FREDERICKSBURG, VIRGINIA

Comprehensive Annual Financial Report . . .

. . . for fiscal year ended _____

JUNE 30, 2017

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

Prepared By:

Department of Fiscal Affairs
Clarence A. Robinson, Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

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City Manager

D. Mark Whitley
Assistant City Manager

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City of Fredericksburg
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November 29, 2017

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

The City of Fredericksburg, Virginia (the "City") hereby issues the Comprehensive Annual Financial Report (the "CAFR") for the fiscal year ended June 30, 2017. This report complies with Generally Accepted Accounting Principles ("GAAP"), and has been audited in accordance with generally accepted auditing standards by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. This report also complies with state law requirements that general-purpose governments, such as the City, publish within six months of the close of the fiscal year a complete set of financial statements that comply with GAAP.

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2017, 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 an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP.

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

Sections of the CAFR

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

Introductory Section

The Introductory Section consists of this transmittal letter, an organizational chart, and a listing of principal officials of the City. Also included is the City's Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the CAFR for the fiscal year ended June 30, 2016.

Financial Section

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

Basic Financial Statements

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Statistical Section

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

Compliance Section

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

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is approximately an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 28,297.

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

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

Economic Condition and Outlook

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

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

The City's economy also benefits from the presence of a major higher-education institution, the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, co-educational university with an enrollment of approximately 4,000 undergraduate students. The university offers over 60 different majors and programs of study as well as several different master's

Economic Condition and Outlook (Continued)

degree programs. Over the past few years, the University has made significant investments in new, modern educational facilities, to include $39.4 million for an information technology center and $56 million for a campus center. Numerous renovations to dormitories and academic buildings have also been completed.

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

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

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

Outside of downtown, Fredericksburg's industrial park has experienced significant success in attracting a diverse group of businesses, and additional activity is likely in the year to come. A new development along U.S. 1 called Cowan Crossing has brought in an attractive mix of retail, office and restaurant space. Additional re-development along the U.S. 1 and State Route 3 corridors is likely in the years to come. The City continues to also aggressively pursue additional amenities that can facilitate more events and opportunities for local residents. As the region's population grows, Fredericksburg's status as the center of commerce for the entire region will continue to pay dividends and generate tax revenue for the City.

Major Capital Initiatives

During fiscal year 2017, the City continued to maintain its capacity to provide a high level of service to its residents. The following narrative highlights the City's major capital initiatives during fiscal year 2017.

Major Capital Initiatives (Continued)

The primary roadway project in the City involves Fall Hill Avenue, a primary feeder road for the City's two main commercial areas, Central Park and Celebrate Virginia. The two major components of the project are the widening of Fall Hill Avenue from two lanes to four between Carl D. Silver Parkway to an area just west of the recently constructed bridge over the Rappahannock Canal and the replacement of the Fall Hill Avenue bridge over Interstate 95. This project also extends Mary Washington Boulevard to intersect with a roundabout, which provides a new connection point between U.S. 1 and Fall Hill Avenue. Additional features of the project are a sidewalk, playground and ball field, and a path that runs along Fall Hill Avenue from Central Park to the canal bridge. The path links to the City's trail system at the Rappahannock Heritage Trail, thus providing a safe transportation alternative for residents who wish to walk or bicycle to restaurants and stores. The project, managed by the Virginia Department of Transportation, is primarily being funded by the state. Most of the project was completed and operational as of April 2017. The City will own and be responsible for maintaining the roadway; however, ownership and maintenance responsibility of the two bridges spanning Interstate 95 will remain with the state. It is anticipated that the City will assume ownership of the roadway during fiscal year 2018, once punch list items have been addressed. The total estimated cost of the project is $44.4 million.

Several major capital initiatives designed to enhance the City's utility infrastructure within the City were worked on during the fiscal year. The replacement and upgrade of a major water line on Caroline Street, from Amelia Street to the southern end of Caroline Street, continued during the fiscal year. Completion of the water line will enhance the supply needs in this area of the City. The cost of the project to date is just over $1.5 million with the total estimated cost of the project being $2.25 million. In conjunction with the water line project the City is also replacing a section of sewer line along Caroline Street at a projected cost of $527,000. The installation of both utility lines is scheduled for completion in May 2018.

To keep the City's Wastewater Treatment Plant working efficiently and in compliance with environmental standards, the City began a process of rehabilitating and replacing various components of the plant. One of the primary components in the process of treating wastewater was addressed through the replacement of the belt filter press. The installation of the press, estimated to cost $1.25 million, was nearing completion at the end of the fiscal year and is expected to be fully operational in October 2017.

The renovation of the Walker-Grant Center was nearing completion at the end of the fiscal year. This project consists of the complete renovation of the building to include upgrades to the building envelope, a new roof, new windows and doors, and masonry repairs. Mechanical, electrical, and plumbing systems will also be replaced. Exterior site work includes parking upgrades, storm-water management, sidewalk improvements, and upgraded playground areas. These improvements will create an updated and modern environment for various special education programs while providing new and expanded office space for the School Board administrative offices. As of the end of the fiscal year, the City has spent approximately $10.92 million of the project's total estimated cost of $13.3 million.

Each year the City uses local and Virginia Department of Transportation grant funds to complete asphalt reconstruction and repaving projects as part of its Annual Pavement Rehabilitation Program (the program). Also included in the program is the installation of concrete work to include

Major Capital Initiatives (Continued)

stormwater drainage features and sidewalks. During the fiscal year the City spent $1.55 million toward paving projects and has now spent a total of $8.49 million during fiscal years 2011-2017 to improve the City's streets and roads.

Significant infrastructure improvements have also been made to Princess Anne Street, a primary corridor leading from U.S. 1 to the City's Historic District. The improvements included resurfacing of the roadway and the installation of curb and gutter and sidewalks. The project was managed and funded by the Virginia Department of Transportation at a total cost of $1.136 million.

An additional infrastructure project, also managed by the Virginia Department of Transportation, was major repair work performed on the U.S. 1 bridge over Hazel Run. Based on preliminary engineering studies, it was determined that the performance of certain repairs to the bridge would considerably extend its useful life. The City contributed $385,000 to the project with VDOT funding the remaining costs. The cost of the project totaled approximately $1.1 million.

Key Financial Policies

Budgetary Control

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

The annual budgets are prepared by fund and department. All appropriations lapse at year end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the School Bond Funded Capital Fund this comparison is presented in Exhibit 13 and Exhibit 22, respectively. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 33.

Fund Balance Policy

The City's adopted Financial Management Policy establishes guidelines aimed at maintaining the financial health of the City. The Financial Management Policy identifies the Unassigned General Fund balance as a source that will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The policy establishes a goal of maintaining a 12 percent Unassigned General Fund balance, but not less than 7 percent, of the actual General Fund revenues for the preceding fiscal year. The current level of Unassigned Fund Balance well exceeds the 12 percent target, at 18.2% of the fiscal year 2016 General Fund revenue total.

Key Financial Policies (Continued)

Long-Term Financial Planning

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

Cash Management Policies and Practices

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

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

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

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

Pension and Other Post-Employment Benefits

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

The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. During fiscal year 2016, the City Council established an Other Post-Employment Benefits (OPEB) Trust (the Trust) and funded $1 million towards the City's liability for OPEB. The City made an additional $112,000 contribution to the Trust during fiscal year 2017.

Pension and Other Post-Employment Benefits (Continued)

Effective for fiscal year 2017 the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information for OPEB plans that are administered through trusts. A description of the City's post-employment benefits program and information about the impact of the OPEB Trust can be found in Note 19 and Note 20 in the Notes to Basic Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-seventh consecutive year that the City has received this prestigious award. This report satisfied both GAAP and applicable legal requirements.

