12,927)
Due from other governments	-	(12,564)	(1,867,375)	(115,790)	(1,995,729)
Accounts payable	407,138	(66,315)	797,730	(2,430)	1,136,123
Accrued liabilities	(501)	(1,753)	131,959	17	129,722
Net OPEB obligation	8,953	17,092	10,581	814	37,440
Unearned revenue	376	(55,912)	-	-	(55,536)
Compensated absences	8,214	(360)	9,657	1,178	18,689
Deposits payable from restricted assets	15,277	-	-	-	15,277
Net cash provided by (used for) operating activities	\$ 829,020	\$ 1,671,624	\$ (3,573,034)	\$ 446,633	\$ (625,757)

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, 2013

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
Assets:		
Cash and cash equivalents	\$ 721,164	\$ 1,700,663
Accounts receivable	61,467	22,219
Prepaid items	20,329	-
Capital assets:		
Machinery and equipment, net of accumulated depreciation	<u>-</u>	<u>16,183</u>
Total assets	\$ <u>802,960</u>	\$ <u>1,739,065</u>
Liabilities:		
Accounts payable	\$ 49,174	\$ 593
Accrued liabilities	13,064	7,807
Net OPEB obligation	-	814
Amounts held for others	<u>740,722</u>	<u>-</u>
Total liabilities	\$ <u>802,960</u>	\$ <u>9,214</u>
Net Position:		
Held in trust for land conservation (see Note 1)	<u>\$ -</u>	<u>\$ 1,729,851</u>

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

Statement of Changes in Fiduciary Net Position
 Private Purpose Trust Fund
 Year Ended June 30, 2013

Additions:	
Contributions:	
Contributions	\$ 26,600
Investment income:	
Interest earned on investments	<u>(13,992)</u>
Total additions	<u>\$ 12,608</u>
Deductions:	
Payments for property management	<u>\$ 79,033</u>
Net decrease in plan assets	\$ (66,425)
Net position held in trust for land conservation:	
Balance, beginning of year	<u>1,796,276</u>
Balance, end of year	<u><u>\$ 1,729,851</u></u>

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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
School Board				
Education	\$ 41,338,332	\$ 662,358	\$ 15,117,662	\$ -
Economic Development Authority				
Community development	267,748	170,844	-	-
Total component units	\$ 41,606,080	\$ 833,202	\$ 15,117,662	\$ -

General revenues

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

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Position		
School Board	Economic Development Authority	Totals
\$ (25,558,312)	\$ -	\$ (25,558,312)
-	(96,904)	(96,904)
\$ (25,558,312)	\$ (96,904)	\$ (25,655,216)
\$ 27,660,360	\$ 37,576	\$ 27,697,936
612	22,705	23,317
420,558	-	420,558
\$ 28,081,530	\$ 60,281	\$ 28,141,811
\$ 2,523,218	\$ (36,623)	\$ 2,486,595
18,033,386	1,110,349	19,143,735
\$ 20,556,604	\$ 1,073,726	\$ 21,630,330

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CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 1—Summary of Significant Accounting Policies:

Narrative Profile

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

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

A. Financial Reporting Entity

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

Government-wide 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 has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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:

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

b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$2,909,368 in operating and other funds to the Center in 2013.

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 \$1,238,485 in operating funds to the Library in 2013.

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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, 2013 was \$3,376,318.

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 \$6.3 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2013 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 2013. 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 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 \$197,065 to the Board in 2013.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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 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 2013.

f. George Washington Regional Commission

The Commission was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$19,940 in operating grants to the Commission in 2013.

g. Rappahannock Juvenile Detention Center

The Center was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$284,383 to the Center in 2013.

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

The Home was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$55,264 in operating funds to the Home in 2013.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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 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 2013.

Obtaining of Financial Statements for Jointly Governed Organizations

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

B. Government-Wide and Fund Financial Statements

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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 2013.

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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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.

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

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

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

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

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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

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

1. Governmental Funds: (Continued)

d. Capital Projects Funds: (Continued)

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

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

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

2. Proprietary Funds:

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

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

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.

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.

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

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

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

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

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

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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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:

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. The Special School Fund is a special revenue fund.

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

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

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

b. Economic Development Authority:

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

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

C. Basis of Accounting

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

The government-wide Statement of Net 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. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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

D. Budgets and Budgetary Accounting: (Continued)

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2013. 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, 2013.

E. Cash and Cash Equivalents

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

F. Investments

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

Investments are stated at fair value.

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2013, the allowance totaled \$2,028,648 with \$1,625,521 in the General Fund and \$403,127 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Items

Prepaid expenses are reported on the consumption method.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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

J. Capital Assets

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

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

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

Buildings	10 to 50 years
Furniture, machinery, and equipment	4 to 10 years
Water and wastewater systems	30 to 50 years
Intangible Assets	30 to 50 years

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2013.

K. Compensated Absences

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

L. 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 does not have any deferred outflows of resources as of June 30, 2013.

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

L. Deferred Outflows/Inflows of Resources: (Continued)

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 one item of this type, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue from property taxes, is reported only in the governmental funds balance sheet. This amount is deferred and will be recognized as an inflow of resources in the period that the amount becomes available.

M. 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.

N. Retirement Plan

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

O. Unbilled Revenue

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

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, 2013 was \$266,241 and \$29,046 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.

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

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.

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 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. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives or contractual obligations). Assigned fund balance is established by City Council or the City Manager as amounts intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). Amounts are recorded in the accounting system to reflect assignment.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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	New Court Construction Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ 27,171	\$ -	\$ -	\$ 27,171
Prepays	332,069	-	1,190	333,259
Total Nonspendable Fund Balance	\$ 359,240	\$ -	\$ 1,190	\$ 360,430
Restricted:				
Courthouse maintenance	\$ -	\$ -	\$ 290,342	\$ 290,342
Committed:				
Social services	\$ -	\$ -	\$ 186,413	\$ 186,413
Comprehensive services	-	-	288,228	288,228
Cowan Boulevard debt service	-	-	262,519	262,519
Public facilities construction projects	-	-	79,054	79,054
Grant related projects	-	-	749,872	749,872
VPSA debt service	-	-	805,804	805,804
New court construction project	-	24,740,700	-	24,740,700
Police department	55,540	-	-	55,540
E911 communications	50,000	-	-	50,000
Future capital projects	7,189,255	-	-	7,189,255
Health insurance claims	386,962	-	-	386,962
Other purposes	105,004	-	-	105,004
Total Committed Fund Balance	\$ 7,786,761	\$ 24,740,700	\$ 2,371,890	\$ 34,899,351
Assigned:				
Public works construction projects	\$ -	\$ -	\$ 4,123,767	\$ 4,123,767
Public facilities construction projects	-	-	1,442,300	1,442,300
Public safety construction projects	-	-	1,515,003	1,515,003
Riverfront Park debt service	725,000	-	-	725,000
New court construction project	-	2,420,018	-	2,420,018
Other purposes	133,372	-	-	133,372
Total Assigned Fund Balance	\$ 858,372	\$ 2,420,018	\$ 7,081,070	\$ 10,359,460
Unassigned Fund Balance	\$ 18,571,037	\$ -	\$ -	\$ 18,571,037
Total Fund Balances	\$ 27,575,410	\$ 27,160,718	\$ 9,744,492	\$ 64,480,620

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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

U. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

V. Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

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).

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 2—Deposits and Investments: (Continued)

Custodial Credit Risk (Investments) - The City's investments at June 30, 2013 were held by the City or in the City's name by the City's custodial banks; except \$22,299,660 of U.S. Agency investments, \$5,436,052 of U.S. Treasuries, and \$5,400,246 of Corporate Debt investments, where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

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

The City's rated debt investments as of June 30, 2013 were rated by Standard and Poor's or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	AAAm	AA+	AA	AA-
U.S. Agencies	\$ -	\$ 22,299,660	\$ -	\$ -
U.S. Treasuries	-	5,436,052	-	-
Corporate Debt	-	1,369,666	2,446,666	1,583,914
Municipal/Public Bonds	-	-	871,472	-
Virginia State Non-Arbitrage Program	28,396,594	-	-	-
Money Market Mutual Fund	22,145,785	-	-	-
Total	\$ 50,542,379	\$ 29,105,378	\$ 3,318,138	\$ 1,583,914

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 2—Deposits and Investments: (Continued)

Interest Rate Risk

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

Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years
U.S. Agencies	\$ 22,299,660	\$ 9,265,559	\$ 13,034,101
U.S. Treasuries	5,436,052	-	5,436,052
Municipal/Public Bonds	871,472	-	871,472
Corporate Debt	5,400,246	1,000,923	4,399,323
Total	<u>\$ 34,007,430</u>	<u>\$ 10,266,482</u>	<u>\$ 23,740,948</u>

External Investment Pool

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

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

Note 3—Real and Personal Property Tax Data:

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2013 consist of the following:

Primary Government:

	Governmental Activities					Business- Type Activities
	General	New Court Construction	Special Revenue	Capital Projects	Total	
Property taxes	\$ 2,347,067	\$ -	\$ -	\$ -	\$ 2,347,067	\$ -
Circuit court	29,169	-	-	-	29,169	-
Water charges	-	-	-	-	-	709,754
Wastewater charges	-	-	-	-	-	1,107,789
EMS fees	105,668	-	-	-	105,668	-
Refuse disposal fees	111,923	-	-	-	111,923	-
Investment earnings	17,178	-	-	51,534	68,712	17,180
Other	169,194	113	11,707	10,486	191,500	19,685
Total	\$ 2,780,199	\$ 113	\$ 11,707	\$ 62,020	\$ 2,854,039	\$ 1,854,408
Allowance for uncollectibles	(1,625,521)	-	-	-	(1,625,521)	(403,127)
Net receivables	\$ 1,154,678	\$ 113	\$ 11,707	\$ 62,020	\$ 1,228,518	\$ 1,451,281

Component Units and Fiduciary Activities:

	School Board	Fiduciary Activities
Other	\$ 17,934	\$ 83,686
Total	\$ 17,934	\$ 83,686
Allowance for uncollectibles	-	-
Net receivables	\$ 17,934	\$ 83,686

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 5—Due From Other Governmental Units:

	Governmental Activities				Business-Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	\$ 1,900,658	\$ -	\$ -	\$ 1,900,658	\$ -	-
Telecommunication sales tax	139,569	-	-	139,569	-	-
PPTRA	676,647	-	-	676,647	-	-
Library of Virginia	-	16,022	-	16,022	-	-
Comprehensive Services Act	-	280,262	-	280,262	-	-
Shared expenses and grants	125,935	-	-	125,935	-	-
Virginia Department of Rail and Public Transportation	-	-	-	-	182,553	-
Virginia Department of Transportation	-	-	1,468,044	1,468,044	-	-
Virginia Department of Motor Vehicles	-	2,634	-	2,634	-	-
Virginia Department of Emergency Management	22,194	43,681	-	65,875	-	-
Virginia Information Technology Agency	-	887	-	887	-	-
Virginia Department of Criminal Justice Services	-	10,734	-	10,734	-	-
Recordation taxes	24,519	-	-	24,519	-	-
PSAP 911	14,586	-	-	14,586	-	-
Noncategorical aid	12,029	-	-	12,029	-	-
Department of Health	10,951	-	-	10,951	-	-
Department of Fire Programs	-	69,265	-	69,265	-	-
Social services grants	-	354,896	-	354,896	-	-
Federal government:						
Community Development						
Block Grant	-	53,857	-	53,857	-	-
Environmental Protection Agency	-	26,339	-	26,339	-	-
Transit grants	-	-	-	-	1,755,269	-
Criminal justice grants	-	18,629	-	18,629	-	-
Marine Corps Community Services	9,631	-	-	9,631	-	-
Interest subsidy	-	-	-	-	21,111	-
Others:						
Potomac and Rappahannock Transportation Commission						
	151,707	-	147,197	298,904	909,939	-
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	80,167	-
County of Stafford	-	-	-	-	-	1,000
County of King George	9,517	-	-	9,517	-	-
County of Caroline	-	-	-	-	32,134	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	527,243
State school funds	-	-	-	-	-	165,602
Federal pass-through:						
School funds	-	-	-	-	-	1,017,749
Federal government:						
Head Start	-	-	-	-	-	466,446
Total	\$ 3,097,943	\$ 877,206	\$ 1,615,241	\$ 5,590,390	\$ 2,981,173	\$ 2,178,040

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2013:

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	\$ 911,670
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	346,271
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	719,125
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	3,085,021
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,433,049
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	625,045
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	<u>380,000</u>
Total transfers in - other governmental funds	\$ <u>9,500,181</u>
Transfers to the General Fund for various programs	<u>1,100,000</u>
Total transfers	\$ <u><u>10,600,181</u></u>
Reconciliation of transfers:	
Transfers in from governmental funds	\$ 9,979,745
Transfers from enterprise funds to governmental funds	<u>620,436</u>
Total transfers	\$ <u><u>10,600,181</u></u>

Component Unit School Board:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 7—Capital Assets:

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

Primary Government:

Governmental Activities:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 20,466,035	\$ -	\$ -	\$ 20,466,035
Construction in progress:				
Infrastructure	\$ 2,048,231	\$ 1,239,155	\$ 817,280	\$ 2,470,106
Land improvements	923,284	1,889,951	2,039,934	773,301
Buildings	1,844,637	5,037,766	377,458	6,504,945
Total construction in progress	\$ 4,816,152	\$ 8,166,872	\$ 3,234,672	\$ 9,748,352
Total capital assets not being depreciated	\$ 25,282,187	\$ 8,166,872	\$ 3,234,672	\$ 30,214,387
Other capital assets:				
Land improvements	\$ 9,799,427	\$ 2,053,166	\$ -	\$ 11,852,593
Buildings and improvements	32,732,864	509,344	784,167	32,458,041
Joint tenancy assets	40,075,000	-	1,395,000	38,680,000
Infrastructure	73,192,203	1,745,526	127,171	74,810,558
Machinery, equipment and vehicles	15,973,505	1,117,245	497,421	16,593,329
Total other capital assets	\$ 171,772,999	\$ 5,425,281	\$ 2,803,759	\$ 174,394,521
Accumulated depreciation:				
Land improvements	\$ 1,939,073	\$ 343,538	\$ -	\$ 2,282,611
Buildings and improvements	11,011,040	1,039,304	406,892	11,643,452
Joint tenancy assets	4,767,798	967,000	392,740	5,342,058
Infrastructure	32,222,006	2,909,671	127,171	35,004,506
Machinery, equipment and vehicles	9,219,240	988,673	497,421	9,710,492
Total accumulated depreciation	\$ 59,159,157	\$ 6,248,186	\$ 1,424,224	\$ 63,983,119
Other capital assets, net	\$ 112,613,842	\$ (822,905)	\$ 1,379,535	\$ 110,411,402
Net capital assets	<u>\$ 137,896,029</u>	<u>\$ 7,343,967</u>	<u>\$ 4,614,207</u>	<u>\$ 140,625,789</u>
Depreciation is allocated to:				
General government administration		\$ 134,904		
Judicial administration		277,723		
Public safety		1,031,344		
Health and welfare		80,718		
Education		967,000		
Public works		3,194,025		
Parks and recreation		551,782		
Community development		10,690		
Total		<u>\$ 6,248,186</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 7—Capital Assets: (Continued)

