

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i-v
Organizational Chart	vii
Directory of Principal Officials	ix
GFOA Certificate of Achievement	xi
FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Assets	19
Exhibit 2 Statement of Activities	20-21
Fund Financial Statements:	
Exhibit 3 Balance Sheet—Governmental Funds	24
Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	25
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	26
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	27
Exhibit 7 Statement of Net Assets—Proprietary Funds	28
Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Assets—Proprietary Funds	29
Exhibit 9 Statement of Cash Flows—Proprietary Funds	30
Exhibit 10 Statement of Fiduciary Net Assets	31
Exhibit 11 Statement of Activities—Component Units	32-33
Notes to Financial Statements	35-70

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS: (CONTINUED)

	Page
FINANCIAL SECTION: (CONTINUED)	
<u>Required Supplementary Information:</u>	
Exhibit 12 Budgetary Comparison Schedule—General Fund	73-78
Exhibit 13 Virginia Retirement System—Schedule of Pension Funding Progress	79
<u>Other Supplementary Information:</u>	
Exhibit 14 Combining Balance Sheet—Nonmajor Governmental Funds	82
Exhibit 15 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds	83
Exhibit 16 Combining Balance Sheet—Nonmajor Special Revenue Funds	84-85
Exhibit 17 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds	86-87
Exhibit 18 Combining Balance Sheet—Nonmajor Capital Projects Funds	88
Exhibit 19 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Capital Projects Funds	89
Exhibit 20 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Debt Service Funds	90
Exhibit 21 Combining Statement of Fiduciary Net Assets	91
Exhibit 22 Statement of Changes in Assets and Liabilities—Agency Funds	92-93
Exhibit 23 Revenues and Expenditures Budgetary Comparison Schedule for Nonmajor and Other Funds with Legally Adopted Budgets	94-97
Exhibit 24 Component Unit School Board—Combining Balance Sheet	98
Exhibit 25 Component Unit School Board—Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	99
Exhibit 26 Component Unit School Board—Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	100
Exhibit 27 Component Unit School Board—Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	101
Exhibit 28 Component Unit School Board—School Operating Fund—Revenues and Expenditures Budgetary Comparison Schedule	102
Exhibit 29 Component Unit School Board—Special School Fund—Revenues and Expenditures Budgetary Comparison Schedule	103
Exhibit 30 Component Unit School Board—Special School Capital Projects Fund—Revenues and Expenditures Budgetary Comparison Schedule	104

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS: (CONTINUED)

STATISTICAL SECTION	<u>Page</u>
Table 1 Government-wide Expenses by Function	105
Table 2 Government-wide Revenues by Source	106
Table 3 Governmental Revenues by Source—Last Ten Fiscal Years	107
Table 4 Governmental Expenditures by Function—Last Ten Fiscal Years	108
Table 5 Property Tax Levies and Collections—Last Ten Fiscal Years	109
Table 6 Assessed Valuation of all Taxable Property—Last Ten Fiscal Years	110
Table 7 Assessed and Estimated Value of all Taxable Property—Last Ten Fiscal Years	111
Table 8 Property Tax Rates—Last Ten Fiscal Years	112
Table 9 Property Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita—Last Ten Fiscal Years	113
Table 10 Computation of Direct and Overlapping Debt	114
Table 11 Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures—Last Ten Fiscal Years	115
Table 12 Computation of Legal Debt Margin	116
Table 13 Revenue Bond Coverage—Water and Sewer Bonds—Last Ten Fiscal Years	117
Table 14 Demographic Statistics—Last Ten Fiscal Years	118
Table 15 Property Value, Construction and Bank Deposits—Last Ten Fiscal Years	119
Table 16 Principal Taxpayers	120
Table 17 Miscellaneous Statistics	121
 COMPLIANCE SECTION	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	123
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	125-126
Schedule of Expenditures of Federal Awards	127-128
Notes to Schedule of Expenditures of Federal Awards	129
Schedule of Findings and Questioned Costs	130
Schedule of Prior Year Findings and Questioned Costs	131

Phillip L. Rodenberg
City Manager

Beverly R. Cameron
Assistant City Manager



City of Fredericksburg
P.O. Box 7447
Fredericksburg, VA 22404-7447
Telephone: 540 372-1010
Fax: 540 372-1201

October 27, 2004

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, 2004.

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, 2004, 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, 2004, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements 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 within a 500-mile radius of nearly one-half the nation's population and manufacturing activity. The City currently has a land area of 10.4 square miles and serves a population of 20,189.

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. 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 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 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. Annual budgets, prepared for all governmental funds, is prepared by fund, function (e.g., public safety), 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, this comparison is presented in Exhibit 12. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in Exhibit 23.

Economic Condition and Outlook

The City currently enjoys a favorable economic environment and local indicators point to continued stability. Over the past several years the City has experienced major economic growth activity and community revitalization. Growth related revenues such as property taxes and sales taxes increased in proportion to the City's continuing strong commercial development. From the nearly two million square feet of commercial space newly constructed within the Central Park shopping center at the I-95/Route 3 Interchange, to the sensitive renovation and adaptive re-use of numerous existing downtown buildings, the City has attempted to improve its overall position as the hub of a fast-growing region.

The City's nationally recognized 40-block Historic District continues to be a major component of the local economy. The Historic "Old Town" District is filled with antique shops, a variety of charming restaurants, specialty retail shops and beautifully restored homes. Over 700,000 visitors flock to the City to enjoy its major historical attractions, unique shops, annual festivals and historic home tours. 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 positive outlook for the City's economy has provided a number of opportunities for improvements in the areas of education, recreation, cultural development, and infrastructure. A number of projects have already been initiated while several others are in various stages of planning and development.

Construction began on a new 800 student upper elementary school. The school is needed to alleviate the overcrowding throughout the school division and to allow for the reconfiguration of grade levels. The completion of this project is scheduled for the fall of 2005 at an estimated cost of \$14,330,000.

Construction also began on a new high school during fiscal year 2004. The high school will feature classroom accommodations for 1,000 students and core facilities for 1,200 students. This project is planned to be completed in the fall of 2006 at an estimated cost of \$36,830,000.

Work continued on the Dixon Street Athletic Complex during fiscal year 2004. The first phase of the project will include the construction of athletic fields, a comfort station, pathways, parking lots, a maintenance facility and a preserved wetlands area. The City has invested approximately \$3,135,000 in this project which is scheduled for completion during the 2005 fiscal year.

The Kenmore Watershed Drainage Improvements project continued during the 2004 fiscal year. This project involves increasing the capacity of lateral pipes along Kenmore Avenue, reducing flow restrictions of the flumes under Kenmore Avenue, and diverting overflow of

Gayles pond to the Rappahannock Canal. This project is scheduled to be completed during the 2005 fiscal year at an estimated cost of \$1,120,000.

The primary infrastructure project undertaken by the City, in conjunction with the Virginia Department of Transportation, is the construction of the Cowan Boulevard extension. Started during fiscal year 2002, this project is scheduled to be completed during the 2005 fiscal year. The City has invested \$4,225,000 towards the completion of this project. Upon completion, a segment of Cowan Boulevard will have been transformed into a four-lane divided highway which will provide additional entry points to both Central Park and Mary Washington Hospital while providing relief to the traffic congestion on the Route 3 corridor.

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 Industrial Development Authority maintains its own accounts which are separate from the City's pooled funds. Cash temporarily idled during the year was invested in the Commonwealth Cash Reserve Fund and the Arbitrage and Investment Management Fund. The yield on investments during the year ranged from .89 percent to 1.00 percent. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, 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.

Risk Management

The City participated in the Virginia Municipal Government Self Insurance Association. This organization is comprised of cities, counties and towns who have pooled their resources for worker's compensation coverage. The City purchases commercial insurance for all other known exposures generally associated with municipal government.

Pension and Other Post-Employment Benefits

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

The City also provides post-retirement health care insurance and group life insurance for employees who are eligible for retirement benefits. Currently, 73 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's and Component Unit School Board's pension arrangements and post-employment benefits can be found in Notes 11 and 20 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, 2003. This was the fourteenth 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 unflinching support for maintaining the highest standards of professionalism in the management of City finances.

In closing, without the support of the governing body of the City, preparation of this report would not have been possible.

Sincerely,



Phillip L. Rodenberg
City Manager

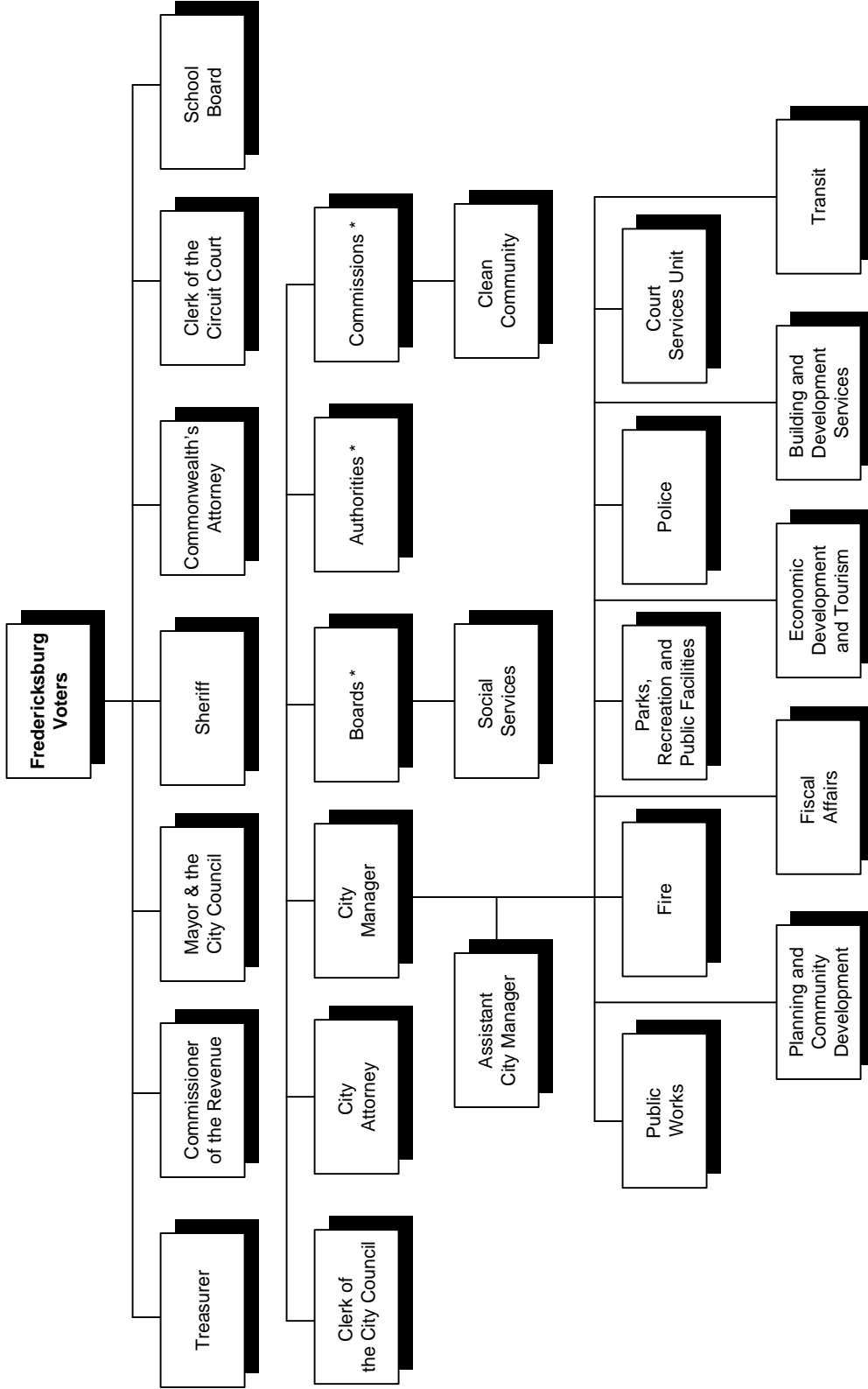


Clarence A. Robinson
Director of Fiscal Affairs

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



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

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

City Council

William M. Beck Mayor – At Large
W. Scott Howson, III Vice Mayor – At Large
Joseph R. Wilson At Large
Thomas P. Fortune Ward 1
William C. Withers, Jr. Ward 2
Matthew J. Kelly Ward 3
Hashmel C. Turner, Jr. Ward 4

Constitutional Officers

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

City Administrative Officers

Phillip L. Rodenberg City Manager
Beverly R. Cameron Assistant City Manager
James M. Pates City Attorney
Deborah H. Naggs Clerk of the City Council
Edwin L. Allen, Jr. Chief, Fire Department
James W. Powers Chief, Police Department
T. Michael Naggs Director, Building and Development Services
Clarence A. Robinson Director, Fiscal Affairs
David C. Holder Director, Economic Development and Tourism
Robert K. Antozzi Director, Parks, Recreation and Public Facilities
Raymond P. Ocel, Jr. Director, of Planning and Community Development
P. Douglas Fawcett Director, Public Works
Janine M. Sewell Director, Social Services
Juanita D. Pitchford General Registrar
Kathleen M. Beck Manager, Transit

School Board

Malvina R. Kay Chairperson – Ward 4
Janice R. Walsh Vice Chairperson – Ward 3
Anthony L. Bennett, Sr. At Large
Kerry D. John At Large
Patricia B. Green Ward 1
Barbara A. Miller-Richards Ward 2

School Board Administrative Officer

Dale E. Sander Superintendent

This page intentionally left blank

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, 2003

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



Nancy L. Ziehl

President

Jeffrey R. Emmer

Executive Director

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

THE HONORABLE MEMBERS OF THE CITY COUNCIL CITY OF FREDERICKSBURG, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information as listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fredericksburg, Virginia, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Fredericksburg, Virginia. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Turner, Cox Associates

Charlottesville, Virginia

October 27, 2004

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, 2004. 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-v of this report.

Financial Highlights

- Total net assets for governmental activities were \$47,977,263 at the end of fiscal year 2004. This figure is based on assets totaling \$127,020,903 and liabilities of \$79,043,640. Of the total net asset amount, \$20,545,434 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for business-type activities were \$34,646,337 at the end of fiscal year 2004. The largest portion of this total is related to the water and sewer enterprise operations, valued at \$32,082,222.
- Total net assets for the primary government totaled \$82,623,600. Current assets were \$100,590,206 as compared to total current liabilities of \$12,645,891. Of the resulting net working capital of \$87,944,315, \$44,906,085 relates to unexpended VPSA bond proceeds designated for the construction of two schools.
- Total net assets for the Component Unit School Board at the end of the fiscal year were \$9,833,117. Of this total, \$9,913,254 represents investment in capital assets, net of related debt.
- At the end of the fiscal year, the City's unreserved fund balance for the general fund was \$9,481,412, or 21.2 percent of total general fund expenditures.
- General fund revenues increased approximately 12.6 percent as compared to the preceding fiscal year. The greatest increase was attributable to increased local tax revenues due to continued commercial growth in the City.
- General Fund expenditures increased only 1.2 percent as compared to the preceding fiscal year. Excluding the school allocation, the increase in these expenditures was 4.2 percent, \$1,553,281 below the final budget.
- Governmental activities long-term debt increased by \$48,197,000. The balance at the end of the fiscal year was \$68,566,760. The increase in long-term debt is related to \$48,095,000 in general obligation school bonds issued to finance a new upper elementary school and a new high school.

Overview of the Financial Statements

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

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

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

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

Overview of the Financial Statements: (Continued)

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, and a Transit 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 Industrial 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 19-21 of this report.

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

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

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

The City maintains fifteen 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, the New Upper Elementary School Construction Fund, and the New High School Construction Fund, which are considered to be major funds. Data from the other twelve 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. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

Overview of the Financial Statements: (Continued)

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 and transit 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 and transit operations.

The basic proprietary fund financial statements can be found on pages 28-30 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 page 31 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 35-70 of this report.

Government-wide Financial Analysis

Statement of Net Assets:

Under GASB 34, governmental entities are required to report on their net asset condition. The Statement of Net Assets presents the value of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets exceeded liabilities by \$82,623,600 at the close of fiscal year 2004.

A large portion of the City's net assets 48.6 percent (\$40,164,756) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), 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 \$33,237,511 balance of *unrestricted net assets* may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net assets increased \$14,460,694 during the current fiscal year. Much of this growth is attributed to increases in ongoing revenues having exceeded similar increases in ongoing expenses.

Government-wide Financial Analysis: (Continued)

The following table presents the condensed Statement of Net Assets:

TABLE 1
Summary of Net Assets
As of June 30, 2004
(in millions)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Component Units (1)</u>	
	<u>FY 04</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03</u>
Assets:								
Current and other assets	\$ 87.06	\$ 35.34	\$ 13.53	\$ 15.47	\$ 100.59	\$ 50.81	\$ 7.04	\$ 7.15
Capital assets	<u>39.96</u>	<u>25.25</u>	<u>35.04</u>	<u>35.31</u>	<u>75.00</u>	<u>60.56</u>	<u>7.91</u>	<u>8.24</u>
Total assets	<u>\$ 127.02</u>	<u>\$ 60.59</u>	<u>\$ 48.57</u>	<u>\$ 50.78</u>	<u>\$ 175.59</u>	<u>\$ 111.37</u>	<u>\$ 14.95</u>	<u>\$ 15.39</u>
Liabilities:								
Current and other liabilities	\$ 10.67	\$ 7.84	\$ 1.98	\$ 2.71	\$ 12.65	\$ 10.55	\$ 3.82	\$ 3.37
Long-term liabilities	<u>68.37</u>	<u>19.54</u>	<u>11.94</u>	<u>13.11</u>	<u>80.31</u>	<u>32.65</u>	<u>0.32</u>	<u>-</u>
Total Liabilities	<u>\$ 79.04</u>	<u>\$ 27.38</u>	<u>\$ 13.92</u>	<u>\$ 15.82</u>	<u>\$ 92.96</u>	<u>\$ 43.20</u>	<u>\$ 4.14</u>	<u>\$ 3.37</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 18.21	\$ 4.88	\$ 21.96	\$ 21.81	\$ 40.17	\$ 26.69	\$ 7.91	\$ 8.24
Restricted	9.22	11.08	-	-	9.22	11.08	1.09	1.67
Unrestricted	<u>20.55</u>	<u>17.25</u>	<u>12.69</u>	<u>13.15</u>	<u>33.24</u>	<u>30.40</u>	<u>1.81</u>	<u>2.11</u>
Total net assets	<u>\$ 47.98</u>	<u>\$ 33.21</u>	<u>\$ 34.65</u>	<u>\$ 34.96</u>	<u>\$ 82.63</u>	<u>\$ 68.17</u>	<u>\$ 10.81</u>	<u>\$ 12.02</u>

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

Changes in Net Assets:

Governmental activities

The net assets of the governmental activities increased \$14,770,348, resulting in a total net assets position of \$47,977,263. The primary reason for the strong, positive net assets amount is attributable to the City's continued economic growth and the related increase in tax revenues. This has enabled the City to finance many capital improvement projects with little dependence on long-term debt.

Business-type Activities

The net assets of the business-type activities were \$34,955,991. Even though this represents a minimal decrease of \$309,654 as compared to fiscal year 2003, the City still maintains a favorable net asset position which can be used to finance its water and sewer operations and fund ongoing capital improvement projects.