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

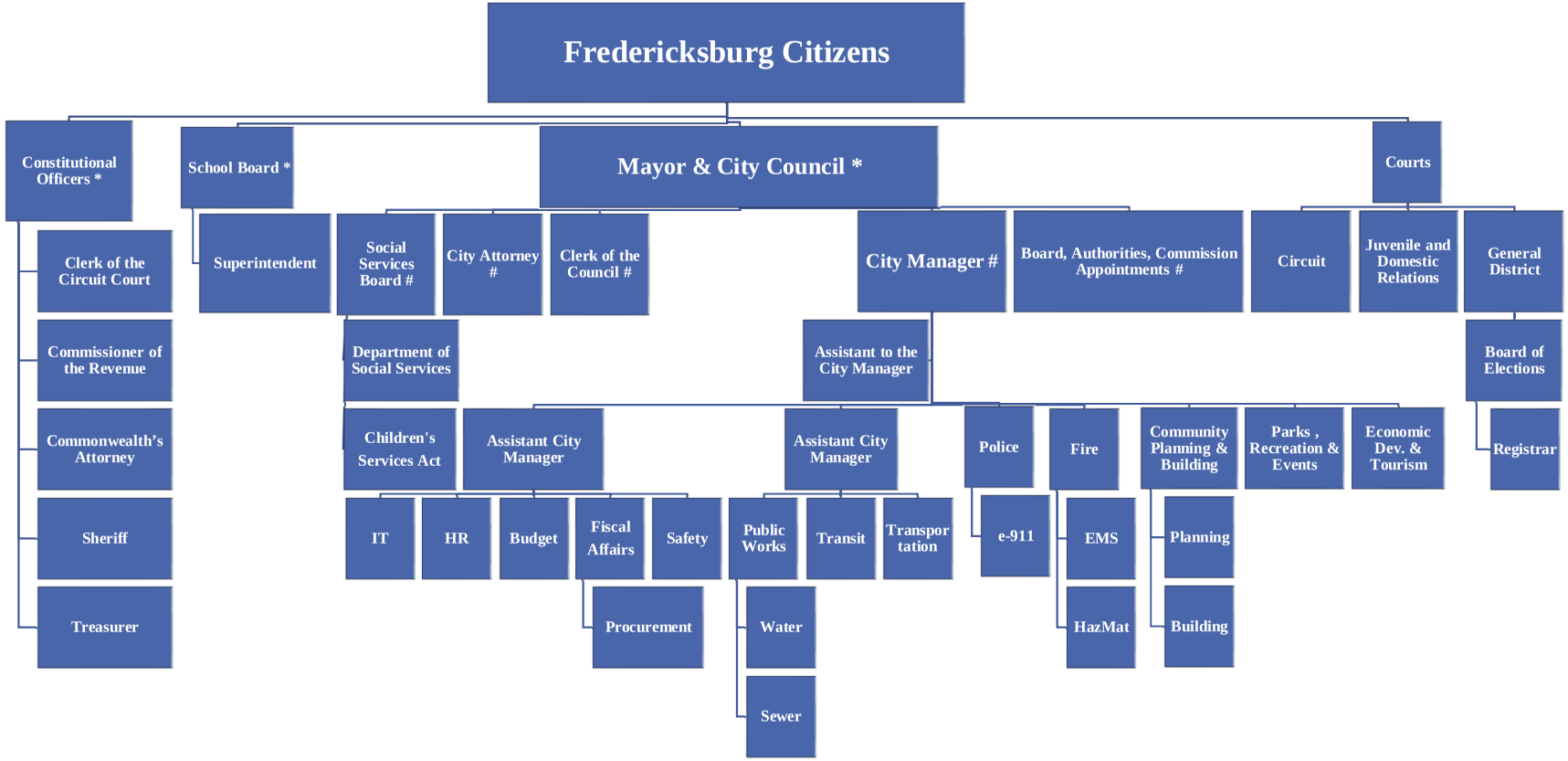
The preparation of this report was made possible by the efficient and dedicated services of the staff of the Fiscal Affairs Department. In addition, this report could not have been completed without the assistance from individuals in various other departments. We would like to express our appreciation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

Sincerely,

Timothy J. Baroody
City Manager

Clarence A. Robinson
Director of Fiscal Affairs

City of Fredericksburg, Virginia
Organizational Chart



* Elected Officials

\# Appointed by City Council

The City Council appoints citizens to 37 authorities, boards and commissions.

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2017

CITY COUNCIL

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

CONSTITUTIONAL OFFICERS

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

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

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

SCHOOL BOARD ADMINISTRATIVE OFFICER

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

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fredericksburg

Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2017, the City adopted new accounting guidance, GASB Statement Nos. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and* 77 *Tax Abatement Disclosures*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-18, 117-122, and 123-130 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

Other Information (continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017 on our consideration of the City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2017

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Management's Discussion and Analysis

As management of the City of Fredericksburg, Virginia (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- Total net position for governmental activities was $97,102,307 at the end of fiscal year 2017. This figure is based on assets and deferred outflows of resources totaling $231,723,929 and liabilities and deferred inflows of resources of $134,621,622. Of the total net position amount, $8,241,949 (*unrestricted net position*) related to the governmental activities may be used to meet the government's ongoing obligations to citizens and creditors.

- Total net position for business-type activities was $68,603,278 at the end of fiscal year 2017. The largest portion of this total is related to the water, sewer, and transit enterprise operations valued at $22,944,156, $19,274,885, and $21,931,178, respectively.

- Total net position for the primary government totaled $165,705,585. Current assets were $78,563,269 as compared to total current liabilities of $23,438,612. The resulting net working capital of $55,124,657 represents a favorable liquidity position for the City.

- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was $15,854,106, or 20.0% of total General Fund expenditures amount of $79,244,401.

- The City has an established Financial Management Policy that specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2017 unassigned General Fund balance was 18.2% of the fiscal year 2016 General Fund revenue total of $87,023,914.

- General Fund revenues increased $2,157,650 as revenue from general property taxes and other local taxes increased $1,047,116 and $997,225, respectively, as compared to the preceding fiscal year.

- General Fund expenditures increased $884,179, or a modest 1.1%, compared to fiscal year 2016. The largest increases occurred in the areas of public safety, public works and education.

- Governmental activities general obligation bond debt decreased $4,261,281 to a total outstanding balance of $85,021,566. Of the total general obligation debt outstanding, $43,545,000 is related to the construction of two new schools and $30,350,000 is associated with the construction and renovation of court facilities.

- Business-type activities general obligation debt decreased $1,983,719 to a total outstanding balance of $23,566,434.

Overview of the Financial Statements

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

Overview of the Financial Statements: (Continued)

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

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

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

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

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

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

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

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

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

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

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and the School Bond Funded Capital Fund, which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Overview of the Financial Statements: (Continued)

The City adopts an annual appropriated budget for its General Fund and School Bond Funded Capital Fund. A budgetary comparison schedule has been provided for each of these two funds to demonstrate budgetary compliance.

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

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

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

The proprietary funds' financial statements can be found on pages 33-35 of this report.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-114 of this report.

Government-wide Financial Analysis

Statement of Net Position:

Under GASB 34, governmental entities are required to report on their net position. The Statement of Net Position presents the value of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $165,705,585 at the close of fiscal year 2017.

A large portion of the City's net position, $133,832,169 or 80.8%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The $31,873,416 balance of *unrestricted net position* is a combination of both governmental activities and business-type activities and may be used to meet the City's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis: (Continued)

Statement of Net Position: (Continued)

The following table presents the condensed Statement of Net Position:

TABLE 1
Summary of Net Position
As of June 30, 2017
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 17	FY 16	FY 17	FY 16	FY 17	FY 16	FY 17	FY 16
Assets:								
Current and other assets	$ 51.53	$ 60.45	$ 31.73	$ 31.55	$ 83.26	$ 92.00	$ 10.75	$ 10.39
Capital assets	174.04	166.60	67.69	66.33	241.73	232.93	24.45	24.30
Total assets	$ 225.57	$ 227.05	$ 99.42	$ 97.88	$ 324.99	$ 324.93	$ 35.20	$ 34.69
Deferred Outflow of Resources:								
Pension contributions subsequent to the measurement date	$ 2.60	$ 3.23	$ 0.26	$ 0.32	$ 2.86	$ 3.55	$ 3.39	$ 3.19
Items related to the measurement of the net pension liability	3.15	-	0.30	0.03	3.45	0.03	2.43	-
Change in proportionate share of net pension liability	0.15	0.08	0.01	-	0.16	0.08	1.76	2.14
Deferred charge on refunding	0.26	0.28	0.53	0.58	0.79	0.86	-	-
Total Deferred Outflows of Resources	$ 6.16	$ 3.59	$ 1.10	$ 0.93	$ 7.26	$ 4.52	$ 7.58	$ 5.33
Liabilities:								
Current and other liabilities	$ 16.23	$ 14.13	$ 7.21	$ 6.05	$ 23.44	$ 20.18	$ 5.51	$ 5.48
Long-term liabilities	116.25	116.38	24.51	26.09	140.76	142.47	46.20	41.97
Total Liabilities	$ 132.48	$ 130.51	$ 31.72	$ 32.14	$ 164.20	$ 162.65	$ 51.71	$ 47.45
Deferred Inflows of Resources:								
Unavailable revenue - property taxes	$ 0.64	$ 0.58	$ -	$ -	$ 0.64	$ 0.58	$ -	$ -
Change in proportionate share of net pension liability	-	-	0.05	0.04	0.05	0.04	-	-
Items related to the measurement of the net pension liability	1.51	4.77	0.15	0.39	1.66	5.16	1.40	2.94
Total Deferred Inflows of Resources	$ 2.15	$ 5.35	$ 0.20	$ 0.43	$ 2.35	$ 5.78	$ 1.40	$ 2.94
Net assets:								
Net invested in capital assets	$ 88.86	$ 85.33	$ 44.97	$ 44.28	$ 133.83	$ 129.61	$ 21.44	$ 21.10
Unrestricted	8.24	9.45	23.63	21.96	31.87	31.41	(31.77)	(31.47)
Total net position	$ 97.10	$ 94.78	$ 68.60	$ 66.24	$ 165.70	$ 161.02	$ (10.33)	$ (10.37)

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

Changes in Net Position:

<u>Governmental Activities</u>

Generally, net position changes are the result of the difference between revenues and expenses. During fiscal year 2017 the net position of the governmental activities increased $2,324,616 as total revenues of $99,307,942 outpaced the total expense amount of $96,983,326. Governmental Activities revenues were favorably impacted through the continued strong performance of general property taxes. Revenues from general property taxes rose $1,038,907 or 2.7% in response to growth in the City's tax base and higher collection rates. Revenues from local tax sources exhibited a more moderate increase of $203,135. The performance of sales tax, business license tax, and meals tax remained positive during the fiscal year as a combined $866,734 in additional revenue was collected from these tax sources during the fiscal year. This increase was offset by an $806,971 reduction in gas tax revenue as transportation-related projects were funded from other sources during the fiscal year compared to the previous year.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Governmental Activities: (Continued)

Other positive impacts to the governmental activities net position was the financial performance of the Rappahannock Regional Solid Waste Management Board (R-Board) and the contribution of capital assets the City received from the Virginia Department of Transportation (VDOT). The R-Board is a joint venture of the City of Fredericksburg and Stafford County for the disposal of waste (see Notes to the Financial Statements, Note 1). The City and Stafford County equally share the operating income or losses of the R-Board. Due to an increase in fees and the implementation of flow-control measures, the R-Board's financial performance has experienced a dramatic turnaround the past couple of years. Half of the R-Board's fiscal year 2017 increase in net position, or $1,180,092, has been reflected in the City's government-wide financial statements as an increase to net position.

The Virginia Department of Transportation administered and provided most of the funding for two infrastructure improvement projects within the City. These projects resulted in significant upgrades to Princess Anne Street, one of the City's main corridors leading into the City's Historic District, and a City bridge located on U.S. Route 1, which was nearing the end of its useful life. The value of the projects contributed to the City from VDOT totaled $1,741,281.

Education continues to be the City's largest program, with education expenses representing 32.0% of the total expenses for governmental activities in fiscal year 2017. City expenses recognized for school operations, to include depreciation, increased $546,088 during the fiscal year as the City's school system continues to grow in response to City's expanding population and the relative increase in student enrollment.

The most significant increase to governmental expenses was $937,442 for health and welfare services. An increase in the number of children adopted out of foster care and a higher volume of participants and increased costs related to special education day placements were two key contributors to the increase.

A driving force to the overall increase in governmental expenses related to personnel costs. Besides an increase to health insurance premiums and a 2% cost-of-living adjustment for full-time and regular part-time City employees, the City expanded its work force through the hiring of two full-time public safety positions and a part-time public works position.

Business-type Activities

During the fiscal year, all four of the City's enterprise operations experienced an increase in net position. The largest increase was $1,542,806 for the Transit operation, which was bolstered by state and federal capital grants totaling $1,682,639, the majority of which was used for the replacement of several buses.

The positive growth in the net position in the Water Fund of $532,846 and Sewer Fund of $263,584 continue the reversal of a trend of sub-par operating results and a corresponding erosion of net position experienced in past years. A primary factor in reversing the trend was the implementation of a series of rate increases beginning in fiscal year 2013. The improved financial stability of these two funds in recent years has afforded the City the opportunity to more effectively meet operational costs and to fund needed improvements to an aged infrastructure system.

In direct correlation with the rate increases, charges for services in the Water Fund and Sewer Fund have shown a steady increase the past several years. Since the City started implementing rate increases, service fee revenue has increased 35.7% in the Water Fund and 35.2% in the Sewer Fund. During that same time period, the operating expenses in the Water Fund and Sewer Fund showed a much smaller increase of 4.3% and 8.2%, respectively. For fiscal year 2017, revenue from service fees outpaced operating expenses by $394,943 in the Water Fund and $465,018 in the Sewer Fund.

Revenue from availability and connection fees in both the Water Fund and Sewer Fund dropped off from the previous fiscal year; however, the amounts for those fees were significant enough to help absorb non-operating expenses and contribute to the net income totals of $813,490 in the Water Fund and $602,295 in the Sewer Fund.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Component Units

During the fiscal year, the School Board's net position increased $207,640. The overall deficit net position of $11,784,388 is related to the School Board's net pension liability totaling $40,555,000.

The net position of the Economic Development Authority decreased $173,140 as economic development grants and other expenses were greater than interest revenue and bond issuance fees.

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

TABLE 2
Changes in Net Position
For the Fiscal Year ended June 30, 2017
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 17	FY 16	FY 17	FY 16	FY 17	FY 16	FY 17	FY 16
Revenues:								
Program Revenues:								
Charges for services	$ 3.69	$ 3.69	$ 9.31	$ 9.45	$ 13.00	$ 13.14	$ 0.57	$ 1.21
Operating grants and contributions	11.60	10.65	3.99	4.34	15.59	14.99	19.38	18.20
Capital grants and contributions	3.19	1.46	1.68	0.41	4.87	1.87	-	-
General Revenues:								
Property taxes	40.02	38.98	-	-	40.02	38.98	-	-
Other local taxes	35.33	35.13	1.15	0.69	36.48	35.82	-	-
Grants and contributions not restricted	3.72	3.81	-	-	3.72	3.81	29.47	29.15
Use of property	0.10	0.09	-	-	0.10	0.09	-	-
Investment earnings	0.37	0.47	0.06	0.10	0.43	0.57	0.02	0.02
Miscellaneous	0.66	0.33	0.57	0.59	1.23	0.92	0.41	0.32
Total Revenues	$ 98.68	$ 94.61	$ 16.76	$ 15.58	$ 115.44	$ 110.19	$ 49.85	$ 48.90
Expenses:								
General government	$ 7.07	$ 6.87	$ -	$ -	$ 7.07	$ 6.87	$ -	$ -
Judicial administration	5.70	5.57	-	-	5.70	5.57	-	-
Public safety	22.47	21.63	-	-	22.47	21.63	-	-
Public works	12.32	12.84	-	-	12.32	12.84	-	-
Health and welfare	7.95	7.01	-	-	7.95	7.01	-	-
Education	30.43	29.86	-	-	30.43	29.86	49.18	47.85
Parks, recreation, and cultural	5.03	4.75	-	-	5.03	4.75	-	-
Community development	2.65	2.88	-	-	2.65	2.88	0.63	0.46
Interest	3.36	3.42	-	-	3.36	3.42	-	-
Water	-	-	3.13	2.97	3.13	2.97	-	-
Sewer	-	-	5.49	5.10	5.49	5.10	-	-
Transit	-	-	4.67	4.41	4.67	4.41	-	-
Parking	-	-	0.49	0.44	0.49	0.44	-	-
Total Expenses	$ 96.98	$ 94.83	$ 13.78	$ 12.92	$ 110.76	$ 107.75	$ 49.81	$ 48.31
Excess (deficiency) of revenues over expenses before transfers	$ 1.70	$ (0.22)	$ 2.98	$ 2.66	$ 4.68	$ 2.44	$ 0.04	$ 0.59
Transfers	0.62	0.62	(0.62)	(0.62)	-	-	-	-
Change in net position	$ 2.32	$ 0.40	$ 2.36	$ 2.04	$ 4.68	$ 2.44	$ 0.04	$ 0.59
Net Position, beginning of year	94.78	94.38	66.24	64.20	161.02	158.58	(10.37)	(10.96)
Net Position, end of year	$ 97.10	$ 94.78	$ 68.60	$ 66.24	$ 165.70	$ 161.02	$ (10.33)	$ (10.37)

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

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.