Business-Type Activities:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 2,149,036	\$ -	\$ -	\$ 2,149,036
Construction in progress	597,531	2,940,313	-	3,537,844
	<u>2,746,567</u>	<u>2,940,313</u>	<u>-</u>	<u>5,686,880</u>
Total capital assets not being depreciated	\$ <u>2,746,567</u>	\$ <u>2,940,313</u>	\$ <u>-</u>	\$ <u>5,686,880</u>
Other capital assets:				
Buildings and systems	\$ 67,687,933	\$ 156,881	\$ -	\$ 67,844,814
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	6,301,779	408,333	-	6,710,112
Furniture, machinery and equipment	6,631,525	1,691,486	1,123,441	7,199,570
	<u>81,284,773</u>	<u>2,256,700</u>	<u>1,123,441</u>	<u>82,418,032</u>
Total other capital assets	\$ <u>81,284,773</u>	\$ <u>2,256,700</u>	\$ <u>1,123,441</u>	\$ <u>82,418,032</u>
Accumulated depreciation:				
Buildings and systems	\$ 19,537,143	\$ 1,851,508	\$ -	\$ 21,388,651
Dams and reservoirs	116,317	13,271	-	129,588
Intangible assets	1,242,635	146,789	-	1,389,424
Furniture, machinery and equipment	3,233,335	660,544	1,015,904	2,877,975
	<u>24,129,430</u>	<u>2,672,112</u>	<u>1,015,904</u>	<u>25,785,638</u>
Total accumulated depreciation	\$ <u>24,129,430</u>	\$ <u>2,672,112</u>	\$ <u>1,015,904</u>	\$ <u>25,785,638</u>
Other capital assets, net	\$ <u>57,155,343</u>	\$ <u>(415,412)</u>	\$ <u>107,537</u>	\$ <u>56,632,394</u>
Net capital assets	<u>\$ 59,901,910</u>	<u>\$ 2,524,901</u>	<u>\$ 107,537</u>	<u>\$ 62,319,274</u>
Depreciation is allocated to:				
Water operations		\$ 468,752		
Wastewater operations		1,517,781		
Parking garage operations		541,415		
Transit operations		144,164		
		<u>2,672,112</u>		
Total		\$ <u>2,672,112</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 472,679	\$ -	\$ -	\$ 472,679
Construction in progress	25,000	2,482,177	-	2,507,177
Total capital assets not being depreciated	<u>\$ 497,679</u>	<u>\$ 2,482,177</u>	<u>\$ -</u>	<u>\$ 2,979,856</u>
Other capital assets:				
Land improvements	\$ 123,253	\$ -	\$ -	\$ 123,253
Buildings and improvements	25,129,177	1,413,308	-	26,542,485
Machinery, equipment and vehicles	<u>3,713,298</u>	<u>637,691</u>	<u>13,000</u>	<u>4,337,989</u>
Total other capital assets	<u>\$ 28,965,728</u>	<u>\$ 2,050,999</u>	<u>\$ 13,000</u>	<u>\$ 31,003,727</u>
Accumulated depreciation:				
Land improvements	\$ 61,410	\$ 6,163	\$ -	\$ 67,573
Buildings and improvements	10,842,724	1,045,846	-	11,888,570
Machinery, equipment and vehicles	<u>2,357,888</u>	<u>267,038</u>	<u>13,000</u>	<u>2,611,926</u>
Total accumulated depreciation	<u>\$ 13,262,022</u>	<u>\$ 1,319,047</u>	<u>\$ 13,000</u>	<u>\$ 14,568,069</u>
Other capital assets, net	<u>\$ 15,703,706</u>	<u>\$ 731,952</u>	<u>\$ -</u>	<u>\$ 16,435,658</u>
Net capital assets	<u>\$ 16,201,385</u>	<u>\$ 3,214,129</u>	<u>\$ -</u>	<u>\$ 19,415,514</u>
Depreciation allocated to education		<u>\$ 1,319,047</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 8—Unavailable/Unearned Revenue:

Unavailable/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. Unearned/Unavailable revenue is comprised of the following:

	<u>Unearned Revenue</u> Government-wide Statements	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Unavailable property tax revenue:		
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	\$ -	\$ 1,894,837
Other	<u>71,326</u>	<u>18,935</u>
Total unearned revenue	<u>\$ 71,326</u>	<u>\$ 1,913,772</u>

	<u>Unavailable Revenue</u>	
	<u>Balance Sheet</u>	<u>Government-wide Statements</u>
	<u>Governmental Funds</u>	<u>Governmental Activities</u>
Unavailable property tax revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	\$ 1,829,050	\$ 1,829,050
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.	<u>458,935</u>	<u>-</u>
Total unavailable revenue	<u>\$ 2,287,985</u>	<u>\$ 1,829,050</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 9—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2013 is as follows:

	<u>Balance July 1, 2012</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	\$ 45,999,500	\$ -	\$ 1,309,885	\$ 44,689,615	\$ 2,118,507
General obligation school bonds	40,075,000	-	1,395,000	38,680,000	1,470,000
Add: Unamortized bond premium	2,842,628	-	266,241	2,576,387	246,785
Notes payable	725,000	-	-	725,000	-
Landfill post-closure costs	802,815	13,648	-	816,463	-
Compensated absences	3,090,498	1,873,345	1,916,109	3,047,734	1,889,596
Net OPEB obligation	<u>3,823,312</u>	<u>1,163,277</u>	<u>757,133</u>	<u>4,229,456</u>	<u>-</u>
Total	<u>\$ 97,358,753</u>	<u>\$ 3,050,270</u>	<u>\$ 5,644,368</u>	<u>\$ 94,764,655</u>	<u>\$ 5,724,888</u>
Long-term obligations payable from business activities:					
General obligation bonds	\$ 17,675,647	\$ -	\$ 991,248	\$ 16,684,399	\$ 996,493
Add: Unamortized bond premium	308,787	-	29,046	279,741	28,188
Virginia Resources Authority revenue bonds	1,609,765	-	1,064,106	545,659	545,659
Compensated absences	175,810	134,016	115,327	194,499	124,899
Net OPEB obligation	<u>360,972</u>	<u>107,020</u>	<u>69,581</u>	<u>398,411</u>	<u>-</u>
Total	<u>\$ 20,130,981</u>	<u>\$ 241,036</u>	<u>\$ 2,269,308</u>	<u>\$ 18,102,709</u>	<u>\$ 1,695,239</u>
Total primary government	<u>\$ 117,489,734</u>	<u>\$ 3,291,306</u>	<u>\$ 7,913,676</u>	<u>\$ 112,867,364</u>	<u>\$ 7,420,127</u>
Component Unit School Board:					
Long-term obligations payable from component unit School Board activities:					
Capital lease	\$ -	\$ 3,800,000	\$ -	\$ 3,800,000	\$ 202,000
Compensated absences	1,039,736	563,094	540,663	1,062,167	552,327
Net OPEB obligation	<u>1,065,738</u>	<u>354,180</u>	<u>199,200</u>	<u>1,220,718</u>	<u>-</u>
Total component unit School Board	<u>\$ 2,105,474</u>	<u>\$ 4,717,274</u>	<u>\$ 739,863</u>	<u>\$ 6,082,885</u>	<u>\$ 754,327</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 9—Long-term Obligations: (Continued)

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2013:

Year Ending June 30,	General Obligation Debt		Revenue Bonds		Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 4,585,000	\$ 4,377,717	\$ 545,659	\$ 9,276	-	\$ 21,750	\$ 202,000	\$ 43,706
2015	4,744,000	4,183,535	-	-	725,000	10,875	181,000	72,320
2016	4,417,000	3,990,152	-	-	-	-	200,000	68,682
2017	4,605,000	3,800,195	-	-	-	-	212,000	64,662
2018	4,803,000	3,598,835	-	-	-	-	225,000	60,401
2019	4,495,000	3,386,692	-	-	-	-	238,000	55,878
2020	4,690,000	3,174,438	-	-	-	-	251,000	51,094
2021	4,910,000	2,946,570	-	-	-	-	266,000	46,049
2022	5,140,000	2,707,412	-	-	-	-	272,000	40,703
2023	5,175,000	2,470,388	-	-	-	-	278,000	35,235
2024	5,415,000	2,235,557	-	-	-	-	283,000	29,648
2025	5,655,000	1,983,733	-	-	-	-	289,000	23,959
2026	5,910,000	1,722,219	-	-	-	-	295,000	18,150
2027	5,355,000	1,467,842	-	-	-	-	301,000	12,221
2028	5,595,000	1,219,415	-	-	-	-	307,000	6,170
2029	4,990,000	979,887	-	-	-	-	-	-
2030	5,215,000	748,477	-	-	-	-	-	-
2031	1,550,000	588,350	-	-	-	-	-	-
2032	1,610,000	530,069	-	-	-	-	-	-
2033	1,670,000	468,569	-	-	-	-	-	-
2034	1,735,000	403,641	-	-	-	-	-	-
2035	1,810,000	327,037	-	-	-	-	-	-
2036	1,900,000	238,925	-	-	-	-	-	-
2037	1,990,000	146,538	-	-	-	-	-	-
2038	2,090,014	49,638	-	-	-	-	-	-
	<u>\$ 100,054,014</u>	<u>\$ 47,745,831</u>	<u>\$ 545,659</u>	<u>\$ 9,276</u>	<u>\$ 725,000</u>	<u>\$ 32,625</u>	<u>\$ 3,800,000</u>	<u>\$ 628,878</u>

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 9—Long-term Obligations: (Continued)

At June 30, 2013, the City's long-term obligations consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
Primary Government:					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	\$ 38,680,000	\$ 1,470,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	8,015,000	480,000
2007E General Obligation Bonds	2008	2028	3.5-5.0%	8,860,014	425,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	2,299,000	430,000
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%	2,830,000	240,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	36,665,000	1,540,000
Total general obligation bonds				<u>\$ 100,054,014</u>	<u>\$ 4,585,000</u>
Revenue bonds:					
Virginia Resources Authority Wastewater Bonds	1992	2014	3.40%	\$ 545,659	\$ 545,659
Unamortized bond premium:					
2004A General Obligation School Bonds				\$ 938,686	\$ 95,885
2007E General Obligation Bonds				172,520	19,306
2010 General Obligation Bonds				146,901	13,323
2011 General Obligation Bonds				1,598,021	146,459
Total unamortized bond premium				<u>\$ 2,856,128</u>	<u>\$ 274,973</u>
Note payable	2012	2015	3.0%	\$ 725,000	\$ -
Compensated absences				\$ 3,242,233	\$ 2,014,495
Net OPEB obligation				\$ 4,627,867	\$ -
Landfill post-closure costs				\$ 816,463	\$ -
Total primary government				<u>\$ 112,867,364</u>	<u>\$ 7,420,127</u>
Component Unit School Board:					
Capital lease	2013	2028	2.0%	\$ 3,800,000	\$ 202,000
Compensated absences				\$ 1,062,167	\$ 552,327
Net OPEB obligation				\$ 1,220,718	\$ -
Total component unit School Board				<u>\$ 6,082,885</u>	<u>\$ 754,327</u>

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 9—Long-term Obligations: (Continued)

Conduit debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2013 totaled approximately \$186,848,867. The City has no responsibility for the repayment of these debt obligations.

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

Note 10—Compensated Absences:

In accordance with GASB Statement 16, Accounting 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.

	<u>Balance</u> <u>July 1,</u> <u>2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30,</u> <u>2013</u>	<u>Current</u> <u>Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 3,090,498	\$ 1,873,345	\$ 1,916,109	\$ 3,047,734	\$ 1,889,596
Business-type activities	<u>175,810</u>	<u>134,016</u>	<u>115,327</u>	<u>194,499</u>	<u>124,899</u>
Total primary government	\$ 3,266,308	\$ 2,007,361	\$ 2,031,436	\$ 3,242,233	\$ 2,014,495
Component Unit School Board	<u>1,039,736</u>	<u>563,094</u>	<u>540,663</u>	<u>1,062,167</u>	<u>552,327</u>
Total	<u>\$ 4,306,044</u>	<u>\$ 2,570,455</u>	<u>\$ 2,572,099</u>	<u>\$ 4,304,400</u>	<u>\$ 2,566,822</u>

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 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 11—Defined Benefit Pension Plan:

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

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 11—Defined Benefit Pension Plan: (Continued)

A. Plan Description: (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School's non-professional employee contribution rates for the fiscal year ended 2013 were 14.65% and 7.23% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$2,238,832, \$1,163,375 and \$706,636, to the teacher cost-sharing pool for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. The contribution rate was 3.93% in 2011, 6.33% in 2012, and 11.66% in 2013.

C. Annual Pension Cost

For fiscal year 2013, the City's annual pension cost of \$3,070,138 for VRS was equal to the City's required and actual contributions.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 11—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost: (Continued)

For fiscal year 2013, the City School Board’s annual pension cost for the Board’s non-professional employees was \$82,409, which was equal to the Board’s required and actual contributions.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2013	\$ 3,070,138	100%	\$ -
June 30, 2012	2,193,413	100%	-
June 30, 2011	2,169,550	100%	-
School Board Non-Professional:			
June 30, 2013	\$ 82,409	100%	\$ -
June 30, 2012	45,854	100%	-
June 30, 2011	48,945	100%	-

(1) Employer portion only

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City’s and the School Board’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board’s unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the City’s plan was 70.87% funded. The actuarial accrued liability for benefits was \$107,119,698, and the actuarial value of assets was \$75,920,725, resulting in an unfunded actuarial accrued liability (UAAL) of \$31,198,973. The covered payroll (annual payroll of active employees covered by the plan) was \$20,272,385, and ratio of the UAAL to the covered payroll was 153.90%.

As of June 30, 2012, the most recent actuarial valuation date, the City School Board’s plan was 91.13% funded. The actuarial accrued liability for benefits was \$3,519,427, and the actuarial value of assets was \$3,207,338, resulting in an unfunded actuarial accrued liability (UAAL) of \$312,089. The covered payroll (annual payroll of active employees covered by the plan) was \$1,125,076, and ratio of the UAAL to the covered payroll was 27.74%.

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 12—Deferred Compensation Plan:

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

Note 13—Commitments and Contingencies:

State and Federal Programs

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

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

Environmental Matters

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

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

Construction Commitments

At June 30, 2013, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$27,990,269 at June 30, 2013 including \$24,970,433 for new court construction.

The School Board has outstanding construction contracts and commitments at June 30, 2013 in the amount of \$1,467,060.

Note 14—Litigation:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 15—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 twenty years is \$816,463 and has been recorded as a long-term liability at June 30, 2013. These amounts are based on what it would cost to perform all post-closure care based on 2013 costs. These costs may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2012	\$	802,815
Increase in estimate		<u>13,648</u>
Balance at June 30, 2013	\$	<u><u>816,463</u></u>

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

Note 16—Surety Bonds:

Amount

Commonwealth of Virginia, Division of Risk Management:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 17—Self Insurance/Risk Management:

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

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

Employee Health Insurance

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

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

City General Fund		
Liability for estimated claims incurred but not reported		\$ 613,038
Committed Fund Balance for estimated maximum stop-loss liability based on premium cost and experience rate		<u>386,962</u>
Total		<u><u>\$ 1,000,000</u></u>

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

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Payments</u>	<u>End of Fiscal Year Liability</u>
2011	\$ 403,916	\$ 2,889,554	\$ 2,959,506	\$ 333,964
2012	333,964	3,636,584	3,601,464	369,084
2013	369,084	4,184,066	3,940,112	613,038

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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

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

Property and Casualty Insurance

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

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

Note 18—Other Postemployment Benefits—Health Insurance:

City:

A. Plan Description

In addition to the pension benefits described in Note 11, the City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (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 postemployment plan report.

B. Funding Policy

The City establishes employer contribution rates for plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. For participating retirees hired before July 1, 1996 the City pays 100% of the monthly premium. For participating retirees hired on or after July 1, 1996 the City pays \$1.50 per month per year of service (up to a maximum of 30 years of service) towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses can stay in the plan, but must pay the entire premium.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 18—Other Postemployment Benefits—Health Insurance: (Continued)

City: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,253,100
Interest on net OPEB obligation	167,370
Adjustment to annual required contribution	(150,173)
Annual OPEB cost (expense)	<u>\$ 1,270,297</u>
Contributions made	(826,714)
Increase in net OPEB obligation	<u>\$ 443,583</u>
Net OPEB obligation-beginning of year	<u>4,184,284</u>
Net OPEB obligation-end of year	<u><u>\$ 4,627,867</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 1,270,297	65.08%	\$ 4,627,867
June 30, 2012	1,355,438	59.44%	4,184,284
June 30, 2011	1,352,896	54.28%	3,634,546

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 20,305,900
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	20,305,900
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	20,443,300
UAAL as a percentage of covered payroll	99.33%

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 18—Other Postemployment Benefits—Health Insurance: (Continued)

City: (Continued)

E. Actuarial Methods and Assumptions

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

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

Cost Method

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

Interest Assumptions

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.20% initially, reduced by decrements to an ultimate rate of 4.80% after seventy-one years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2012, was thirty years.

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 18—Other Postemployment Benefits—Health Insurance: (Continued)

School Board:

A. Plan Description

The School Board provides post-retirement health care insurance benefits for employees who are eligible. The plan is administered by the School Board. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 50, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan. The plan has no separate financial report.

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	349,800
Interest on net OPEB obligation		42,629
Adjustment to annual required contribution		(38,249)
Annual OPEB cost (expense)	\$	354,180
Contributions made		(199,200)
Increase in net OPEB obligation	\$	154,980
Net OPEB obligation-beginning of year		1,065,738
Net OPEB obligation-end of year	\$	<u>1,220,718</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 18—Other Postemployment Benefits—Health Insurance: (Continued)

School Board: (Continued)

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

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 354,180	56.24%	\$ 1,220,718
June 30, 2012	458,603	64.04%	1,065,738
June 30, 2011	457,785	56.57%	900,835

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 3,206,600
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	3,206,600
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	19,647,600
UAAL as a percentage of covered payroll	16.32%

E. Actuarial Methods and Assumptions

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 18—Other Postemployment Benefits—Health Insurance: (Continued)

School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method

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

Interest Assumptions

In the January 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.20% initially, reduced by decrements to an ultimate rate of 4.80% after seventy-one years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2012, was thirty years.

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

Note 19—Health Insurance Credit Program—Other Postemployment Benefit:

A. Plan Description

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 19—Health Insurance Credit Program-Other Postemployment Benefit: (Continued)

A. Plan Description: (Continued)

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2013, 2012, and 2011 were \$114,925, \$110,030, and \$107,934, respectively, and equaled the required contributions for each year.