Government-wide Financial Analysis: (Continued)

Component Units

The net assets of the School Board were \$9,833,117. 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:

TABLE 2
Changes in Net Assets
For the Fiscal Year ended June 30, 2004
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 04	FY 03	FY 04	FY 03	FY 04	FY 03	FY 04	FY 03
Revenues:								
Program Revenues:								
Charges for services	\$ 2.30	\$ 2.12	\$ 5.00	\$ 4.71	\$ 7.30	\$ 6.83	\$ 0.61	\$ 0.54
Operating grants and contributions	8.03	7.01	2.70	2.60	10.73	9.61	25.15	24.59
Capital grants and contributions	0.23	0.65	0.02	-	0.25	0.65	-	-
General Revenues:								
Property taxes	22.00	19.53	-	-	22.00	19.53	-	-
Other local taxes	27.05	22.99	-	-	27.05	22.99	-	-
Grants not restricted	1.80	1.93	-	-	1.80	1.93	-	-
Use of property	0.23	0.06	-	-	0.23	0.06	0.01	0.01
Investment earnings	0.34	1.39	0.02	-	0.36	1.39	0.01	0.02
Miscellaneous	0.43	0.28	0.23	0.19	0.66	0.47	-	0.15
Transfers	2.87	0.17	(2.87)	(0.17)	-	-	-	-
Total Revenues	\$ 65.28	\$ 56.13	\$ 5.10	\$ 7.33	\$ 70.38	\$ 63.46	\$ 25.78	\$ 25.31
Expenses:								
General government	\$ 3.84	\$ 3.67	\$ -	\$ -	\$ 3.84	\$ 3.67	\$ -	\$ -
Judicial administration	2.16	2.08	-	-	2.16	2.08	-	-
Public safety	13.45	12.95	-	-	13.45	12.95	-	-
Public works	5.34	5.28	-	-	5.34	5.28	-	-
Health and Welfare	5.10	4.23	-	-	5.10	4.23	-	-
Education	14.23	15.56	-	-	14.23	15.56	26.97	23.45
Parks, recreation, and cultural	3.30	3.01	-	-	3.30	3.01	-	-
Community development	1.91	2.02	-	-	1.91	2.02	0.02	0.02
Interest	1.18	0.82	-	-	1.18	0.82	-	-
Water	-	-	1.69	1.70	1.69	1.70	-	-
Sewer	-	-	2.57	2.61	2.57	2.61	-	-
Transit	-	-	1.15	1.08	1.15	1.08	-	-
Total Expenses	\$ 50.51	\$ 49.62	\$ 5.41	\$ 5.39	\$ 55.92	\$ 55.01	\$ 26.99	\$ 23.47
Change in net assets	\$ 14.77	\$ 6.51	\$ (0.31)	\$ 1.94	\$ 14.46	\$ 8.45	\$ (1.21)	\$ 1.84

Financial Analysis of the City's Governmental Funds

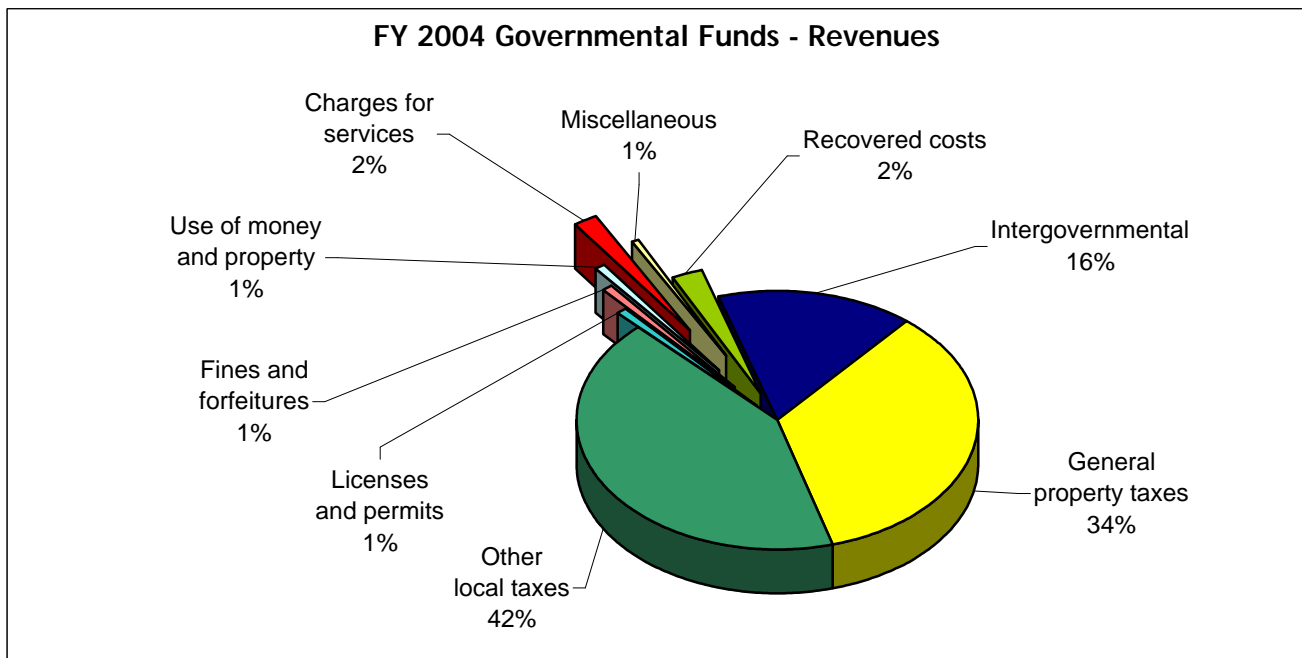
The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2004 and 2003 is presented below:

TABLE 3
Governmental Funds - Revenues

	FY 2004	FY 2003	Percentage of Total Revenues FY 2004	Increase (Decrease) from FY 2003
General property taxes	\$ 22,038,643	\$ 19,658,874	34.41%	\$ 2,379,769
Other local taxes	27,046,203	22,985,944	42.23%	4,060,259
Licenses and permits	499,110	413,773	0.78%	85,337
Fines and forfeitures	502,834	466,307	0.79%	36,527
Use of money and property	575,451	1,449,961	0.90%	(874,510)
Charges for services	1,293,189	1,242,647	2.02%	50,542
Miscellaneous	434,025	277,862	0.68%	156,163
Recovered costs	1,589,560	729,646	2.48%	859,914
Intergovernmental	10,063,046	9,586,712	15.71%	476,334
Totals	\$ 64,042,061	\$ 56,811,726	100.00%	\$ 7,230,335



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

The City's total revenues from governmental activities were \$64,042,061 in fiscal year 2004, an increase of 12.7% over fiscal year 2003. This increase in revenue is primarily attributable general property taxes and other local taxes increasing \$2,379,769 and \$4,060,259, respectively, over fiscal year 2003. Of the governmental funds, the General Fund experienced the greatest increase in these tax revenues with general property taxes increasing \$2,103,131 or 10.9% and other local taxes increasing \$3,654,259 or 15.9%. The revenue activity accounted for in the special revenue funds also had a favorable impacted on the on these tax revenues. The special tax district funds, comprised of the Central Park, Fall Hill, and Celebrate Virginia Special Tax District Funds, combined for an increase in general property taxes of \$276,638 or 77.9% over fiscal year 2003. These tax increases in the governmental funds are related to the City's growing commercial development and an increase in real property assessments.

The use of money and property revenue source decreased by \$874,510 in fiscal year 2004 as compared to fiscal year 2003. Of the governmental funds, the City's Public Works, Public Facilities, and Public Safety Capital Projects Funds experienced the most significant decrease as investment earnings accounted for in these funds decreased \$704,390. The decrease in the investment earnings is attributable to reduced interest rates and the recognition of an unrealized loss on investment of \$519,365 during the 2004 fiscal year.

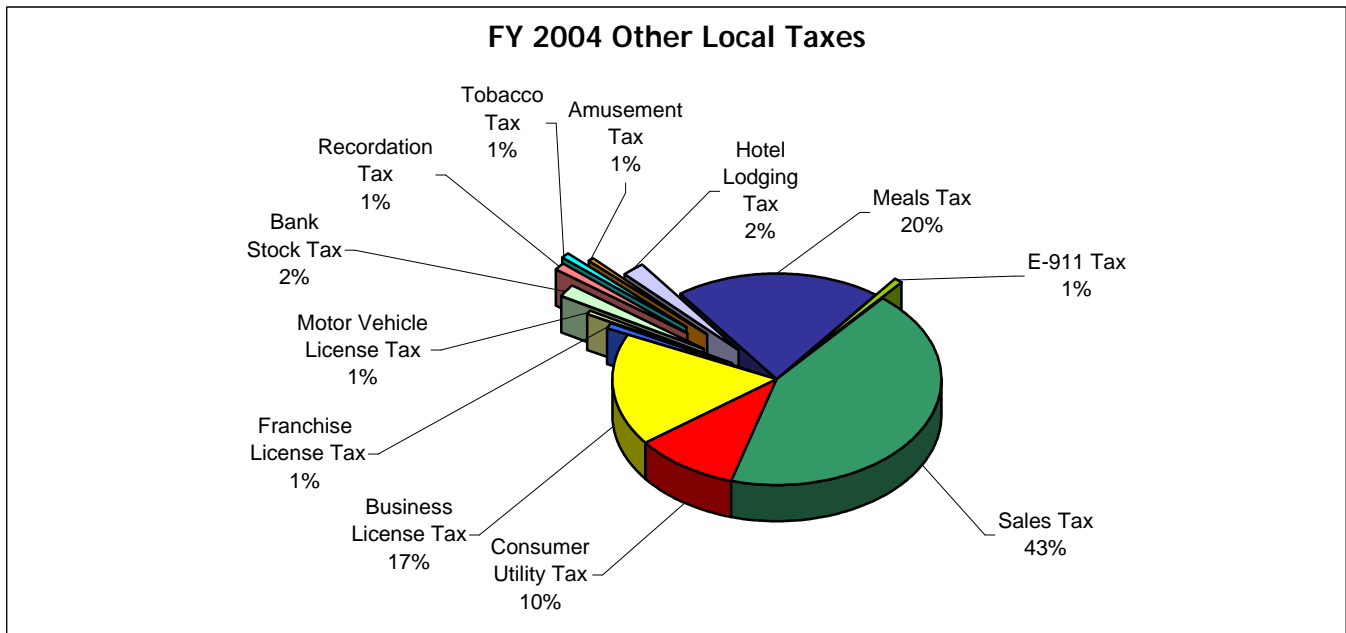
Other local tax revenue continues to be the most significant source of revenues supporting governmental activities. The following table reflects other local tax revenues for the General Fund for fiscal years 2004 and 2003:

TABLE 4
Other Local Taxes

	<u>FY 2004</u>	<u>FY 2003</u>	Increase (Decrease) from FY 2003
Sales Tax	\$ 11,537,324	\$ 9,966,988	\$ 1,570,336
Consumer Utility Tax	2,780,470	2,497,143	283,327
Business License Tax	4,536,150	3,761,772	774,378
Franchise License Tax	250,321	202,190	48,131
Motor Vehicle License Tax	160,089	159,618	471
Bank Stock Tax	519,107	425,193	93,914
Recordation Tax	277,548	334,216	(56,668)
Tobacco Tax	195,098	147,270	47,828
Amusement Tax	168,775	173,747	(4,972)
Hotel Lodging Tax	605,936	527,818	78,118
Meals Tax	5,395,346	4,562,821	832,525
E-911 Tax	214,039	227,168	(13,129)
Totals	\$ 26,640,203	\$ 22,985,944	\$ 3,654,259

In fiscal year 2004 sales tax revenue exceeded fiscal year 2003 collections by \$1,570,336, a 15.8% increase. Meals tax revenue increased an additional \$832,525 in fiscal year 2004 over fiscal year 2003, an 18.2% increase. Business license tax revenue also increase in fiscal year 2004 in comparison to fiscal year 2003. The increase amount was \$774,378 which represents a 20.6% increase over fiscal year 2003.

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



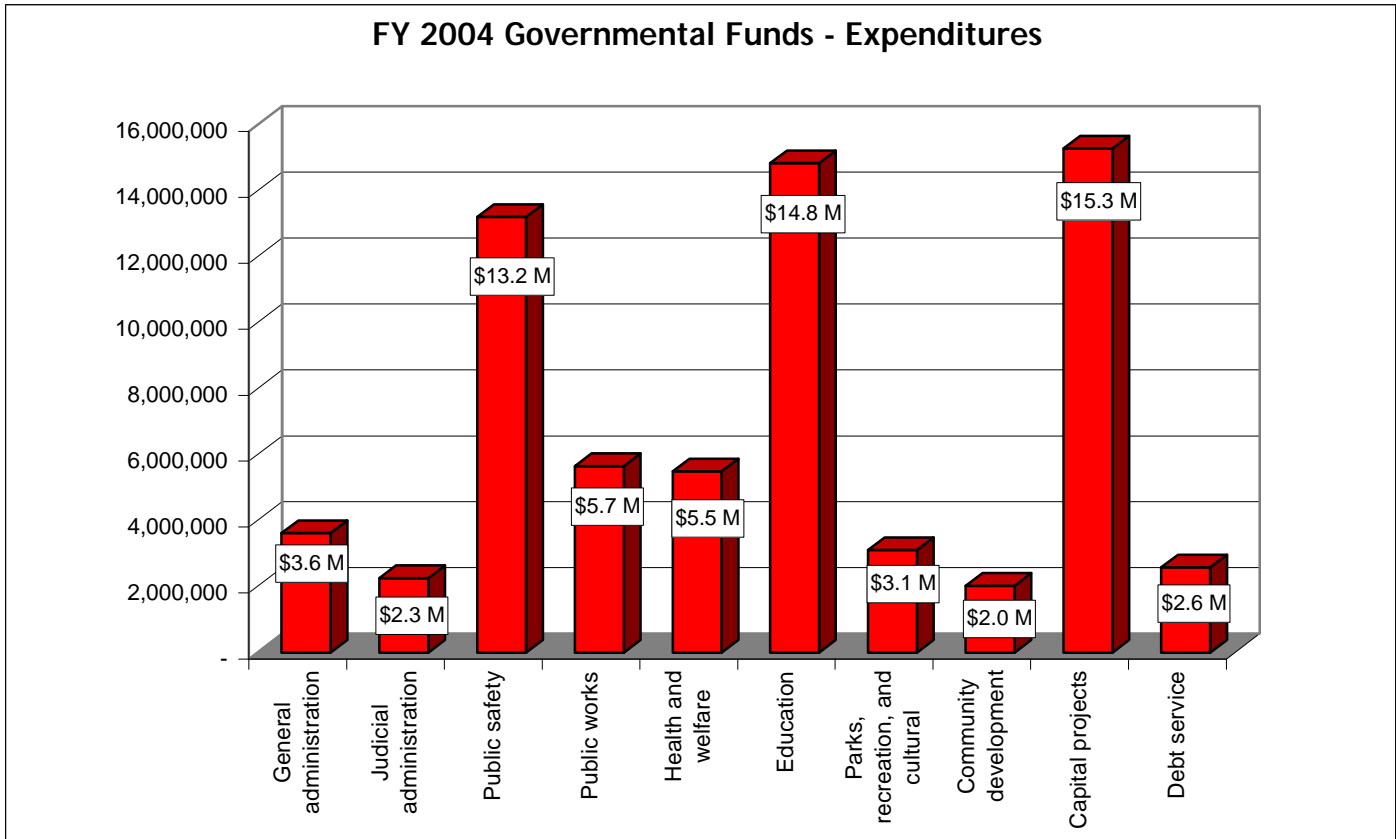
Expenditures:

Expenditures for governmental funds in fiscal year 2004 totaled \$68,083,422, an increase of \$10,871,732 or 19.0% when compared to fiscal year 2003 activity. The most notable change occurred in the Capital Projects area where \$10,474,890 additional funds were spent in fiscal year 2004 over fiscal year 2003. A portion of this increase is attributable to two major asset acquisitions; \$2,575,000 for land related to the removal of the Embrey Dam and \$2,800,000 for the Executive Plaza Building which will provide additional office space for various city operations. Another noteworthy increase in the Capital Projects area relates to the construction of two new schools. During fiscal year 2004 the city invested \$5,164,785 of capital resources towards the completion of a new upper elementary school and a new high school.

**TABLE 5
Governmental Funds - Expenditures**

	FY 2004	FY 2003	Percentage of Total Expenditures FY 2004	Increase (Decrease) from FY 2003
General administration	\$ 3,620,386	\$ 3,544,021	5.32%	\$ 76,365
Judicial administration	2,260,530	2,173,551	3.32%	86,979
Public safety	13,210,581	12,653,369	19.40%	557,212
Public works	5,655,233	5,067,820	8.31%	587,413
Health and welfare	5,491,600	4,602,554	8.07%	889,046
Education	14,839,742	15,556,786	21.80%	(717,044)
Parks, recreation, and cultural	3,108,829	2,879,319	4.57%	229,510
Community development	2,026,074	2,460,671	2.98%	(434,597)
Capital projects	15,286,264	4,811,374	22.45%	10,474,890
Debt service	2,584,183	3,462,225	3.80%	(878,042)
Totals	\$ 68,083,422	\$ 57,211,690	100.00%	\$ 10,871,732

FY 2004 Governmental Funds - Expenditures



General Fund Budgetary Highlights

Over the course of the year, 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.

Actual General Fund expenditures were \$44,807,505 versus the final budgeted expenditures totaling \$46,104,813. This resulted in a favorable variance of \$1,297,308.

Actual General Fund revenues were \$57,465,648 compared to final budgeted revenues totaling \$50,468,808. This resulted in a positive variance of \$6,996,840. The majority of the variance occurred among various local tax revenue sources, with local sales and use taxes experiencing the most significant favorable variance of \$2,049,824. Real estate taxes also experienced a significant favorable variance with actual revenues outpacing budgeted revenues by \$2,062,555. The City's growing commercial development coupled with an increase in real property assessments were the primary factors resulting in the favorable variance in these General Fund revenues.

Capital Asset and Debt Administration

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

TABLE 6
Change in Capital Assets
City Governmental Funds

	<u>Balance June 30, 2003</u>	<u>Net Additions/ Deletions</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated:			
Land	\$ 4,754,544	\$ 2,575,000	\$ 7,329,544
Construction in progress	8,187,566	9,514,243	17,701,809
Other capital assets:			
Land improvements	1,015,973	95,918	1,111,891
Buildings and building improvements	12,171,154	3,304,915	15,476,069
Machinery, equipment, and vehicles	7,982,685	449,394	8,432,079
Accumulated depreciation	<u>(8,861,640)</u>	<u>(1,225,050)</u>	<u>(10,086,690)</u>
Totals	<u>\$ 25,250,282</u>	<u>\$ 14,714,420</u>	<u>\$ 39,964,702</u>

The \$9,514,243 million addition to Construction in Progress represents the ongoing construction of infrastructure improvement projects, land improvement projects, and two new schools. During the 2004 fiscal year, the City expended \$791,500 towards the Fall Hill Avenue/Silver Parkway Traffic Improvements project. This project is scheduled to be completed during the 2005 fiscal year. Work also continued on the Cowan Boulevard Extension project during fiscal year 2004. The City invested \$620,000 while completing various road improvements related to this project. The City has spent a total of \$4,225,475 on this project since its inception. Completion of this project is expected during the 2005 fiscal year.

Construction of the Dixon Street Recreation Site is a major land improvement project started during the 2002 fiscal year. During the 2004 fiscal year, \$1,711,500 of the City's capital resources was invested in this project. Through fiscal year 2004, \$2,179,600 has been expended on this project.

Construction of a new upper elementary school and a new high school began during the 2004 fiscal year. The estimated cost of the upper elementary school is \$14,330,000. A total of \$2,375,195 was expended on this project during fiscal year 2004. A completion date of September 2005 has been set for this project. The cost of the new high school is projected to be \$36,830,000. A total of \$2,789,590 was spent on this project during the 2004 fiscal year. The high school is scheduled to be completed by September 2006.

The total of City owned land increased with the purchase of 47.98 acres for \$2,575,000. This land was needed as a silt disposal site for the Embrey Dam removal project.

Much of the increase in City owned buildings total occurred when the City purchased the Executive Plaza Building for \$2,800,000. This building was purchased to provide additional office and to help consolidate various city operations.

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, Aa3 by Moody's Investors Services and AA- by Standard and Poor's Investor Services. During fiscal year 2004, the City issued \$48,095,000 of general obligation schools bonds to finance a new upper elementary school and a new high school.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2004 the City's outstanding long-term indebtedness amount totaled \$79,741,141. After adjustments to reflect the revenue bonded debt of 8,946,141, the remaining total bonded debt of \$70,795,000 is far below the legal debt limit of \$110,130,416.

The table below shows a summary of all bonded debt activity during the 2004 fiscal year and the total City debt outstanding:

TABLE 7
Long Term Debt
As of June 30, 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2003</u>
Bonds Payable:						
General obligation bonds	\$ 18,565,291	\$ 20,319,760	\$ 4,134,709	\$ 4,530,240	\$ 22,700,000	\$ 24,850,000
General obligation school bonds	48,095,000	-	-	-	48,095,000	-
State Literary Fund Loan	-	50,000	-	-	-	50,000
Revenue bonds	-	-	8,946,141	9,704,013	8,946,141	9,704,013
Total long-term debt	<u>\$ 66,660,291</u>	<u>\$ 20,369,760</u>	<u>\$ 13,080,850</u>	<u>\$ 14,234,253</u>	<u>\$ 79,741,141</u>	<u>\$ 34,604,013</u>

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

Economic Factors and Next Year's Budget Rates

The City continues to enjoy a favorable economic environment and local indicators point to continued stability. Over the past several years the City has experienced major economic growth activity and community revitalization. Growth related revenues such as property taxes and sales taxes increased in proportion to the City's continuing strong commercial development. From the nearly two million square feet of commercial space newly constructed within the Central Park shopping center at the I-95/Route 3 Interchange, to the sensitive renovation and adaptive re-use of numerous existing downtown buildings, the City has attempted to improve its overall position as the hub of a fast-growing region.

The City's nationally recognized 40-block Historic District continues to be a major component of the local economy. The Historic "Old Town" District is filled with antique shops, a variety of charming restaurants, specialty retail shops and beautifully restored homes. Over 700,000 visitors flock to the City to enjoy its major historical attractions, unique shops, annual festivals and historic home tours. 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 positive outlook for the City's economy has provided a number of opportunities for improvements in the areas of education, recreation, cultural development, and infrastructure. A number of projects have already been initiated while several others are in various stages of planning and development.

In fiscal year 2003 the City completed a general reassessment of all real property. The reassessment was effective July 1, 2003. Total assessed value of real property, excluding additional assessments due to new construction or improvements to property, exceeded fiscal year 2002 total assessed value of real property by 41.5 percent.

The tax rate which would levy the same amount of real estate tax as fiscal year 2002, when multiplied by the new total assessed value of real estate with the exclusions mentioned above, would have been \$.80 per \$100 of assessed value.

The City adopted a tax rate of \$.89 per \$100 of assessed value. The difference between the lowered tax rate and the adopted rate was \$.09 per \$100 or 11.25 percent.

The adopted fiscal year 2004 real property tax rate of \$.89 per \$100 of assessed value, coupled with changes in other revenue estimates, will result in the fiscal year 2004 general fund budget exceeding the fiscal year 2003 general fund budget by 9.1 percent.