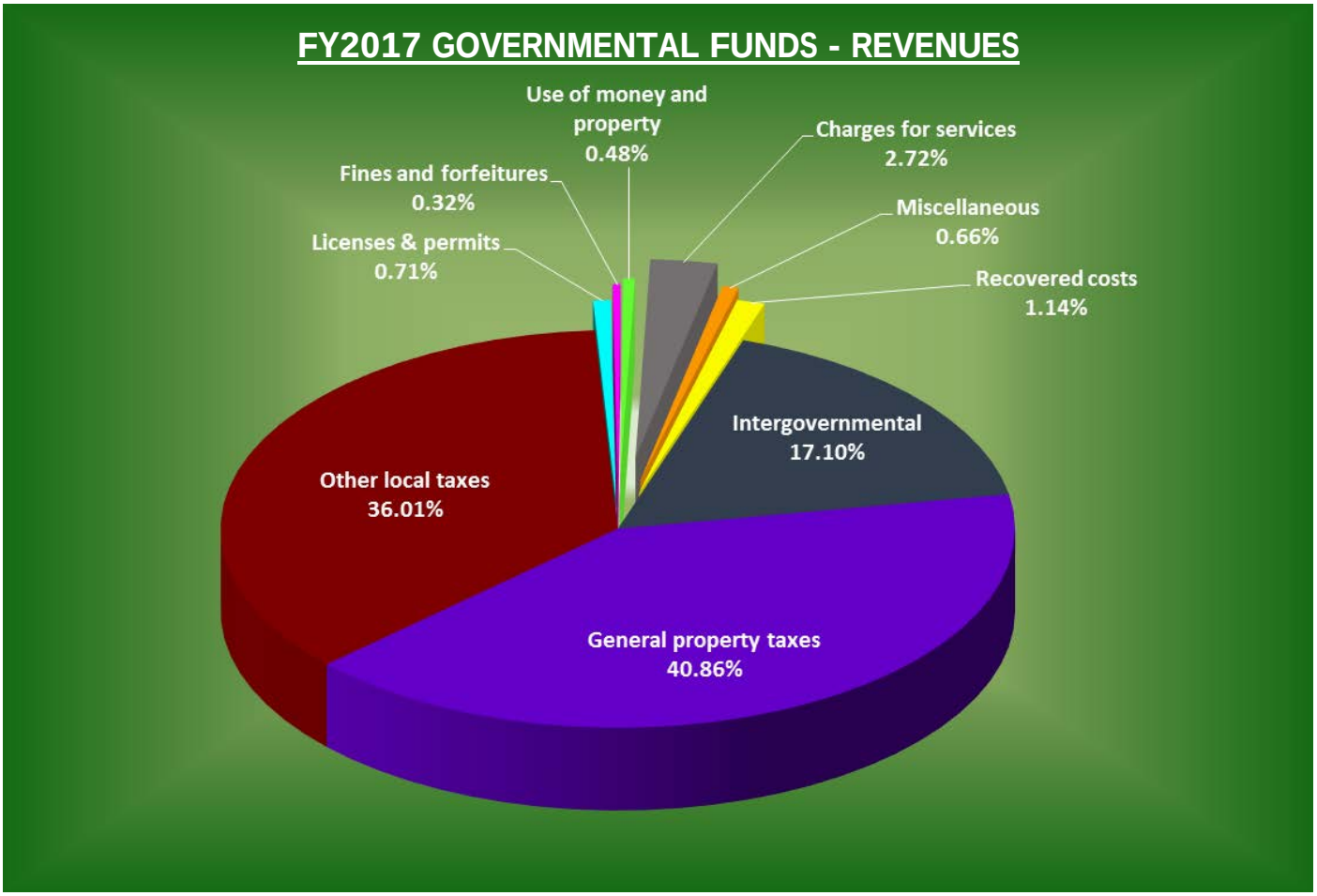
Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2017 and 2016 is presented below:

TABLE 3

Governmental Funds - Revenues

	FY 2017	FY 2016	Percentage of Total Revenues FY 2017	Increase (Decrease) from FY 2016
General property taxes	$ 40,074,290	$ 39,027,174	40.86%	$ 1,047,116
Other local taxes	35,329,244	35,126,109	36.01%	203,135
Licenses and permits	700,197	691,636	0.71%	8,561
Fines and forfeitures	312,851	350,564	0.32%	(37,713)
Use of money and property	468,252	554,699	0.48%	(86,447)
Charges for services	2,673,100	2,644,355	2.72%	28,745
Miscellaneous	644,920	248,557	0.66%	396,363
Recovered costs	1,119,710	1,038,569	1.14%	81,141
Intergovernmental	16,776,523	15,512,711	17.10%	1,263,812
Totals	$ 98,099,087	$ 95,194,374	100.00%	$ 2,904,713



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

Revenues: (Continued)

The City's total revenues in the governmental funds were $98,099,087 in fiscal year 2017, an increase of $2,904,713 compared to fiscal year 2016. Much of the increase can be attributed to general property taxes, which grew $1,047,116 during the fiscal year. The City's real estate tax, comprising 33.7% of the total General Fund revenue, increased to $30,044,759, which was $870,496 more than the $29,174,263 collected in fiscal year 2016. The growth in revenue is largely due to a rising tax base and a higher rate of collection.

Revenue from other local taxes grew a modest $203,135; however, the increase in the General Fund was significant as the City's diverse and well-established retail centers and restaurants led to increases in such revenues as sales, meals, lodging, amusement and business license taxes. Sales tax continued its recent pattern of growth over the last several years. The sales taxes collected during fiscal year 2017 grew $199,901, or 1.79%, compared to the previous fiscal year. Sales tax revenue accounts for 12.8% of total General Fund revenues.

Meals tax revenue, which accounts for 12.5% of General Fund revenues, continues to grow at a significant pace. Meals tax revenue for the first time exceeded $11 million, at $11,141,603. This represents a growth of $448,228, or 4.2%, from the previous fiscal year total of $10,693,375. Since the meals tax rate was increased to 6% starting in fiscal year 2010, meals tax revenues in the City have grown 26%.

Business license tax exceeded $6 million for the first time in fiscal year 2017, totaling $6,320,104 in collections. The increase is an indication of the City's strong business community.

Other local tax revenue decreased $794,090 in the Capital Projects Funds. The Public Works Capital Fund and the Public Safety Capital Fund reflect a local source tax decrease of $232,500 and $561,590, respectively, as less gas tax revenue was used to fund transportation-related projects in those funds during the 2017 fiscal year.