Note 20—Debt Refunding:

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2013, \$2,315,000 of bonds outstanding are considered defeased from refunding transactions in prior years.

Note 21—Restatement:

Certain amounts in the beginning net position have been restated in fiscal year 2013 as follows:

	Governmental Activities
Beginning net position, as previously reported	\$ 107,335,741
Restatement to report investment in joint venture under the equity method	<u>3,704,454</u>
Beginning net position, as restated	<u><u>\$ 111,040,195</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 22—Pending GASB Pronouncements:

At June 30, 2013, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the City. The statements which might impact the City are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014

The City has not yet determined the effect these GASB Statements will have on its financial statements.

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, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 25,476,640	\$ 25,476,640	\$ 25,457,978	\$ (18,662)
Public service corporations	690,000	690,000	791,312	101,312
Personal property	6,660,000	6,660,000	7,812,357	1,152,357
Mobile homes	885	885	988	103
Machinery and tools	200,500	200,500	234,113	33,613
Penalties	225,000	225,000	250,902	25,902
Interest	85,000	85,000	150,370	65,370
Total general property taxes	\$ 33,338,025	\$ 33,338,025	\$ 34,698,020	\$ 1,359,995
Other local taxes:				
Local sales and use taxes	\$ 9,850,000	\$ 9,850,000	\$ 10,840,598	\$ 990,598
Utility taxes	1,645,000	1,645,000	1,795,046	150,046
Business licenses and rental tax	5,275,000	5,275,000	5,994,920	719,920
Motor vehicle licenses	420,000	420,000	450,126	30,126
Bank stock taxes	750,000	750,000	657,687	(92,313)
Recordation taxes	450,000	450,000	408,981	(41,019)
Tobacco tax	530,000	530,000	442,569	(87,431)
Amusement tax	320,000	320,000	349,301	29,301
Hotel/lodging taxes	1,100,000	1,100,000	1,204,855	104,855
Meals taxes	8,910,000	8,910,000	9,657,796	747,796
Gasoline taxes	171,430	171,430	151,706	(19,724)
Other	130,000	130,000	91,277	(38,723)
Total other local taxes	\$ 29,551,430	\$ 29,551,430	\$ 32,044,862	\$ 2,493,432
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 733,050	\$ 733,050	\$ 658,454	\$ (74,596)
Animal licenses	10,000	10,000	12,373	2,373
Total permits, privilege fees and licenses	\$ 743,050	\$ 743,050	\$ 670,827	\$ (72,223)
Fines and forfeitures	\$ 382,000	\$ 382,000	\$ 568,400	\$ 186,400
Revenue from use of money and property:				
Revenue from use of money	\$ 100,000	\$ 100,000	\$ 75,803	\$ (24,197)
Revenue from use of property	74,750	74,750	31,376	(43,374)
Total revenue from use of money and property	\$ 174,750	\$ 174,750	\$ 107,179	\$ (67,571)
Charges for services:				
Court costs	\$ 91,300	\$ 91,300	\$ 100,667	\$ 9,367
Commonwealth's Attorney	3,000	3,000	8,623	5,623
Sanitation and waste removal	729,500	729,500	757,997	28,497
Parks and recreation	437,500	450,885	440,392	(10,493)
Planning and community development	1,100	1,100	274	(826)
Fire and rescue services	630,000	630,000	762,578	132,578
Administrative charges	75,000	75,000	94,773	19,773
Total charges for services	\$ 1,967,400	\$ 1,980,785	\$ 2,165,304	\$ 184,519

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 23,000	\$ 23,000	\$ 25,363	\$ 2,363
Souvenir sales	19,000	19,000	19,126	126
Donations - parks and recreation	-	-	58,244	58,244
Other	30,500	30,500	31,692	1,192
Total miscellaneous revenue	\$ 72,500	\$ 72,500	\$ 134,425	\$ 61,925
Recovered costs:				
Circuit Court secretaries	\$ 15,000	\$ 15,000	\$ 18,427	\$ 3,427
Health department	225,000	225,000	241,386	16,386
Social services	115,000	115,000	116,623	1,623
Transit	85,000	85,000	81,742	(3,258)
Other	45,250	120,265	175,496	55,231
Total recovered costs	\$ 485,250	\$ 560,265	\$ 633,674	\$ 73,409
Total revenue from local sources	\$ 66,714,405	\$ 66,802,805	\$ 71,022,691	\$ 4,219,886
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	\$ 125,000	\$ 125,000	\$ 106,761	\$ (18,239)
Motor vehicle rental tax	110,000	110,000	162,608	52,608
Communication sales tax	1,850,000	1,850,000	1,832,272	(17,728)
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	10,500	10,500	12,645	2,145
Total noncategorical aid	\$ 3,820,500	\$ 3,820,500	\$ 3,843,119	\$ 22,619
Categorical aid - shared expenses:				
Commonwealth's Attorney	\$ 557,000	\$ 557,000	\$ 552,249	\$ (4,751)
Sheriff	449,000	449,000	460,105	11,105
Commissioner of Revenue	128,300	128,300	125,892	(2,408)
Treasurer	99,750	99,750	98,604	(1,146)
Registrar	36,290	36,290	37,357	1,067
Clerk of the Circuit Court	285,300	285,300	303,975	18,675
Total categorical aid - shared expenses	\$ 1,555,640	\$ 1,555,640	\$ 1,578,182	\$ 22,542
Categorical aid - other:				
Street and highway maintenance	\$ 2,400,000	\$ 2,400,000	\$ 2,403,259	\$ 3,259
Law enforcement assistance	762,000	762,000	742,358	(19,642)
Wireless E-911 grants	87,260	87,260	143,720	56,460
Other	21,040	50,019	35,581	(14,438)
Total categorical aid - other	\$ 3,270,300	\$ 3,299,279	\$ 3,324,918	\$ 25,639
Total revenue from the Commonwealth	\$ 8,646,440	\$ 8,675,419	\$ 8,746,219	\$ 70,800

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Payment in-lieu of taxes	\$ -	\$ -	\$ 516	\$ 516
Election commission grant	-	-	3,600	3,600
Public assistance - cost allocation	40,000	40,000	31,389	(8,611)
Total revenue from the Federal Government	\$ 40,000	\$ 40,000	\$ 35,505	\$ (4,495)
Total revenues	\$ 75,400,845	\$ 75,518,224	\$ 79,804,415	\$ 4,286,191
Expenditures				
General government administration:				
Legislative:				
City Council	\$ 211,400	\$ 215,310	\$ 204,610	\$ 10,700
Clerk of Council	102,410	104,495	104,467	28
Total legislative	\$ 313,810	\$ 319,805	\$ 309,077	\$ 10,728
General and financial administration:				
City manager	\$ 727,815	\$ 837,087	\$ 753,313	\$ 83,774
Insurance program	807,000	1,391,449	1,330,534	60,915
Human resources	315,335	320,535	299,346	21,189
Independent auditor	80,735	87,520	87,517	3
Commissioner of the revenue	944,320	944,320	873,725	70,595
Board of Real Estate Assessors	7,000	7,000	1,322	5,678
Equalization Board	5,000	5,000	1,950	3,050
Treasurer	793,170	785,785	771,006	14,779
Fiscal affairs	609,330	609,330	592,335	16,995
Information technology	1,009,405	1,041,251	988,333	52,918
Copying and postage	24,350	28,688	25,350	3,338
Safety program	93,270	93,270	85,964	7,306
Legal services	336,495	336,495	321,679	14,816
Total general and financial administration	\$ 5,753,225	\$ 6,487,730	\$ 6,132,374	\$ 355,356
Board of elections:				
Registrar and electoral board	\$ 205,355	\$ 228,435	\$ 228,435	\$ -
Total general government administration	\$ 6,272,390	\$ 7,035,970	\$ 6,669,886	\$ 366,084
Judicial administration:				
Courts:				
Circuit Court	\$ 102,655	\$ 102,655	\$ 94,817	\$ 7,838
General District Court	34,950	38,837	25,117	13,720
Special magistrates	13,000	13,000	12,517	483
Juvenile and Domestic Relations Court	18,300	18,300	14,229	4,071
Clerk of the Circuit Court	757,360	757,360	705,280	52,080
Sheriff	1,584,405	1,621,905	1,600,280	21,625
JDR services	74,605	74,605	74,605	-
Juries	30,000	30,000	25,020	4,980
Court appointed attorney	15,000	15,000	8,394	6,606
Total courts	\$ 2,630,275	\$ 2,671,662	\$ 2,560,259	\$ 111,403

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	\$ 1,134,600	\$ 1,143,100	\$ 1,128,191	\$ 14,909
Total judicial administration	\$ 3,764,875	\$ 3,814,762	\$ 3,688,450	\$ 126,312
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 7,434,455	\$ 7,481,278	\$ 7,346,397	\$ 134,881
Auxiliary police	13,100	13,100	11,400	1,700
Total law enforcement and traffic control	\$ 7,447,555	\$ 7,494,378	\$ 7,357,797	\$ 136,581
Fire and rescue:				
Fire department	\$ 4,402,500	\$ 4,617,737	\$ 4,617,632	\$ 105
Rescue services	257,040	257,040	257,040	-
Emergency medical services	852,115	853,657	853,657	-
Hazardous materials	29,680	29,680	27,323	2,357
E-911 communications	1,093,850	1,172,850	1,059,799	113,051
Total fire and rescue	\$ 6,635,185	\$ 6,930,964	\$ 6,815,451	\$ 115,513
Correction and detention:				
Juvenile Detention Center	\$ 315,000	\$ 297,465	\$ 284,383	\$ 13,082
Rappahannock Security Center	3,026,000	2,938,500	2,909,368	29,132
Prisoner extradition	-	7,490	7,488	2
Total correction and detention	\$ 3,341,000	\$ 3,243,455	\$ 3,201,239	\$ 42,216
Inspections:				
Building and development services	\$ 932,370	\$ 930,828	\$ 862,522	\$ 68,306
Other protection:				
Animal control	\$ 102,575	\$ 100,575	\$ 93,678	\$ 6,897
Medical Examiner	1,200	1,200	300	900
Total other protection	\$ 103,775	\$ 101,775	\$ 93,978	\$ 7,797
Total public safety	\$ 18,459,885	\$ 18,701,400	\$ 18,330,987	\$ 370,413
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 759,425	\$ 728,155	\$ 712,688	\$ 15,467
Street maintenance	1,041,640	1,084,425	1,072,364	12,061
Drainage	242,440	272,440	236,409	36,031
Street lights	365,000	427,218	423,658	3,560
Snow removal	129,535	58,705	58,688	17
Industrial park rail spur	15,500	15,500	15,107	393
Traffic engineering	543,050	569,950	564,911	5,039
Shop and garage	1,332,485	1,273,985	1,172,985	101,000
Blight abatement	-	100,000	11,015	88,985
Graphics	85,130	88,756	85,284	3,472
Total maintenance of streets, highways, bridges and sidewalks	\$ 4,514,205	\$ 4,619,134	\$ 4,353,109	\$ 266,025

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 802,315	\$ 804,511	\$ 739,405	\$ 65,106
Tree purchase program	50,000	96,414	96,370	44
Refuse collection	622,555	623,657	613,055	10,602
Refuse disposal	130,450	205,895	205,869	26
Recycling collection	127,005	127,005	120,147	6,858
Total sanitation and waste removal	<u>\$ 1,732,325</u>	<u>\$ 1,857,482</u>	<u>\$ 1,774,846</u>	<u>\$ 82,636</u>
Maintenance of buildings and grounds:				
General properties	\$ 1,694,060	\$ 1,695,352	\$ 1,671,475	\$ 23,877
Environmental management system	-	10,000	172	9,828
Buildings and grounds - special	295,495	303,595	186,993	116,602
Total maintenance of buildings and grounds	<u>\$ 1,989,555</u>	<u>\$ 2,008,947</u>	<u>\$ 1,858,640</u>	<u>\$ 150,307</u>
Total public works	<u>\$ 8,236,085</u>	<u>\$ 8,485,563</u>	<u>\$ 7,986,595</u>	<u>\$ 498,968</u>
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	\$ 197,065	\$ 197,065	\$ 197,065	\$ -
Social services:				
Other contributions	\$ 341,870	\$ 359,405	\$ 359,404	\$ 1
Total health and welfare	<u>\$ 953,215</u>	<u>\$ 970,750</u>	<u>\$ 970,749</u>	<u>\$ 1</u>
Education:				
Community colleges	\$ 5,750	\$ 5,750	\$ 5,750	\$ -
Appropriations to public school system	25,258,100	26,658,100	26,658,100	-
Total education	<u>\$ 25,263,850</u>	<u>\$ 26,663,850</u>	<u>\$ 26,663,850</u>	<u>\$ -</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 562,710	\$ 564,110	\$ 559,651	\$ 4,459
Supervision	617,795	617,795	615,779	2,016
Maintenance	1,044,975	1,072,700	1,037,350	35,350
Dixon Park swimming pool	131,440	131,440	130,828	612
Total parks and recreation	<u>\$ 2,356,920</u>	<u>\$ 2,386,045</u>	<u>\$ 2,343,608</u>	<u>\$ 42,437</u>
Library:				
Regional library	\$ 1,238,485	\$ 1,238,485	\$ 1,238,485	\$ -
Cultural:				
Museums	\$ 95,975	\$ 95,975	\$ 95,975	\$ -
Total parks, recreation and cultural	<u>\$ 3,691,380</u>	<u>\$ 3,720,505</u>	<u>\$ 3,678,068</u>	<u>\$ 42,437</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Community development:				
Planning and community development:				
Planning	\$ 540,590	\$ 580,765	\$ 503,895	\$ 76,870
Zoning Appeals Board	1,600	1,600	-	1,600
Community development	108,320	108,320	97,370	10,950
Architectural Review Board	2,000	2,000	677	1,323
Clean and Green Commission	3,000	3,000	2,317	683
Commuter rail	50,000	50,000	35,084	14,916
Economic development and tourism	1,001,930	1,044,205	1,022,161	22,044
Total planning and community development	<u>\$ 1,707,440</u>	<u>\$ 1,789,890</u>	<u>\$ 1,661,504</u>	<u>\$ 128,386</u>
Total community development	<u>\$ 1,707,440</u>	<u>\$ 1,789,890</u>	<u>\$ 1,661,504</u>	<u>\$ 128,386</u>
Total expenditures	<u>\$ 68,349,120</u>	<u>\$ 71,182,690</u>	<u>\$ 69,650,089</u>	<u>\$ 1,532,601</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 7,051,725</u>	<u>\$ 4,335,534</u>	<u>\$ 10,154,326</u>	<u>\$ 5,818,792</u>
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	\$ 12,500	\$ 12,500	\$ 28,546	\$ 16,046
Transfers in	1,000,000	1,100,000	1,100,000	-
Transfers out	<u>(9,591,185)</u>	<u>(9,591,185)</u>	<u>(9,579,745)</u>	<u>11,440</u>
Total other financing sources (uses)	<u>\$ (8,578,685)</u>	<u>\$ (8,478,685)</u>	<u>\$ (8,451,199)</u>	<u>\$ 27,486</u>
Net change in fund balance	\$ (1,526,960)	\$ (4,143,151)	\$ 1,703,127	\$ 5,846,278
Fund balance, beginning of year	<u>1,526,960</u>	<u>4,143,151</u>	<u>25,872,283</u>	<u>21,729,132</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,575,410</u>	<u>\$ 27,575,410</u>

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

Schedule of Pension and OPEB Funding Progress

Virginia Retirement System

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2012	\$ 75,920,725	\$ 107,119,698	\$ 31,198,973	70.87%	\$ 20,272,385	153.90%
June 30, 2011	75,980,646	102,954,904	26,974,258	73.80%	20,202,383	133.52%
June 30, 2010	74,324,775	97,601,073	23,276,298	76.15%	20,185,677	115.31%

School Board Non-Professional:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2012	\$ 3,207,338	\$ 3,519,427	\$ 312,089	91.13%	\$ 1,125,076	27.74%
June 30, 2011	3,100,730	3,352,248	251,518	92.50%	1,087,209	23.13%
June 30, 2010	2,935,480	3,130,611	195,131	93.77%	1,136,716	17.17%

Other Postemployment Benefits

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 20,305,900	\$ 20,305,900	0.00%	\$ 20,443,300	99.33%
January 1, 2010	-	19,834,600	19,834,600	0.00%	20,997,500	94.46%
July 1, 2008	-	24,752,000	24,752,000	0.00%	21,014,941	117.78%

School Board:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 3,206,600	\$ 3,206,600	0.00%	\$ 19,647,600	16.32%
January 1, 2010	-	4,218,700	4,218,700	0.00%	21,140,600	19.96%
July 1, 2008	-	5,244,000	5,244,000	0.00%	18,267,204	28.71%