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.efredericksburg.org.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank

Government-wide Financial Statements

This page intentionally left blank

Statement of Net Assets
At June 30, 2004

ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Industrial Development Authority
Assets:					
Cash and cash equivalents	\$ 81,402,850	\$ 11,448,736	\$ 92,851,586	\$ 4,688,293	\$ 430,092
Receivables, net	1,000,698	1,318,571	2,319,269	-	-
Due from other governments	4,344,581	269,494	4,614,075	1,112,828	-
Inventory, at cost	38,225	103,027	141,252	-	-
Prepaid expenses	16,054	70	16,124	-	195
Due from component unit	253,793	-	253,793	-	-
Restricted:					
Temporarily restricted					
Cash and cash equivalents	-	394,107	394,107	-	-
Property held for resale	-	-	-	-	805,209
Capital assets:					
Land, construction in progress and other	25,031,353	2,267,565	27,298,918	531,555	-
Other capital assets, net of accumulated depreciation	14,933,349	32,767,545	47,700,894	7,381,699	-
Capital assets, net	\$ 39,964,702	\$ 35,035,110	\$ 74,999,812	\$ 7,913,254	\$ -
Total assets	\$ 127,020,903	\$ 48,569,115	\$ 175,590,018	\$ 13,714,375	\$ 1,235,496
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 3,942,363	\$ 125,535	\$ 4,067,898	\$ 941,518	\$ 4,586
Accrued liabilities	1,509,520	179,747	1,689,267	2,224,606	-
Deferred revenue	768,619	23,253	791,872	52,427	-
Amounts held for others	1,091,982	-	1,091,982	-	-
Due to primary government	-	-	-	-	253,793
Liabilities payable from restricted assets	-	394,107	394,107	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,340,711	85,467	1,426,178	345,101	-
Revenue bonds payable	-	812,550	812,550	-	-
General obligation bonds and loans payable	2,015,682	356,355	2,372,037	-	-
Due in more than one year:					
Compensated absences	810,369	33,819	844,188	317,606	-
Revenue bonds payable	-	8,133,591	8,133,591	-	-
Bonds and loans payable	66,551,078	3,778,354	70,329,432	-	-
Accrued landfill post-closure costs	1,013,316	-	1,013,316	-	-
Total liabilities	\$ 79,043,640	\$ 13,922,778	\$ 92,966,418	\$ 3,881,258	\$ 258,379
Net Assets:					
Invested in capital assets, net of related debt	\$ 18,210,496	\$ 21,954,260	\$ 40,164,756	\$ 7,913,254	\$ -
Restricted:					
Capital projects	9,221,333	-	9,221,333	1,088,474	-
Unrestricted	20,545,434	12,692,077	33,237,511	831,389	977,117
Total net assets	\$ 47,977,263	\$ 34,646,337	\$ 82,623,600	\$ 9,833,117	\$ 977,117

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, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 3,836,089	\$ 35,159	\$ 250,913	\$ -
Judicial administration	2,155,331	65,162	959,538	-
Public safety	13,448,595	1,001,944	1,024,841	229,535
Public works	5,342,332	598,371	2,001,044	-
Health and welfare	5,098,576	-	3,370,409	-
Education	14,232,858	-	-	-
Parks, recreation and cultural	3,302,359	592,019	5,000	-
Community development	1,914,617	2,478	422,544	-
Interest on long-term debt	1,180,917	-	-	-
Total governmental activities	\$ 50,511,674	\$ 2,295,133	\$ 8,034,289	\$ 229,535
Business-type activities				
Water	\$ 1,691,301	\$ 1,870,329	\$ 621,917	\$ -
Sewer	2,566,538	3,101,699	577,993	-
Transit	1,156,280	32,157	1,495,101	22,289
Total business-type activities	\$ 5,414,119	\$ 5,004,185	\$ 2,695,011	\$ 22,289
Total Primary Government	\$ 55,925,793	\$ 7,299,318	\$ 10,729,300	\$ 251,824
Component Units				
Fredericksburg City Public Schools	\$ 26,970,929	\$ 537,998	\$ 10,937,225	\$ -
Fredericksburg Industrial Development Authority	19,429	75,158	-	-
Total Component Units	\$ 26,990,358	\$ 613,156	\$ 10,937,225	\$ -

General Revenues

Taxes:

General property taxes, real and personal

Other

Payment from City of Fredericksburg:

Education

Grants and contributions not restricted to specific programs

Use of property

Investment earnings

Miscellaneous

Transfers

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				Component Units
Governmental Activities	Business-Type Activities	Total		
\$ (3,550,017)	\$ -	\$ (3,550,017)	\$ -	-
(1,130,631)	-	(1,130,631)	-	-
(11,192,275)	-	(11,192,275)	-	-
(2,742,917)	-	(2,742,917)	-	-
(1,728,167)	-	(1,728,167)	-	-
(14,232,858)	-	(14,232,858)	-	-
(2,705,340)	-	(2,705,340)	-	-
(1,489,595)	-	(1,489,595)	-	-
(1,180,917)	-	(1,180,917)	-	-
<u>\$ (39,952,717)</u>	<u>\$ -</u>	<u>\$ (39,952,717)</u>	<u>\$ -</u>	-
\$ -	\$ 800,945	\$ 800,945	\$ -	-
-	1,113,154	1,113,154	-	-
-	393,267	393,267	-	-
<u>\$ -</u>	<u>\$ 2,307,366</u>	<u>\$ 2,307,366</u>	<u>\$ -</u>	-
<u>\$ (39,952,717)</u>	<u>\$ 2,307,366</u>	<u>\$ (37,645,351)</u>	<u>\$ -</u>	-
			\$ (15,495,706)	
			55,729	
			<u>\$ (15,439,977)</u>	
\$ 21,998,946	\$ -	\$ 21,998,946	\$ -	-
27,046,203	-	27,046,203	-	-
-	-	-	14,201,010	-
1,799,222	-	1,799,222	-	-
231,536	-	231,536	14,213	-
343,915	20,731	364,646	14,531	-
434,025	231,467	665,492	-	-
2,869,218	(2,869,218)	-	-	-
<u>\$ 54,723,065</u>	<u>\$ (2,617,020)</u>	<u>\$ 52,106,045</u>	<u>\$ 14,229,754</u>	-
<u>\$ 14,770,348</u>	<u>\$ (309,654)</u>	<u>\$ 14,460,694</u>	<u>\$ (1,210,223)</u>	-
<u>33,206,915</u>	<u>34,955,991</u>	<u>68,162,906</u>	<u>12,020,457</u>	-
<u>\$ 47,977,263</u>	<u>\$ 34,646,337</u>	<u>\$ 82,623,600</u>	<u>\$ 10,810,234</u>	-

This page intentionally left blank

Fund Financial Statements

Balance Sheet
Governmental Funds
At June 30, 2004

ASSETS	General	New Elementary School Construction Fund	New High School Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 22,629,448	\$ 12,892,656	\$ 34,195,397	\$ 11,685,349	\$ 81,402,850
Receivables (net of allowances for uncollectibles):					
Property taxes	332,208	-	-	2,916	335,124
Accounts	470,653	-	-	20,965	491,618
Accrued revenue	-	-	-	173,956	173,956
Inventory, at cost	38,225	-	-	-	38,225
Prepays	16,054	-	-	-	16,054
Due from other governments	2,713,598	-	-	1,630,983	4,344,581
Due from component unit	253,793	-	-	-	253,793
Total assets	\$ 26,453,979	\$ 12,892,656	\$ 34,195,397	\$ 13,514,169	\$ 87,056,201
LIABILITIES AND EQUITY					
Liabilities:					
Accounts payable and accrued expenses	\$ 983,388	\$ 1,149,619	\$ 775,995	\$ 1,033,361	\$ 3,942,363
Accrued liabilities	562,935	118,232	138,122	42,570	861,859
Amounts held for others	1,091,982	-	-	-	1,091,982
Deferred revenue	955,635	-	-	25,000	980,635
Total liabilities	\$ 3,593,940	\$ 1,267,851	\$ 914,117	\$ 1,100,931	\$ 6,876,839
Equity:					
Fund balances:					
Reserved:					
Encumbrances	\$ 489,950	\$ -	\$ -	\$ 283,399	\$ 773,349
Prepays	16,054	-	-	-	16,054
Unreserved:					
Designated for capital projects	8,006,790	11,624,805	33,281,280	8,943,522	61,856,397
Designated for regional security center	2,000,000	-	-	-	2,000,000
Health insurance claims	950,000	-	-	-	950,000
Designated for E-911	2,004	-	-	-	2,004
Designated for courthouse maintenance	228,829	-	-	-	228,829
Designated for education debt service	1,685,000	-	-	-	1,685,000
Subsequent year's expenditures:					
Special Revenue Funds	-	-	-	1,371,178	1,371,178
Unreserved, undesignated	9,481,412	-	-	1,815,139	11,296,551
Total equity	\$ 22,860,039	\$ 11,624,805	\$ 33,281,280	\$ 12,413,238	\$ 80,179,362
Total liabilities and equity	\$ 26,453,979	\$ 12,892,656	\$ 34,195,397	\$ 13,514,169	\$ 87,056,201

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2004

Total fund balances for governmental funds (Exhibit 3)	\$	80,179,362	
Total net assets reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:			
Land, construction in progress and other	\$	25,031,353	
Other capital assets, net of accumulated depreciation		<u>14,933,349</u>	
Total capital assets			39,964,702
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			212,016
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net assets are as follows:			
Accrued interest on debt	\$	(647,661)	
Bonds and notes payable		(66,660,291)	
Unamortized premium on long-term debt		(1,906,469)	
Landfill post-closure cost liability		<u>(1,013,316)</u>	(70,227,737)
Compensated absences not reported as fund liabilities			<u>(2,151,080)</u>
Total net assets of governmental activities (Exhibits 1 and 2)	\$		<u><u>47,977,263</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2004

	General Fund	New Elementary School Construction Fund	New High School Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 21,406,676	\$ -	\$ -	\$ 631,967	\$ 22,038,643
Other local taxes	26,640,203	-	-	406,000	27,046,203
Permits, privilege fees and regulatory licenses	499,110	-	-	-	499,110
Fines and forfeitures	502,834	-	-	-	502,834
Use of money and property	298,351	-	69,401	207,699	575,451
Charges for services	1,293,189	-	-	-	1,293,189
Miscellaneous	132,137	-	-	301,888	434,025
Recovered costs	901,957	-	-	687,603	1,589,560
Intergovernmental:					
Revenue from the Commonwealth	5,441,399	-	-	1,762,738	7,204,137
Revenue from the Federal Government	349,792	-	-	2,509,117	2,858,909
Total revenues	<u>\$ 57,465,648</u>	<u>\$ -</u>	<u>\$ 69,401</u>	<u>\$ 6,507,012</u>	<u>\$ 64,042,061</u>
Expenditures					
Current:					
General government administration	\$ 3,620,386	\$ -	\$ -	\$ -	\$ 3,620,386
Judicial administration	2,191,562	-	-	68,968	2,260,530
Public safety	13,091,349	-	-	119,232	13,210,581
Public works	5,655,233	-	-	-	5,655,233
Health and welfare	1,012,509	-	-	4,479,091	5,491,600
Education - local community college and other	31,848	-	-	-	31,848
Education - public school system	14,807,894	-	-	-	14,807,894
Parks, recreation and cultural	3,074,277	-	-	34,552	3,108,829
Community development	1,322,447	-	-	703,627	2,026,074
Capital projects	-	2,375,195	2,789,590	10,121,479	15,286,264
Debt service:					
Principal payments	-	-	-	1,804,469	1,804,469
Interest and fiscal charges	-	-	-	779,714	779,714
Total expenditures	<u>\$ 44,807,505</u>	<u>\$ 2,375,195</u>	<u>\$ 2,789,590</u>	<u>\$ 18,111,132</u>	<u>\$ 68,083,422</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 12,658,143</u>	<u>\$ (2,375,195)</u>	<u>\$ (2,720,189)</u>	<u>\$ (11,604,120)</u>	<u>\$ (4,041,361)</u>
Other financing sources (uses)					
Long-term debt issued	\$ -	\$ 13,466,189	\$ 34,628,811	\$ -	\$ 48,095,000
Bond premium	-	533,811	1,372,658	-	1,906,469
Transfers in	56,000	-	-	10,337,704	10,393,704
Transfers out	(7,524,486)	-	-	-	(7,524,486)
Total other financing sources (uses)	<u>\$ (7,468,486)</u>	<u>\$ 14,000,000</u>	<u>\$ 36,001,469</u>	<u>\$ 10,337,704</u>	<u>\$ 52,870,687</u>
Net change in fund balance	\$ 5,189,657	\$ 11,624,805	\$ 33,281,280	\$ (1,266,416)	\$ 48,829,326
Fund balance, beginning of year	<u>17,670,382</u>	<u>-</u>	<u>-</u>	<u>13,679,654</u>	<u>31,350,036</u>
Fund balance, end of year	<u>\$ 22,860,039</u>	<u>\$ 11,624,805</u>	<u>\$ 33,281,280</u>	<u>\$ 12,413,238</u>	<u>\$ 80,179,362</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, 2004

Net change in fund balances - total governmental funds (Exhibit 5) \$ 48,829,326

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. 14,714,420

Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis. (39,697)

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

Debt issued:			
General obligation bonds	\$	(48,095,000)	
Premium on long-term debt		(1,906,469)	
Repayments of long-term debt:			
General obligation bonds		1,754,469	
State Literary Fund loans		<u>50,000</u>	
Net adjustment			(48,197,000)

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

Compensated absences	\$	(93,276)	
Accrued interest on bonds and loans		(401,203)	
Accrued landfill post-closure costs		<u>(42,222)</u>	
Net adjustment			<u>(536,701)</u>
Change in net assets of governmental activities (Exhibit 2)	\$		<u><u>14,770,348</u></u>

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

Statement of Net Assets
 Proprietary Funds
 At June 30, 2004

Business -Type Activities - Enterprise Funds

ASSETS	Water Fund	Wastewater Fund	Transit Fund	Total
Assets:				
Current assets:				
Cash and cash equivalents	\$ 6,580,957	\$ 3,893,115	\$ 974,664	\$ 11,448,736
Accounts receivable - net	430,885	678,434	205,645	1,314,964
Accrued revenue	430	3,177	-	3,607
Inventory, at cost	60,661	42,366	-	103,027
Prepaid expenses	35	35	-	70
Due from other governments	-	-	269,494	269,494
Restricted assets:				
Temporarily restricted				
Cash and cash equivalents	394,107	-	-	394,107
Total current assets	<u>\$ 7,467,075</u>	<u>\$ 4,617,127</u>	<u>\$ 1,449,803</u>	<u>\$ 13,534,005</u>
Capital Assets				
Land	\$ 701,345	\$ 71,680	\$ 264,111	\$ 1,037,136
Construction in progress	212,215	276,292	78,386	566,893
Dams and reservoirs	663,536	-	-	663,536
Buildings and systems	17,215,506	24,950,735	-	42,166,241
Furniture, machinery and equipment	284,918	1,202,020	1,526,733	3,013,671
Total property, plant and equipment	<u>\$ 19,077,520</u>	<u>\$ 26,500,727</u>	<u>\$ 1,869,230</u>	<u>\$ 47,447,477</u>
Less: Accumulated depreciation	<u>(4,124,909)</u>	<u>(7,602,572)</u>	<u>(684,886)</u>	<u>(12,412,367)</u>
Net capital assets	<u>\$ 14,952,611</u>	<u>\$ 18,898,155</u>	<u>\$ 1,184,344</u>	<u>\$ 35,035,110</u>
Total assets	<u><u>\$ 22,419,686</u></u>	<u><u>\$ 23,515,282</u></u>	<u><u>\$ 2,634,147</u></u>	<u><u>\$ 48,569,115</u></u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 32,575	\$ 72,668	\$ 20,292	\$ 125,535
Accrued liabilities	7,230	16,994	28,786	53,010
Interest payable	-	126,737	-	126,737
Compensated absences, current portion	17,710	59,011	8,746	85,467
Deferred revenue	23,253	-	-	23,253
Revenue bonds payable, current portion	-	812,550	-	812,550
General obligation bonds payable, current portion	267,157	89,198	-	356,355
Current liabilities payable from restricted assets:				
Customer deposits	394,107	-	-	394,107
Total current liabilities	<u>\$ 742,032</u>	<u>\$ 1,177,158</u>	<u>\$ 57,824</u>	<u>\$ 1,977,014</u>
Noncurrent liabilities:				
Compensated absences, noncurrent portion	\$ 10,910	\$ 10,701	\$ 12,208	\$ 33,819
Revenue bonds payable, noncurrent portion	-	8,133,591	-	8,133,591
General obligation bonds payable, noncurrent portion	3,099,323	679,031	-	3,778,354
Total noncurrent liabilities	<u>\$ 3,110,233</u>	<u>\$ 8,823,323</u>	<u>\$ 12,208</u>	<u>\$ 11,945,764</u>
Total liabilities	<u>\$ 3,852,265</u>	<u>\$ 10,000,481</u>	<u>\$ 70,032</u>	<u>\$ 13,922,778</u>
Net assets:				
Invested in capital assets net of related debt	\$ 11,586,131	\$ 9,183,785	\$ 1,184,344	\$ 21,954,260
Unrestricted	<u>6,981,290</u>	<u>4,331,016</u>	<u>1,379,771</u>	<u>12,692,077</u>
Total net assets	<u><u>\$ 18,567,421</u></u>	<u><u>\$ 13,514,801</u></u>	<u><u>\$ 2,564,115</u></u>	<u><u>\$ 34,646,337</u></u>

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

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 Year Ended June 30, 2004

	Business - Type Activities - Enterprise Funds			
	Water Fund	Wastewater Fund	Transit Fund	Total
Operating revenues:				
Charges for services	\$ 1,870,329	\$ 3,101,699	\$ 32,157	\$ 5,004,185
Operating expenses:				
Personal services	\$ 236,003	\$ 559,785	\$ 621,571	\$ 1,417,359
Fringe benefits	104,343	174,322	114,019	392,684
Contractual services	702,952	459,368	68,958	1,231,278
Other operating expenses	95,223	424,213	172,488	691,924
Depreciation expense	400,490	560,395	179,244	1,140,129
Total operating expenses	\$ 1,539,011	\$ 2,178,083	\$ 1,156,280	\$ 4,873,374
Total operating income (loss)	\$ 331,318	\$ 923,616	\$ (1,124,123)	\$ 130,811
Nonoperating revenues (expenses):				
Interest income	\$ 14,376	\$ 6,355	\$ -	\$ 20,731
Availability/connection fees	621,917	577,993	-	1,199,910
Miscellaneous	38,726	2,382	190,359	231,467
State and local grant funds	-	-	925,888	925,888
Federal grant funds	-	-	569,213	569,213
Interest expense	(152,290)	(388,455)	-	(540,745)
Total nonoperating revenues (expenses)	\$ 522,729	\$ 198,275	\$ 1,685,460	\$ 2,406,464
Income before contributions and transfers	\$ 854,047	\$ 1,121,891	\$ 561,337	\$ 2,537,275
Capital grants	\$ -	\$ -	\$ 22,289	\$ 22,289
Operating transfers:				
Operating transfers out	(2,651,644)	(67,574)	(150,000)	(2,869,218)
Change in net assets	\$ (1,797,597)	\$ 1,054,317	\$ 433,626	\$ (309,654)
Net assets, July 1, 2003	20,365,018	12,460,484	2,130,489	34,955,991
Net assets, June 30, 2004	\$ 18,567,421	\$ 13,514,801	\$ 2,564,115	\$ 34,646,337

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

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2004

	Business -Type Activities - Enterprise Funds			
	Water Fund	Wastewater Fund	Transit Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 1,819,491	\$ 3,041,366	\$ 32,157	\$ 4,893,014
Payments to suppliers	(1,267,284)	(1,174,377)	(230,306)	(2,671,967)
Payments to and for employees	(331,768)	(727,291)	(710,215)	(1,769,274)
Net cash provided by (used in) operating activities	\$ 220,439	\$ 1,139,698	\$ (908,364)	\$ 451,773
Cash flows from noncapital financing activities:				
Availability and connection fees	\$ 621,917	\$ 577,993	\$ -	\$ 1,199,910
State, federal and local grant funds	-	-	1,580,842	1,580,842
Miscellaneous	38,726	2,382	212,648	253,756
Operating transfers	(2,651,644)	(67,574)	(150,000)	(2,869,218)
Net cash provided by (used in) noncapital financing activities	\$ (1,991,001)	\$ 512,801	\$ 1,643,490	\$ 165,290
Cash flows from investing activities:				
Interest income	\$ 14,376	\$ 6,355	\$ -	\$ 20,731
Cash flows from capital and related financing activities:				
Purchase of capital assets	\$ (367,986)	\$ (163,535)	\$ (562,939)	\$ (1,094,460)
Principal payment on debt	(323,679)	(829,725)	-	(1,153,404)
Interest paid on debt	(152,290)	(453,777)	-	(606,067)
Capital grants	-	-	22,289	22,289
Net cash provided by (used in) capital and related financing activities	\$ (843,955)	\$ (1,447,037)	\$ (540,650)	\$ (2,831,642)
Increase (decrease) in cash and cash equivalents for the year	\$ (2,600,141)	\$ 211,817	\$ 194,476	\$ (2,193,848)
Cash and cash equivalents, July 1, 2003	9,575,205	3,681,298	780,188	14,036,691
Cash and cash equivalents, June 30, 2004	\$ 6,975,064	\$ 3,893,115	\$ 974,664	\$ 11,842,843
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 331,318	\$ 923,616	\$ (1,124,123)	\$ 130,811
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	400,490	560,395	179,244	1,140,129
Changes in assets and liabilities:				
Accounts receivable	(50,838)	(60,333)	5,371	(105,800)
Inventory	(23,088)	(8,141)	-	(31,229)
Accrued revenue	138	71	-	209
Accounts payable and accrued expenses	(469,776)	(282,726)	5,769	(746,733)
Accrued liabilities	6,561	1,693	23,149	31,403
Deferred revenue	1,913	-	-	1,913
Compensated absences	2,017	5,123	2,226	9,366
Deposits payable from restricted assets	21,704	-	-	21,704
Net cash provided by (used in) operating activities	\$ 220,439	\$ 1,139,698	\$ (908,364)	\$ 451,773

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

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

Statement of Fiduciary Net Assets
At June 30, 2004

	Agency Funds
Assets:	
Cash and cash equivalents	\$ 240,953
Accounts receivable	96,883
Prepaid items	<u>2,525</u>
Total assets	<u>\$ 340,361</u>
Liabilities:	
Accounts payable	\$ 36,686
Amounts held for others	<u>303,675</u>
Total liabilities	<u>\$ 340,361</u>
Net Assets	<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, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
School Board				
Education	\$ 26,508,117	\$ 537,998	\$ 10,937,225	\$ -
Depreciation	462,812	-	-	-
Total School Board	\$ 26,970,929	\$ 537,998	\$ 10,937,225	\$ -
Industrial Development Authority				
Community development	19,429	75,158	-	-
Total component units	<u>\$ 26,990,358</u>	<u>\$ 613,156</u>	<u>\$ 10,937,225</u>	<u>\$ -</u>

General revenues:

- Payment from City of Fredericksburg
- Use of property
- Interest and investment earnings
- Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 11

Net (Expense) Revenue and Changes in Net Assets		
School Board	Industrial Development Authority	Totals
\$ (15,032,894)	\$ -	\$ (15,032,894)
<u>(462,812)</u>	<u>-</u>	<u>(462,812)</u>
\$ (15,495,706)	\$ -	\$ (15,495,706)
<u>-</u>	<u>55,729</u>	<u>55,729</u>
\$ (15,495,706)	\$ 55,729	\$ (15,439,977)
\$ 14,201,010	\$ -	\$ 14,201,010
14,213	-	14,213
-	14,531	14,531
<u>-</u>	<u>-</u>	<u>-</u>
\$ 14,215,223	\$ 14,531	\$ 14,229,754
\$ (1,280,483)	\$ 70,260	\$ (1,210,223)
<u>11,113,600</u>	<u>906,857</u>	<u>12,020,457</u>
<u>\$ 9,833,117</u>	<u>\$ 977,117</u>	<u>\$ 10,810,234</u>

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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 King George, 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. The more significant of the government’s accounting policies are described below.

A. Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management’s Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.
- Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.
- Statement of Net Assets: The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of “using up” capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

A. Financial Reporting Entity: (Continued)

- Statement of Program Activities: The new 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).
- 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 new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results for its major funds.

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

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

A. Financial Reporting Entity: (Continued)

Inclusions in the Reporting Entity: (Continued)

1. Component Units: (Continued)

b. Fredericksburg Industrial Development Authority:

The Fredericksburg Industrial 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.

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 to 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 \$2,172,364 in operating and other funds to the Center in 2004.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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 to 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 \$823,938 in operating funds to the Library in 2004.

c. Rappahannock Regional Solid Waste Management Board

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

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 \$201,467 to the Board in 2004.

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 \$9,346 in operating grants to the Agency in 2004.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

f. Rappahannock Area Development 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 \$15,276 in operating grants to the Commission in 2004.

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 \$543,995 to the Center in 2004.

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 \$71,715 in operating funds to the Home in 2004.

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 \$14,286 in operating funds to the Commission in 2004.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

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.

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

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

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 adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2004.

1. Governmental Funds:

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

- a. General Fund - The General Fund is the primary operating fund of the City and accounts for 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, 2004

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 the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. 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.

Regional Transportation Fund - This fund accounts for revenues and expenditures and other financing resources to fund the City's participation in the Virginia Railway Express (VRE) and other transportation related activities authorized by the City Council and the Potomac and Rappahannock Transportation Commission (PRTC).

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 commercial area.

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

Celebrate Virginia Special Tax District Fund - This fund accounts for the revenues, expenditures, and other financing resources relating to the Celebrate Virginia Special Service District.

Comprehensive Services Act Fund - This fund accounts for the Comprehensive Service Act grant funds which provides 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.

- c. Debt Service Funds - Debt Service Funds account for financial resources accumulated for the payment of general long-term debt principal and interest charges.

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

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

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

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

1. Governmental Funds: (Continued)

- d. Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. 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 investment earnings and transfers from the General Fund.

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

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

New Upper Elementary School Construction Fund - This fund accounts for resources and expenditures for a new upper elementary school. Primary funding sources are school bond proceeds and investment earnings. This fund is considered a major fund for financial reporting purposes.

New High School Construction Fund - This fund accounts for resources and expenditures for the construction of a new high school. Primary funding sources are school bond proceeds and investment earnings. This 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 or Business Funds - Enterprise or Business Funds account for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. The Enterprise Funds consist of the following:

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

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

3. Fiduciary Fund (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. The City does not have private purpose trust funds. Agency Funds consist of the following:

Criminal Justice Academy - This fund accounts for the payroll related expenditures of the Regional Criminal Justice Training Academy.

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

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

Rappahannock Area Development Commission - This fund accounts for revenue and expenditures of the Rappahannock Area Development Commission.

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

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

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

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. Component-Unit School Board Funds consist of the following:

Governmental Funds:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

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

4. Component Units: (Continued)

a. Fredericksburg City School Board: (Continued)

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

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. Industrial Development Authority:

The Industrial 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.

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 statements of net assets and statements of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statements of net assets, statements 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.

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

C. Basis of Accounting: (Continued)

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. All appropriations lapse at year-end; however, the unexpended funds may be reappropriated in the following fiscal year.

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2004. 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, 2004.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed on a monthly basis by the City because it is, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control. Open encumbrances as of June 30, 2004, have been reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

F. 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.

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, 2004, the allowance totaled \$298,212 with \$148,936 in the General Fund and \$149,276 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Expenses

Prepaid expenses are reported on the consumption method.

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 10 years
Infrastructure	25 years

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

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

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

J. Capital Assets: (Continued)

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. The City and School Board do not capitalize historical treasures or works of art.

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.

Interest on cost of construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2004.

K. Property Held for Resale

The Industrial Development Authority holds property for resale. The carrying value of this property includes the purchased price plus the cost of improvements and related financing expenses.

L. Compensated Absences

The City and Component Unit 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.

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 30-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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

P. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. There was no amortization expense for fiscal year 2004.

Q. Long-term Obligations

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

Note 2—Deposits and Investments:

The City and Component Unit School Board deposits and investments consist of pooled cash and investments. The Component Unit Industrial Development Authority maintains its own accounts which are separate from the City's pooled funds.

Primary Government and Component Units:

Deposits - At year-end the City's and Component Units' deposits with banks and savings institutions were covered by federal depository insurance and/or insured in accordance with the Virginia Security for Public Deposits Act.

Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the bank balance, no amount was uninsured or uncollateralized in banks or savings and loans not qualifying under the Act at June 30, 2004.

Investments - Statutes authorized 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), Asian Development Bank and the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by the counterparty's trust department (if a bank) or safekeeping agent but not in the City's name.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 2—Deposits and Investments: (Continued)

Primary Government and Component Units: (Continued)

	Category			Not Categorized	Fair Value
	1	2	3		
Investments:					
Corporate debt securities	\$ 2,080,336	\$ -	\$ -	\$ -	\$ 2,080,336
Bankers Acceptances	2,732,781	-	-	-	2,732,781
Federal agency bonds/notes	28,149,058	-	-	-	28,149,058
U.S. Treasury bonds/notes	4,275,459	-	-	-	4,275,459
Bond pool funds	-	-	-	45,876,882	45,876,882
Cash reserve - cash portfolio	-	-	-	3,173,291	3,173,291
Other	-	-	-	3,984,901	3,984,901
Total investments	<u>\$ 37,237,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,035,074</u>	<u>\$ 90,272,708</u>
Bank deposits					8,348,846
Cash on hand, cash items and petty cash					<u>6,164</u>
Total cash and investments					<u>\$ 98,627,718</u>
Summary:					
Government-wide statements:					
Governmental activities					\$ 81,402,850
Business activities:					
Unrestricted					11,448,736
Restricted					394,107
Component units:					
School Board					4,688,293
Industrial Development Authority					<u>430,092</u>
Total government-wide statements					\$ 98,364,078
Fiduciary activities					240,953
Forfeited assets funds					35,134
State escrow funds					100
Other					<u>(12,547)</u>
Total					<u>\$ 98,627,718</u>

The City has a compensating balance arrangement with Wachovia Bank in the amount of \$1,400,000.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 3—Real and Personal Property Tax Data:

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

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

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2004 consist of the following:

Primary Government:

	<u>Governmental Activities</u>				<u>Business- Type Activities</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>	
Property taxes	\$ 481,144	\$ 2,916	\$ -	\$ 484,060	\$ -
Utility taxes	262,276	-	-	262,276	-
Water charges	-	-	-	-	499,063
Wastewater charges	-	-	-	-	759,532
Refuse disposal fees	97,271	-	-	97,271	-
E-911 fees	20,052	-	-	20,052	-
Transit fees	-	-	-	-	205,645
Investment earnings	-	-	173,956	173,956	-
Other	91,054	20,965	-	112,019	-
Total	<u>\$ 951,797</u>	<u>\$ 23,881</u>	<u>\$ 173,956</u>	<u>\$ 1,149,634</u>	<u>\$ 1,464,240</u>
Allowance for uncollectibles	(148,936)	-	-	(148,936)	(149,276)
Net receivables	<u>\$ 802,861</u>	<u>\$ 23,881</u>	<u>\$ 173,956</u>	<u>\$ 1,000,698</u>	<u>\$ 1,314,964</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 4—Receivables and Accrued Revenue: (Continued)

Component Units and Fiduciary Activities:

	<u>Component Units</u>		
	<u>School Board</u>	<u>Industrial Development Authority</u>	<u>Fiduciary Activities</u>
Property taxes	\$ -	\$ -	\$ -
Utility taxes	-	-	-
Water charges	-	-	-
Wastewater charges	-	-	-
Refuse disposal fees	-	-	-
E-911 fees	-	-	-
Transit fees	-	-	-
Investment earnings	-	-	-
Other	-	-	96,883
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,883</u>
Allowance for uncollectibles	-	-	-
Net receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,883</u>

This space intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 5—Due From Other Governmental Units:

Primary Government:

	Governmental Activities				Business- Type Activities
	General	Special Revenue	Capital Projects	Total	
Commonwealth of Virginia:					
Local sales taxes	\$ 1,972,935	\$ -	\$ -	\$ 1,972,935	-
State sales taxes	-	-	-	-	-
Comprehensive Services Act	-	268,573	-	268,573	-
Shared expenses and grants	131,191	7,179	-	138,370	-
State school funds	-	-	-	-	-
Virginia Department of Rail and Public Transportation	-	472,209	-	472,209	37,043
Federal pass-through:					
School funds	-	-	-	-	-
Recordation taxes	31,139	-	-	31,139	-
Street maintenance	423,073	-	-	423,073	-
Rental taxes	32,384	-	-	32,384	-
Excess Clerk's fees	-	-	-	-	-
Noncategorical aid	70,072	-	-	70,072	-
Social services grants	-	255,330	-	255,330	-
Federal government:					
Community Development Block Grant	-	221,692	-	221,692	-
Transit grants	-	-	-	-	57,724
Head Start	-	-	-	-	-
Others:					
Potomac and Rappahannock Transportation Commission	-	-	406,000	406,000	-
Circuit Court reimbursements:					
County of Spotsylvania	23,125	-	-	23,125	-
County of Stafford	7,303	-	-	7,303	125,520
County of King George	11,188	-	-	11,188	-
County of Caroline	11,188	-	-	11,188	49,207
Total	\$ 2,713,598	\$ 1,224,983	\$ 406,000	\$ 4,344,581	\$ 269,494

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 5—Due From Other Governmental Units: (Continued)

Component Units and Fiduciary Activities:

	Component Units		
	General	Special Revenue	Capital Projects
Commonwealth of Virginia:			
Local sales taxes	\$ -	\$ -	\$ -
State sales taxes	314,303	-	-
Comprehensive Services Act	-	-	-
Shared expenses and grants	-	-	-
State school funds	18,609	-	-
Virginia Department of Rail and Public Transportation	-	-	-
Federal pass-through:			
School funds	565,343	-	-
Recordation taxes	-	-	-
Street maintenance	-	-	-
Rental taxes	-	-	-
Excess Clerk's fees	-	-	-
Noncategorical aid	-	-	-
Social services grants	-	-	-
Federal government:			
Community Development Block Grant	-	-	-
Transit grants	-	-	-
Head Start	214,573	-	-
Others:			
Potomac and Rappahannock Transportation Commission	-	-	-
Circuit Court reimbursements:			
County of Spotsylvania	-	-	-
County of Stafford	-	-	-
County of King George	-	-	-
County of Caroline	-	-	-
Total	\$ 1,112,828	\$ -	\$ -

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due to/from other funds at June 30, 2004:

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	\$ 350,000
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	105,922
Transfers to the Comprehensive Services Act Fund for the local share of the program costs	350,000
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	2,532,683
Transfers to the School Debt Service Fund to pay school debt service and related costs	51,500
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	2,879,518
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	3,784,747
Transfers to the Public Safety Construction Fund to fund police, fire and rescue capital costs	283,334
Transfers to the General Fund for various items related to grant programs	<u>56,000</u>
Total transfers	<u>\$ 10,393,704</u>
Reconciliation of transfers:	
Transfers in from governmental funds	\$ 7,524,486
Transfers from enterprise funds to governmental funds	<u>2,869,218</u>
Total transfers	<u>\$ 10,393,704</u>

Component Unit School Board:

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

Transfers from the School Fund to the Special School Fund for the local share of grants	<u>\$ 60,575</u>
---	------------------

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 7—Capital Assets:

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

Primary Government:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated:				
Land	\$ 4,754,544	\$ 2,575,000	\$ -	\$ 7,329,544
Construction in progress:				
Infrastructure	\$ 6,165,484	\$ 2,460,352	\$ -	\$ 8,625,836
Land improvements	1,271,585	1,941,402	-	3,212,987
Buildings	750,497	5,619,088	506,599	5,862,986
Total construction in progress	<u>\$ 8,187,566</u>	<u>\$ 10,020,842</u>	<u>\$ 506,599</u>	<u>\$ 17,701,809</u>
Total capital assets not being depreciated	<u>\$ 12,942,110</u>	<u>\$ 12,595,842</u>	<u>\$ 506,599</u>	<u>\$ 25,031,353</u>
Other capital assets:				
Land improvements	\$ 1,015,973	\$ 95,918	\$ -	\$ 1,111,891
Buildings	12,171,154	3,304,915	-	15,476,069
Machinery, equipment and vehicles	7,982,685	449,394	-	8,432,079
Total other capital assets	<u>\$ 21,169,812</u>	<u>\$ 3,850,227</u>	<u>\$ -</u>	<u>\$ 25,020,039</u>
Accumulated depreciation:				
Land improvements	\$ 35,137	\$ 41,290	\$ -	\$ 76,427
Buildings	5,053,870	393,822	-	5,447,692
Machinery, equipment and vehicles	3,772,633	789,938	-	4,562,571
Total accumulated depreciation	<u>\$ 8,861,640</u>	<u>\$ 1,225,050</u>	<u>\$ -</u>	<u>\$ 10,086,690</u>
Other capital assets, net	<u>\$ 12,308,172</u>	<u>\$ 2,625,177</u>	<u>\$ -</u>	<u>\$ 14,933,349</u>
Net capital assets	<u>\$ 25,250,282</u>	<u>\$ 15,221,019</u>	<u>\$ 506,599</u>	<u>\$ 39,964,702</u>
Depreciation is allocated to:				
General government administration		\$ 85,952		
Judicial administration		73,311		
Public safety		525,916		
Health and welfare		66,321		
Public works		273,566		
Parks and recreation		185,339		
Community development		14,645		
Total		<u>\$ 1,225,050</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated:				
Land	\$ 531,555	\$ -	\$ -	\$ 531,555
Other capital assets:				
Land improvements	\$ 102,913	\$ -	\$ -	\$ 102,913
Buildings	17,458,028	-	-	17,458,028
Machinery, equipment and vehicles	1,599,492	136,388	92,937	1,642,943
Total other capital assets	<u>\$ 19,160,433</u>	<u>\$ 136,388</u>	<u>\$ 92,937</u>	<u>\$ 19,203,884</u>
Accumulated depreciation:				
Land improvements	\$ 8,492	\$ 5,146	\$ -	\$ 13,638
Buildings	10,420,083	344,426	-	10,764,509
Machinery, equipment and vehicles	1,023,735	113,240	92,937	1,044,038
Total accumulated depreciation	<u>\$ 11,452,310</u>	<u>\$ 462,812</u>	<u>\$ 92,937</u>	<u>\$ 11,822,185</u>
Other capital assets, net	<u>\$ 7,708,123</u>	<u>\$ (326,424)</u>	<u>\$ -</u>	<u>\$ 7,381,699</u>
Net capital assets	<u>\$ 8,239,678</u>	<u>\$ (326,424)</u>	<u>\$ -</u>	<u>\$ 7,913,254</u>
Depreciation allocated to education		<u>\$ 462,812</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 7—Capital Assets: (Continued)

Business-Type Activities:	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated:				
Land	\$ 1,037,136	\$ -	\$ -	\$ 1,037,136
Construction in progress	314,030	609,907	357,045	566,892
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets not being depreciated	\$ 1,351,166	\$ 609,907	\$ 357,045	\$ 1,604,028
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other capital assets:				
Buildings and systems	\$ 41,965,168	\$ 201,073	\$ -	\$ 42,166,241
Dams and reservoirs	507,565	155,971	-	663,536
Furniture, machinery and equipment	2,757,051	256,620	-	3,013,671
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total other capital assets	\$ 45,229,784	\$ 613,664	\$ -	\$ 45,843,448
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation:				
Buildings and systems	\$ 9,867,802	\$ 881,509	\$ -	\$ 10,749,311
Dams and reservoirs	-	10,151	-	10,151
Furniture, machinery and equipment	1,404,435	248,469	-	1,652,904
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	\$ 11,272,237	\$ 1,140,129	\$ -	\$ 12,412,366
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other capital assets, net	\$ 33,957,547	\$ (526,465)	\$ -	\$ 33,431,082
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net capital assets	<u>\$ 35,308,713</u>	<u>\$ 83,442</u>	<u>\$ 357,045</u>	<u>\$ 35,035,110</u>
Depreciation is allocated to:				
Water operations		\$ 400,490		
Wastewater operations		560,395		
Transit operations		179,244		
		<u> </u>		
Total		<u>\$ 1,140,129</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 8—Deferred Revenue:

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

	Government- wide Statements	Balance Sheet
	Governmental Activities	Governmental Funds
Primary Government:		
Deferred property tax revenue:		
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ -	\$ 212,016
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	635,492	635,492
Deferred Tobacco Tax	107,588	107,588
Other	<u>25,539</u>	<u>25,539</u>
Total deferred revenue	<u>\$ 768,619</u>	<u>\$ 980,635</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9—Long-term Debt:

Primary Government:

A summary of long-term obligation transactions of the City for the year ended June 30, 2004 is as follows:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>	<u>Current Portion</u>
General long-term debt payable from governmental activities:					
General obligation bonds	\$ 20,319,760	\$ -	\$ 1,754,469	\$ 18,565,291	\$ 1,933,645
General obligation school bonds	-	48,095,000	-	48,095,000	-
State Literary Fund loan	50,000	-	50,000	-	-
Add: Unamortized bond premium	-	1,906,469	-	1,906,469	82,037
Total	<u>\$ 20,369,760</u>	<u>\$ 50,001,469</u>	<u>\$ 1,804,469</u>	<u>\$ 68,566,760</u>	<u>\$ 2,015,682</u>
Long-term debt payable from business activities:					
General obligation bonds	\$ 4,530,240	-	\$ 395,531	\$ 4,134,709	\$ 356,355
Virginia Resources Authority revenue bonds	<u>9,704,013</u>	<u>-</u>	<u>757,872</u>	<u>8,946,141</u>	<u>812,550</u>
Total	<u>\$ 14,234,253</u>	<u>\$ -</u>	<u>\$ 1,153,403</u>	<u>\$ 13,080,850</u>	<u>\$ 1,168,905</u>
Total long-term debt	<u>\$ 34,604,013</u>	<u>\$ 50,001,469</u>	<u>\$ 2,957,872</u>	<u>\$ 81,647,610</u>	<u>\$ 3,184,587</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

The schedule below shows principal and interest requirements through maturity for all outstanding debt at June 30, 2004:

Year Ending June 30	General Obligation Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 2,290,000	\$ 2,311,574	\$ 812,550	\$ 297,320
2006	3,255,000	3,010,195	840,411	269,459
2007	3,260,000	2,891,329	869,228	240,642
2008	3,440,000	2,771,653	899,033	210,837
2009	3,185,000	2,654,273	929,860	180,010
2010	2,995,000	2,539,565	961,744	148,126
2011	3,090,000	2,422,880	994,721	115,149
2012	2,770,000	2,306,104	1,028,829	81,041
2013	2,570,000	2,192,940	1,064,107	45,763
2014	2,615,000	2,079,709	545,658	9,276
2015	2,700,000	1,963,516	-	-
2016	2,305,000	1,849,274	-	-
2017	2,415,000	1,736,806	-	-
2018	2,530,000	1,618,657	-	-
2019	2,115,000	1,494,571	-	-
2020	2,210,000	1,388,422	-	-
2021	2,315,000	1,277,079	-	-
2022	2,425,000	1,160,235	-	-
2023	2,325,000	1,041,123	-	-
2024	2,450,000	919,360	-	-
2025	2,575,000	791,223	-	-
2026	2,710,000	659,843	-	-
2027	2,845,000	525,134	-	-
2028	2,985,000	383,756	-	-
2029	3,130,000	235,468	-	-
2030	3,290,000	79,783	-	-
	<u>\$ 70,795,000</u>	<u>\$ 42,304,472</u>	<u>\$ 8,946,141</u>	<u>\$ 1,597,623</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

At June 30, 2004, the City's long-term debt consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
General Obligation Bonds:					
1998A General Obligation Refunding Bonds	1998	2018	4.5-6.0%	\$ 5,950,000	\$ 345,000
2001A General Obligation Refunding Bonds	2001	2022	4.5-6.5%	16,750,000	1,945,000
2004A General Obligation School Bonds	2004	2030	5.1-4.85%	<u>48,095,000</u>	<u>-</u>
Total General Obligation Bonds				\$ 70,795,000	\$ 2,290,000
Revenue Bonds:					
Virginia Resources Authority Revenue Bonds	1992	2014	5.75%	<u>8,946,141</u>	<u>812,550</u>
Total Long-term Debt				<u>\$ 79,741,141</u>	<u>\$ 3,102,550</u>

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

Conduit debt. There are several industrial development revenue bonds outstanding issued through the Industrial Development Authority of Fredericksburg. Total outstanding obligations at June 30, 2004 totaled approximately \$117,000,000. 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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 10—Compensated Absences:

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

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

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

	<u>Balance July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2004</u>	<u>Current Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 2,057,804	\$ 1,669,747	\$ 1,576,471	\$ 2,151,080	\$ 1,340,711
Business-type activities	<u>109,920</u>	<u>85,210</u>	<u>75,845</u>	<u>119,285</u>	<u>85,467</u>
Total primary government	\$ 2,167,724	\$ 1,754,957	\$ 1,652,316	\$ 2,270,365	\$ 1,426,178
Component Unit School Board	<u>613,618</u>	<u>368,600</u>	<u>319,511</u>	<u>662,707</u>	<u>345,101</u>
Total	<u>\$ 2,781,342</u>	<u>\$ 2,123,557</u>	<u>\$ 1,971,827</u>	<u>\$ 2,933,072</u>	<u>\$ 1,771,279</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 11—Defined Benefit Pension Plan:

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

Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. 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 State Legislature. Actuarial valuations are performed on an annual basis.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be and has been assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employee contribution rates for the fiscal year ended 2004 were both 1.00% of annual covered payroll.