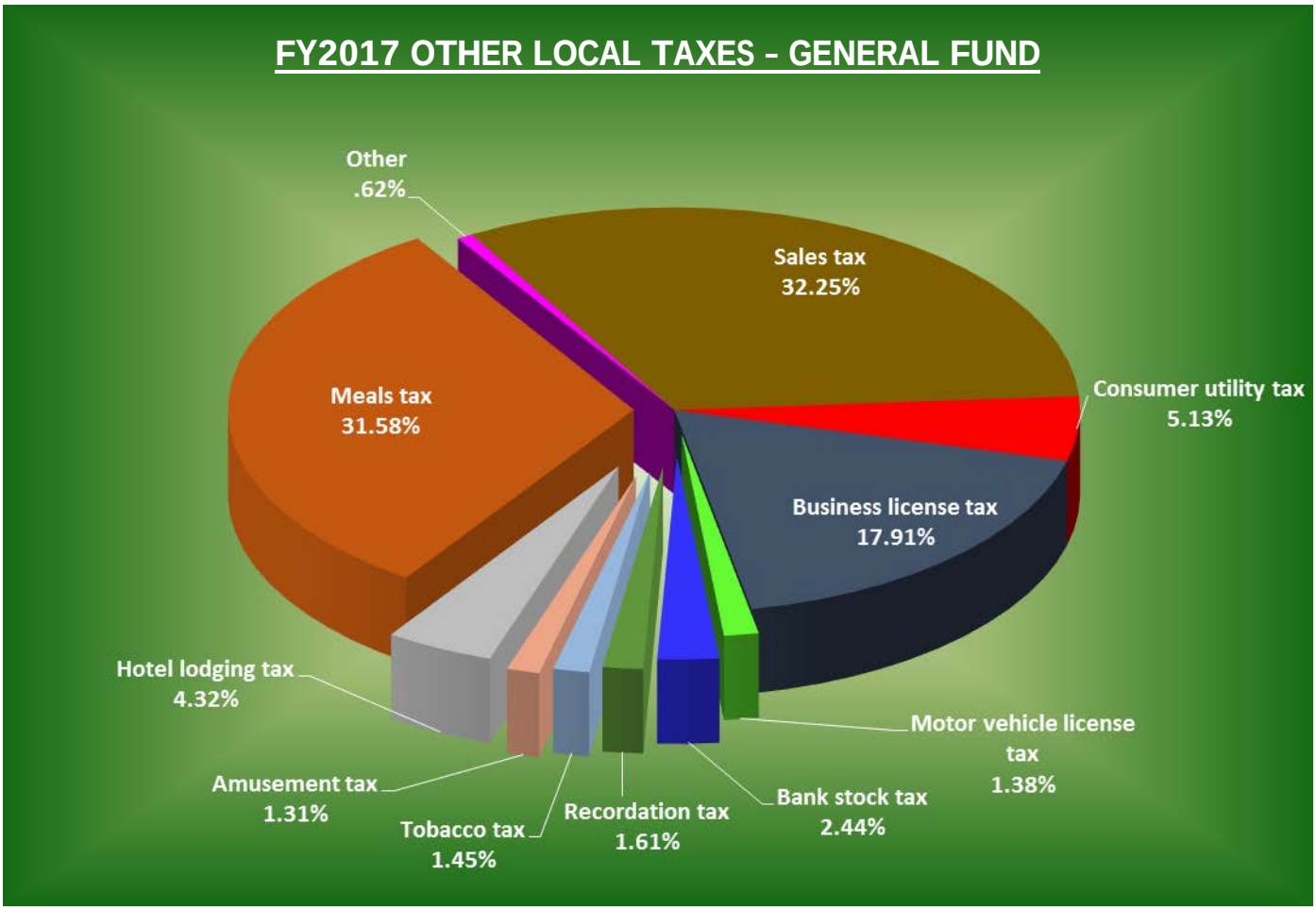
The following table reflects other local tax revenue for the General Fund for fiscal years 2017 and 2016:

TABLE 4
Other Local Taxes - General Fund

	FY 2017	FY 2016	Percentage of Total Revenues FY 2017	Increase (Decrease) from FY 2016
Sales and use tax	$ 11,376,302	$ 11,176,401	32.25%	$ 199,901
Consumer utility tax	1,808,256	1,810,911	5.13%	(2,655)
Business license tax	6,320,104	6,101,499	17.91%	218,605
Motor vehicle license tax	486,096	472,014	1.38%	14,082
Bank stock tax	862,442	775,230	2.44%	87,212
Recordation tax	567,144	711,445	1.61%	(144,301)
Tobacco tax	509,819	513,669	1.45%	(3,850)
Amusement tax	462,665	387,529	1.31%	75,136
Hotel lodging tax	1,524,371	1,432,190	4.32%	92,181
Meals tax	11,141,603	10,693,375	31.58%	448,228
Other	220,442	207,756	0.62%	12,686
Totals	$ 35,279,244	$ 34,282,019	100.00%	$ 997,225

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

Revenues: (Continued)



Expenditures:

The expenditures of governmental funds in fiscal year 2017 totaled $110,788,353, an increase of $4,886,807, or 4.6%, from the preceding fiscal year. Increased personnel costs associated with a 2% cost-of-living adjustment and rising health insurance premiums for employees and retirees helped to contribute to this increase.

Two new Public Safety positions within the General Fund impacted the total increase to Public Safety expenditures. An E-911 Communications Officer was added in the Police Department to address ongoing staffing requirements at the E-911 call center. Also added was an Advanced Life Support (ALS) Medic to Emergency Medical Services to bring the City another step closer to achieving the goal of 24/7 ALS service.

During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced $1,175,534 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of a major piece of equipment. The R-Board is expected to repay the City the amount of the advance over seven years, commencing in fiscal year 2018. This advance has been reflected as a public works expenditure in the General Fund.

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

Expenditures: (Continued)

The City's school system is a critical service provided to its citizens. In fiscal year 2017, the City continued to demonstrate a continued commitment to ensuring high-quality public education. In response to high growth in pupil enrollment and the related increase to the cost of operations, the City's financial commitment to its school system has seen a steady growth over the past several years. In fiscal year 2017, total appropriations to the school system for operating and capital totaled $28,282,210, or 31.0% of the General Fund's total expenditures, to include interfund transfers. This represents a $388,000 increase over the amount transferred to the school system in fiscal year 2016. The primary expenditure increases to the school system are due to salary adjustments, higher benefit costs, and hiring additional teachers.

Expenditures for Health and Welfare in the Special Revenue Funds increased significantly during the fiscal year. The expenditure total in the Virginia Public Assistance Fund increased $234,997, as an additional $185,000 was needed to fund the Federal Adoption Assistance Program. An even bigger increase occurred in the Children's Services Act Fund, with expenditures increasing $569,300. Two major components of that increase were $187,000 additional needed for services provided to children and families to prevent the more costly alternatives of home and/or residential placements and $240,000 for an increase in both the number of children and cost per placement for special education day placements. The additional expenditures in these two funds were funded primarily with state and federal revenue.

The expenditures related to capital project activity remained robust during the fiscal year. The most significant capital project, accounted for in the School Bond Funded Capital Fund, involves the renovation of the Walker-Grant Center. Started in fiscal year 2016, expenditures totaled $9,142,565 during fiscal year 2017. This project is scheduled to be completed during fiscal year 2018 at an estimated total cost of $13.3 million.

Other substantial capital project investments made during the fiscal year were from the Public Works Capital Fund and the Public Safety Capital Fund. The public works projects included $1,550,443 for the Pavement Rehabilitation Program, $386,892 for pedestrian signals at five intersections within the downtown area, and $413,859 associated with a Traffic Operations Center. In the Public Safety Capital Fund, $932,682 was spent to complete the installation of a public safety radio system, for a total cost of $2,386,906.

The City's higher debt service expenditures are mostly due to fiscal year 2017 being the first year principal and interest payments were made for the 2016A General Obligation Bonds. The $216,322 debt service paid for those bonds was for the public safety radio system portion of the debt. Debt service payments for the larger portion of the 2016A General Obligation debt, which is being used as the primary funding source for the renovation of the Walker-Grant Center, will begin in fiscal year 2018.

In response to the City's long-term financial commitment related to Other Post-Employment Benefits (OPEB), an irrevocable OPEB Trust was established in fiscal year 2016 in the amount of $1,000,000. In fiscal year 2017 the City elected to make an additional contribution to the OPEB trust for $112,000. A majority of the contribution, $75,000, was funded with General Fund resources, with the balance coming from enterprise funds.