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OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule
 New Court Construction Fund
 Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 77,926	\$ 77,926
Charges for services:				
Courthouse construction fees	\$ 50,000	\$ 50,000	\$ 54,265	\$ 4,265
Total revenues	\$ 50,000	\$ 50,000	\$ 132,191	\$ 82,191
Expenditures				
Capital projects:				
Executive plaza interim moves	\$ -	\$ -	\$ 1,240	\$ (1,240)
New court construction	12,305,693	12,305,693	5,119,610	7,186,083
Total expenditures	\$ 12,305,693	\$ 12,305,693	\$ 5,120,850	\$ 7,184,843
Excess (deficiency) of revenues over (under) expenditures	\$ (12,255,693)	\$ (12,255,693)	\$ (4,988,659)	\$ 7,267,034
Other Financing Sources (Uses)				
Issuance of long-term debt	\$ 12,255,693	\$ 12,255,693	\$ -	\$ (12,255,693)
Net change in fund balance	\$ -	\$ -	\$ (4,988,659)	\$ (4,988,659)
Fund balance, beginning of year	-	-	32,149,377	32,149,377
Fund balance, end of year	\$ -	\$ -	\$ 27,160,718	\$ 27,160,718

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

Combining Balance Sheet
 Nonmajor Governmental Funds
 At June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 1,323,371	\$ 5,865,435	\$ 805,804	\$ 7,994,610
Accrued revenue	11,707	62,020	-	73,727
Prepaid items	1,190	-	-	1,190
Due from other governments	877,206	1,615,241	-	2,492,447
Total assets	\$ 2,213,474	\$ 7,542,696	\$ 805,804	\$ 10,561,974
Liabilities:				
Reconciled overdraft	\$ 141,636	\$ -	\$ -	\$ 141,636
Accounts payable	238,337	341,866	-	580,203
Accrued liabilities	34,937	40,706	-	75,643
Unearned revenue	20,000	-	-	20,000
Total liabilities	\$ 434,910	\$ 382,572	\$ -	\$ 817,482
Fund Balances:				
Nonspendable				
Prepays	\$ 1,190	\$ -	\$ -	\$ 1,190
Restricted	290,342	-	-	290,342
Committed	1,487,032	79,054	805,804	2,371,890
Assigned	-	7,081,070	-	7,081,070
Total fund balances	\$ 1,778,564	\$ 7,160,124	\$ 805,804	\$ 9,744,492
Total liabilities and fund balances	\$ 2,213,474	\$ 7,542,696	\$ 805,804	\$ 10,561,974

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
Other local taxes	\$ -	\$ 363,097	\$ -	\$ 363,097
Permits, privilege fees and regulatory licenses	6,065	-	-	6,065
Fines and forfeitures	-	34,998	-	34,998
Use of money and property	251	162,939	-	163,190
Charges for services	46,362	-	-	46,362
Miscellaneous	80,230	-	-	80,230
Recovered costs	429,596	23,800	-	453,396
Intergovernmental:				
Revenue from the Commonwealth	2,461,295	501,279	853,204	3,815,778
Revenue from the Federal Government	2,576,153	2,163,647	-	4,739,800
Total revenues	<u>\$ 5,599,952</u>	<u>\$ 3,249,760</u>	<u>\$ 853,204</u>	<u>\$ 9,702,916</u>
Expenditures				
Current:				
Judicial administration	\$ 184,271	\$ -	\$ -	\$ 184,271
Public safety	507,171	-	-	507,171
Public works	148,100	-	-	148,100
Health and welfare	5,721,395	-	-	5,721,395
Parks, recreation and cultural	77,734	-	-	77,734
Community development	825,533	-	-	825,533
Capital projects	-	5,039,226	-	5,039,226
Debt service:				
Principal payments	-	-	2,704,885	2,704,885
Interest and fiscal charges	-	-	3,860,585	3,860,585
Total expenditures	<u>\$ 7,464,204</u>	<u>\$ 5,039,226</u>	<u>\$ 6,565,470</u>	<u>\$ 19,068,900</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,864,252)</u>	<u>\$ (1,789,466)</u>	<u>\$ (5,712,266)</u>	<u>\$ (9,365,984)</u>
Other financing sources (uses)				
Transfers in	\$ 1,977,066	\$ 1,005,045	\$ 6,518,070	\$ 9,500,181
Transfers out	<u>(400,000)</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>
Total other financing sources (uses)	<u>\$ 1,577,066</u>	<u>\$ 1,005,045</u>	<u>\$ 6,518,070</u>	<u>\$ 9,100,181</u>
Net change in fund balance	\$ (287,186)	\$ (784,421)	\$ 805,804	\$ (265,803)
Fund balances, beginning of year	<u>2,065,750</u>	<u>7,944,545</u>	<u>-</u>	<u>10,010,295</u>
Fund balances, end of year	<u>\$ 1,778,564</u>	<u>\$ 7,160,124</u>	<u>\$ 805,804</u>	<u>\$ 9,744,492</u>

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 At June 30, 2013

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Total
Assets:						
Cash and cash equivalents	\$ -	\$ 632,178	\$ 138,542	\$ 262,519	\$ 290,132	\$ 1,323,371
Accrued revenue	5,591	5,906	-	-	210	11,707
Prepaid items	1,190	-	-	-	-	1,190
Due from other governments	354,896	242,048	280,262	-	-	877,206
Total assets	\$ 361,677	\$ 880,132	\$ 418,804	\$ 262,519	\$ 290,342	\$ 2,213,474
Liabilities:						
Reconciled overdraft	\$ 141,636	\$ -	\$ -	\$ -	\$ -	\$ 141,636
Accounts payable	2,799	105,881	129,657	-	-	238,337
Accrued liabilities	29,639	4,379	919	-	-	34,937
Unearned revenue	-	20,000	-	-	-	20,000
Total liabilities	\$ 174,074	\$ 130,260	\$ 130,576	\$ -	\$ -	\$ 434,910
Fund Balances:						
Nonspendable						
Prepays	\$ 1,190	\$ -	\$ -	\$ -	\$ -	\$ 1,190
Restricted	-	-	-	-	290,342	290,342
Committed	186,413	749,872	288,228	262,519	-	1,487,032
Total fund balances	\$ 187,603	\$ 749,872	\$ 288,228	\$ 262,519	\$ 290,342	\$ 1,778,564
Total liabilities and fund balances	\$ 361,677	\$ 880,132	\$ 418,804	\$ 262,519	\$ 290,342	\$ 2,213,474

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2013

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre- hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Total
Revenues						
Permits, privilege fees and regulatory licenses	\$ -	\$ 6,065	\$ -	\$ -	\$ -	\$ 6,065
Use of money and property	-	251	-	-	-	251
Charges for services	-	-	-	-	46,362	46,362
Miscellaneous	-	80,230	-	-	-	80,230
Recovered costs	77,925	351,671	-	-	-	429,596
Intergovernmental:						
Revenue from the Commonwealth	1,363,069	253,965	844,261	-	-	2,461,295
Revenue from the Federal Government	1,747,130	742,824	86,199	-	-	2,576,153
Total revenues	\$ 3,188,124	\$ 1,435,006	\$ 930,460	\$ -	\$ 46,362	\$ 5,599,952
Expenditures						
Judicial administration	\$ -	\$ 184,271	\$ -	\$ -	\$ -	\$ 184,271
Public safety	-	507,171	-	-	-	507,171
Public works	-	148,100	-	-	-	148,100
Health and welfare	4,178,317	-	1,543,078	-	-	5,721,395
Parks, recreation and cultural	-	77,734	-	-	-	77,734
Community Development	-	825,533	-	-	-	825,533
Total expenditures	\$ 4,178,317	\$ 1,742,809	\$ 1,543,078	\$ -	\$ -	\$ 7,464,204
Excess (deficiency) of revenues over (under) expenditures	\$ (990,193)	\$ (307,803)	\$ (612,618)	\$ -	\$ 46,362	\$ (1,864,252)
Other financing sources (uses)						
Transfers in	\$ 911,670	\$ 346,271	\$ 719,125	\$ -	\$ -	\$ 1,977,066
Transfers out	-	-	-	(400,000)	-	(400,000)
Total other financing sources (uses)	\$ 911,670	\$ 346,271	\$ 719,125	\$ (400,000)	\$ -	\$ 1,577,066
Net change in fund balance	\$ (78,523)	\$ 38,468	\$ 106,507	\$ (400,000)	\$ 46,362	\$ (287,186)
Fund balances, beginning of year	266,126	711,404	181,721	662,519	243,980	2,065,750
Fund balances, end of year	\$ 187,603	\$ 749,872	\$ 288,228	\$ 262,519	\$ 290,342	\$ 1,778,564

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2013

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Assets:				
Cash and cash equivalents	\$ 3,808,321	\$ 559,289	\$ 1,497,825	\$ 5,865,435
Accrued revenue	17,188	27,654	17,178	62,020
Due from other governments	360,823	1,254,418	-	1,615,241
Total assets	\$ 4,186,332	\$ 1,841,361	\$ 1,515,003	\$ 7,542,696
Liabilities:				
Accounts payable	\$ 56,540	\$ 285,326	\$ -	\$ 341,866
Accrued liabilities	6,025	34,681	-	40,706
Total liabilities	\$ 62,565	\$ 320,007	\$ -	\$ 382,572
Fund Balances:				
Committed	\$ -	\$ 79,054	\$ -	\$ 79,054
Assigned	4,123,767	1,442,300	1,515,003	7,081,070
Total fund balances	\$ 4,123,767	\$ 1,521,354	\$ 1,515,003	\$ 7,160,124
Total liabilities and fund balances	\$ 4,186,332	\$ 1,841,361	\$ 1,515,003	\$ 7,542,696

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 Year Ended June 30, 2013

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Revenues				
Other local taxes	\$ 315,900	\$ 47,197	\$ -	\$ 363,097
Fines and forfeitures	34,998	-	-	34,998
Use of money and property	27,901	107,726	27,312	162,939
Recovered costs	-	23,800	-	23,800
Intergovernmental:				
Revenue from the Commonwealth	323,804	59,075	118,400	501,279
Revenue from the Federal Government	761,191	1,402,456	-	2,163,647
Total revenues	<u>\$ 1,463,794</u>	<u>\$ 1,640,254</u>	<u>\$ 145,712</u>	<u>\$ 3,249,760</u>
Expenditures				
Capital projects	<u>\$ 2,198,125</u>	<u>\$ 2,599,038</u>	<u>\$ 242,063</u>	<u>\$ 5,039,226</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (734,331)</u>	<u>\$ (958,784)</u>	<u>\$ (96,351)</u>	<u>\$ (1,789,466)</u>
Other financing sources (uses)				
Transfers in	<u>\$ 625,045</u>	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ 1,005,045</u>
Net change in fund balance	<u>\$ (109,286)</u>	<u>\$ (578,784)</u>	<u>\$ (96,351)</u>	<u>\$ (784,421)</u>
Fund balances, beginning of year	<u>4,233,053</u>	<u>2,100,138</u>	<u>1,611,354</u>	<u>7,944,545</u>
Fund balances, end of year	<u>\$ 4,123,767</u>	<u>\$ 1,521,354</u>	<u>\$ 1,515,003</u>	<u>\$ 7,160,124</u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2013

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Revenues			
Intergovernmental:			
Revenue from the Commonwealth	\$ -	\$ 853,204	\$ 853,204
Total revenues	\$ -	\$ 853,204	\$ 853,204
Expenditures			
Debt service:			
Principal	\$ 1,213,419	\$ 1,491,466	\$ 2,704,885
Interest and fiscal charges	1,871,602	1,988,983	3,860,585
Total expenditures	\$ 3,085,021	\$ 3,480,449	\$ 6,565,470
Excess (deficiency) of revenues over (under) expenditures	\$ (3,085,021)	\$ (2,627,245)	\$ (5,712,266)
Other financing sources (uses)			
Transfers in	\$ 3,085,021	\$ 3,433,049	\$ 6,518,070
Net change in fund balance	\$ -	\$ 805,804	\$ 805,804
Fund balances, beginning of year	-	-	-
Fund balances, end of year	\$ -	\$ 805,804	\$ 805,804

CITY OF FREDERICKSBURG, VIRGINIA

Combining Statement of Fiduciary Net Position - Fiduciary Funds
 At June 30, 2013

	<u>Criminal Justice Academy</u>	<u>Special Welfare</u>	<u>Court Service Unit</u>	<u>Rappahannock Area Youth Commission</u>	<u>Revenue Maximization</u>
Assets:					
Cash and cash equivalents	\$ 88,203	\$ 26,432	\$ 143,942	\$ 104,625	\$ 20,451
Accounts receivable	18,217	-	-	43,250	-
Prepaid items	<u>13,098</u>	<u>-</u>	<u>-</u>	<u>7,231</u>	<u>-</u>
Total assets	<u>\$ 119,518</u>	<u>\$ 26,432</u>	<u>\$ 143,942</u>	<u>\$ 155,106</u>	<u>\$ 20,451</u>
Liabilities:					
Accounts payable	\$ 9,948	\$ -	\$ 4,455	\$ 29,549	\$ -
Accrued liabilities	13,064	-	-	-	-
Amounts held for others	<u>96,506</u>	<u>26,432</u>	<u>139,487</u>	<u>125,557</u>	<u>20,451</u>
Total liabilities	<u>\$ 119,518</u>	<u>\$ 26,432</u>	<u>\$ 143,942</u>	<u>\$ 155,106</u>	<u>\$ 20,451</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Exhibit 23

Forfeited Asset Sharing Program	Community Development Authority	Total
\$ 57,090	\$ 280,421	\$ 721,164
-	-	61,467
-	-	20,329
<u>\$ 57,090</u>	<u>\$ 280,421</u>	<u>\$ 802,960</u>
\$ 5,222	-	\$ 49,174
-	-	13,064
<u>51,868</u>	<u>280,421</u>	<u>740,722</u>
<u>\$ 57,090</u>	<u>\$ 280,421</u>	<u>\$ 802,960</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	\$ 252,261	\$ 88,203	\$ 252,261	\$ 88,203
Accounts receivable	17,883	18,217	17,883	18,217
Prepaid items	12,671	13,098	12,671	13,098
Total assets	<u>\$ 282,815</u>	<u>\$ 119,518</u>	<u>\$ 282,815</u>	<u>\$ 119,518</u>
Liabilities:				
Accounts payable	\$ 9,168	\$ 9,948	\$ 9,168	\$ 9,948
Accrued liabilities	12,439	13,064	12,439	13,064
Amounts held for others	261,208	96,506	261,208	96,506
Total liabilities	<u>\$ 282,815</u>	<u>\$ 119,518</u>	<u>\$ 282,815</u>	<u>\$ 119,518</u>
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	\$ 25,289	\$ 28,256	\$ 27,113	\$ 26,432
Accounts receivable	2,354	-	2,354	-
Total assets	<u>\$ 27,643</u>	<u>\$ 28,256</u>	<u>\$ 29,467</u>	<u>\$ 26,432</u>
Liabilities:				
Amounts held for others	\$ 27,643	\$ 28,256	\$ 29,467	\$ 26,432
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	\$ 155,412	\$ 189,029	\$ 200,499	\$ 143,942
Accounts receivable	985	-	985	-
Total assets	<u>\$ 156,397</u>	<u>\$ 189,029</u>	<u>\$ 201,484</u>	<u>\$ 143,942</u>
Liabilities:				
Accounts payable	\$ 8,376	\$ 4,455	\$ 8,376	\$ 4,455
Amounts held for others	148,021	184,574	193,108	139,487
Total liabilities	<u>\$ 156,397</u>	<u>\$ 189,029</u>	<u>\$ 201,484</u>	<u>\$ 143,942</u>

Statement of Changes in Assets and Liabilities
 Agency Funds
 Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
CASA PROGRAM				
Assets:				
Accounts receivable	\$ 8,689	\$ -	\$ 8,689	\$ -
Liabilities:				
Reconciled overdraft	\$ 8,555	\$ -	\$ 8,555	\$ -
Amounts held for others	134	-	134	-
Total liabilities	\$ 8,689	\$ -	\$ 8,689	\$ -
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	\$ 20,652	\$ 683,552	\$ 599,579	\$ 104,625
Accounts receivable	90,976	43,250	90,976	43,250
Prepaid items	5,697	7,231	5,697	7,231
Total assets	\$ 117,325	\$ 734,033	\$ 696,252	\$ 155,106
Liabilities:				
Accounts payable	\$ 13,073	\$ 29,549	\$ 13,073	\$ 29,549
Amounts held for others	104,252	704,484	683,179	125,557
Total liabilities	\$ 117,325	\$ 734,033	\$ 696,252	\$ 155,106
REVENUE MAXIMIZATION				
Assets:				
Cash and cash equivalents	\$ 20,451	\$ -	\$ -	\$ 20,451
Liabilities:				
Amounts held for others	\$ 20,451	\$ -	\$ -	\$ 20,451
FORFEITED ASSET SHARING PROGRAM				
Assets:				
Cash and cash equivalents	\$ 67,404	\$ 5,400	\$ 15,714	\$ 57,090
Liabilities:				
Accounts payable	\$ -	\$ 5,222	\$ -	\$ 5,222
Amounts held for others	67,404	178	15,714	51,868
Total liabilities	\$ 67,404	\$ 5,400	\$ 15,714	\$ 57,090