The School Board's contribution rate for the VRS statewide cost sharing pool for its professional employees was 3.77%. The total School Board contribution for fiscal year 2004 was \$1,154,124 (employer—\$496,129 and employee—\$657,995).

Annual Pension Cost

For fiscal year 2004, the City's annual pension cost of \$151,199 (does not include the employee share assumed by the City which was \$755,995) was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

In fiscal year 2004, the City of Fredericksburg School Board’s annual pension cost for the Board’s non-professional employees was \$8,056 (does not include the employee share assumed by the Board which was \$40,281) which was equal to the Board’s required and actual contributions. The required contribution was determined as a part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions used to determine the FY2004 contributions are as follows:

	<u>City</u>	<u>Non-Professional School Board</u>
Valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	10 Years	17 Years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return ¹	8.00%	8.00%
Projected salary increases: ¹		
Non LEO Employees	4.25% to 6.10%	4.25% to 6.10%
LEO Employees	4.50% to 5.75%	4.50% to 5.75%
Cost-of-living adjustments	3.0%	3.0%

¹ Includes inflation at 3%

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

Three Year Trend Information			
<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, 2004	\$ 151,199	100%	\$ -
June 30, 2003	142,935	100%	-
June 30, 2002	549,504	100%	-
School Board Non-Professional:			
June 30, 2004	\$ 8,056	100%	\$ -
June 30, 2003	6,189	100%	-
June 30, 2002	5,458	100%	-

(1) Employer portion only

Note 12—Deferred Compensation Plan:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City 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. This plan was converted to a trustee plan during fiscal year 1998.

Note 13—Commitments and Contingencies:

State and Federal Programs

Federal programs in which the City and all discretely presented component units participate were 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 were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 13—Commitments and Contingencies: (Continued)

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, 2004 the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$47,000,000 at June 30, 2004.

The School Board had no significant construction or related commitments outstanding at June 30, 2004.

Note 14—Litigation:

The City has also been named as defendant in matters involving law enforcement actions and alleged personal injuries suffered from falls on City sidewalks. Legal counsel is of the opinion that the City either has no legal liability or has adequate liability insurance coverage to cover any potential judgments.

Note 15—Expenditures and Appropriations:

Expenditures did not exceed appropriations in any fund at June 30, 2004.

Note 16—Landfill Postclosure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to postclosure monitoring. The estimated postclosure care cost for the next twenty-three years is \$1,013,316 and has been recorded as long-term liability at June 30, 2004. These amounts are based on what it would cost to perform all postclosure care based on 2004 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, 2003	\$	971,094
Increase in estimate		42,222
Balance at June 30, 2004	\$	<u>1,013,316</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 17—Surety Bonds:

	<u>Amount</u>
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 (1)	250,000
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

(1) Increases to \$750,000 during peak collection periods.

Note 18—Self Insurance/Risk Management:

The City and School Board administer employee health and unemployment insurance programs. These insurance activities have accounting 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.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

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

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

City General Fund	
Estimated claims incurred but not reported	\$ 206,074
Estimated maximum stop-loss liability based on premium cost and experience rate	<u>743,926</u>
 Total funds reserved	 \$ <u><u>950,000</u></u>

The change in aggregate liabilities for the past three fiscal years are 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>
2002	\$ 219,665	\$ 1,746,445	\$ 1,757,730	\$ 208,380
2003	208,380	1,657,311	1,624,446	241,245
2004	241,245	1,433,125	1,468,296	206,074

Unemployment Insurance

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

Property and Casualty Insurance

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2004

Note 19—Other Post-Employment Benefits:

In addition to the pension benefit described in Note 11, the City provides post-retirement health care insurance and group life insurance for employees who are eligible for retirement benefits. Currently, 73 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. During the year, approximately \$229,374 was expended for post-retirement health care and group life insurance by the City.

Note 20—Rental Revenues:

The City leases various properties to private, not-for-profit, and governmental organizations and businesses. The lease terms range from monthly to forty years. Some of the rentals are nominal in amount and some have been prepaid for the entire lease term. The estimated rentals to be received from various lessees over the next five years is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 58,540
2006	48,000
2007	-
2008	-
2009	-

Note 21—Subsequent Event:

On August 18, 2004 the City purchased land for the site of a downtown parking garage. The cost of this land was \$800,000.

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.

This page intentionally left blank

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 14,767,745	\$ 14,861,694	\$ 16,924,249	\$ 2,062,555
Public service corporations	930,550	930,550	746,441	(184,109)
Personal property	3,324,614	3,324,614	3,452,569	127,955
Mobile homes	2,568	2,568	2,072	(496)
Machinery and tools	138,323	138,323	113,200	(25,123)
Penalties	134,320	134,320	127,887	(6,433)
Interest	27,461	27,461	40,258	12,797
Total general property taxes	<u>\$ 19,325,581</u>	<u>\$ 19,419,530</u>	<u>\$ 21,406,676</u>	<u>\$ 1,987,146</u>
Other local taxes:				
Local sales and use taxes	\$ 9,487,500	\$ 9,487,500	\$ 11,537,324	\$ 2,049,824
Utility taxes	2,405,000	2,405,000	2,780,470	375,470
Business licenses and rental tax	3,832,500	3,832,500	4,536,150	703,650
Franchise license taxes	220,000	220,000	250,321	30,321
Motor vehicle licenses	167,000	167,000	160,089	(6,911)
Bank stock taxes	363,000	363,000	519,107	156,107
Recordation taxes	172,000	172,000	277,548	105,548
Tobacco tax	135,000	135,000	195,098	60,098
Amusement tax	140,000	140,000	168,775	28,775
Hotel/lodging taxes	500,000	500,000	605,936	105,936
Meals taxes	4,737,500	4,737,500	5,395,346	657,846
E-911 taxes	165,000	165,000	214,039	49,039
Total other local taxes	<u>\$ 22,324,500</u>	<u>\$ 22,324,500</u>	<u>\$ 26,640,203</u>	<u>\$ 4,315,703</u>
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 368,300	\$ 368,300	\$ 494,550	\$ 126,250
Animal licenses	3,500	3,500	4,560	1,060
Total permits, privilege fees and licenses	<u>\$ 371,800</u>	<u>\$ 371,800</u>	<u>\$ 499,110</u>	<u>\$ 127,310</u>
Fines and forfeitures	<u>\$ 341,500</u>	<u>\$ 341,500</u>	<u>\$ 502,834</u>	<u>\$ 161,334</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 500,000	\$ 500,000	\$ 234,638	\$ (265,362)
Revenue from use of property	500	500	63,713	63,213
Total revenue from use of money and property	<u>\$ 500,500</u>	<u>\$ 500,500</u>	<u>\$ 298,351</u>	<u>\$ (202,149)</u>
Charges for services:				
Court costs	\$ 3,000	\$ 3,000	\$ 62,817	\$ 59,817
Commonwealth's attorney	1,250	1,250	2,345	1,095
Sanitation and waste removal	525,500	525,500	582,190	56,690
Parks and recreation	470,000	470,000	592,019	122,019
Planning and community development	800	800	2,478	1,678
Courthouse maintenance	-	-	16,181	16,181
Administrative charges	40,000	40,000	35,159	(4,841)
Total charges for services	<u>\$ 1,040,550</u>	<u>\$ 1,040,550</u>	<u>\$ 1,293,189</u>	<u>\$ 252,639</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 149,795	\$ 149,795	\$ 19,766	\$ (130,029)
Souvenir sales	35,000	35,000	73,055	38,055
Other	40,500	49,889	39,316	(10,573)
Total miscellaneous revenue	<u>\$ 225,295</u>	<u>\$ 234,684</u>	<u>\$ 132,137</u>	<u>\$ (102,547)</u>
Recovered costs:				
Accounting/EDP charges	\$ 83,000	\$ 83,000	\$ 100	\$ (82,900)
Circuit Court secretaries	152,500	152,500	174,159	21,659
Health Department	215,000	215,000	231,120	16,120
Social services	112,000	112,000	113,422	1,422
R-Board reimbursement	140,000	140,000	-	(140,000)
Other	1,150	253,697	383,156	129,459
Total recovered costs	<u>\$ 703,650</u>	<u>\$ 956,197</u>	<u>\$ 901,957</u>	<u>\$ (54,240)</u>
Total revenue from local sources	<u>\$ 44,833,376</u>	<u>\$ 45,189,261</u>	<u>\$ 51,674,457</u>	<u>\$ 6,485,196</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 25,000	\$ 25,000	\$ 33,272	\$ 8,272
Wine taxes	12,500	12,500	24,690	12,190
Grantors tax	100,000	100,000	88,959	(11,041)
Motor vehicle rental tax	65,000	65,000	120,102	55,102
Personal property relief	1,624,730	1,624,730	1,520,718	(104,012)
Other	9,000	9,000	11,481	2,481
Total noncategorical aid	<u>\$ 1,836,230</u>	<u>\$ 1,836,230</u>	<u>\$ 1,799,222</u>	<u>\$ (37,008)</u>
Categorical aid - shared expenses:				
Commonwealth's attorney	\$ 315,000	\$ 315,000	\$ 316,535	\$ 1,535
Sheriff	356,000	356,000	336,724	(19,276)
Commissioner of revenue	111,000	111,000	119,129	8,129
Treasurer	93,450	93,450	94,594	1,144
Medical examiner	400	400	690	290
Registrar	41,200	41,200	37,190	(4,010)
Clerk of the Circuit Court	197,155	197,155	253,133	55,978
Total categorical aid - shared expenses	<u>\$ 1,114,205</u>	<u>\$ 1,114,205</u>	<u>\$ 1,157,995</u>	<u>\$ 43,790</u>
Categorical aid - other:				
Street and highway maintenance	\$ 1,619,000	\$ 1,619,000	\$ 1,692,293	\$ 73,293
Law enforcement assistance	625,000	625,000	677,416	52,416
Other	36,500	46,112	114,473	68,361
Total categorical aid - other	<u>\$ 2,280,500</u>	<u>\$ 2,290,112</u>	<u>\$ 2,484,182</u>	<u>\$ 194,070</u>
Total revenue from the Commonwealth	<u>\$ 5,230,935</u>	<u>\$ 5,240,547</u>	<u>\$ 5,441,399</u>	<u>\$ 200,852</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	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	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Highway safety grant	-	-	-	-
Emergency services	8,000	8,000	304,256	296,256
Law enforcement assistance	-	-	-	-
Public assistance - cost allocation	30,000	30,000	45,536	15,536
Total revenue from the Federal Government	\$ 39,000	\$ 39,000	\$ 349,792	\$ 310,792
Total revenues	\$ 50,103,311	\$ 50,468,808	\$ 57,465,648	\$ 6,996,840
Expenditures				
General government administration:				
Legislative:				
City council	\$ 192,365	\$ 193,365	\$ 181,188	\$ 12,177
Clerk of council	71,470	77,714	74,994	2,720
Total legislative	\$ 263,835	\$ 271,079	\$ 256,182	\$ 14,897
General and financial administration:				
City manager	\$ 509,618	\$ 525,468	\$ 525,446	\$ 22
Insurance program	325,450	329,650	329,615	35
Personnel	164,838	164,838	146,808	18,030
Independent auditor	43,600	54,905	54,905	-
Commissioner of the revenue	585,763	601,361	599,374	1,987
Board of real estate assessors	12,500	12,500	-	12,500
Equalization board	10,000	10,000	800	9,200
Treasurer	507,288	511,888	513,890	(2,002)
Fiscal affairs	426,265	435,055	416,186	18,869
Information systems	298,097	300,997	296,600	4,397
Copying and postage	26,850	26,850	18,653	8,197
Legal services	249,096	321,738	319,811	1,927
Total general and financial administration	\$ 3,159,365	\$ 3,295,250	\$ 3,222,088	\$ 73,162
Board of elections:				
Registrar and electoral board	\$ 155,917	\$ 155,917	\$ 142,116	\$ 13,801
Total general government administration	\$ 3,579,117	\$ 3,722,246	\$ 3,620,386	\$ 101,860
Judicial administration:				
Courts:				
Circuit court	\$ 290,698	\$ 290,698	\$ 261,109	\$ 29,589
General district court	26,600	26,600	18,929	7,671
Special magistrates	22,990	22,990	5,632	17,358
Juvenile and domestic relations court	22,600	22,600	20,005	2,595
Clerk of the circuit court	483,227	504,227	462,202	42,025
Sheriff	679,662	718,042	712,391	5,651
JDR services	30,632	30,632	30,632	-
Juries	35,730	35,730	18,660	17,070
Court appointed attorney	21,500	23,500	23,476	24
Total courts	\$ 1,613,639	\$ 1,675,019	\$ 1,553,036	\$ 121,983

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth attorney:				
Commonwealth attorney	\$ 623,891	\$ 659,851	\$ 638,526	\$ 21,325
Total judicial administration	\$ 2,237,530	\$ 2,334,870	\$ 2,191,562	\$ 143,308
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 5,408,718	\$ 5,433,570	\$ 5,346,072	\$ 87,498
Auxiliary police	23,500	23,500	5,734	17,766
Narcotics taskforce	6,000	6,000	6,000	-
Forfeited assets	-	6,371	6,371	-
Total law enforcement and traffic control	\$ 5,438,218	\$ 5,469,441	\$ 5,364,177	\$ 105,264
Fire and rescue:				
Fire department	\$ 3,207,900	\$ 3,286,679	\$ 3,120,138	\$ 166,541
Volunteer fire department	21,000	21,000	21,000	-
Rescue services	92,345	101,957	101,957	-
Emergency medical services	336,771	341,771	336,118	5,653
Hazardous materials	20,760	22,567	9,221	13,346
E-911 communications	794,494	794,494	770,362	24,132
Total fire and rescue	\$ 4,473,270	\$ 4,568,468	\$ 4,358,796	\$ 209,672
Correction and detention:				
Juvenile detention center	\$ 593,533	\$ 593,533	\$ 543,995	\$ 49,538
Rappahannock Security Center	2,195,505	2,195,505	2,172,364	23,141
Total correction and detention	\$ 2,789,038	\$ 2,789,038	\$ 2,716,359	\$ 72,679
Inspections:				
Code compliance	\$ 589,931	\$ 589,931	\$ 578,946	\$ 10,985
Other protection:				
Animal control	\$ 83,930	\$ 83,930	\$ 71,971	\$ 11,959
Medical examiner	600	1,100	1,100	-
Total other protection	\$ 84,530	\$ 85,030	\$ 73,071	\$ 11,959
Total public safety	\$ 13,374,987	\$ 13,501,908	\$ 13,091,349	\$ 410,559
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 548,275	\$ 548,275	\$ 488,203	\$ 60,072
Street maintenance	833,264	1,053,973	937,750	116,223
Drainage	270,194	295,194	284,235	10,959
Street lights	265,500	265,500	247,422	18,078
Industrial park rail spur	15,000	30,000	29,621	379
Traffic engineering	290,037	376,868	236,083	140,785
Shop and garage	912,533	932,478	915,865	16,613
Graphics	65,853	65,853	58,931	6,922
Total maintenance of streets, highways, bridges and sidewalks	\$ 3,200,656	\$ 3,568,141	\$ 3,198,110	\$ 370,031

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 689,961	\$ 694,921	\$ 656,444	\$ 38,477
Refuse collection	526,954	535,454	505,725	29,729
Refuse disposal	245,850	55,850	45,788	10,062
Recycling collection	91,345	91,345	88,589	2,756
Total sanitation and waste removal	<u>\$ 1,554,110</u>	<u>\$ 1,377,570</u>	<u>\$ 1,296,546</u>	<u>\$ 81,024</u>
Maintenance of buildings and grounds:				
General properties	\$ 1,141,446	\$ 1,078,466	\$ 958,585	\$ 119,881
Buildings and grounds - special	184,504	203,810	201,992	1,818
Total maintenance of buildings and grounds	<u>\$ 1,325,950</u>	<u>\$ 1,282,276</u>	<u>\$ 1,160,577</u>	<u>\$ 121,699</u>
Total public works	<u>\$ 6,080,716</u>	<u>\$ 6,227,987</u>	<u>\$ 5,655,233</u>	<u>\$ 572,754</u>
Health and welfare:				
Health:				
Supplement to local health department	\$ 388,444	\$ 388,444	\$ 388,444	\$ -
Mental health and mental retardation:				
Chapter X board	\$ 201,467	\$ 201,467	\$ 201,467	\$ -
Social services:				
Other contributions	\$ 397,721	\$ 428,598	\$ 422,598	\$ 6,000
Total health and welfare	<u>\$ 987,632</u>	<u>\$ 1,018,509</u>	<u>\$ 1,012,509</u>	<u>\$ 6,000</u>
Education:				
Community colleges	\$ 5,248	\$ 5,248	\$ 5,248	\$ -
MWC Alumni Center	26,600	26,600	26,600	-
Appropriations to public school system	14,145,443	14,551,921	14,807,894	(255,973)
Total education	<u>\$ 14,177,291</u>	<u>\$ 14,583,769</u>	<u>\$ 14,839,742</u>	<u>\$ (255,973)</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 623,232	\$ 659,932	\$ 657,289	\$ 2,643
Supervision	647,402	771,302	760,316	10,986
Maintenance	729,752	751,157	690,994	60,163
Total parks and recreation	<u>\$ 2,000,386</u>	<u>\$ 2,182,391</u>	<u>\$ 2,108,599</u>	<u>\$ 73,792</u>
Library:				
Regional library	\$ 823,938	\$ 823,938	\$ 823,938	\$ -
Cultural:				
Museums	\$ 132,500	\$ 132,500	\$ 132,500	\$ -
Other cultural	9,240	9,240	9,240	-
Total cultural	<u>\$ 141,740</u>	<u>\$ 141,740</u>	<u>\$ 141,740</u>	<u>\$ -</u>
Total parks, recreation and cultural	<u>\$ 2,966,064</u>	<u>\$ 3,148,069</u>	<u>\$ 3,074,277</u>	<u>\$ 73,792</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures: (continued)				
Community Development:				
Planning and community development:				
Planning	\$ 333,558	\$ 409,618	\$ 328,741	\$ 80,877
Building appeals board	600	600	450	150
Community development	85,891	95,891	95,891	-
Architectural review board	1,000	1,000	-	1,000
Clean community commission	4,539	4,539	3,666	873
Economic development/tourism	1,006,452	1,045,807	883,699	162,108
Total planning and community development	<u>\$ 1,432,040</u>	<u>\$ 1,557,455</u>	<u>\$ 1,312,447</u>	<u>\$ 245,008</u>
Environmental management:				
Soil and water conservation district	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Total community development	<u>\$ 1,442,040</u>	<u>\$ 1,567,455</u>	<u>\$ 1,322,447</u>	<u>\$ 245,008</u>
Total expenditures	<u>\$ 44,845,377</u>	<u>\$ 46,104,813</u>	<u>\$ 44,807,505</u>	<u>\$ 1,297,308</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 5,257,934</u>	<u>\$ 4,363,995</u>	<u>\$ 12,658,143</u>	<u>\$ 8,294,148</u>
Other Financing Sources (Uses)				
Transfers in	\$ 56,000	\$ 56,000	\$ 56,000	\$ -
Transfers out	<u>(4,950,696)</u>	<u>(8,002,078)</u>	<u>(7,524,486)</u>	<u>477,592</u>
Total other financing sources (uses)	<u>\$ (4,894,696)</u>	<u>\$ (7,946,078)</u>	<u>\$ (7,468,486)</u>	<u>\$ 477,592</u>
Net change in fund balance	\$ 363,238	\$ (3,582,083)	\$ 5,189,657	\$ 8,771,740
Fund balance, beginning of year	<u>(363,238)</u>	<u>3,582,083</u>	<u>17,670,382</u>	<u>14,088,299</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,860,039</u>	<u>\$ 22,860,039</u>