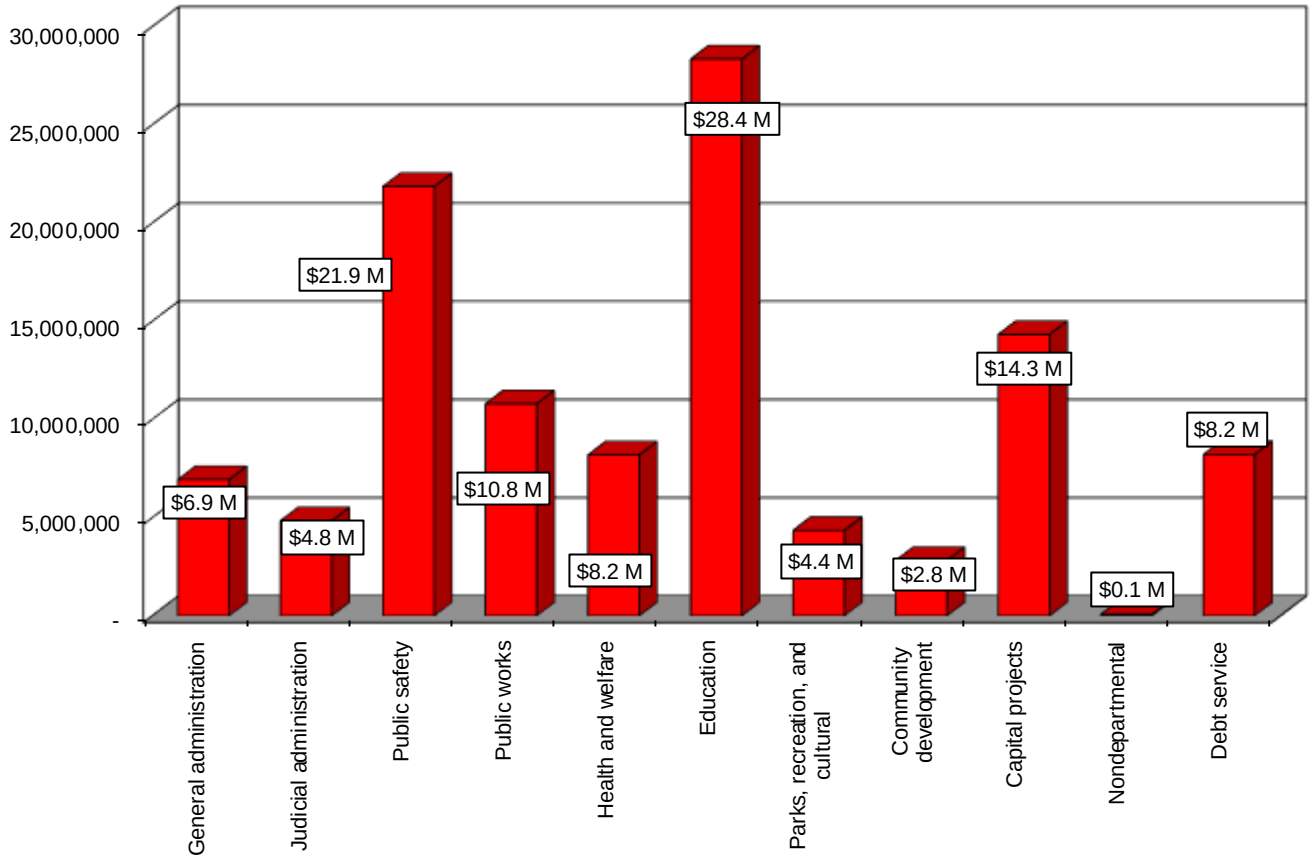
Financial Analysis of the City's Governmental Funds: (Continued)

Expenditures: (Continued)

TABLE 5
Governmental Funds - Expenditures

	FY 2017	FY 2016	Percentage of Total Expenditures FY 2017	Increase (Decrease) from FY 2016
General administration	$ 6,941,265	$ 6,937,325	6.27%	$ 3,940
Judicial administration	4,842,421	4,757,907	4.37%	84,514
Public safety	21,862,258	21,014,424	19.73%	847,834
Public works	10,799,421	9,938,991	9.75%	860,430
Health and welfare	8,193,779	7,343,391	7.40%	850,388
Education	28,350,929	27,937,535	25.59%	413,394
Parks, recreation, and cultural	4,354,413	4,134,366	3.93%	220,047
Community development	2,817,023	3,102,783	2.54%	(285,760)
Capital projects	14,332,314	12,206,160	12.93%	2,126,154
Nondepartmental	75,000	968,579	0.07%	(893,579)
Debt service	8,219,530	7,560,085	7.42%	659,445
Totals	$ 110,788,353	$ 105,901,546	100.00%	$ 4,886,807

FY 2017 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2017, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

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

For fiscal year 2017, total final General Fund budgeted expenditures increased $489,538 and total final General Fund budgeted revenues increased $1,435,267.

Actual General Fund expenditures were $79,244,401 compared to the final budgeted expenditures totaling $80,709,354. This resulted in a favorable budget variance of $1,464,953. General Government Administration, Public Safety and Public Works experienced the most significant favorable variance of $337,744, $383,402 and $548,559, respectively.

Actual General Fund revenues were $89,181,564 compared to the final budgeted revenues totaling $86,343,822. This resulted in a favorable budget variance of $2,837,742. There were two major categories, general property taxes and other local taxes, which experienced the most significant favorable variance of $838,290 and $1,893,794, respectively.

The General Fund budget for fiscal year 2017 included a use of fund balance totaling $5,740,004. Due to favorable financial results, the City's use of fund balance was $1,429,062.

Capital Asset and Debt Administration

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

TABLE 6
Change in Capital Assets
City Governmental Funds

	Balance June 30, 2016	Net Additions/ Deletions	Balance June 30, 2017
Capital assets not being depreciated:			
Land	$ 21,666,651	$ -	$ 21,666,651
Construction in progress	4,379,158	7,605,828	11,984,986
Other capital assets:			
Land improvements	16,243,833	21,138	16,264,971
Buildings and building improvements	63,023,575	177,155	63,200,730
Joint tenancy assets	34,035,000	(1,715,000)	32,320,000
Machinery, equipment, and vehicles	23,863,890	1,805,908	25,669,798
Infrastructure	81,550,488	4,375,582	85,926,070
Accumulated depreciation	(78,160,143)	(4,837,280)	(82,997,423)
Totals	$ 166,602,452	$ 7,433,331	$ 174,035,783

Capital Asset and Debt Administration: (Continued)

The net increase in capital assets during the fiscal year was $7,433,331. The increase in revenues in the General Fund combined with debt issuances and a strategic use of fund balance has provided the City an opportunity to address a variety of capital needs. Increases to capital assets totaled $16,096,910 and include $9,547,543 for building improvements, $3,573,003 for infrastructure improvements, and $2,922,517 for furniture, equipment and vehicle purchases. The decrease to capital assets was $8,663,579, of which $7,576,862 was for depreciation expense recognized in fiscal year 2017.

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

Long-term Debt

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

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2017, the City's outstanding long-term indebtedness amount totaled $110,248,000. After an adjustment to reflect the reserve of $2,000,490 for education debt service and $1,660,000 of revenue bonded debt, the remaining net debt applicable to the debt limit of $106,587,510 is far below the legal debt limit of $252,766,739.

The table below reflects a summary of the City's long-term debt outstanding for fiscal years 2017 and 2016:

TABLE 7
Long Term Debt
As of June 30, 2017

	Governmental Activities		Business-type Activities		Total	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
General obligation bonds	$ 41,476,566	$ 44,022,847	$ 23,566,434	$ 25,550,153	$ 65,043,000	$ 69,573,000
General obligation school bonds	43,545,000	45,260,000	-	-	43,545,000	45,260,000
Revenue Bonds	1,660,000	1,855,000	-	-	1,660,000	1,855,000
Total long-term debt	$ 86,681,566	$ 91,137,847	$ 23,566,434	$ 25,550,153	$ 110,248,000	$ 116,688,000

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

Economic Factors

The City government continues to maintain a stable financial condition as reflected by the financial statements and schedules in this report. Through fiscally responsible budget oversight, cost containment monitoring, and a stable economic base, the City has continued to expand services to its citizens while maintaining appropriate General Fund reserves. The City's economy has stabilized since the economic downturn in 2008, as reflected in the moderate upward trending of various local revenue sources. The City's strategic location at the center of one of the fastest-growing regions in the Commonwealth, coupled with its established and expanding commercial centers, has provided the City stable economic traction moving forward.