Statement of Changes in Assets and Liabilities
 Agency Funds
 Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	\$ 225,378	\$ 652,360	\$ 597,317	\$ 280,421
Liabilities:				
Amounts held for others	\$ 225,378	\$ 652,360	\$ 597,317	\$ 280,421
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 766,847	\$ 1,646,800	\$ 1,692,483	\$ 721,164
Accounts receivable	120,887	61,467	120,887	61,467
Prepaid items	18,368	20,329	18,368	20,329
Total assets	\$ 906,102	\$ 1,728,596	\$ 1,831,738	\$ 802,960
Liabilities:				
Reconciled overdraft	\$ 8,555	\$ -	\$ 8,555	\$ -
Accounts payable	30,617	49,174	30,617	49,174
Accrued liabilities	12,439	13,064	12,439	13,064
Amounts held for others	854,491	1,666,358	1,780,127	740,722
Total liabilities	\$ 906,102	\$ 1,728,596	\$ 1,831,738	\$ 802,960

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Recovered costs	\$ 82,500	\$ 32,171	\$ 77,925	\$ 45,754
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	\$ 1,250,048	\$ 1,480,939	\$ 1,363,069	\$ (117,870)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 1,715,368	\$ 1,834,893	\$ 1,747,130	\$ (87,763)
Total revenues	<u>\$ 3,047,916</u>	<u>\$ 3,348,003</u>	<u>\$ 3,188,124</u>	<u>\$ (159,879)</u>
Expenditures				
Health and welfare	<u>\$ 4,009,586</u>	<u>\$ 4,346,434</u>	<u>\$ 4,178,317</u>	<u>\$ 168,117</u>
State, Federal and Local Grants Fund				
Revenues				
Permits & other licenses	\$ 21,500	\$ 21,500	\$ 6,065	\$ (15,435)
Revenue from use of money and property:				
Use of money and property	\$ -	\$ -	\$ 251	\$ 251
Miscellaneous	\$ 171,000	\$ 171,000	\$ 80,230	\$ (90,770)
Recovered costs:				
Stafford and Spotsylvania Counties	\$ 342,000	\$ 342,000	\$ 342,000	\$ -
Other	-	-	9,671	9,671
Total recovered costs	<u>\$ 342,000</u>	<u>\$ 342,000</u>	<u>\$ 351,671</u>	<u>\$ 9,671</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Hazardous materials grant	30,000	30,000	30,000	-
Fire services program	55,750	55,750	69,265	13,515
VA domestic violence victim fund	40,000	40,000	30,000	(10,000)
Fire training grant	33,000	33,000	33,000	-
Four-for-life grant	25,000	25,000	25,849	849
Other	88,124	93,718	60,851	(32,867)
Total revenue from the Commonwealth	<u>\$ 276,874</u>	<u>\$ 282,468</u>	<u>\$ 253,965</u>	<u>\$ (28,503)</u>
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 192,445	\$ 192,445	\$ 451,866	\$ 259,421
Brownfields EPA grant	300,000	300,000	158,871	(141,129)
Community development block grants	145,875	145,875	132,087	(13,788)
Total revenue from the Federal Government	<u>\$ 638,320</u>	<u>\$ 638,320</u>	<u>\$ 742,824</u>	<u>\$ 104,504</u>
Total revenues	<u>\$ 1,449,694</u>	<u>\$ 1,455,288</u>	<u>\$ 1,435,006</u>	<u>\$ (20,282)</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2013

	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	\$ 121,550	\$ 121,550	\$ 122,408	\$ (858)
Domestic violence victim fund grant	64,000	64,000	61,863	2,137
Library of Virginia grant	-	5,594	-	5,594
Total judicial administration	<u>\$ 185,550</u>	<u>\$ 191,144</u>	<u>\$ 184,271</u>	<u>\$ 6,873</u>
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 30,000	\$ 23,614	\$ 6,386
Fire services program	55,750	85,750	75,470	10,280
Rescue Four for Life	25,000	25,000	25,849	(849)
VDH OEMS grant	-	-	28,938	(28,938)
Crime prevention	-	3,835	-	3,835
Firefighter's assistance grant	28,880	28,880	-	28,880
Domestic violence	-	1,330	839	491
Community projects	-	10,527	10,987	(460)
Vita vesta pallas grant	20,400	20,400	-	20,400
JAG formula grant	14,925	21,965	22,669	(704)
AFIS grant	83,755	83,755	80,473	3,282
Local emergency performance grant	10,860	10,860	10,860	-
COPS grant	63,385	63,385	18,361	45,024
DMV grants	18,435	18,435	9,686	8,749
State homeland security grant	33,000	199,425	199,425	-
Total public safety	<u>\$ 384,390</u>	<u>\$ 603,547</u>	<u>\$ 507,171</u>	<u>\$ 96,376</u>
Public works:				
Brownfields EPA grant	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 148,100</u>	<u>\$ 151,900</u>
Parks, recreation and cultural:				
Soap Box Derby	\$ 28,000	\$ 28,000	\$ 19,235	\$ 8,765
Starfire drill team	45,000	45,000	4,736	40,264
Farmers' market	26,500	26,500	20,195	6,305
Fredericksburg Arts Commission	25,000	25,000	30,586	(5,586)
Other	25,000	25,000	2,982	22,018
Total parks, recreation and cultural	<u>\$ 149,500</u>	<u>\$ 149,500</u>	<u>\$ 77,734</u>	<u>\$ 71,766</u>
Community development:				
Community development block grant	\$ 200,525	\$ 200,525	\$ 186,359	\$ 14,166
First Night celebration	63,000	63,000	70,931	(7,931)
Regional consumer marketing	363,000	525,719	421,261	104,458
Regional group tourism	150,000	161,628	146,772	14,856
Other	40,000	40,000	210	39,790
Total community development	<u>\$ 816,525</u>	<u>\$ 990,872</u>	<u>\$ 825,533</u>	<u>\$ 165,339</u>
Total expenditures	<u>\$ 1,835,965</u>	<u>\$ 2,235,063</u>	<u>\$ 1,742,809</u>	<u>\$ 492,254</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds: (continued)				
Comprehensive Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	\$ 1,086,485	\$ 1,086,485	\$ 844,261	\$ (242,224)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ -	\$ -	\$ 86,199	\$ 86,199
Total revenues	<u>\$ 1,086,485</u>	<u>\$ 1,086,485</u>	<u>\$ 930,460</u>	<u>\$ (156,025)</u>
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	<u>\$ 1,855,610</u>	<u>\$ 1,855,610</u>	<u>\$ 1,543,078</u>	<u>\$ 312,532</u>
Courthouse Maintenance Fund				
Revenues				
Charges for services:				
Courthouse maintenance fees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,362</u>	<u>\$ 46,362</u>
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 789,000	\$ 1,195,101	\$ 315,900	\$ (879,201)
Fines and forfeitures	\$ 25,000	\$ 25,000	\$ 34,998	\$ 9,998
Revenue from use of money and property:				
Use of money	\$ 50,000	\$ 50,000	\$ 27,901	\$ (22,099)
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	\$ 910,955	\$ 1,365,856	\$ 323,804	\$ (1,042,052)
Revenue from the Federal Government:				
Categorical aid:				
VDOT grants	\$ 75,000	\$ 1,852,761	\$ 484,074	\$ (1,368,687)
Traffic signal improvement grants	-	442,672	277,117	(165,555)
Total revenue from the Federal Government	<u>\$ 75,000</u>	<u>\$ 2,295,433</u>	<u>\$ 761,191</u>	<u>\$ (1,534,242)</u>
Total revenues	<u>\$ 1,849,955</u>	<u>\$ 4,931,390</u>	<u>\$ 1,463,794</u>	<u>\$ (3,467,596)</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Works Construction Fund: (continued)				
Expenditures				
Capital projects:				
Annual pavement rehabilitation	\$ 800,000	\$ 800,000	\$ 862,013	\$ (62,013)
Culvert repair	-	119,285	92,207	27,078
Salt storage facility	-	484,763	5,449	479,314
Littlepage Street reconstruction	-	200,000	-	200,000
Sophia & William Street intersection	-	312,651	182,168	130,483
Traffic signal improvement - pedestrian sign	100,000	97,600	1,238	96,362
Riverfront Park	200,000	200,000	5,813	194,187
Route 1 traffic signal grant	-	288,780	89,170	199,610
Route 3 traffic signal grant	-	153,892	247,879	(93,987)
Layfayette at Kenmore roundabout	75,000	75,000	-	75,000
Bridge repair - Hazel Run	-	231,800	115,900	115,900
Fall Hill Avenue bridge over I-95	-	1,465,110	374,731	1,090,379
Fall Hill Avenue canal bridge	2,100,000	2,480,402	221,557	2,258,845
	<u>\$ 3,275,000</u>	<u>\$ 6,909,283</u>	<u>\$ 2,198,125</u>	<u>\$ 4,711,158</u>
Public Facilities Construction Fund				
Revenues				
Other local taxes:				
Gasoline tax	\$ -	\$ 139,197	\$ 47,197	\$ (92,000)
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 27,313	\$ 27,313
Use of property	-	-	80,413	80,413
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,726</u>	<u>\$ 107,726</u>
Recovered costs	\$ -	\$ -	\$ 23,800	\$ 23,800
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT CMAQ grant	\$ -	\$ -	\$ 59,075	\$ 59,075
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	\$ 1,650,000	\$ 2,726,321	\$ 1,402,456	\$ (1,323,865)
	<u>\$ 1,650,000</u>	<u>\$ 2,865,518</u>	<u>\$ 1,640,254</u>	<u>\$ (1,225,264)</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Construction Fund: (continued)				
Expenditures				
Capital projects:				
General parks maintenance improvements	\$ 75,000	\$ 75,000	\$ 63,172	\$ 11,828
Roof replacements	50,000	50,000	39,580	10,420
Computer equipment replacement	268,000	387,522	332,431	55,091
Court security project	-	-	24,720	(24,720)
Public facilities general improvements	125,000	125,000	71,829	53,171
Energy retrofits	120,000	120,000	59,356	60,644
Playground equipment replacement	-	23,987	11,500	12,487
Pathways - VCR Trail	-	1,650,000	311,313	1,338,687
Rappahannock River Heritage Trail	1,650,000	1,394,857	1,578,639	(183,782)
Fredericksburg Area Museum	100,000	100,000	100,000	-
Volunteer rescue squad interior renovations	-	-	6,498	(6,498)
Moss free clinic	42,000	42,000	-	42,000
Total capital projects	<u>\$ 2,430,000</u>	<u>\$ 3,968,366</u>	<u>\$ 2,599,038</u>	<u>\$ 1,369,328</u>
Public Safety Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 27,312	\$ 27,312
Intergovernmental:				
Revenue from the Commonwealth:				
Public safety grant	-	-	118,400	118,400
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,712</u>	<u>\$ 145,712</u>
Expenditures				
Capital projects:				
Emergency medical vehicles	\$ 200,000	\$ 200,000	\$ 242,063	\$ (42,063)
Debt Service Funds				
General Obligation Bond Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 3,067,315</u>	<u>\$ 3,067,315</u>	<u>\$ 3,085,021</u>	<u>\$ (17,706)</u>
Education Debt Service Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
VPSA interest credit	\$ -	\$ -	\$ 853,204	\$ 853,204
Expenditures				
Principal and interest	<u>\$ 3,433,095</u>	<u>\$ 3,433,095</u>	<u>\$ 3,480,449</u>	<u>\$ (47,354)</u>

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

Component Unit School Board
 Combining Balance Sheet
 At June 30, 2013

	<u>School Operating Fund</u>	<u>Special School Fund</u>	<u>School Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 4,972,815	\$ -	\$ 2,337,560	\$ 7,310,375
Accrued revenue	3,341	14,593	-	17,934
Due from other governments	528,243	1,649,797	-	2,178,040
Prepaid items	197,878	-	-	197,878
Restricted:				
Temporarily restricted:				
Cash in custody of others	-	-	1,893,065	1,893,065
Total assets	<u>\$ 5,702,277</u>	<u>\$ 1,664,390</u>	<u>\$ 4,230,625</u>	<u>\$ 11,597,292</u>
Liabilities:				
Reconciled overdraft	\$ -	\$ 128,945	\$ -	\$ 128,945
Accounts payable	369,240	179,565	428,709	977,514
Accrued liabilities	2,846,456	420,402	-	3,266,858
Total liabilities	<u>\$ 3,215,696</u>	<u>\$ 728,912</u>	<u>\$ 428,709</u>	<u>\$ 4,373,317</u>
Fund Balances:				
Nonspendable:				
Prepaid items	\$ 197,878	\$ -	\$ -	\$ 197,878
Restricted:				
Capital projects	-	-	1,525,035	1,525,035
Committed:				
Grant related expenditures	-	935,478	-	935,478
Capital projects	184,937	-	2,240,380	2,425,317
Assigned:				
Capital projects	-	-	36,501	36,501
Unassigned	2,103,766	-	-	2,103,766
Total fund balances	<u>\$ 2,486,581</u>	<u>\$ 935,478</u>	<u>\$ 3,801,916</u>	<u>\$ 7,223,975</u>
Total liabilities and fund balances	<u>\$ 5,702,277</u>	<u>\$ 1,664,390</u>	<u>\$ 4,230,625</u>	<u>\$ 11,597,292</u>

Component Unit School Board
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 At June 30, 2013

Total fund balances for governmental funds (Exhibit 26) \$ 7,223,975

Total net position reported for governmental activities in the statement of net position is different because:

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

Land	\$ 472,679	
Construction in progress	2,507,177	
Land improvements, net of accumulated depreciation	55,680	
Buildings and improvements, net of accumulated depreciation	14,653,915	
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,726,063</u>	
 Total capital assets		 19,415,514

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

Capital lease	(3,800,000)
Net OPEB obligation not reported as fund liabilities	(1,220,718)
Compensated absences not reported as fund liabilities	<u>(1,062,167)</u>
 Total net position of governmental activities (Exhibits 1 and 12)	 \$ <u><u>20,556,604</u></u>

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Use of money and property	\$ -	\$ -	\$ 612	\$ 612
Charges for services	254,045	408,313	-	662,358
Miscellaneous	237,618	182,940	-	420,558
Recovered costs	-	113,333	-	113,333
Intergovernmental:				
Appropriation from primary government	25,058,100	-	1,600,000	26,658,100
Revenue from the Commonwealth	10,228,587	611,553	-	10,840,140
Revenue from the Federal Government	-	4,277,522	-	4,277,522
Total revenues	\$ 35,778,350	\$ 5,593,661	\$ 1,600,612	\$ 42,972,623
Expenditures				
Current:				
Education:				
Instruction	\$ 26,035,055	\$ 3,666,274	\$ -	\$ 29,701,329
Administration, attendance and health	2,452,785	-	-	2,452,785
Transportation	1,508,072	-	-	1,508,072
Facilities operations	3,893,586	-	-	3,893,586
Technology	1,049,895	-	-	1,049,895
School food service operations	90,700	1,651,856	-	1,742,556
Capital projects	-	-	3,137,900	3,137,900
Total expenditures	\$ 35,030,093	\$ 5,318,130	\$ 3,137,900	\$ 43,486,123
Excess (deficiency) of revenues over (under) expenditures	\$ 748,257	\$ 275,531	\$ (1,537,288)	\$ (513,500)
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ 784,937	\$ 784,937
Transfers out	(784,937)	-	-	(784,937)
Issuance of capital lease	-	-	3,800,000	3,800,000
Total other financing sources (uses)	\$ (784,937)	\$ -	\$ 4,584,937	\$ 3,800,000
Net change in fund balance	\$ (36,680)	\$ 275,531	\$ 3,047,649	\$ 3,286,500
Fund balances, beginning of year	2,523,261	659,947	754,267	3,937,475
Fund balances, end of year	\$ 2,486,581	\$ 935,478	\$ 3,801,916	\$ 7,223,975

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, 2013

Net change in fund balances - total governmental funds (Exhibit 28)	\$ 3,286,500
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,211,869
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Transfer of joint tenancy assets from Primary Government to the Component Unit School Board	1,002,260
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Issuance of capital lease	(3,800,000)
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:

Net OPEB obligation	(154,980)
Compensated absences	<u>(22,431)</u>
Change in net position of governmental activities (Exhibit 12)	<u>\$ 2,523,218</u>