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

Virginia Retirement System
 Public Employees Retirement System
 Schedule of Funding Progress

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, 2003	\$ 49,826,857	\$ 52,118,615	\$ 2,291,758	95.6%	\$ 14,497,127	15.8%
June 30, 2002	48,965,310	45,038,753	(3,926,557)	108.7%	12,471,015	-31.5%
June 30, 2001	46,919,410	40,939,068	(5,980,342)	114.6%	12,337,818	-48.5%

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, 2003	\$ 1,629,800	\$ 1,369,234	\$ (260,566)	119.0%	\$ 653,459	-39.9%
June 30, 2002	1,564,907	1,272,175	(292,732)	123.0%	734,103	-39.9%
June 30, 2001	1,459,163	1,092,590	(366,573)	133.6%	675,396	-54.3%

This page intentionally left blank

OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet
 Nonmajor Governmental Funds
 At June 30, 2004

ASSETS	Special Revenue	Capital Projects	Total
Assets:			
Cash and cash equivalents	\$ 2,163,593	\$ 9,521,756	\$ 11,685,349
Receivables:			
Property taxes	2,916	-	2,916
Accounts	20,965	-	20,965
Accrued revenue	-	173,956	173,956
Due from other governments	1,224,983	406,000	1,630,983
Total assets	<u>\$ 3,412,457</u>	<u>\$ 10,101,712</u>	<u>\$ 13,514,169</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable	\$ 177,982	\$ 855,379	\$ 1,033,361
Accrued liabilities	42,570	-	42,570
Deferred revenue	-	25,000	25,000
Total liabilities	<u>\$ 220,552</u>	<u>\$ 880,379</u>	<u>\$ 1,100,931</u>
Equity:			
Fund Balance:			
Reserved:			
Encumbrances	\$ 5,588	\$ 277,811	\$ 283,399
Designated:			
Subsequent year's expenditures	1,371,178	-	1,371,178
Capital projects	-	8,943,522	8,943,522
Unreserved/undesignated	1,815,139	-	1,815,139
Total equity	<u>\$ 3,191,905</u>	<u>\$ 9,221,333</u>	<u>\$ 12,413,238</u>
Total liabilities and equity	<u>\$ 3,412,457</u>	<u>\$ 10,101,712</u>	<u>\$ 13,514,169</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2004

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
General property taxes	\$ 631,967	\$ -	\$ -	\$ 631,967
Other local taxes	-	406,000	-	406,000
Use of money and property	15,687	192,012	-	207,699
Miscellaneous	301,888	-	-	301,888
Recovered costs	197,555	490,048	-	687,603
Intergovernmental:				
Revenue from the Commonwealth	1,533,203	229,535	-	1,762,738
Revenue from the Federal Government	2,509,117	-	-	2,509,117
Total revenues	\$ 5,189,417	\$ 1,317,595	\$ -	\$ 6,507,012
Expenditures				
Current:				
Judicial administration	\$ 68,968	\$ -	\$ -	\$ 68,968
Public safety	119,232	-	-	119,232
Health and welfare	4,479,091	-	-	4,479,091
Parks, recreation and cultural	34,552	-	-	34,552
Community Development	703,627	-	-	703,627
Capital projects	-	10,121,479	-	10,121,479
Debt service:				
Principal	-	-	1,804,469	1,804,469
Interest	-	-	779,714	779,714
Total expenditures	\$ 5,405,470	\$ 10,121,479	\$ 2,584,183	\$ 18,111,132
Excess (deficiency) of revenues over expenditures	\$ (216,053)	\$ (8,803,884)	\$ (2,584,183)	\$ (11,604,120)
Other financing sources (uses)				
Transfers in	\$ 805,922	\$ 6,947,599	\$ 2,584,183	\$ 10,337,704
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 805,922	\$ 6,947,599	\$ 2,584,183	\$ 10,337,704
Net change in fund balance	\$ 589,869	\$ (1,856,285)	\$ -	\$ (1,266,416)
Fund balance, beginning of year	2,602,036	11,077,618	-	13,679,654
Fund balance, end of year	\$ 3,191,905	\$ 9,221,333	\$ -	\$ 12,413,238

CITY OF FREDERICKSBURG, VIRGINIA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 At June 30, 2004

	<u>Virginia Public Assistance Fund</u>	<u>State, Federal and Local Grants Fund</u>	<u>Regional Transportation Fund</u>	<u>Compre- hensive Services Act Fund</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 123,455	\$ 49,336	\$ 76,659	\$ 101,920
Receivables				
Taxes	-	-	-	-
Accounts	3,805	-	17,160	-
Prepaid items	-	-	-	-
Due from other governments	255,331	701,079	-	268,573
Total assets	<u>\$ 382,591</u>	<u>\$ 750,415</u>	<u>\$ 93,819</u>	<u>\$ 370,493</u>
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 5,785	\$ 65,897	\$ 1,269	\$ 105,031
Accrued liabilities	38,323	3,146	-	1,101
Total liabilities	<u>\$ 44,108</u>	<u>\$ 69,043</u>	<u>\$ 1,269</u>	<u>\$ 106,132</u>
Equity:				
Fund Balance:				
Reserved:				
Encumbrances	\$ -	\$ 5,588	\$ -	\$ -
Prepays	-	-	-	-
Designated:				
Subsequent year's expenditures	338,483	675,784	92,550	264,361
Unreserved/undesignated	-	-	-	-
Total equity	<u>\$ 338,483</u>	<u>\$ 681,372</u>	<u>\$ 92,550</u>	<u>\$ 264,361</u>
Total liabilities and equity	<u>\$ 382,591</u>	<u>\$ 750,415</u>	<u>\$ 93,819</u>	<u>\$ 370,493</u>

Exhibit 16

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 1,340,778	\$ 334,128	\$ 137,317	\$ 2,163,593
1,944	972	-	2,916
-	-	-	20,965
-	-	-	-
-	-	-	1,224,983
<u>\$ 1,342,722</u>	<u>\$ 335,100</u>	<u>\$ 137,317</u>	<u>\$ 3,412,457</u>
\$ -	\$ -	\$ -	\$ 177,982
-	-	-	42,570
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,552</u>
\$ -	\$ -	\$ -	\$ 5,588
-	-	-	-
-	-	-	1,371,178
<u>1,342,722</u>	<u>335,100</u>	<u>137,317</u>	<u>1,815,139</u>
<u>\$ 1,342,722</u>	<u>\$ 335,100</u>	<u>\$ 137,317</u>	<u>\$ 3,191,905</u>
<u>\$ 1,342,722</u>	<u>\$ 335,100</u>	<u>\$ 137,317</u>	<u>\$ 3,412,457</u>

CITY OF FREDERICKSBURG, VIRGINIA

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

Nonmajor Special Revenue Funds

Year Ended June 30, 2004

	<u>Virginia Public Assistance Fund</u>	<u>State, Federal and Local Grants Fund</u>	<u>Regional Transportation Fund</u>	<u>Compre- hensive Services Act Fund</u>
Revenues				
General property taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	87	15,600	-
Miscellaneous	10,000	196,197	-	95,691
Recovered costs	91,285	100,030	6,240	-
Intergovernmental:				
Revenue from the Commonwealth	765,551	210,413	-	557,239
Revenue from the Federal Government	2,002,083	507,034	-	-
Total revenues	<u>\$ 2,868,919</u>	<u>\$ 1,013,761</u>	<u>\$ 21,840</u>	<u>\$ 652,930</u>
Expenditures				
Current:				
Judicial administration	\$ -	\$ 68,968	\$ -	\$ -
Public safety	-	119,232	-	-
Health and welfare	3,497,489	-	-	981,602
Parks, recreation and cultural	-	34,552	-	-
Community Development	-	655,737	47,890	-
Total expenditures	<u>\$ 3,497,489</u>	<u>\$ 878,489</u>	<u>\$ 47,890</u>	<u>\$ 981,602</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (628,570)</u>	<u>\$ 135,272</u>	<u>\$ (26,050)</u>	<u>\$ (328,672)</u>
Other financing sources (uses)				
Transfers in	\$ 350,000	\$ 105,922	\$ -	\$ 350,000
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 350,000</u>	<u>\$ 105,922</u>	<u>\$ -</u>	<u>\$ 350,000</u>
Net change in fund balance	\$ (278,570)	\$ 241,194	\$ (26,050)	\$ 21,328
Fund balance, beginning of year	<u>617,053</u>	<u>440,178</u>	<u>118,600</u>	<u>243,033</u>
Fund balance, end of year	<u><u>\$ 338,483</u></u>	<u><u>\$ 681,372</u></u>	<u><u>\$ 92,550</u></u>	<u><u>\$ 264,361</u></u>

Exhibit 17

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 343,089	\$ 173,113	\$ 115,765	\$ 631,967
-	-	-	15,687
-	-	-	301,888
-	-	-	197,555
-	-	-	1,533,203
-	-	-	2,509,117
<u>\$ 343,089</u>	<u>\$ 173,113</u>	<u>\$ 115,765</u>	<u>\$ 5,189,417</u>
\$ -	\$ -	\$ -	\$ 68,968
-	-	-	119,232
-	-	-	4,479,091
-	-	-	34,552
-	-	-	703,627
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,405,470</u>
<u>\$ 343,089</u>	<u>\$ 173,113</u>	<u>\$ 115,765</u>	<u>\$ (216,053)</u>
\$ -	\$ -	\$ -	\$ 805,922
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 805,922</u>
\$ 343,089	\$ 173,113	\$ 115,765	\$ 589,869
999,633	161,987	21,552	2,602,036
<u>\$ 1,342,722</u>	<u>\$ 335,100</u>	<u>\$ 137,317</u>	<u>\$ 3,191,905</u>

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2004

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
ASSETS				
Assets:				
Cash and cash equivalents	\$ 3,218,296	\$ 2,233,182	\$ 4,070,278	\$ 9,521,756
Accrued revenue	52,606	68,744	52,606	173,956
Due from other governments	-	406,000	-	406,000
Total assets	<u>\$ 3,270,902</u>	<u>\$ 2,707,926</u>	<u>\$ 4,122,884</u>	<u>\$ 10,101,712</u>
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 318,957	\$ 536,085	\$ 337	\$ 855,379
Deferred revenue	-	25,000	-	25,000
Total liabilities	<u>\$ 318,957</u>	<u>\$ 561,085</u>	<u>\$ 337</u>	<u>\$ 880,379</u>
Equity:				
Fund Balance:				
Reserved:				
Encumbrances	\$ 277,811	-	-	\$ 277,811
Designated:				
Capital projects	2,674,134	2,146,841	4,122,547	8,943,522
Unreserved/undesignated	-	-	-	-
Total equity	<u>\$ 2,951,945</u>	<u>\$ 2,146,841</u>	<u>\$ 4,122,547</u>	<u>\$ 9,221,333</u>
Total liabilities and equity	<u>\$ 3,270,902</u>	<u>\$ 2,707,926</u>	<u>\$ 4,122,884</u>	<u>\$ 10,101,712</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 Year Ended June 30, 2004

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	Total
Revenues				
Other local taxes	\$ -	\$ 406,000	\$ -	\$ 406,000
Use of money and property	55,632	110,101	26,279	192,012
Miscellaneous	-	-	-	-
Recovered costs	465,048	25,000	-	490,048
Intergovernmental:				
Revenue from the Commonwealth	-	-	229,535	229,535
Total revenues	\$ 520,680	\$ 541,101	\$ 255,814	\$ 1,317,595
Expenditures				
Capital projects	\$ 4,747,316	\$ 5,367,534	\$ 6,629	\$ 10,121,479
Excess (deficiency) of revenues over expenditures	\$ (4,226,636)	\$ (4,826,433)	\$ 249,185	\$ (8,803,884)
Other financing sources (uses)				
Transfers in	\$ 2,879,518	\$ 3,784,747	\$ 283,334	\$ 6,947,599
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 2,879,518	\$ 3,784,747	\$ 283,334	\$ 6,947,599
Net change in fund balance	\$ (1,347,118)	\$ (1,041,686)	\$ 532,519	\$ (1,856,285)
Fund balance, beginning of year	4,299,063	3,188,527	3,590,028	11,077,618
Fund balance, end of year	\$ 2,951,945	\$ 2,146,841	\$ 4,122,547	\$ 9,221,333

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2004

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Expenditures			
Debt service:			
Principal	\$ 1,754,469	\$ 50,000	\$ 1,804,469
Interest and fiscal charges	778,214	1,500	779,714
	<u>2,532,683</u>	<u>51,500</u>	<u>2,584,183</u>
Total expenditures	\$ 2,532,683	\$ 51,500	\$ 2,584,183
Excess (deficiency) of revenues over expenditures	<u>\$ (2,532,683)</u>	<u>\$ (51,500)</u>	<u>\$ (2,584,183)</u>
Other financing sources (uses)			
Transfers in	\$ 2,532,683	\$ 51,500	\$ 2,584,183
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	\$ 2,532,683	\$ 51,500	\$ 2,584,183
Net change in fund balance	\$ -	\$ -	\$ -
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Combining Statement of Fiduciary Net Assets
At June 30, 2004

	<u>Criminal Justice Academy</u>	<u>Special Welfare</u>	<u>Court Service Unit</u>	<u>CASA Program</u>	<u>RADCO Agency</u>	<u>Rappahannock Area Youth Commission</u>	<u>Revenue Maximization Fund</u>	<u>Total</u>
ASSETS								
Assets:								
Cash and cash equivalents	\$ 2,207	\$ 25,720	\$ 112,833	\$ 54,814	\$ -	\$ 14,928	\$ 30,451	\$ 240,953
Accounts receivable	-	-	46,809	-	12,901	37,173	-	96,883
Prepaid items	-	-	-	-	-	2,525	-	2,525
Total assets	<u>\$ 2,207</u>	<u>\$ 25,720</u>	<u>\$ 159,642</u>	<u>\$ 54,814</u>	<u>\$ 12,901</u>	<u>\$ 54,626</u>	<u>\$ 30,451</u>	<u>\$ 340,361</u>
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable	\$ 2,207	\$ -	\$ 10,379	\$ 1,173	\$ 12,901	\$ 10,026	\$ -	\$ 36,686
Amounts held for others	-	25,720	149,263	53,641	-	44,600	30,451	303,675
Total liabilities	<u>\$ 2,207</u>	<u>\$ 25,720</u>	<u>\$ 159,642</u>	<u>\$ 54,814</u>	<u>\$ 12,901</u>	<u>\$ 54,626</u>	<u>\$ 30,451</u>	<u>\$ 340,361</u>
Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

AGENCY FUNDS

Statement of Changes in Assets and Liabilities

Year Ended June 30, 2004

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	\$ 2,104	\$ 573,431	\$ 573,328	\$ 2,207
Liabilities:				
Accounts payable	\$ 2,104	\$ 573,431	\$ 573,328	\$ 2,207
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	\$ 52,630	\$ 39,782	\$ 66,692	\$ 25,720
Accounts receivable	154	-	154	-
Total assets	\$ 52,784	\$ 39,782	\$ 66,846	\$ 25,720
Liabilities:				
Amounts held for others	\$ 52,784	\$ 39,782	\$ 66,846	\$ 25,720
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	\$ 58,558	\$ 215,553	\$ 161,278	\$ 112,833
Accounts receivable	16,005	46,809	16,005	46,809
Total assets	\$ 74,563	\$ 262,362	\$ 177,283	\$ 159,642
Liabilities:				
Accounts payable	\$ 3,110	\$ 10,379	\$ 3,110	\$ 10,379
Amounts held for others	71,453	251,983	174,173	149,263
Total liabilities	\$ 74,563	\$ 262,362	\$ 177,283	\$ 159,642
CASA PROGRAM				
Assets:				
Cash and cash equivalents	\$ 44,188	\$ 106,798	\$ 96,172	\$ 54,814
Accounts receivable	676	-	676	-
Prepaid items	600	-	600	-
Total assets	\$ 45,464	\$ 106,798	\$ 97,448	\$ 54,814
Liabilities:				
Accounts payable	\$ 157	\$ 1,173	\$ 157	\$ 1,173
Amounts held for others	45,307	105,625	97,291	53,641
Total liabilities	\$ 45,464	\$ 106,798	\$ 97,448	\$ 54,814

AGENCY FUNDS

Statement of Changes in Assets and Liabilities

Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
RADCO AGENCY				
Assets:				
Cash and cash equivalents	\$ -	\$ 48,305	\$ 48,305	\$ -
Accounts receivable	16,197	12,901	16,197	12,901
Total assets	<u>\$ 16,197</u>	<u>\$ 61,206</u>	<u>\$ 64,502</u>	<u>\$ 12,901</u>
Liabilities:				
Accounts payable	\$ 16,197	\$ 349	\$ 16,197	\$ 349
Amounts held for others	-	60,857	48,305	12,552
Total liabilities	<u>\$ 16,197</u>	<u>\$ 61,206</u>	<u>\$ 64,502</u>	<u>\$ 12,901</u>
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	\$ 33,218	\$ 312,287	\$ 330,577	\$ 14,928
Accounts receivable	6,327	37,173	6,327	37,173
Prepaid items	-	2,525	-	2,525
Total assets	<u>\$ 39,545</u>	<u>\$ 351,985</u>	<u>\$ 336,904</u>	<u>\$ 54,626</u>
Liabilities:				
Accounts payable	\$ 4,018	\$ 10,026	\$ 4,018	\$ 10,026
Amounts held for others	35,527	341,959	332,886	44,600
Total liabilities	<u>\$ 39,545</u>	<u>\$ 351,985</u>	<u>\$ 336,904</u>	<u>\$ 54,626</u>
REVENUE MAXIMIZATION FUND				
Assets:				
Cash and cash equivalents	\$ -	\$ 186,142	\$ 155,691	\$ 30,451
Liabilities:				
Amounts held for others	\$ -	\$ 186,142	\$ 155,691	\$ 30,451
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 190,698	\$ 1,482,298	\$ 1,432,043	\$ 240,953
Accounts receivable	39,359	96,883	39,359	96,883
Prepaid items	600	2,525	600	2,525
Total assets	<u>\$ 230,657</u>	<u>\$ 1,581,706</u>	<u>\$ 1,472,002</u>	<u>\$ 340,361</u>
Liabilities:				
Accounts payable	\$ 25,586	\$ 595,358	\$ 596,810	\$ 24,134
Amounts held for others	205,071	986,348	875,192	316,227
Total liabilities	<u>\$ 230,657</u>	<u>\$ 1,581,706</u>	<u>\$ 1,472,002</u>	<u>\$ 340,361</u>