While tourism has been a mainstay of the City's economy, visionary downtown revitalization efforts in the form of various mixed-use developments continue to reflect economic potential for the City. Several projects that combine housing, retail, hotel, restaurant, office and public-parking uses have been recently completed or are in various stages of development. The most notable projects include Amelia Square, Park View, Liberty Place and the planned re-development of The Free Lance-Star's former headquarters property. These projects include luxury residences combined with tens of thousands of square feet of retail, office, restaurant and potentially hotel space. These developments will produce significantly higher property values and help support the vitality of the downtown business climate, as will the many new restaurants that are in the pipeline. In addition, the University of Mary Washington and Mary Washington Healthcare provide stabilizing forces to the local economy. There are several remaining tracts available just off Interstate 95 for large new developments in the City, and many redevelopment opportunities exist as well along State Route 3, U.S. 1 and other key corridors. The gateway corridors into the downtown, including Lafayette Boulevard and Princess Anne Street, are poised to see new investment in the years to come, thereby becoming more integrated into the greater downtown. The City's Economic Development and Tourism Office and City Manager's Office are committed to more aggressive outreach efforts in the years to come, providing promise for additional gains in the City's commercial tax revenue base.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Position
At June 30, 2017

	Governmental Activities	Business-type Activities	Total	Component Units: School Board	Component Units: Economic Development Authority
Assets:					
Cash and cash equivalents	$ 39,839,433	$ 24,582,956	$ 64,422,389	$ 7,391,606	$ 1,462,226
Receivables, net of allowance for uncollectibles	1,166,666	1,725,237	2,891,903	22,581	17,847
Due from other governments	4,944,810	4,412,977	9,357,787	1,401,382	-
Inventory, at cost	16,969	317,427	334,396	-	-
Prepaid items	863,872	14,570	878,442	362,825	-
Investment in joint venture	4,696,790	-	4,696,790	-	-
Net pension asset	-	-	-	88,702	-
Restricted:					
Cash and cash equivalents	-	678,352	678,352	-	-
Capital assets:					
Land, construction in progress and other	33,651,637	7,493,551	41,145,188	497,679	-
Other capital assets, net of accumulated depreciation	140,384,146	60,199,207	200,583,353	23,949,323	-
Capital assets, net	$ 174,035,783	$ 67,692,758	$ 241,728,541	$ 24,447,002	$ -
Total assets	$ 225,564,323	$ 99,424,277	$ 324,988,600	$ 33,714,098	$ 1,480,073
Deferred Outflows of Resources:					
Pension contributions subsequent to the measurement date	$ 2,602,453	$ 254,770	$ 2,857,223	$ 3,387,454	$ -
Items related to the measurement of the net pension liability	3,148,744	304,678	3,453,422	2,432,448	-
Change in proportionate share of net pension liability	153,465	13,899	167,364	1,757,000	-
Deferred charge on refunding	254,944	526,196	781,140	-	-
Total deferred outflows of resources	$ 6,159,606	$ 1,099,543	$ 7,259,149	$ 7,576,902	$ -
Liabilities:					
Accounts payable	$ 2,690,173	$ 2,117,600	$ 4,807,773	$ 748,229	$ 30,607
Accrued liabilities	3,726,905	504,709	4,231,614	3,906,186	-
Unearned revenue	452,277	1,696,195	2,148,472	-	-
Claims payable	871,860	-	871,860	-	-
Amounts held for others	1,116,061	-	1,116,061	-	-
Liabilities payable from restricted assets	-	678,352	678,352	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,886,182	155,425	2,041,607	597,828	-
Revenue bonds	205,000	-	205,000	-	-
General obligation bonds	5,204,082	2,053,791	7,257,873	-	-
Accrued landfill post-closure costs	80,000	-	80,000	-	-
Capital lease	-	-	-	225,000	-
Due in more than one year:					
Compensated absences	1,156,047	86,858	1,242,905	551,841	-
Net OPEB obligation	4,524,851	422,861	4,947,712	2,309,796	-
Revenue bonds	1,455,000	-	1,455,000	-	-
General obligation bonds	83,714,103	21,608,219	105,322,322	-	-
Capital lease	-	-	-	2,780,000	-
Net pension liability	23,976,917	2,390,374	26,367,291	40,555,000	-
Accrued landfill post-closure costs	1,419,514	-	1,419,514	-	-
Total liabilities	$ 132,478,972	$ 31,714,384	$ 164,193,356	$ 51,673,880	$ 30,607
Deferred Inflows of Resources:					
Deferred revenue - property taxes	$ 636,656	$ -	$ 636,656	$ -	$ -
Change in proportionate share of net pension liability	-	53,914	53,914	-	-
Items related to the measurement of the net pension liability	1,505,994	152,244	1,658,238	1,401,508	-
Total deferred inflows of resources	$ 2,142,650	$ 206,158	$ 2,348,808	$ 1,401,508	$ -
Net Position:					
Net investment in capital assets	$ 88,860,358	$ 44,971,811	$ 133,832,169	$ 21,442,002	$ -
Unrestricted	8,241,949	23,631,467	31,873,416	(33,226,390)	1,449,466
Total net position	$ 97,102,307	$ 68,603,278	$ 165,705,585	$ (11,784,388)	$ 1,449,466

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	$ 7,065,308	$ 149,415	$ 275,738	$ -
Judicial administration	5,700,242	191,999	953,124	-
Public safety	22,472,125	1,872,937	2,006,353	150,000
Public works	12,324,625	998,126	2,799,781	2,924,565
Health and welfare	7,951,696	-	5,492,744	-
Education	30,433,939	-	-	-
Parks, recreation and cultural	5,025,061	473,643	73,473	-
Community development	2,652,990	28	-	117,851
Interest on long-term debt	3,357,340	-	-	-
Total governmental activities	$ 96,983,326	$ 3,686,148	$ 11,601,213	$ 3,192,416
Business-type activities				
Water	$ 3,125,748	$ 3,322,933	$ 337,549	$ -
Sewer	5,485,742	5,426,986	569,414	-
Transit	4,671,545	307,579	3,072,602	1,682,639
Parking	493,395	247,274	-	-
Total business-type activities	$ 13,776,430	$ 9,304,772	$ 3,979,565	$ 1,682,639
Total Primary Government	$ 110,759,756	$ 12,990,920	$ 15,580,778	$ 4,875,055
Component Units				
Fredericksburg City Public Schools	$ 49,184,682	$ 429,283	$ 19,172,845	$ -
Fredericksburg Economic Development Authority	625,565	138,058	211,637	-
Total Component Units	$ 49,810,247	$ 567,341	$ 19,384,482	$ -

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

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (6,640,155)	$ -	$ (6,640,155)	$ -
(4,555,119)	-	(4,555,119)	-
(18,442,835)	-	(18,442,835)	-
(5,602,153)	-	(5,602,153)	-
(2,458,952)	-	(2,458,952)	-
(30,433,939)	-	(30,433,939)	-
(4,477,945)	-	(4,477,945)	-
(2,535,111)	-	(2,535,111)	-
(3,357,340)	-	(3,357,340)	-
$ (78,503,549)	$ -	$ (78,503,549)	$ -
$ -	$ 534,734	$ 534,734	$ -
-	510,658	510,658	-
-	391,275	391,275	-
-	(246,121)	(246,121)	-
$ -	$ 1,190,546	$ 1,190,546	$ -
$ (78,503,549)	$ 1,190,546	$ (77,313,003)	$ -
			$ (29,582,554)
			(275,870)
			$ (29,858,424)
$ 40,022,650	$ -	$ 40,022,650	$ -
11,376,302	-	11,376,302	-
1,808,256	-	1,808,256	-
6,320,104	-	6,320,104	-
1,524,371	-	1,524,371	-
11,141,603	-	11,141,603	-
3,158,608	1,154,538	4,313,146	-
-	-	-	29,467,768
3,724,175	-	3,724,175	-
99,017	-	99,017	-
369,235	62,519	431,754	15,751
664,489	571,373	1,235,862	409,405
619,355	(619,355)	-	-
$ 80,828,165	$ 1,169,075	$ 81,997,240	$ 29,892,924
$ 2,324,616	$ 2,359,621	$ 4,684,237	$ 34,500
94,777,691	66,243,657	161,021,348	(10,369,422)
$ 97,102,307	$ 68,603,278	$ 165,705,585	$ (10,334,922)