Component Unit School Board
 School Operating Fund
 Revenues and Expenditures Budgetary Comparison Schedule
 Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Charges for services:				
Charges for education	\$ 245,650	\$ 245,650	\$ 254,045	\$ 8,395
Miscellaneous	\$ 57,750	\$ 57,750	\$ 237,618	\$ 179,868
Intergovernmental:				
Appropriation from primary government	\$ 25,058,099	\$ 25,058,099	\$ 25,058,100	\$ 1
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 2,756,514	\$ 2,756,514	\$ 2,813,018	\$ 56,504
Basic aid	4,519,825	4,519,825	4,545,320	25,495
Other	2,930,663	2,930,663	2,870,249	(60,414)
Total revenue from the Commonwealth	\$ 10,207,002	\$ 10,207,002	\$ 10,228,587	\$ 21,585
Total revenues	\$ 35,571,501	\$ 35,571,501	\$ 35,778,350	\$ 206,849
Expenditures				
Current:				
Education:				
Instruction	\$ 26,358,350	\$ 27,554,350	\$ 26,035,055	\$ 1,519,295
Administration, attendance and health	2,656,817	2,656,817	2,452,785	204,032
Transportation	1,411,184	1,435,184	1,508,072	(72,888)
School food service operations	100,000	100,000	90,700	9,300
Facilities operations	4,175,602	4,248,102	3,893,586	354,516
Technology	969,548	1,095,809	1,049,895	45,914
Total expenditures	\$ 35,671,501	\$ 37,090,262	\$ 35,030,093	\$ 2,060,169
Excess (deficiency) of revenues over (under) expenditures	\$ (100,000)	\$ (1,518,761)	\$ 748,257	\$ 2,267,018
Other financing sources (uses)				
Transfers out	\$ -	\$ (784,937)	\$ (784,937)	\$ -
Net change in fund balance	\$ (100,000)	\$ (2,303,698)	\$ (36,680)	\$ 2,267,018
Fund balance, beginning of year	100,000	2,303,698	2,523,261	219,563
Fund balance, end of year	\$ -	\$ -	\$ 2,486,581	\$ 2,486,581

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	\$ 398,000	\$ 398,000	\$ 408,313	\$ 10,313
Miscellaneous	\$ 250	\$ 75,250	\$ 182,940	\$ 107,690
Recovered costs:				
Education	\$ 145,250	\$ 145,250	\$ 113,333	\$ (31,917)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 20,600	\$ 20,600	\$ 27,972	\$ 7,372
VPSA technology grant	154,000	308,000	345,818	37,818
CDC and detention center	85,000	85,000	82,661	(2,339)
Preschool initiative grant	201,000	201,000	108,000	(93,000)
Other	26,000	26,000	47,102	21,102
Total revenue from the Commonwealth	\$ 486,600	\$ 640,600	\$ 611,553	\$ (29,047)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 917,772	\$ 959,387	\$ 987,203	\$ 27,816
School food	805,000	905,000	1,036,322	131,322
Head Start	940,757	940,757	1,246,321	305,564
Special education IDEA	525,000	600,000	584,109	(15,891)
Other	380,000	399,049	423,567	24,518
Total revenue from the Federal Government	\$ 3,568,529	\$ 3,804,193	\$ 4,277,522	\$ 473,329
Total revenues	\$ 4,598,629	\$ 5,063,293	\$ 5,593,661	\$ 530,368
Expenditures				
Current:				
Education:				
Instruction	\$ 3,295,029	\$ 3,859,693	\$ 3,666,274	\$ 193,419
School food service operations	1,303,600	1,553,600	1,651,856	(98,256)
Total expenditures	\$ 4,598,629	\$ 5,413,293	\$ 5,318,130	\$ 95,163
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (350,000)	\$ 275,531	\$ 625,531
Net change in fund balance	\$ -	\$ (350,000)	\$ 275,531	\$ 625,531
Fund balance, beginning of year	-	350,000	659,947	309,947
Fund balance, end of year	\$ -	\$ -	\$ 935,478	\$ 935,478

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, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Capital Projects Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 612	\$ 612
Intergovernmental:				
Appropriation from primary government	\$ 200,000	\$ 1,600,000	\$ 1,600,000	\$ -
Total revenues	<u>\$ 200,000</u>	<u>\$ 1,600,000</u>	<u>\$ 1,600,612</u>	<u>\$ 612</u>
Expenditures				
Capital projects:				
School buses	\$ -	\$ 184,937	\$ 183,915	\$ 1,022
School computer technology	200,000	275,000	249,839	25,161
Hugh Mercer improvements	75,000	2,570,000	269,674	2,300,326
Walker Grant improvements	100,000	100,000	-	100,000
Maintenance equipment	50,000	44,585	42,455	2,130
Energy efficiency improvements	-	-	2,275,577	(2,275,577)
Other	50,000	139,682	116,440	23,242
Total capital projects	<u>\$ 475,000</u>	<u>\$ 3,314,204</u>	<u>\$ 3,137,900</u>	<u>\$ 176,304</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (275,000)</u>	<u>\$ (1,714,204)</u>	<u>\$ (1,537,288)</u>	<u>\$ 176,916</u>
Other financing sources (uses)				
Transfers in	\$ -	\$ 784,937	\$ 784,937	\$ -
Issuance of capital lease	-	-	3,800,000	3,800,000
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 784,937</u>	<u>\$ 4,584,937</u>	<u>\$ 3,800,000</u>
Net change in fund balance	<u>\$ (275,000)</u>	<u>\$ (929,267)</u>	<u>\$ 3,047,649</u>	<u>\$ 3,976,916</u>
Fund balance, beginning of year	<u>275,000</u>	<u>929,267</u>	<u>754,267</u>	<u>(175,000)</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,801,916</u></u>	<u><u>\$ 3,801,916</u></u>

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

Statistical Section

<u>Contents</u>	<u>Tables</u>
Financial Trends These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.	1 - 5
Revenue Capacity These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	6 - 9
Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.	10 - 13
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	14, 15
Operating Information These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	16 - 18

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

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities:										
Net investment in capital assets	\$ 18,210,496	\$ 27,167,134	\$ 68,520,864	\$ 80,789,888	\$ 81,234,288	\$ 80,177,661	\$ 81,665,145	\$ 80,513,796	\$ 80,274,520	\$ 81,353,678
Unrestricted	29,766,767	59,025,733	42,907,819	31,075,783	28,429,225	24,379,848	22,042,434	23,055,185	27,061,221	31,143,089
Total governmental activities net position	\$ 47,977,263	\$ 86,192,867	\$ 111,428,683	\$ 111,865,671	\$ 109,663,513	\$ 104,557,509	\$ 103,707,579	\$ 103,568,981	\$ 107,335,741	\$ 112,496,767
Business-type activities:										
Net investment in capital assets	\$ 21,954,260	\$ 28,763,172	\$ 27,183,315	\$ 32,215,508	\$ 29,319,742	\$ 38,744,975	\$ 39,780,366	\$ 39,550,414	\$ 40,307,710	\$ 44,809,475
Unrestricted	12,692,077	11,123,212	17,550,170	15,618,080	21,584,625	12,503,966	13,022,965	16,473,376	17,161,279	16,705,512
Total business-type activities net position	\$ 34,646,337	\$ 39,886,384	\$ 44,733,485	\$ 47,833,588	\$ 50,904,367	\$ 51,248,941	\$ 52,803,331	\$ 56,023,790	\$ 57,468,989	\$ 61,514,987
Primary government:										
Net investment in capital assets	\$ 40,164,756	\$ 55,930,306	\$ 95,704,179	\$ 113,005,396	\$ 110,554,030	\$ 118,922,636	\$ 121,445,511	\$ 120,064,210	\$ 120,582,230	\$ 126,163,153
Unrestricted	42,458,844	70,148,945	60,457,989	46,693,863	50,013,850	36,883,814	35,065,399	39,528,561	44,222,500	47,848,601
Total primary government net position	\$ 82,623,600	\$ 126,079,251	\$ 156,162,168	\$ 159,699,259	\$ 160,567,880	\$ 155,806,450	\$ 156,510,910	\$ 159,592,771	\$ 164,804,730	\$ 174,011,754

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

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 3,836,089	\$ 4,105,737	\$ 3,688,618	\$ 5,546,499	\$ 5,254,913	\$ 5,760,023	\$ 5,171,028	\$ 5,407,587	\$ 5,833,003	\$ 6,889,501
Judicial administration	2,155,331	2,434,259	2,853,064	3,131,169	3,559,936	3,701,857	3,854,380	3,609,180	3,879,790	4,341,611
Public safety	13,448,595	14,424,379	15,922,143	18,155,708	19,073,783	20,056,605	20,200,427	19,937,181	19,316,975	19,579,277
Public works	5,342,332	6,689,270	8,278,001	9,099,097	9,882,486	10,194,381	10,964,359	10,707,212	10,898,437	11,584,108
Health and welfare	5,098,576	5,357,236	6,130,391	6,745,573	6,465,395	6,661,643	6,721,050	6,797,908	6,790,459	6,426,311
Education	14,232,858	15,942,171	18,961,723	24,108,406	28,328,165	27,341,339	26,228,250	26,383,137	27,249,752	28,633,110
Parks, recreation and cultural	3,302,359	3,648,639	4,029,638	4,485,451	4,588,059	4,400,464	3,936,068	4,031,435	4,340,912	4,554,212
Community development	1,914,617	1,972,940	2,186,347	2,619,455	2,344,557	1,965,407	1,819,607	1,930,369	2,154,832	2,165,794
Interest on long-term debt	1,180,917	2,951,161	3,110,420	2,991,013	2,948,621	2,859,774	2,674,176	2,542,424	3,186,127	3,485,231
Total governmental activities expenses	\$ 50,511,674	\$ 57,525,792	\$ 65,160,345	\$ 76,882,371	\$ 82,445,915	\$ 82,941,493	\$ 81,569,345	\$ 81,346,433	\$ 83,650,287	\$ 87,659,155
Business-type activities:										
Water	\$ 1,691,301	\$ 2,561,096	\$ 2,381,713	\$ 2,873,240	\$ 3,148,696	\$ 2,748,400	\$ 2,882,295	\$ 2,523,517	\$ 2,884,071	\$ 2,999,771
Sewer	2,566,538	2,708,274	3,077,612	3,538,756	4,172,099	4,476,638	4,156,245	4,975,289	5,256,052	4,875,587
Transit	1,156,280	1,464,268	2,124,171	2,491,330	3,345,639	3,893,458	3,600,428	3,887,158	4,097,929	4,157,157
Parking	-	19,575	297,067	441,343	495,917	493,920	528,819	460,950	476,315	456,999
Total business-type activities expenses	\$ 5,414,119	\$ 6,753,213	\$ 7,880,563	\$ 9,344,669	\$ 11,162,351	\$ 11,612,416	\$ 11,167,787	\$ 11,846,914	\$ 12,714,367	\$ 12,489,514
Total primary government expenses	\$ 55,925,793	\$ 64,279,005	\$ 73,040,908	\$ 86,227,040	\$ 93,608,266	\$ 94,553,909	\$ 92,737,132	\$ 93,193,347	\$ 96,364,654	\$ 100,148,669

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 35,159	\$ 36,160	\$ 41,889	\$ 49,059	\$ 50,515	\$ 93,045	\$ 79,215	\$ 85,191	\$ 82,624	\$ 94,773
Judicial administration	65,162	66,795	230,864	122,520	112,162	106,210	196,474	219,127	214,894	209,917
Public safety	1,001,944	1,438,302	363,782	1,036,746	1,361,978	1,834,819	1,848,719	2,111,221	1,943,884	2,042,868
Public works	598,371	598,081	1,695,616	698,875	689,151	727,253	725,710	733,070	743,145	757,997
Parks, recreation and cultural	592,019	562,119	579,514	637,446	550,465	518,630	469,802	487,368	459,848	440,392
Community development	2,478	1,675	15,185	2,795	2,470	1,685	691	476	145	274
Operating grants and contributions	8,034,289	8,113,818	8,625,114	9,343,428	10,656,874	10,522,749	10,073,459	10,159,077	11,758,221	9,685,095
Capital grants and contributions	229,535	-	-	766,972	453,402	202,849	1,750,758	841,870	1,725,467	2,967,105
Total governmental activities program revenues	\$ 10,558,957	\$ 10,816,950	\$ 11,551,964	\$ 12,657,841	\$ 13,877,017	\$ 14,007,240	\$ 15,144,828	\$ 14,637,400	\$ 16,928,228	\$ 16,198,421
Business-type activities:										
Charges for services:										
Water	\$ 1,870,329	\$ 1,938,886	\$ 2,056,764	\$ 2,067,579	\$ 2,150,126	\$ 2,180,347	\$ 2,261,200	\$ 2,344,438	\$ 2,448,425	\$ 2,689,470
Sewer	3,101,699	3,103,723	3,073,788	3,168,327	3,264,915	3,457,792	3,742,221	3,821,281	4,013,111	4,526,072
Transit	32,157	45,830	50,416	54,952	116,661	159,741	271,610	274,395	368,072	344,624
Parking	-	-	28,563	83,520	106,916	130,281	192,461	238,240	261,991	304,003
Operating grants and contributions	2,695,011	4,350,268	5,887,681	4,427,535	4,560,490	4,342,760	5,270,270	6,621,263	5,493,221	3,521,961
Capital grants and contributions	22,289	2,328,265	739,857	2,391,013	2,301,859	566,957	931,897	870,726	763,564	4,397,886
Total business-type activities program revenues	\$ 7,721,485	\$ 11,766,972	\$ 11,837,069	\$ 12,192,926	\$ 12,500,967	\$ 10,837,878	\$ 12,669,659	\$ 14,170,343	\$ 13,348,384	\$ 15,784,016
Total primary government program revenues	\$ 18,280,442	\$ 22,583,922	\$ 23,389,033	\$ 24,850,767	\$ 26,377,984	\$ 24,845,118	\$ 27,814,487	\$ 28,807,743	\$ 30,276,612	\$ 31,982,437
Net (expense) / revenue										
Governmental activities	\$ (39,952,717)	\$ (46,708,842)	\$ (53,608,381)	\$ (64,224,530)	\$ (68,568,898)	\$ (68,934,253)	\$ (66,424,517)	\$ (66,709,033)	\$ (66,722,059)	\$ (71,460,734)
Business-type activities	2,307,366	5,013,759	3,956,506	2,848,257	1,338,616	(774,538)	1,501,872	2,323,429	634,017	3,294,502
Total primary government net expense	\$ (37,645,351)	\$ (41,695,083)	\$ (49,651,875)	\$ (61,376,273)	\$ (67,230,282)	\$ (69,708,791)	\$ (64,922,645)	\$ (64,385,604)	\$ (66,088,042)	\$ (68,166,232)

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	\$ 21,998,946	\$ 22,552,006	\$ 24,818,965	\$ 27,037,526	\$ 27,791,803	\$ 29,632,428	\$ 29,951,918	\$ 31,254,682	\$ 33,896,976	\$ 34,601,092
Local sales and use taxes	11,537,324	11,994,065	12,856,512	12,892,369	12,746,040	11,929,648	10,043,091	10,191,895	10,311,633	10,840,598
Consumer utility taxes	2,780,470	2,882,555	2,910,053	2,036,988	1,527,028	1,517,109	1,677,699	1,644,628	1,831,083	1,795,046
Business license taxes	4,536,150	4,974,756	5,893,564	5,777,346	5,436,366	5,847,174	5,893,072	5,538,312	5,735,557	5,994,920
Hotel/Lodging taxes	605,936	718,473	808,010	860,935	918,952	1,050,586	1,084,542	1,175,244	1,182,500	1,204,855
Meals taxes	5,395,346	5,987,400	6,402,076	6,418,546	7,042,409	7,080,021	8,132,542	8,842,347	9,373,302	9,657,796
Other local taxes	2,190,977	2,890,578	3,126,960	3,408,233	3,406,556	2,707,109	3,147,579	2,892,598	2,877,503	2,914,744
Unrestricted grants and contributions	1,799,222	1,989,643	2,145,364	1,992,420	2,027,309	1,967,696	3,810,995	3,909,817	3,741,002	4,696,323
Unrestricted revenues from use of money and property	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295
Gain / (loss) on disposal of assets	-	-	-	298,472	1,073,425	(846,807)	-	-	-	-
Miscellaneous	434,025	431,637	18,207,446	683,108	1,837,386	733,896	391,890	294,113	512,888	243,201
Transfers	-	-	-	764,695	834,798	856,580	904,224	385,020	600,000	620,436
Total governmental activities	\$ 51,853,847	\$ 56,601,992	\$ 79,174,644	\$ 64,661,518	\$ 66,366,740	\$ 63,828,249	\$ 65,574,587	\$ 66,570,435	\$ 70,488,819	\$ 72,917,306
Business-type activities:										
Taxes:										
Other local taxes	\$ -	\$ -	\$ -	\$ 393,707	\$ 536,846	\$ 1,355,225	\$ 321,058	\$ 765,756	\$ 726,653	\$ 897,209
Unrestricted revenues from use of money and property	20,731	31,997	315,856	418,168	448,499	275,621	123,522	71,152	85,668	31,694
Miscellaneous	231,467	169,744	244,292	204,666	1,581,616	344,846	512,162	445,142	598,861	443,029
Transfers	-	24,547	-	(764,695)	(834,798)	(856,580)	(904,224)	(385,020)	(600,000)	(620,436)
Total business-type activities	\$ 252,198	\$ 226,288	\$ 560,148	\$ 251,846	\$ 1,732,163	\$ 1,119,112	\$ 52,518	\$ 897,030	\$ 811,182	\$ 751,496
Total primary government	\$ 52,106,045	\$ 56,828,280	\$ 79,734,792	\$ 64,913,364	\$ 68,098,903	\$ 64,947,361	\$ 65,627,105	\$ 67,467,465	\$ 71,300,001	\$ 73,668,802
Change in Net Position										
Governmental activities	\$ 11,901,130	\$ 9,893,150	\$ 25,566,263	\$ 436,988	\$ (2,202,158)	\$ (5,106,004)	\$ (849,930)	\$ (138,598)	\$ 3,766,760	\$ 1,456,572
Business-type activities	2,559,564	5,240,047	4,516,654	3,100,103	3,070,779	344,574	1,554,390	3,220,459	1,445,199	4,045,998
Total primary government	\$ 14,460,694	\$ 15,133,197	\$ 30,082,917	\$ 3,537,091	\$ 868,621	\$ (4,761,430)	\$ 704,460	\$ 3,081,861	\$ 5,211,959	\$ 5,502,570