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

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Recovered costs	42,840	42,840	91,285	48,445
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	802,862	802,862	765,551	(37,311)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	2,026,685	2,095,685	2,002,083	(93,602)
Total revenues	<u>\$ 2,882,387</u>	<u>\$ 2,951,387</u>	<u>\$ 2,868,919</u>	<u>\$ (82,468)</u>
Expenditures				
Health and welfare	<u>\$ 3,222,387</u>	<u>\$ 3,595,465</u>	<u>\$ 3,497,489</u>	<u>\$ 97,976</u>
State, Federal and Local Grants Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 87	\$ 87
Miscellaneous	<u>\$ 53,500</u>	<u>\$ 90,716</u>	<u>\$ 196,197</u>	<u>\$ 105,481</u>
Recovered costs:				
Stafford and Spotsylvania Counties	<u>\$ 150,000</u>	<u>\$ 106,946</u>	<u>\$ 100,030</u>	<u>\$ (6,916)</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Litter control	\$ 5,000	\$ 5,000	\$ 4,495	\$ (505)
Arts grant	4,500	4,500	5,000	500
Hazardous materials grant	30,000	30,000	36,243	6,243
Victim-witness program	-	53,626	53,146	(480)
Fire services program	27,000	27,000	29,766	2,766
Market Square project	300,000	300,000	51,659	(248,341)
Other	-	-	30,104	30,104
Total revenue from the Commonwealth	<u>\$ 366,500</u>	<u>\$ 420,126</u>	<u>\$ 210,413</u>	<u>\$ (209,713)</u>
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 41,000	\$ 14,059	\$ 14,059	\$ -
Emergency operations grants	-	122,090	122,090	-
Community Development Block Grant	<u>285,000</u>	<u>285,000</u>	<u>370,885</u>	<u>85,885</u>
Total revenue from the Federal Government	<u>\$ 326,000</u>	<u>\$ 421,149</u>	<u>\$ 507,034</u>	<u>\$ 85,885</u>
Total revenues	<u>\$ 896,000</u>	<u>\$ 1,038,937</u>	<u>\$ 1,013,761</u>	<u>\$ (25,176)</u>
Expenditures				
Judicial administration:				
Victim-witness	\$ 55,000	\$ 68,986	\$ 68,968	\$ 18
Narcotics task force	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total judicial administration	<u>\$ 57,500</u>	<u>\$ 71,486</u>	<u>\$ 68,968</u>	<u>\$ 2,518</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures: (continued)				
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 61,717	\$ 40,342	\$ 21,375
Fire services program	27,000	29,612	25,736	3,876
Domestic preparedness program	-	29,617	29,572	45
Domestic preparedness equipment grant	-	32,226	-	32,226
State homeland security grant	-	89,864	21,818	68,046
Local law enforcement block grant	-	15,621	1,764	13,857
Total public safety	<u>\$ 57,000</u>	<u>\$ 258,657</u>	<u>\$ 119,232</u>	<u>\$ 139,425</u>
Parks, recreation and cultural:				
Soap Box Derby	\$ 23,500	\$ 23,500	\$ 31,004	\$ (7,504)
Fine Arts Commission	4,500	4,500	-	4,500
War memorial	-	-	3,012	(3,012)
Other	-	-	536	(536)
Total parks, recreation and cultural	<u>\$ 28,000</u>	<u>\$ 28,000</u>	<u>\$ 34,552</u>	<u>\$ (6,552)</u>
Community development:				
PEG access	\$ 30,000	\$ 30,000	\$ 29,776	\$ 224
Community Development Block Grant	285,000	295,000	381,385	(86,385)
Clean Community Commission	5,000	5,000	-	5,000
First Night Celebration	-	64,678	43,367	21,311
Regional group tourism	150,000	184,850	129,375	55,475
Fredericksburg's 275th birthday	-	-	32,673	(32,673)
Market Square renovation project	300,000	300,000	24,191	275,809
Summer archaeological program	-	38,868	15,000	23,868
Other	-	-	(30)	30
Total Community development	<u>\$ 770,000</u>	<u>\$ 918,396</u>	<u>\$ 655,737</u>	<u>\$ 262,659</u>
Total expenditures	<u>\$ 912,500</u>	<u>\$ 1,276,539</u>	<u>\$ 878,489</u>	<u>\$ 398,050</u>
Regional Transportation Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 100,000	\$ 50,000	\$ -	\$ (50,000)
Revenue from use of money and property:				
Use of property	-	-	15,600	15,600
Recovered costs	-	-	6,240	6,240
Total revenues	<u>\$ 100,000</u>	<u>\$ 50,000</u>	<u>\$ 21,840</u>	<u>\$ (28,160)</u>
Expenditures				
Community development:				
Commuter rail	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 47,890</u>	<u>\$ 52,110</u>
Comprehensive Services Act Fund				
Revenues				
Miscellaneous	\$ -	\$ -	\$ 95,691	\$ 95,691
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	<u>550,000</u>	<u>557,239</u>	<u>557,239</u>	<u>-</u>
Total revenues	<u>\$ 550,000</u>	<u>\$ 557,239</u>	<u>\$ 652,930</u>	<u>\$ 95,691</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2004

	<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: (continued)				
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	\$ 850,000	\$ 1,002,929	\$ 981,602	\$ 21,327
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 55,632	\$ 55,632
Recovered costs	-	-	465,048	465,048
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,680</u>	<u>\$ 520,680</u>
Expenditures				
Capital projects:				
Drainage improvements	\$ -	\$ 50,000	\$ -	\$ 50,000
Concrete rehabilitation	-	205,000	153,292	51,708
Annual pavement rehabilitation	-	1,242,287	858,963	383,324
Residential sidewalk program	-	-	510	(510)
Cowan Boulevard extension	-	923,000	13,175	909,825
George Street pedestrian walk	-	90,000	7,319	82,681
Riverfront walk	-	40,000	11,125	28,875
Kenmore Valley drainage improvements	-	820,000	261,903	558,097
Market Square	-	40,816	37,578	3,238
Fall Hill Avenue/Silver Parkway	-	1,121,102	795,467	325,635
Embrey Dam removal	-	2,596,184	2,596,184	-
Maury fence replacement	-	11,800	11,800	-
Total capital projects	<u>\$ -</u>	<u>\$ 7,140,189</u>	<u>\$ 4,747,316</u>	<u>\$ 2,392,873</u>
Public Facilities Construction Fund				
Revenues				
Other local taxes:				
Gasoline tax	\$ -	\$ -	\$ 406,000	\$ 406,000
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 26,279	\$ 26,279
Use of property	-	-	83,822	83,822
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,101</u>	<u>\$ 110,101</u>
Recovered costs:	\$ -	\$ -	\$ 25,000	\$ 25,000
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,101</u>	<u>\$ 541,101</u>
Expenditures				
Capital projects:				
Regional library	\$ -	\$ 350,000	\$ 154,280	\$ 195,720
Maury School renovation	-	200,000	19,115	180,885
Dixon Street recreation site	-	2,600,000	1,873,855	726,145
Circuit Court bell tower repair	-	105,000	142,012	(37,012)
City Hall renovations and roof replacement	-	85,000	131,309	(46,309)
Dixon Park pool	-	200,000	18,853	181,147
Land	-	-	25,000	(25,000)
Executive Plaza building	-	3,135,000	2,853,623	281,377
Other	-	470,000	149,487	320,513
Total capital projects	<u>\$ -</u>	<u>\$ 7,145,000</u>	<u>\$ 5,367,534</u>	<u>\$ 1,777,466</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Public Safety Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 26,279	\$ 26,279
Intergovernmental:				
Revenue from the Commonwealth:				
E-911 wireless grant	-	-	229,535	229,535
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,814</u>	<u>\$ 255,814</u>
Expenditures				
Capital projects:				
Fire training center	\$ -	\$ 250,000	\$ -	\$ 250,000
Communications equipment	-	-	4,379	(4,379)
Police headquarters	-	250,000	2,250	247,750
Total capital projects	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 6,629</u>	<u>\$ 493,371</u>
New Elementary School Construction Fund:				
Revenues				
Revenue from use of money and property:				
Use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures				
Capital projects:				
New elementary school	<u>\$ -</u>	<u>\$ 2,750,613</u>	<u>\$ 2,375,195</u>	<u>\$ 375,418</u>
New High School Construction Fund:				
Revenues				
Revenue from use of money and property:				
Use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,401</u>	<u>\$ 69,401</u>
Expenditures				
Capital projects:				
New high school	<u>\$ -</u>	<u>\$ 4,535,613</u>	<u>\$ 2,789,590</u>	<u>\$ 1,746,023</u>
Debt Service Funds				
General Obligation Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 3,110,473</u>	<u>\$ 3,111,573</u>	<u>\$ 2,532,683</u>	<u>\$ 578,890</u>
Education Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 51,500</u>	<u>\$ 51,500</u>	<u>\$ 51,500</u>	<u>\$ -</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, 2004

	<u>School Fund</u>	<u>Special School Fund</u>	<u>School Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 3,256,422	\$ 219,849	\$ 1,212,022	\$ 4,688,293
Due from other governments	<u>332,912</u>	<u>779,916</u>	<u>-</u>	<u>1,112,828</u>
Total assets	<u>\$ 3,589,334</u>	<u>\$ 999,765</u>	<u>\$ 1,212,022</u>	<u>\$ 5,801,121</u>
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 772,708	\$ 97,689	\$ 71,121	\$ 941,518
Accrued liabilities	1,854,800	369,806	-	2,224,606
Deferred revenue	<u>-</u>	<u>-</u>	<u>52,427</u>	<u>52,427</u>
Total liabilities	<u>\$ 2,627,508</u>	<u>\$ 467,495</u>	<u>\$ 123,548</u>	<u>\$ 3,218,551</u>
Equity:				
Fund Balance:				
Designated:				
Subsequent year's expenditures	\$ -	\$ 532,270	\$ -	\$ 532,270
Capital projects	184,937	-	1,088,474	1,273,411
Unreserved/undesignated	<u>776,889</u>	<u>-</u>	<u>-</u>	<u>776,889</u>
Total fund balance	<u>\$ 961,826</u>	<u>\$ 532,270</u>	<u>\$ 1,088,474</u>	<u>\$ 2,582,570</u>
Total liabilities and equity	<u>\$ 3,589,334</u>	<u>\$ 999,765</u>	<u>\$ 1,212,022</u>	<u>\$ 5,801,121</u>

Component Unit School Board
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 At June 30, 2004

Total fund balances for governmental funds (Exhibit 24) \$ 2,582,570

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

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

Land	\$	531,555	
Land improvements, net of accumulated depreciation		89,275	
Buildings and improvements, net of accumulated depreciation		6,693,519	
Equipment, net of accumulated depreciation		<u>598,905</u>	
Total capital assets			7,913,254
Compensated absences not reported as fund liabilities			<u>(662,707)</u>
Total net assets of governmental activities (Exhibits 1 and 11)	\$		<u><u>9,833,117</u></u>

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	<u>School Fund</u>	<u>Special School Fund</u>	<u>School Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Use of money and property	\$ 13,440	\$ 773	\$ -	\$ 14,213
Charges for services	209,630	328,368	-	537,998
Miscellaneous	(8,012)	(13,891)	-	(21,903)
Recovered costs	-	66,306	-	66,306
Intergovernmental:				
Appropriation from primary government	14,401,416	-	406,478	14,807,894
Revenue from the Commonwealth	5,458,536	402,749	195,106	6,056,391
Revenue from the Federal Government	596,187	4,284,647	-	4,880,834
	<u>20,671,197</u>	<u>5,068,952</u>	<u>601,584</u>	<u>26,341,733</u>
Total revenues	\$ 20,671,197	\$ 5,068,952	\$ 601,584	\$ 26,341,733
Expenditures				
Current:				
Education:				
Instruction	\$ 15,898,255	\$ 4,226,082	\$ -	\$ 20,124,337
Administration, attendance and health	1,877,547	-	-	1,877,547
Transportation	786,887	-	-	786,887
Facilities operations	2,370,437	-	-	2,370,437
School food services	-	906,144	-	906,144
Capital projects	-	-	1,181,351	1,181,351
	<u>20,933,126</u>	<u>5,132,226</u>	<u>1,181,351</u>	<u>27,246,703</u>
Total expenditures	\$ 20,933,126	\$ 5,132,226	\$ 1,181,351	\$ 27,246,703
Excess (deficiency) of revenues over expenditures	\$ (261,929)	\$ (63,274)	\$ (579,767)	\$ (904,970)
Other financing sources (uses)				
Transfers in	\$ -	\$ 60,575	\$ -	\$ 60,575
Transfers out	(60,575)	-	-	(60,575)
	<u>(60,575)</u>	<u>60,575</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	\$ (60,575)	\$ 60,575	\$ -	\$ -
Net change in fund balance	\$ (322,504)	\$ (2,699)	\$ (579,767)	\$ (904,970)
Fund balance, beginning of year	<u>1,284,330</u>	<u>534,969</u>	<u>1,668,241</u>	<u>3,487,540</u>
Fund balance, end of year	<u>\$ 961,826</u>	<u>\$ 532,270</u>	<u>\$ 1,088,474</u>	<u>\$ 2,582,570</u>

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, 2004

Net change in fund balances - total governmental funds (Exhibit 26) \$ (904,970)

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. (326,424)

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	<u>(49,089)</u>
Change in net assets of governmental activities (Exhibit 11)	\$ <u><u>(1,280,483)</u></u>

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

Component Unit School Board
 School Fund
 Revenues and Expenditures Budgetary Comparison Schedule
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Fund:				
Revenues				
Use of money and property:				
Use of property	\$ 4,600	\$ 4,600	\$ 13,440	\$ 8,840
Charges for services:				
Charges for education	\$ 148,745	\$ 148,745	\$ 209,630	\$ 60,885
Miscellaneous	\$ 24,500	\$ 24,500	\$ (8,012)	\$ (32,512)
Intergovernmental:				
Appropriation from primary government	\$ 14,401,416	\$ 14,401,416	\$ 14,401,416	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 1,669,386	\$ 1,669,386	\$ 1,733,957	\$ 64,571
Basic aid	2,390,158	2,390,158	2,369,004	(21,154)
Other	1,322,501	1,322,501	1,355,575	33,074
Total revenue from the Commonwealth	\$ 5,382,045	\$ 5,382,045	\$ 5,458,536	\$ 76,491
Revenue from the Federal Government:				
Categorical aid:				
Special education	\$ 454,683	\$ 454,683	\$ 564,397	\$ 109,714
Other	46,000	46,000	31,790	(14,210)
Total revenue from the Federal Government	\$ 500,683	\$ 500,683	\$ 596,187	\$ 95,504
Total revenues	\$ 20,461,989	\$ 20,461,989	\$ 20,671,197	\$ 209,208
Expenditures				
Current:				
Education:				
Instruction	\$ 15,880,858	\$ 15,774,876	\$ 15,898,255	\$ (123,379)
Administration, attendance and health	1,543,618	1,662,753	1,877,547	(214,794)
Transportation	888,298	827,298	786,887	40,411
Facilities operations	2,330,657	2,361,487	2,370,437	(8,950)
Total expenditures	\$ 20,643,431	\$ 20,626,414	\$ 20,933,126	\$ (306,712)
Excess (deficiency) of revenues over expenditures	\$ (181,442)	\$ (164,425)	\$ (261,929)	\$ (97,504)
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	(60,575)	(60,575)	(60,575)	-
Total other financing sources (uses)	\$ (60,575)	\$ (60,575)	\$ (60,575)	\$ -
Net change in fund balance	\$ (242,017)	\$ (225,000)	\$ (322,504)	\$ (97,504)
Fund balance, beginning of year	242,017	225,000	1,284,330	1,059,330
Fund balance, end of year	\$ -	\$ -	\$ 961,826	\$ 961,826

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, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special School Fund:				
Revenues				
Revenue from use of money and property:				
Use of money	\$ 2,500	\$ 2,500	\$ 773	\$ (1,727)
Charges for services:				
Cafeteria sales	\$ 362,500	\$ 362,500	\$ 328,368	\$ (34,132)
Miscellaneous	\$ 750	\$ 750	\$ (13,891)	\$ (14,641)
Recovered costs:				
Education	\$ 406,750	\$ 406,750	\$ 66,306	\$ (340,444)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 14,584	\$ 14,584	\$ 15,001	\$ 417
VPSA technology grant	128,000	128,000	154,155	26,155
Other	212,186	297,186	233,593	(63,593)
Total revenue from the Commonwealth	\$ 354,770	\$ 439,770	\$ 402,749	\$ (37,021)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 606,899	\$ 702,817	\$ 654,277	\$ (48,540)
School food	507,077	507,077	495,678	(11,399)
Head Start	1,815,092	1,815,092	2,255,242	440,150
Enhancing education via technology	158,201	158,201	540,047	381,846
Other	176,508	344,883	339,403	(5,480)
Total revenue from the Federal Government	\$ 3,263,777	\$ 3,528,070	\$ 4,284,647	\$ 756,577
Total revenues	\$ 4,391,047	\$ 4,740,340	\$ 5,068,952	\$ 328,612
Expenditures				
Instruction	\$ 3,529,961	\$ 3,879,254	\$ 4,226,082	\$ (346,828)
School food service operations	921,661	921,661	906,144	15,517
Total expenditures	\$ 4,451,622	\$ 4,800,915	\$ 5,132,226	\$ (331,311)
Excess (deficiency) of revenues over expenditures	\$ (60,575)	\$ (60,575)	\$ (63,274)	\$ (2,699)
Other financing sources (uses)				
Transfers in	\$ 60,575	\$ 60,575	\$ 60,575	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 60,575	\$ 60,575	\$ 60,575	\$ -
Net change in fund balance	\$ -	\$ -	\$ (2,699)	\$ (2,699)
Fund balance, beginning of year	-	-	534,969	534,969
Fund balance, end of year	\$ -	\$ -	\$ 532,270	\$ 532,270

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, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Capital Projects Fund:				
Revenues				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Intergovernmental:				
Appropriation from primary government	\$ -	\$ 406,478	\$ 406,478	\$ -
Revenue from the Commonwealth:				
Lottery funds	\$ -	\$ -	\$ 79,997	\$ 79,997
School construction funds	-	-	115,109	115,109
Total Revenue from the Commonwealth	\$ -	\$ -	\$ 195,106	\$ 195,106
Total revenues	\$ -	\$ 406,478	\$ 601,584	\$ 195,106
Expenditures				
Capital projects:				
School buses	\$ -	\$ 110,000	\$ 107,020	\$ 2,980
School computer technology	-	320,000	292,971	27,029
Hugh Mercer School improvements	-	669,578	619,147	50,431
Maintenance equipment	-	40,730	28,627	12,103
Other	-	204,934	133,586	71,348
Total capital projects	\$ -	\$ 1,345,242	\$ 1,181,351	\$ 163,891
Excess (deficiency) of revenues over expenditures	\$ -	\$ (938,764)	\$ (579,767)	\$ 358,997
Net change in fund balance	\$ -	\$ (938,764)	\$ (579,767)	\$ 358,997
Fund balance, beginning of year	-	938,764	1,668,241	729,477
Fund balance, end of year	\$ -	\$ -	\$ 1,088,474	\$ 1,088,474

CITY OF FREDERICKSBURG, VIRGINIA

Table 1

Government-Wide Expenses by Function (1)
Last Two Fiscal Years

Fiscal Year	General Government										Total		
	Admini- stration	Judicial Admini- stration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation & Cultural	Community Develop- ment	Interest on Debt	Water		Sewer	Transit
2003 \$	3,667,325	2,084,990	12,950,555	5,280,143	4,228,980	15,556,786	3,007,944	2,022,708	817,031	1,691,936	2,610,054	1,085,071	\$ 55,003,523
2004	3,836,089	2,155,331	13,448,595	5,342,332	5,098,576	14,232,858	3,302,359	1,914,617	1,180,917	1,691,301	2,566,538	1,156,280	55,925,793

(1) Primary Government only

CITY OF FREDERICKSBURG, VIRGINIA

Government-Wide Revenues by Source (1)
Last Two Fiscal Years

Fiscal Year	Charges for Services	Operating		Capital		General		Other		Non-Categorical		Use of		Total
		Grants and Contributions	Contributions	Grants and Contributions	Property Taxes	Local Taxes	Aid	Property	Miscellaneous					
2003	\$ 6,831,317	\$ 9,618,684	\$ 647,763	\$ 19,529,042	\$ 22,985,944	\$ 1,925,405	\$ 1,449,961	\$ 463,723	\$ 63,451,839					
2004	7,299,318	10,729,300	251,824	21,998,946	27,046,203	1,799,222	596,182	665,492	70,386,487					

(1) Primary Government only

CITY OF FREDERICKSBURG, VIRGINIA

Table 3

Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes		Other Local Taxes	Permits, Privilege Fees and Licenses		Fines and Forfeitures	Revenue from use of Money and Property		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
1995	\$ 15,884,755	\$ 11,374,466	\$ 316,167	\$ 267,943	\$ 258,906	\$ 1,271,067	\$ 768,145	\$ 1,499,213	\$ 9,844,849	\$ 41,485,511			
1996	15,940,864	11,776,189	283,243	279,709	431,523	1,209,816	1,252,640	1,173,199	10,800,773	43,147,956			
1997	16,630,154	13,432,795	292,801	324,751	737,594	1,218,770	676,986	937,642	11,686,821	45,938,314			
1998	17,561,608	14,903,631	327,203	308,623	801,103	1,202,862	549,889	1,059,987	12,597,044	49,311,950			
1999	18,433,324	15,632,074	264,346	303,542	763,174	1,280,359	563,433	1,139,278	13,691,829	52,071,359			
2000	18,538,569	17,335,501	356,612	324,606	715,983	1,334,005	591,753	1,294,050	16,133,843	56,624,922			
2001	18,692,583	18,649,664	312,088	320,803	436,102	1,381,292	375,676	1,182,876	16,932,987	58,284,071			
2002	18,817,668	20,308,612	411,268	363,912	488,935	1,664,937	402,523	1,167,533	17,820,772	61,446,160			
2003	19,658,874	22,985,944	413,773	466,307	567,514	1,743,772	253,021	1,075,551	18,274,773	65,439,529			
2004	22,038,643	26,640,203	499,110	502,834	314,038	1,293,189	434,025	1,099,512	9,833,511	62,655,065			

(1) Includes General, Special Revenue, Debt Service Funds and Discretely Presented Component Unit School Board. Excludes Capital Projects Funds. Does not include the appropriation to the School Board from the primary government.