CITY OF FREDERICKSBURG, VIRGINIA

Table 3

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General fund										
Reserved	\$ 506,004	\$ 422,747	\$ 248,573	\$ 747,450	\$ 225,153	\$ 189,721	\$ 445,308	\$ -	\$ -	\$ -
Unreserved	22,354,035	26,847,192	23,232,843	20,924,343	17,975,842	15,924,951	17,272,991	-	-	-
Nonspendable	-	-	-	-	-	-	-	44,611	348,945	359,240
Committed	-	-	-	-	-	-	-	5,257,805	5,004,661	7,786,761
Assigned	-	-	-	-	-	-	-	373,829	292,876	858,372
Unassigned	-	-	-	-	-	-	-	13,662,911	20,225,801	18,571,037
Total general fund	\$ 22,860,039	\$ 27,269,939	\$ 23,481,416	\$ 21,671,793	\$ 18,200,995	\$ 16,114,672	\$ 17,718,299	\$ 19,339,156	\$ 25,872,283	\$ 27,575,410
All other governmental funds										
Reserved	\$ 283,399	\$ 2,551,352	\$ 421,979	\$ 500,819	\$ 870,711	\$ 1,232,229	\$ 250,474	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	3,186,317	3,392,644	3,634,866	3,606,488	2,730,594	3,255,921	3,346,494	-	-	-
Capital projects funds	53,849,607	30,128,715	19,040,047	9,716,246	11,504,973	9,629,901	7,938,299	-	-	-
Nonspendable, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	-	1,190
Restricted, reported in:										
Special revenue funds	-	-	-	-	-	-	-	193,070	243,980	290,342
Committed, reported in:										
Special revenue funds	-	-	-	-	-	-	-	2,480,555	1,821,770	1,487,032
Capital projects funds	-	-	-	-	-	-	-	1,981,075	31,832,728	24,819,754
Debt Service Funds	-	-	-	-	-	-	-	-	-	805,804
Assigned, reported in:										
Capital projects funds	-	-	-	-	-	-	-	7,653,041	8,261,194	9,501,088
Total all other governmental funds	\$ 57,319,323	\$ 36,072,711	\$ 23,096,892	\$ 13,823,553	\$ 15,106,278	\$ 14,118,051	\$ 11,535,267	\$ 12,307,741	\$ 42,159,672	\$ 36,905,210

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

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
General property taxes	\$ 22,038,643	\$ 22,575,809	\$ 24,052,400	\$ 27,608,258	\$ 27,840,128	\$ 29,410,334	\$ 29,903,318	\$ 31,240,415	\$ 33,961,795	\$ 34,698,020
Other local taxes	27,046,203	29,447,827	31,997,175	31,394,417	31,077,351	30,131,647	29,978,525	30,285,024	31,311,578	32,407,959
Permits, privilege fees and regulatory licenses	499,110	988,302	1,117,018	753,661	653,453	717,349	822,476	945,035	748,371	676,892
Fines and forfeitures	502,834	450,000	339,338	283,035	408,580	466,213	344,897	586,421	479,355	603,398
Revenue from use of money and property	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295
Charges for services	1,293,189	1,264,830	1,470,494	1,510,745	1,704,708	2,098,080	2,153,238	2,104,997	2,216,814	2,265,931
Miscellaneous	434,025	468,884	1,026,316	683,108	563,376	392,910	391,890	257,448	485,647	214,655
Recovered costs	1,589,560	1,425,432	1,180,093	1,917,637	1,694,312	1,364,758	1,256,605	1,004,106	1,491,448	1,087,070
Intergovernmental:										
Commonwealth	7,204,137	7,615,919	8,141,771	8,703,743	10,169,012	9,936,350	11,239,010	11,490,604	13,345,182	12,561,997
Federal	2,858,909	2,487,542	2,628,707	2,949,077	2,968,573	2,756,944	3,337,402	3,221,610	3,879,508	4,775,305
Total revenues	\$ 64,042,061	\$ 68,905,424	\$ 73,959,006	\$ 78,294,561	\$ 78,804,161	\$ 78,627,394	\$ 79,964,396	\$ 81,577,439	\$ 88,346,073	\$ 89,639,522
Expenditures										
General government administration	\$ 3,620,386	\$ 3,956,701	\$ 4,094,919	\$ 4,720,227	\$ 5,047,982	\$ 5,402,264	\$ 4,785,487	\$ 5,034,113	\$ 5,785,583	\$ 6,669,886
Judicial administration	2,260,530	2,494,022	2,946,064	3,233,832	3,575,964	3,324,483	3,326,241	3,347,017	3,707,295	3,872,721
Public safety	13,210,581	14,051,770	15,361,207	17,375,049	18,603,995	18,220,229	18,666,202	18,154,890	18,006,243	18,838,158
Public works	5,655,233	5,767,195	6,452,638	6,785,769	7,273,319	7,206,095	7,648,942	7,430,631	7,932,048	8,134,695
Health and welfare	5,491,600	5,814,011	6,245,485	7,119,818	6,859,859	6,976,070	7,004,337	7,136,173	7,181,433	6,692,144
Education	14,839,742	15,942,171	18,961,723	21,631,305	24,441,360	25,202,840	24,143,850	24,343,841	25,243,849	26,663,850
Parks, recreation and cultural	3,108,829	3,432,702	3,811,195	3,928,293	4,053,007	4,090,417	3,441,368	3,389,943	3,733,260	3,755,802
Community development	2,026,074	2,030,189	2,174,694	2,975,019	2,732,018	2,380,204	2,168,755	2,255,173	2,416,979	2,487,037
Capital projects	15,286,264	27,965,223	30,809,180	16,439,420	6,735,321	3,456,377	4,792,112	2,675,390	9,269,823	10,160,076
Debt service										
Principal	1,804,469	1,933,645	2,897,462	3,040,925	3,296,107	3,126,779	3,026,695	3,127,831	2,857,891	2,704,885
Interest and other fiscal charges	779,714	2,329,960	3,147,613	3,191,033	3,064,543	3,046,535	2,843,788	2,710,791	2,675,680	3,860,585
Total expenditures	\$ 68,083,422	\$ 85,717,589	\$ 96,902,180	\$ 90,440,690	\$ 85,683,475	\$ 82,432,293	\$ 81,847,777	\$ 79,605,793	\$ 88,810,084	\$ 93,839,839
Excess (deficiency) of revenues over expenditures	\$ (4,041,361)	\$ (16,812,165)	\$ (22,943,174)	\$ (12,146,129)	\$ (6,879,314)	\$ (3,804,899)	\$ (1,883,381)	\$ 1,971,646	\$ (464,011)	\$ (4,200,317)
Other financing sources (uses)										
Transfers in	\$ 2,869,218	\$ 210,862	\$ 228,217	\$ 764,695	\$ 834,798	\$ 10,133,320	\$ 9,732,457	\$ 11,913,628	\$ 9,615,156	\$ 10,600,181
Transfers out	-	(235,409)	(558,664)	-	-	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)	(9,979,745)
Refunding bonds issued	-	-	-	-	-	2,672,836	-	-	2,469,101	-
Bonds issued	48,095,000	-	6,509,279	-	2,462,150	-	-	-	33,860,000	-
Premium on bonds issued	1,906,469	-	-	-	64,015	-	-	-	1,760,063	-
Payments to refunded bond escrow agent	-	-	-	-	-	(2,650,207)	-	-	(2,592,336)	-
Long-term notes payable issued	-	-	-	-	-	-	-	-	725,000	-
Sale of capital assets	-	-	-	298,472	1,105,125	76,293	-	36,665	27,241	28,546
Total other financing sources (uses)	\$ 52,870,687	\$ (24,547)	\$ 6,178,832	\$ 1,063,167	\$ 4,466,088	\$ 955,502	\$ 904,224	\$ 421,685	\$ 36,849,069	\$ 648,982
Net change in fund balances	\$ 48,829,326	\$ (16,836,712)	\$ (16,764,342)	\$ (11,082,962)	\$ (2,413,226)	\$ (2,849,397)	\$ (979,157)	\$ 2,393,331	\$ 36,385,058	\$ (3,551,335)
Debt service as a percentage of noncapital expenditures	4.96%	7.44%	9.04%	8.19%	8.03%	7.84%	7.59%	7.53%	6.93%	7.86%

CITY OF FREDERICKSBURG, VIRGINIA

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	Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
2004	\$ 22,038,643	\$ 11,537,324	\$ 2,780,470	\$ 4,536,150	\$ 160,089	\$ 519,107	\$ 277,548	\$ 195,098	\$ 605,936	\$ 5,395,346	\$ 48,045,711	
2005	22,575,809	11,994,065	2,882,555	4,974,756	165,647	501,213	708,156	898,413	718,473	5,987,400	51,406,487	
2006	24,052,400	12,856,512	2,910,053	5,893,564	298,240	546,953	985,477	613,471	808,010	6,402,076	55,366,756	
2007	27,608,258	12,892,369	2,036,988	5,777,346	310,039	567,273	818,353	612,462	860,935	6,418,546	57,902,569	
2008	27,840,128	12,746,040	1,527,028	5,436,366	300,786	459,020	715,884	593,940	918,952	7,042,409	97,888,263	
2009	29,410,334	11,929,648	1,517,109	5,847,174	377,547	469,094	460,085	530,216	1,050,586	7,080,021	58,671,814	
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	758,805	406,123	503,322	1,084,542	8,132,542	75,939,346	
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	777,521	468,241	554,701	1,175,244	8,842,347	60,862,930	
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	696,511	402,018	578,303	1,182,500	9,373,302	64,494,095	
2013	34,698,020	10,840,598	1,795,046	5,994,920	450,126	657,687	408,981	442,569	1,204,855	9,657,796	66,150,598	

CITY OF FREDERICKSBURG, VIRGINIA

Table 6

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

Fiscal Year	Real Estate	Direct Tax		Personal Property	Direct Tax Rate	Machinery and Tools	Direct Tax Rate	Public Service	Service Charges	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual		Assessed Value as a Percentage of Actual Value
		Rate	Value									Value	Value	
2004	\$ 1,902,889,000	0.89	\$ 170,590,770	\$ 170,590,770	2.99	\$ 14,184,964	0.80	\$ 78,948,771	\$ 1,856,400	\$ 2,168,469,905	1.06	\$ 2,168,469,905	100.00%	
2005	1,931,966,200	0.89	182,889,067	182,889,067	2.99	12,921,115	0.80	81,650,555	1,856,400	2,211,283,337	1.07	2,211,283,337	100.00%	
2006	2,074,818,500	0.89	219,561,613	219,561,613	2.99	11,754,265	0.80	49,453,104	1,856,400	2,357,443,882	1.09	2,357,443,882	100.00%	
2007	2,241,072,600	0.89	238,522,432	238,522,432	2.99	10,016,867	0.80	41,254,287	1,856,400	2,532,722,586	1.09	2,532,722,586	100.00%	
2008	4,045,740,800	0.53	247,570,187	247,570,187	2.99	8,972,280	0.80	45,382,045	4,023,600	4,351,688,912	0.67	4,351,688,912	100.00%	
2009	4,106,387,300	0.56	244,149,967	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	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	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	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	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%	

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
2004	\$ 0.89	\$ 2.99	\$ 0.89	\$ 0.80	1.06
2005	0.89	2.99	0.89	0.80	1.07
2006	0.89	2.99	0.89	0.80	1.09
2007	0.89	2.99	0.89	0.80	1.09
2008	0.53	2.99	0.53	0.80	0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90
2013	0.74	3.40	0.74	0.80	0.94

(1) Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 8

Principal Property Taxpayers

Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2013			Fiscal Year 2004		
		Assessed Valuation	Rank	% of Total Assessed Valuation (1)	Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Fredericksburg 35 LLC	Central Park property	\$ 98,375,000	1	2.71 %	\$ 82,608,200	1	- %
Virginia Electric & Power Co.	Public utility	53,981,497	2	1.48	22,572,176	4	1.14
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	50,943,100	3	1.40	39,440,900	2	1.99
Home Properties Cobblestone LLC	New Home Sales	50,142,900	4	1.38	-	-	0.00
Central Park Marketplace Holdings LLC	Central Park property	37,749,500	5	1.04	-	-	-
Mid-America Apartments LP	Apartment complex	35,690,000	6	0.98	-	-	-
2520 Belmont Terrace Holdings	Apartment complex	32,848,600	7	0.90	-	-	-
Verizon Virginia, Inc.	Public utility	31,684,753	8	0.87	28,981,030	3	1.46
Wal-Mart Real Estate Business	Retail	25,256,100	9	0.69	-	-	-
Carl D. Silver Holdings, Co.	Various commercial	24,634,100	10	0.68	-	-	-
Riverside Manor	Apartment complex	-	-	-	17,288,600	5	0.87
Summit/Belmont, LP	Apartment complex	-	-	-	17,134,000	6	0.86
Town Center - Central Park	Restaurants, ice park, office building	-	-	-	16,310,100	7	0.82
CRIT VA II Inc	Apartment complex	-	-	-	15,889,500	8	0.80
Carl D. Silver, Co.	Hotels	-	-	-	15,002,700	9	0.76
Fredericksburg Park & Shop LP	Shopping center	-	-	-	14,417,200	10	0.73
Total		\$ 441,305,550		12.14 %	\$ 269,644,406		13.59 %

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)
2004	\$ 23,173,114	\$ 22,971,933	99.13%	\$ 187,724	\$ 23,159,657	99.94%
2005	24,116,517	23,928,589	99.22%	175,142	24,103,731	99.95%
2006	26,936,577	26,561,519	98.61%	354,292	26,915,811	99.92%
2007	28,552,323	28,097,519	98.41%	424,429	28,521,948	99.89%
2008	29,330,707	28,961,391	98.74%	309,099	29,270,490	99.79%
2009	30,902,557	30,222,352	97.80%	553,527	30,775,879	99.59%
2010	32,129,525	31,050,501	96.64%	943,738	31,994,239	99.58%
2011	33,269,826	32,103,892	96.50%	856,973	32,960,865	99.07%
2012	35,663,960	34,417,182	96.50%	461,903	34,879,085	97.80%
2013	36,540,252	35,453,742	97.03%	-	35,453,742	97.03%

(1) Exclusive of penalties and interest.