CITY OF FREDERICKSBURG, VIRGINIA

Table 4

Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government										Total
	Admini- stration	Judicial Admini- stration	Public Safety	Public Works	Health and Welfare	Education	Parks Recreation & Cultural	Community Develop- ment	Debt Service		
1995 \$	2,231,812	\$ 1,242,294	\$ 6,944,664	\$ 3,937,315	\$ 2,300,240	\$ 14,376,500	\$ 1,600,268	\$ 1,288,584	\$ 3,884,123	\$ 37,805,800	
1996	2,204,332	1,278,602	7,243,731	4,331,738	2,547,741	15,465,336	1,768,080	1,608,240	3,809,603	40,257,403	
1997	2,295,427	1,323,184	7,377,016	4,374,928	2,711,247	16,024,022	1,861,780	2,005,885	3,716,659	41,690,148	
1998	2,497,297	1,398,369	7,871,946	4,307,373	3,008,403	17,026,244	1,941,187	1,790,493	3,798,173	43,639,485	
1999	2,674,119	1,538,214	8,371,978	4,653,178	3,489,727	18,233,993	2,185,243	1,570,662	7,435,261	50,152,375	
2000	2,791,511	1,730,031	9,175,608	4,741,736	4,405,362	19,698,575	2,521,250	1,654,686	3,598,628	50,317,387	
2001	2,895,024	1,936,309	10,540,624	4,990,191	4,178,371	20,862,164	2,651,247	1,808,255	3,157,573	53,019,758	
2002	3,136,650	2,023,991	11,466,442	5,021,480	4,381,046	21,157,666	2,854,800	2,596,914	12,884,511	65,523,500	
2003	3,544,021	2,173,551	12,653,369	5,067,820	4,602,554	22,977,838	2,879,319	2,460,671	3,462,225	59,821,368	
2004	3,620,386	2,260,530	13,210,581	5,655,233	5,491,600	26,097,200	3,108,829	2,026,074	2,584,183	64,054,616	

(1) Includes General, Special Revenue, Debt Service Funds and Discretely Presented Component Unit School Board. Excludes Capital Projects Funds.
Does not include the appropriation to the School Board from the primary government.

CITY OF FREDERICKSBURG, VIRGINIA

Table 5

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy		Current Tax Collections		Percent of Levy Collected (3)	Delinquent Tax Collections		Total Tax Collections (5) (6)	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes		Percent of Delinquent Taxes to Levy
	(1) (4)	(6)	(1) (5) (6)	(6)		(1) (2) (5) (6)	(3) (5)					
1995	\$ 15,473,604	\$	15,368,146	\$	99.32	324,206	\$	15,692,352	101.41	\$	182,843	1.18
1996	15,716,261		15,620,329		99.39	135,640		15,755,969	100.25		151,066	0.96
1997	16,459,853		16,360,894		99.40	261,683		16,622,577	100.99		117,274	0.71
1998	17,550,940		17,469,835		99.54	103,859		17,573,694	100.13		67,267	0.38
1999	18,510,245		18,229,682		98.48	70,296		18,299,978	98.86		171,822	0.93
2000	19,050,569		18,840,945		98.90	263,234		19,104,179	100.28		168,334	0.88
2001	19,832,960		19,581,072		98.73	199,237		19,780,309	99.73		238,499	1.20
2002	20,299,165		20,021,483		98.63	216,540		20,238,023	99.70		330,646	1.63
2003	21,078,696		20,898,738		99.15	290,997		21,189,735	100.53		388,129	1.84
2004	23,173,114		22,971,933		99.13	212,185		23,184,118	100.05		424,024	1.83

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

(3) Adjusted for split-year collections.

(4) Source: Commissioner of Revenue.

(5) Source: Treasurer.

(6) Includes personal property reimbursement from the Commonwealth of Virginia.

CITY OF FREDERICKSBURG, VIRGINIA

Assessed Valuation of All Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate		Personal Property	Machinery and Tools	Service Charges	Public Utility Real and Personal		Total
	\$					\$		
1995	\$ 1,048,477,554	\$	103,229,095	\$ 11,505,850	\$ 1,497,300	\$ 48,783,607	\$	1,213,493,406
1996	1,014,089,707		107,928,350	13,913,750	1,448,800	56,637,562		1,194,018,169
1997	1,054,657,972		120,106,150	12,471,750	1,448,800	56,850,459		1,245,535,131
1998	1,122,316,366		120,736,634	19,392,950	1,691,500	59,212,312		1,323,349,762
1999	1,147,247,536		147,258,857	21,853,937	1,691,500	61,267,689		1,379,319,519
2000	1,205,127,728		152,446,465	19,735,538	1,451,400	66,469,329		1,445,230,460
2001	1,230,424,387		164,606,380	19,747,480	1,436,700	77,319,484		1,493,534,431
2002	1,269,438,700		158,352,705	14,888,368	1,436,700	80,502,860		1,524,619,333
2003	1,303,778,900		168,645,633	14,726,044	1,436,700	83,318,479		1,571,905,756
2004	1,902,889,000		171,794,008	13,794,812	1,856,400	78,948,771		2,169,282,991

(1) Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 7

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

Fiscal Year	Real Property			Personal Property			Totals		
	Assessed Value (1)	Estimated Actual Value (2)		Assessed Value (1)	Estimated Actual Value (1)		Assessed Value	Estimated Actual Value	Assessed to Total Estimated Actual Value
1995	\$ 1,048,477,554	\$ 1,051,190,000	\$	\$ 114,734,945	\$ 114,734,945	\$	\$ 1,163,212,499	\$ 1,165,924,945	99.8
1996	1,014,089,707	1,049,148,283		121,842,100	121,842,100		1,135,931,807	1,170,990,383	97.0
1997	1,054,657,972	(3)		132,577,900	132,577,900		1,187,235,872	(3)	(3)
1998	1,122,316,366	(3)		140,129,584	140,129,584		1,262,445,950	(3)	(3)
1999	1,147,247,536	(3)		169,112,794	169,112,794		1,316,360,330	(3)	(3)
2000	1,205,127,728	(3)		172,182,003	172,182,003		1,377,309,731	(3)	(3)
2001	1,230,424,387	(3)		184,353,860	184,353,860		1,414,778,247	(3)	(3)
2002	1,269,438,700	(3)		173,241,073	173,241,073		1,442,679,773	(3)	(3)
2003	1,303,778,900	(3)		183,371,677	183,371,677		1,487,150,577	(3)	(3)
2004	1,902,889,000	(3)		185,588,820	185,588,820		2,088,477,820	(3)	(3)

(1) Source: Commissioner of Revenue.

(2) Source: Commonwealth of Virginia.

(3) Data not available.

CITY OF FREDERICKSBURG, VIRGINIA

Table 8

Property Tax Rates (1) (2)

Last Ten Fiscal Years

Fiscal Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Service Charges	Public Utility Real and Personal
	\$						
1995	\$	1.12	\$	2.99	\$	0.94	Various
1996		1.16		2.99		1.00	Various
1997		1.16		2.99		1.02	Various
1998		1.16		2.99		1.02	Various
1999		1.16		2.99		0.62	Various
2000		1.13		2.99		1.11	Various
2001		1.13		2.99		1.13	Various
2002		1.13		2.99		1.13	Various
2003		1.13		2.99		1.13	Various
2004		0.89		2.99		0.89	Various

(1) Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

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

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt	Less: Amounts To Be Paid From Enterprise Activities		Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1995	20,800	\$ 1,213,493,406	\$ 31,605,491	\$ (2,874,157)	\$ 28,731,334	0.0237	\$ 1,381	
1996	21,000	1,194,018,169	28,404,997	(2,794,038)	25,610,959	0.0214	1,220	
1997	20,800	1,245,535,131	28,752,495	(2,705,904)	26,046,591	0.0209	1,252	
1998	20,600	1,323,349,762	26,447,490	(2,645,815)	23,801,675	0.0180	1,155	
1999	21,686	1,379,319,519	28,944,000	(5,976,344)	22,967,656	0.0167	1,059	
2000	21,686	1,445,230,460	26,205,000	(5,771,158)	20,433,842	0.0141	942	
2001	19,279	1,493,534,431	23,500,000	(5,278,179)	18,221,821	0.0122	945	
2002	19,800	1,524,619,333	27,820,079	(4,929,773)	22,890,306	0.0150	1,156	
2003	20,076	1,571,905,756	24,900,000	(4,530,240)	20,369,760	0.0130	1,015	
2004	20,189	2,169,282,991	70,795,000	(4,134,708)	66,660,292	0.0307	3,302	

(1) Sources: Bureau of the Census (2001).

Center For Public Service, University of Virginia (1994-2000, 2002-2004)

(2) Source: Commissioner of Revenue.

(3) Includes all long-term general obligation debt to be repaid from general tax sources.

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Computation of Direct and Overlapping Debt
June 30, 2004

Jurisdiction	Gross Debt Outstanding	Percentage Applicable to City of Fredericksburg	Amount Applicable to City of Fredericksburg
City of Fredericksburg	\$ 70,795,000	100%	\$ 70,795,000

Includes all general obligation debt.

City of Fredericksburg has no overlapping debt.

CITY OF FREDERICKSBURG, VIRGINIA

Table 11

Ratio of Annual Debt Service Expenditures For General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal (1)	Interest (2)	Total Debt Service	Total General Governmental Expenditures (1) (5)	Ratio of Debt Service to Total General Expenditures
1995	\$ 2,141,055	\$ 1,743,068	\$ 3,884,123	\$ 37,805,800	10.3
1996	2,216,786	1,592,817	3,809,603	40,257,403	9.5
1997	2,249,945	1,466,714	3,716,659	41,690,148	8.9
1998	2,364,257	1,433,915	3,798,172	43,639,485	8.7
1999 (3)	5,915,339	1,519,922	7,435,261	50,152,375	14.8
2000	2,533,930	1,064,698	3,598,628	50,317,387	7.2
2001	2,212,022	945,551	3,157,573	53,019,758	6.0
2002 (4)	11,831,895	1,052,616	12,884,511	65,523,500	19.7
2003	2,520,546	941,679	3,462,225	59,821,368	5.8
2004	1,804,469	779,714	2,584,183	64,054,616	4.0

(1) Includes General, Special Revenue, Debt Service Funds and School Board Component Unit.

(2) Also includes fiscal charges.

(3) Includes bond anticipation note of \$2,572,500.

(4) Includes bonds refunded at call dates.

(5) Does not include local appropriation to School Board

CITY OF FREDERICKSBURG, VIRGINIA

Table 12

Computation of Legal Debt Margin At June 30, 2004	
Assessed value - taxable real estate (3)	\$ 1,902,889,000
Assessed value - public service real estate	78,948,771
Assessed value - exempt real estate	<u>431,597,100</u>
Total assessed value	<u>\$ 2,413,434,871</u>
Debt limit - 4.8 percent of total assessed value (1)	\$ 115,844,874
Amount of debt applicable to debt limit:	
Total bonded debt (2)	<u>70,795,000</u>
Legal debt margin	<u><u>\$ 45,049,874</u></u>

(1) Limitation imposed by City Council.
 (2) Does not include revenue bonds
 (3) As of January 1, 2004

CITY OF FREDERICKSBURG, VIRGINIA

Table 13

Revenue Bond Coverage (Water and Sewer Bonds)

Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest (1)	Total	
1995	\$ 5,204,868	\$ 3,432,252	\$ 1,772,616	\$ 454,242	\$ 986,376	\$ 1,440,618	1.23
1996	6,173,486	3,806,458	2,367,028	454,381	964,630	1,419,011	1.67
1997	6,320,660	3,415,242	2,905,418	563,259	923,704	1,486,963	1.95
1998	6,342,680	3,279,846	3,062,834	562,927	894,049	1,456,976	2.10
1999	7,727,967	4,019,140	3,708,827	701,756	924,050	1,625,806	2.28
2000	6,831,357	3,675,828	3,155,529	811,834	876,894	1,688,728	1.87
2001	5,466,477	3,691,122	1,775,355	1,128,908	812,354	1,941,262	0.91
2002	6,294,872	3,698,729	2,596,143	1,014,900	795,509	1,810,409	1.43
2003	6,164,964	3,547,818	2,617,146	1,098,061	767,997	1,866,058	1.40
2004	6,233,777	3,717,094	2,516,683	1,153,404	606,067	1,759,471	1.43

(1) Also includes fiscal charges.

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (2)	Per Capita Income (2) (4)	Median Age (1)	In Years of Formal Schooling (1)	School Enrollment	Unemployment Rate (3)
1995	20,800	\$ 20,977	28.9	12.4	2,103	4.3%
1996	21,000	20,977	28.9	12.4	2,134	4.1%
1997	20,800	20,977	28.9	12.4	2,077	3.8%
1998	20,600	22,430	28.9	12.4	2,140	3.5%
1999	21,686	23,543	28.9	12.4	2,088	3.3%
2000	21,686	26,555	28.9	12.4	2,143	2.3%
2001	19,279 (1)	27,945	30.3	12.4	2,170	3.7%
2002	19,800	29,474	30.3	12.4	2,278	4.0%
2003	20,076	30,894	30.3	12.4	2,278	5.8%
2004	20,189	30,894	30.3	12.4	2,387	6.0%

(1) Source: Bureau of Census.

(2) Source: Center for Public Service, University of Virginia except for 2001.

(3) Source: Virginia Employment Commission.

(4) Per capita income includes the City of Fredericksburg combined with Spotsylvania County.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Property Value, Construction and Bank Deposits

Last Ten Fiscal Years

Fiscal Year	Commercial Construction (2)		Residential Construction (2)		Bank Deposits (1) (3) (In Thousands)	Property Value (1)			
	Number of Units	Value	Number of Units	Value		Commercial	Residential	Agricultural	Non-taxable
1995	36	\$ 15,630,393	33	4,950,000	\$ 415,596	\$ 404,015,100	\$ 659,213,000	\$ 17,601,000	\$ 315,952,400
1996	10	10,888,075	15	2,223,119	423,647	405,549,600	633,107,200	18,298,300	298,965,700
1997	37	23,721,446	159	7,858,481	445,664	427,874,638	637,564,054	18,167,800	298,871,000
1998	65	20,004,259	26	3,279,450	421,129	486,362,700	641,823,300	15,495,600	301,386,300
1999	110	27,316,742	31	3,851,238	429,543	495,126,200	649,281,300	14,252,100	256,333,100
2000	86	13,968,577	221	13,787,128	436,442	544,420,500	663,159,700	14,316,600	316,752,200
2001	74	15,342,860	60	5,967,587	519,302	553,300,100	678,298,100	12,316,400	320,619,900
2002	78	25,233,886	90	8,696,819	760,089	556,234,500	701,055,300	12,148,900	329,266,900
2003	70	21,460,889	82	11,445,775	964,540	584,693,100	707,125,300	11,960,500	332,602,000
2004	91	22,856,851	58	12,840,350	1,005,859	813,769,100	1,060,678,500	28,441,400	431,597,100

(1) Source: Commissioner of Revenue.

(2) Source: Building Official.

(3) Does not include Savings and Loan Institutions.

CITY OF FREDERICKSBURG, VIRGINIA

Table 16

Principal Taxpayers

June 30, 2004

Taxpayer	Type of Business	2003-2004 Assessed Valuation	Percentage of Total Assessed Valuation
Fredericksburg 35 LLC	Central Park Property	\$ 82,608,200	4.34 %
Medicorp Properties, Inc.	Office buildings, surgical center	39,440,900	2.07
Verizon - Virginia, Inc.	Public utility - telecommunications	28,981,030	1.52
Virginia Electric & Power Co.	Public utility - electric	22,572,176	1.19
Riverside Manor	Apartment complex	17,288,600	0.91
Summit/Belmont, LP	Apartments	17,134,000	0.90
Town Center - Central Park LP	Restaurants, ice park, office building	16,310,100	0.86
CRIT VA II, Inc.	Apartments	15,889,500	0.84
Carl D. Silver, Co.	Motel	15,002,700	0.79
Fredericksburg Park & Shop, LP	Shopping center	14,417,200	0.76
Total		\$ 269,644,406	14.17 %

Miscellaneous Statistics
June 30, 2004

Date of incorporation	1782
Form of government	Council/Manager
Area	10.4 square miles
Miles of streets	171.98
Number of traffic signals	52
Fire protection:	
Number of stations	2
Number of firemen and officers (exclusive of volunteer firemen)	50
Police protection:	
Number of stations	1
Number of policemen and officers	61
Education:	
Attendance centers	Elementary (K-1)
Number of classrooms	112
Number of teachers	144
Number of students	1,287
Secondary (8-12)	2
Elementary (K-1)	61
Number of classrooms	95
Number of teachers	1,097
Number of students	
Municipal water department:	
Number of consumers	20,189 / 6,435 connections
Average daily consumption	117 gallons per capita
Miles of water mains	66 miles
Sewers:	
Sanitary sewers	67 miles
Storm sewers	55 miles
Building permits issued	2,192
Recreation and culture:	
Number of parks	10 for a total of 877 acres
Federal parks within City boundaries	1
Jointly operated parks by City and another local jurisdiction (Stafford County)	3 for a total of 211 acres
Employees:	
Classified service	338
Exempt	64

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fredericksburg, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 27, 2004

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Fredericksburg, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fredericksburg, Virginia's management. Our responsibility is to express an opinion on the City of Fredericksburg, Virginia's compliance based on our audit.

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

In our opinion, the City of Fredericksburg, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Robinson, Tamara, Cox Associates

Charlottesville, Virginia
October 27, 2004

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2004

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Primary Government:		
Department of Agriculture:		
Pass Through Payments:		
Department of Social Services:		
Food Stamp Administration	10.561	\$ <u>243,364</u>
Department of Housing and Urban Development:		
Direct Payments:		
Community Development Block Grant - Entitlement	* 14.218	\$ <u>370,885</u>
Department of Justice:		
Pass Through Payments:		
Emergency Preparedness Grant	16.007	\$ 32,226
Law Enforcement Block Grant	16.592	<u>14,059</u>
Total Department of Justice		\$ <u>46,285</u>
Department of Transportation:		
Pass Through Payments:		
Virginia Department of Transportation:		
Federal Transit - Capital Investment Grants	20.500	\$ 22,389
Federal Transit - Formula Grants	20.507	<u>569,113</u>
Total Department of Transportation		\$ <u>591,502</u>
Department of Health and Human Services:		
Pass Through Payments:		
Department of Social Services:		
Family Preservation and Support	93.556	\$ 14,041
Temporary Assistance to Needy Families	* 93.558	424,040
Refugee Assistance and Resettlement	93.566	371
Low-Income Energy Assistance	93.568	71,841
Child Care Assistance	93.575	407,004
Child Care and Development Block Grant	93.596	240,793
Foster Care - Title IV-E	93.658	174,015
Adoption Assistance	93.659	168,106
Social Services Block Grant	93.667	166,062
Independent Living	93.674	2,923
Medical Assistance Program	93.778	<u>135,945</u>
Total Department of Health and Human Services		\$ <u>1,805,141</u>
Department of Homeland Security		
Pass Through Payments:		
Department of Emergency Services:		
Disaster Relief Public Assistance	* 97.036	298,636
Emergency Management Preparedness Grant	* 97.042	4,733
State Homeland Security Grant Program	* 97.004	<u>89,864</u>
Total Department of Homeland Security		\$ <u>393,233</u>
Total Expenditures of Federal Awards - Primary Government		\$ <u><u>3,450,410</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2004 (Continued)

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
Component Unit - School Board:		
State Department of Agriculture:		
Pass Through Payments:		
School Breakfast Program	10.553	\$ 96,274
National School Lunch Program (SL-4) (SL-11)	10.555	399,404
Food Distribution Service	10.569	<u>46,073</u>
Total Department of Agriculture		<u>\$ 541,751</u>
Department of Labor:		
Pass Through Payments:		
Department of Education:		
Local Partnership Grant - School to Work Transition Program	17.261	<u>\$ 7,771</u>
Department of Health and Human Services:		
Direct Payments:		
Head Start	93.600	<u>\$ 2,255,242</u>
Department of Education:		
Pass Through Payments:		
Education Consolidation and Improvement Act of 1981:		
Title I:		
Educationally Deprived Children - LEA	* 84.010	\$ 654,277
Title V Part A - Innovative Programs	84.298	24,545
Vocational Education:		
Basic Grants to States	84.048	31,790
Title VI-B Special Education for the Handicapped	84.027	590,639
Handicapped-Preschool Incentive Grants	84.173	16,799
Drug Free Schools and Communities	84.186	27,695
Title II - Economic Security	84.281	1,068
Technology Challenge Grant	* 84.318	555,039
Comprehensive School Reform Demonstration	84.332	17,804
Title II, Part A - Improving Teacher Quality	84.367	<u>156,415</u>
Total Department of Education		<u>\$ 2,076,071</u>
Total Expenditures of Federal Awards - Component Unit School Board		<u>\$ 4,880,835</u>
Total Expenditures of Federal Awards - Reporting Entity		<u>\$ 8,331,245</u>
* Major program		
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 State Revolving Fund - balance of loan as of June 30, 2004	66.458	<u>\$ 8,946,141</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federally assisted programs of the City of Fredericksburg, Virginia. The City's reporting entity is defined in note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in note 1 to the City's basic financial statements.

Note 3 - 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	\$	349,792
Special Revenue Funds:		
Virginia Public Assistance Fund		2,002,083
City Grants Fund		507,034
Proprietary Funds:		
Transit Fund		591,502
Total primary government	\$	<u>3,450,411</u>

Component Unit Public Schools:

School Operating Fund	\$	596,187
School Grants Fund		4,284,647
Total component unit public schools	\$	<u>4,880,834</u>

Total federal expenditures per the Schedule of Expenditures
of Federal Awards

\$ 8,331,245

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance to Needy Families
97.036	Disaster Public Assistance
97.042	State Homeland Security Grant Program
97.004	State Homeland Security Grant Program
14.218	Community Development Block Grant
84.010	Title I - Educationally Deprived Children
84.318	Education Technology Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
---	-----------

Auditee qualified as low-risk auditee?	Yes
--	-----

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2004

There were no findings or questioned costs in the prior year.

This page intentionally left blank