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Years	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General			General		Revenue				
	Obligation Bonds	Notes		Obligation Bonds	Notes	Bonds				
2004	66,660,291	-	-	4,134,709	-	-	8,946,141	79,741,141	11.58%	3,736
2005	66,551,078	-	-	3,778,501	4,035,000	-	8,133,591	82,498,170	11.05%	3,798
2006	70,032,833	-	-	7,670,963	-	-	7,293,180	84,996,976	10.63%	3,856
2007	66,873,708	-	-	7,226,888	-	-	6,423,952	80,524,548	9.31%	3,555
2008	65,988,291	-	-	15,160,159	-	-	5,524,919	86,673,369	9.75%	3,785
2009	62,766,729	-	-	14,445,225	-	-	4,595,059	81,807,013	9.17%	3,503
2010	59,625,306	-	-	20,068,845	-	-	3,633,315	83,327,466	8.73%	3,431
2011	56,386,080	-	-	19,035,185	-	-	2,638,594	78,059,859	7.43%	3,038
2012	88,917,128	725,000	-	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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 11

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

Fiscal Year	Gross Bonded Debt		Less: Amounts Reserved for Debt Service		Net Bonded Debt (1)		Ratio of Net General Obligation Debt to Assessed Value (2)		Net Bonded Debt per Capita (3)	
2004	70,795,000		-		70,795,000		3.26%		3,317	
2005	72,540,147		-		72,540,147		3.28%		3,339	
2006	76,000,147		-		76,000,147		3.22%		3,448	
2007	72,515,147		-		72,515,147		2.86%		3,201	
2008	79,400,147		-		79,400,147		1.82%		3,467	
2009	75,597,147		-		75,597,147		1.70%		3,237	
2010	78,024,146		-		78,024,146		2.02%		3,213	
2011	73,892,147		-		73,892,147		1.88%		2,876	
2012	104,475,147		-		104,475,147		2.59%		4,015	
2013	100,779,014		805,804		99,973,210		2.53%		3,661	

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

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

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

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$ 115,844,874	\$ 119,047,390	\$ 124,498,301	\$ 132,869,049	\$ 231,895,610	\$ 237,514,942	\$ 207,207,276	\$ 211,856,637	\$ 216,056,402	\$ 212,771,995
Total net debt applicable to limit	70,795,000	72,540,147	76,000,147	72,515,147	79,400,147	75,597,147	78,024,146	73,892,147	104,475,147	99,973,210
Legal debt margin	\$ 45,049,874	\$ 46,507,243	\$ 48,498,154	\$ 60,353,902	\$ 152,495,463	\$ 161,917,795	\$ 129,183,130	\$ 137,964,490	\$ 111,581,255	\$ 112,798,785
Total net debt applicable to the limit as a percentage of debt limit	61.11%	60.93%	61.05%	54.58%	34.24%	31.83%	37.66%	34.88%	48.36%	46.99%

Legal Debt Margin Calculation for Fiscal Year 2013

Assessed value	\$ 3,631,770,688
Add back: exempt real property	800,979,200
Total assessed value	\$ 4,432,749,888
Debt limit (4.8% of total assessed value)	\$ 212,771,995
Net debt applicable to limit	99,973,210
Legal debt margin	\$ 112,798,785

Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Bonds							
	Water & Sewer		Less:		Net Available Revenue	Debt Service		Coverage
	Charges and Other	Operating Expenses	Operating Expenses	Net Available Revenue		Principal	Interest	
2004	\$ 6,233,777	\$ 3,717,094	\$ 2,516,683	\$ 1,153,404	\$ 606,067	\$ 1.43		
2005	7,885,646	5,102,334	2,783,312	1,168,757	167,036	2.08		
2006	9,346,467	5,049,094	4,297,373	1,197,949	410,231	2.67		
2007	7,517,175	6,045,570	1,471,605	1,224,349	366,426	0.93		
2008	7,142,159	6,799,902	342,257	1,272,693	520,893	0.19		
2009	7,361,317	6,559,626	801,691	1,514,393	665,412	0.37		
2010	7,693,179	6,388,224	1,304,955	1,583,149	650,316	0.58		
2011	10,049,028	6,710,195	3,338,833	1,860,357	788,611	1.26		
2012	9,218,671	7,394,400	1,824,271	1,905,625	745,723	0.69		
2013	8,241,838	7,211,193	1,030,645	1,902,540	664,165	0.40		

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Per Capita		School Enrollment (3)	Unemployment Rate (4)
			Personal Income (2)	Income (2)		
2004	21,342	688,514,262	32,261	2,384	5.1%	
2005	21,724	746,914,568	34,382	2,418	4.8%	
2006	22,044	799,337,484	36,261	2,447	4.0%	
2007	22,651	865,154,945	38,195	2,511	4.1%	
2008	22,899	889,030,776	38,824	2,540	5.7%	
2009	23,353	892,131,306	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%	

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

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

(3) Source: Fredericksburg School Board office.

(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers
Current Year and the Period Nine Years Prior

Employer	Fiscal Year 2013			Fiscal Year 2004		
	Number of Employees (1)	Rank	Percentage of Total Employment	Number of Employees (2)	Rank	Rank
Mary Washington Healthcare	4,335	1	32.64%	1000 and Over	1	1
University of Mary Washington	840	2	6.33%	500 to 999	2	2
City of Fredericksburg School Board	675	3	5.08%	500 to 999	3	3
City of Fredericksburg	522	4	3.93%	500 to 999	4	4
Wal-Mart	521	5	3.92%	250 to 499	9	9
Wegmans	514	6	3.87%	-	-	-
Free Lance Star Publishing, Inc.	402	7	3.03%	250 to 499	5	5
Rappahannock Goodwill Industries	211	8	1.59%	-	-	-
Cracker Barrel	198	9	1.49%	-	-	-
OS Restaurant Services	197	10	1.48%	100 to 249	10	10
MSI Construction	-	-	-	250 to 499	6	6
VDOT	-	-	-	250 to 499	7	7
RACSB	-	-	-	250 to 499	8	8

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

(2) For fiscal year 2004 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA

Table 16

Full-time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government	37	37	37	41	43	40	38	41	41	43
Judicial administration	31	30	35	42	41	39	38	39	39	40
Public safety	163	162	169	166	162	162	164	162	166	162
Public works	70	73	69	87	86	81	75	73	74	73
Health and welfare	33	32	34	33	35	35	35	34	33	32
Parks and recreation	13	13	16	16	19	17	17	17	16	17
Community development	11	11	11	12	13	12	12	12	11	13
Water	4	4	7	9	9	10.5	10.5	10	10	9
Wastewater	15	16	16	18	21	18.5	16.5	19	19	17
Transit	5	5	6	11	12	13	13	13	13	14
Parking garage	-	-	-	1	1	1	1	1	1	1
Totals	382	383	400	436	442	429	420	421	423	421

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Public safety:											
Police department:											
Physical arrests	3,281	3,656	3,805	2,839	2,850	3,168	3,477	3,772	3,621	3,722	
Traffic violations	12,496	10,644	9,500	6,167	7,290	7,335	6,546	7,937	7,914	7,824	
Parking violations	11,791	10,431	10,449	10,055	10,671	8,397	7,467	7,223	6,965	6,528	
Sheriffs department:											
Civil papers	39,771	40,314	40,502	42,279	44,088	41,379	48,074	48,918	50,764	63,886	
Fire and rescue:											
Number of calls answered	4,794	5,159	5,450	5,728	6,145	5,885	5,882	5,825	5,471	5,407	
Inspections	1,432	1,434	1,542	1,651	2,030	1,478	1,624	1,596	1,548	1,650	
Building inspections:											
Permits issued	2,192	3,528	3,820	2,395	1,781	1,541	1,486	1,633	1,558	1,554	
Animal control:											
Number of calls answered	899	901	992	1,163	1,010	811	1,015	897	864	1,022	
Public works:											
Street maintenance:											
Asphalt usage for street repairs (tons)	315	518	483	483	311	277	327	517	400	309	
Waste removal:											
Refuse collected											
(thousands of pounds/day)	29.4	30.3	28.8	24.3	24.7	20.6	21.4	20.7	19.3	19.0	
Recycling collected:											
Leaves (cubic yards)	4,972	5,049	5,577	5,379	6,292	5,604	5,604	5,038	4,510	5,421	
General services:											
Buildings maintained											
(thousands of square feet)	375.5	375.5	486.6	572.1	496.9	501.9	500.5	500.5	480.5	462.3	
Culture and recreation:											
Parks and recreation:											
Number of programs	250	370	385	403	518	510	464	471	514	495	
Number of participants	12,650	14,260	15,300	17,055	20,964	18,563	16,193	19,082	20,425	19,525	
Community development:											
Planning:											
Zoning permits issued (1) (2)	391	327	309	289	237	291	260	283	390	338	

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Water:										
Number of connections	6,435	6,696	7,062	7,245	7,274	7,351	7,453	7,614	7,718	7,801
Average daily consumption (thousands of gallons)	2,362	2,394	2,718	2,529	2,639	2,492	2,334	2,557	2,584	2,649
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,739	2,389	2,181	2,454	2,700	2,794	3,210	2,700	3,010	2,493
Transit:										
Ridership per service area: (3)										
City of Fredericksburg	181,743	185,663	177,833	184,670	208,410	273,685	261,238	274,540	278,657	279,363
UMW - Eagle Express	17,697	18,667	15,996	17,723	16,444	15,014	12,030	15,323	12,284	13,685
Spotsylvania County	39,059	40,514	40,730	44,659	81,315	113,669	97,343	96,248	116,623	117,633
South Stafford County	21,678	25,043	30,900	34,808	32,112	39,234	40,830	45,288	44,341	68,614
North Stafford County	-	9,908	44,445	53,957	62,895	77,303	74,369	70,397	72,366	39,446
Caroline County	5,924	5,701	5,647	5,855	6,189	8,160	7,155	5,882	7,352	10,425
King George County	-	1,020	7,803	10,727	15,867	21,550	16,792	16,993	17,033	-
Component Unit - School Board:										
Education:										
Number of students	2,384	2,418	2,447	2,511	2,540	2,655	2,793	3,037	3,072	3,139
Number of teachers	239	238	248	251	256	257	256	258	258	264
Cost per pupil	\$ 11,429	\$ 11,867	\$ 13,131	\$ 13,403	\$ 14,416	\$ 13,911	\$ 13,276	\$ 11,882	\$ 12,546	\$ 13,129

Source: Individual city departments.

(1) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.
 (2) Data presented on a calendar year basis (FY2003 - FY2008).

(3) Transit indicators are presented from the first year of operation for each service area.
 In FY13, north and south Stafford transit routes have shifted due to new census data.
 In FY13, increase in civil papers served is due to increased jury summons for Circuit Court.
 1 cubic yard of leaves is the equivalent of 225 pounds.

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	22	22	25	30	35	33	31	31	31	35
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	6	6	7	7	7	8	8	9	10	11
Sheriffs department:										
Patrol units	13	15	16	18	14	15	15	15	15	16
Building inspections:										
Vehicles	4	4	5	7	7	7	7	7	7	7
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	21	22	22	22	22	22	21	20	20	25
Streets (moving lane miles)	172	174	183	189	189	189	189	189	189	189
Traffic signals	52	52	57	61	61	61	61	61	61	61
Waste removal:										
Trucks/vehicles	7	7	7	7	7	7	8	10	10	7
Building maintenance:										
Trucks/vehicles	7	8	10	9	10	8	10	10	10	10
Health and welfare:										
Department of Social Services:										
Vehicles	5	6	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	14	13	13	14	13	15	13	13	14	14
Parks	10	12	12	13	13	13	17	18	18	18
Park acreage	949	1,003	1,003	1,009	1,015	1,015	1,051	1,055	1,055	1,055
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	4	4	5	5	5	5	5	5	5	5
School buses	35	35	33	36	36	36	37	38	37	41

Source: Individual city departments.

**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 City of Fredericksburg, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Fredericksburg, Virginia's basic financial statements, and have issued our report thereon dated November 20, 2013.

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 20, 2013

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 City of Fredericksburg, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, 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, 2013.

Report on Internal Control Over Compliance

Management of 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 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Fredericksburg, Virginia
November 20, 2013

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government:			
Department of Agriculture:			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010112/0010113 0040112/0040113	\$ 376,233
Total Department of Agriculture			<u>\$ 376,233</u>
U.S. Election Assistance Commission:			
Pass-through Payments:			
State Board of Elections:			
Help America Vote Act Requirements Payments	90.401	72310-40030	\$ 3,600
Total U.S. Election Assistance Commission			<u>\$ 3,600</u>
Department of Housing and Urban Development:			
Direct Payments:			
Community Development Block Grant - Entitlement Grants	14.218	N/A	\$ 132,087
Total Department of Housing and Urban Development			<u>\$ 132,087</u>
Department of Justice:			
Direct Payments:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	\$ 83,452
Pass-through Payments:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	39001-41000/71000	\$ 125,142
Crime Victim Assistance	16.575	39001-56000/76000	45,595
Total Department of Justice			<u>\$ 254,189</u>
Department of Transportation:			
Direct Payments:			
Highway Planning and Construction	20.205	N/A	\$ 2,163,647
Pass-through Payments:			
Virginia Department of Rail and Public Transportation:			
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500	VA-90-X397-00/ VA-18-X033-00/	\$ 1,130,458
Federal Transit - Formula Grants	20.507	VA-95-X086-00/ VA-95-X042-00/ VA-90-X299-00/ VA-95-X021-00/ VA-95-X008-00	3,559,613
ARRA - Federal Transit Formula Grants	20.507	VA-96-X009-00	55,930
Total Federal Transit Cluster			<u>\$ 4,746,001</u>
Virginia Department of Motor Vehicles:			
State and Community Highway Safety	20.600	60507-53391	\$ 6,954
Alcohol Open Container Requirements	20.607	60507-52200	2,938
Total Department of Transportation			<u>\$ 6,919,540</u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2013 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government: (continued)			
Department of Health and Human Services:			
Pass-through Payments:			
Department of Social Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760112/0760113	\$ 33,741
Promoting Safe and Stable Families	93.556	0950112/0950113	6,876
Temporary Assistance for Needy Families	93.558	0400112/0400113	309,100
Refugee and Entrant Assistance State Administered Programs	93.566	0500112/0500113	5,210
Low-Income Home Energy Assistance	93.568	0600412/0600413	19,977
Chafee Education & Training Vouchers Program	93.599	9160112	4,126
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900112/0900113	1,256
Foster Care - Title IV-E	93.658	1100112/1100113	338,626
Adoption Assistance	93.659	1120112/1120113	268,807
Social Services Block Grant	93.667	1000112/1000113	258,343
Chafee Foster Care Independence Program	93.674	9150112/9150113	3,210
Children's Health Insurance Program	93.767	0540112/0540113	9,790
Medical Assistance Program	93.778	1200112/1200113	<u>229,423</u>
Total Department of Health and Human Services			<u>\$ 1,488,485</u>
Department of Homeland Security:			
Pass-through Payments:			
Department of Emergency Services:			
State Homeland Security Program	97.073	77501-52700	\$ 166,425
Emergency Management Performance Grants	97.042	77501-52741	<u>21,360</u>
Total Department of Homeland Security			<u>\$ 187,785</u>
Environmental Protection Agency:			
Direct Payments:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.618	N/A	<u>\$ 158,871</u>
Total Environmental Protection Agency			<u>\$ 158,871</u>
Department of Defense:			
Direct Payments:			
Payment in Lieu of Taxes	12.112	N/A	<u>\$ 516</u>
Total Department of Defense			<u>\$ 516</u>
Total Expenditures of Federal Awards - Primary Government			<u>\$ 9,521,306</u>
Component Unit - School Board:			
Department of Agriculture:			
Pass-through Payments:			
Virginia Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program (SL-4) (SL-11)	10.555	10.555/2012/2013	\$ 769,547
Food Distribution Service	10.555	10.555/2012/2013	<u>92,462</u>
Total 10.555			<u>\$ 862,009</u>
School Breakfast Program	10.553	10.553/2012/2013	<u>\$ 266,775</u>
Total Department of Agriculture			<u>\$ 1,128,784</u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2013 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Component Unit - School Board: (continued)			
Department of Health and Human Services:			
Direct Payments:			
Head Start	93.600	N/A	\$ <u>1,246,321</u>
Total Department of Health and Human Services			\$ <u>1,246,321</u>
Department of Education:			
Pass-through Payments:			
Virginia Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A110046/ S010A120046	\$ 1,016,229
Total Title I, Part A Cluster			<u>\$ 1,016,229</u>
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A120107	\$ 584,109
Special Education - Preschool Grants	84.173	H173A110112	18,174
Total Special Education Cluster (IDEA)			<u>\$ 602,283</u>
Education Technology State Grants	84.318	S318X100046	3,921
English Language Acquisition Grants	84.365	S365A100046 T365A110046	36,095
Career and Technical Education - Basic Grants to States	84.048	V048A110046 V048A120046	73,415
Improving Teacher Quality State Grants	84.367	S367A100044 S367A110044	170,474
Total Department of Education			<u>\$ 1,902,417</u>
Total Expenditures of Federal Awards - Component Unit School Board			<u>\$ 4,277,522</u>
Total Expenditures of Federal Awards - Reporting Entity			<u>\$ 13,798,828</u>
Loans and loan guarantees not included in the above as federal assistance:			
Environmental Protection Agency:			
Pass-through Payments:			
State Water Control Board:			
Capitalization Grants for Clean Water State Revolving Fund - balance of loan as of June 30, 2013	66.458	51503-90301	\$ <u>545,659</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

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, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net 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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note 3 - Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of \$29,510 were received on behalf of subrecipients for the CDBG - Entitlement Grants Cluster for the year ended June 30, 2013.

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	\$	35,505
Special Revenue Funds:		
Virginia Public Assistance Fund		1,747,130
Comprehensive Services Act Fund		86,199
State, Federal, and Local Grants Fund		742,824
Capital Projects Funds:		
Public Works Construction Fund		761,191
Public Facilities Construction Fund		1,402,456
Proprietary Funds:		
Transit Fund		4,746,001
Wastewater Fund		59,649
Total Primary Government	\$	<u>9,580,955</u>

Component Unit School Board:

School Grants Fund	\$	<u>4,277,522</u>
Total Component Unit School Board	\$	<u>4,277,522</u>

Less: Build America Bonds Interest Subsidy

	\$	<u>(59,649)</u>
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Total Federal Expenditures per the Schedule of Expenditures
of Federal Awards

	\$	<u><u>13,798,828</u></u>
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CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

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 Circular A-133, Section .510 (a)? No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.600	Head Start
20.500/20.507/20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$413,965

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2013

There were no prior year findings or questioned costs.