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Fund Financial Statements

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Balance Sheet
Governmental Funds
At June 30, 2017

	General	School Bond Funded Capital Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	$ 23,713,398	$ 3,813,351	$ 11,773,568	$ 39,300,317
Receivables (net of allowances for uncollectibles):				
Property taxes	635,098	-	-	635,098
Accounts	104,407	-	-	104,407
Accrued revenue	342,876	-	84,285	427,161
Inventory, at cost	16,969	-	-	16,969
Prepaid items	410,378	-	9,710	420,088
Due from other governments	3,096,658	-	1,848,152	4,944,810
Total assets	$ 28,319,784	$ 3,813,351	$ 13,715,715	$ 45,848,850
Liabilities:				
Accounts payable	$ 526,710	$ 1,605,988	$ 555,818	$ 2,688,516
Accrued liabilities	1,321,886	496,319	371,438	2,189,643
Amounts held for others	1,116,061	-	-	1,116,061
Unearned revenue	75,652	-	376,625	452,277
Total liabilities	$ 3,040,309	$ 2,102,307	$ 1,303,881	$ 6,446,497
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	$ 1,004,082	$ -	$ -	$ 1,004,082
Fund Balances:				
Nonspendable	$ 427,347	$ -	$ 9,710	$ 437,057
Restricted	100,466	-	100,000	200,466
Committed	6,897,202	1,711,044	5,621,683	14,229,929
Assigned	996,272	-	6,680,441	7,676,713
Unassigned	15,854,106	-	-	15,854,106
Total fund balances	$ 24,275,393	$ 1,711,044	$ 12,411,834	$ 38,398,271
Total liabilities, deferred inflows of resources and fund balances	$ 28,319,784	$ 3,813,351	$ 13,715,715	$ 45,848,850

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2017

Total fund balances for governmental funds (Exhibit 3)		$ 38,398,271
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	$ 21,666,651	
Construction in progress	11,984,986	
Land improvements, net of accumulated depreciation	12,204,724	
Buildings and improvements, net of accumulated depreciation	46,717,332	
Joint tenancy assets, net of accumulated depreciation	25,672,059	
Infrastructure, net of accumulated depreciation	43,029,953	
Machinery, vehicles, and equipment, net of accumulated depreciation	12,760,078	
Total capital assets		174,035,783
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.		109,383
Other assets used in govenmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Investment in joint venture	$ 4,696,790	
Change in proportionate share of net pension liability	153,465	
Deferred inflows related to measurement of net pension liability	(1,505,994)	3,344,261
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		2,602,453
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.		367,426
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Accrued interest on debt	$ (1,537,262)	
Bonds and notes payable	(86,681,566)	
Premium on long-term debt, net of accumulated amortization	(3,896,619)	
Deferred charge on refunding	254,944	
Net pension liability	(23,976,917)	
Deferred outflows related to measurement of net pension liability	3,148,744	
Landfill post-closure costs	(1,499,514)	(114,188,190)
Compensated absences not reported as fund liabilities		(3,042,229)
Net OPEB obligation not reported as fund liabilities		(4,524,851)
Total net position of governmental activities (Exhibits 1 and 2)		$ 97,102,307

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, 2017

	General Fund	School Bond Funded Capital Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	$ 40,074,290	$ -	$ -	$ 40,074,290
Other local taxes	35,279,244	-	50,000	35,329,244
Permits, privilege fees and regulatory licenses	677,059	-	23,138	700,197
Fines and forfeitures	310,008	-	2,843	312,851
Use of money and property	164,144	64,047	240,061	468,252
Charges for services	2,595,981	-	77,119	2,673,100
Miscellaneous	176,570	-	468,350	644,920
Recovered costs	570,307	-	549,403	1,119,710
Intergovernmental:				
Revenue from the Commonwealth	9,244,624	-	4,370,583	13,615,207
Revenue from the Federal Government	89,337	-	3,071,979	3,161,316
Total revenues	$ 89,181,564	$ 64,047	$ 8,853,476	$ 98,099,087
Expenditures				
Current:				
General government administration	$ 6,941,265	$ -	$ -	$ 6,941,265
Judicial administration	4,588,768	-	253,653	4,842,421
Public safety	21,429,270	-	432,988	21,862,258
Public works	10,584,534	-	214,887	10,799,421
Health and welfare	1,013,418	-	7,180,361	8,193,779
Education - local community college and other	68,719	-	-	68,719
Education - public school system	28,282,210	-	-	28,282,210
Parks, recreation and cultural	4,243,469	-	110,944	4,354,413
Community development	2,017,748	-	799,275	2,817,023
Capital projects	-	9,279,165	5,053,149	14,332,314
Nondepartmental	75,000	-	-	75,000
Debt service:				
Principal payments	-	-	4,456,281	4,456,281
Interest and fiscal charges	-	-	3,763,249	3,763,249
Total expenditures	$ 79,244,401	$ 9,279,165	$ 22,264,787	$ 110,788,353
Excess (deficiency) of revenues over (under) expenditures	$ 9,937,163	$ (9,215,118)	$ (13,411,311)	$ (12,689,266)
Other financing sources (uses)				
Proceeds from the sale of capital assets	$ 15,786	$ -	$ 3,783	$ 19,569
Transfers in	613,500	250,000	11,751,366	12,614,866
Transfers out	(11,995,511)	-	-	(11,995,511)
Total other financing sources (uses)	$ (11,366,225)	$ 250,000	$ 11,755,149	$ 638,924
Net change in fund balance	$ (1,429,062)	$ (8,965,118)	$ (1,656,162)	$ (12,050,342)
Fund balances, beginning of year	25,704,455	10,676,162	14,067,996	50,448,613
Fund balances, end of year	$ 24,275,393	$ 1,711,044	$ 12,411,834	$ 38,398,271

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, 2017

Net change in fund balances - total governmental funds (Exhibit 5)		$ (12,050,342)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 14,355,629	
Depreciation	(7,576,862)	6,778,767
Transfer of joint tenancy assets from Primary Government to the Component Unit School Board		(1,086,717)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		1,741,281
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net position revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.		(51,640)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in joint venture investment	$ 1,180,092	
Change in deferred inflows related to the measurement of the net pension liability	3,265,879	4,445,971
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Debt issued:		
Amortization of premium on long-term debt	$ 436,285	
Repayments of long-term debt:		
General obligation bonds	4,456,281	
Net adjustment		4,892,566
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	$ 58,751	
Net OPEB obligation	(165,760)	
Accrued interest on bonds and loans	(1,844)	
Net pension liability	(5,159,970)	
Deferred outflows related to pension payments subsequent to the measurement date	(629,381)	
Deferred outflows related to the measurement of the net pension liability	3,148,744	
Deferred outflows - change in proportionate share of net pension liability	69,812	
Amortization of deferred charge on refunding	(28,532)	
Accrued landfill post-closure costs	39,161	
Net adjustment		(2,669,019)
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities.		323,749
Change in net position of governmental activities (Exhibit 2)		$ 2,324,616

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

Statement of Net Position
Proprietary Funds
At June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Assets:						
Current assets:						
Cash and cash equivalents	$ 9,641,785	$ 7,309,347	$ 7,083,903	$ 547,921	$ 24,582,956	$ 539,116
Accounts receivable, net of allowance for uncollectibles	640,785	1,044,747	-	-	1,685,532	-
Accrued revenue	6,477	5,774	11,038	16,416	39,705	-
Inventory, at cost	137,459	179,968	-	-	317,427	-
Prepaid items	1,182	2,557	9,531	1,300	14,570	443,784
Due from other governments	50,000	159,998	3,962,979	240,000	4,412,977	-
Restricted assets:						
Cash and cash equivalents	678,352	-	-	-	678,352	-
Total current assets	$ 11,156,040	$ 8,702,391	$ 11,067,451	$ 805,637	$ 31,731,519	$ 982,900
Capital Assets:						
Land	$ 701,345	$ 114,880	$ 550,686	$ 782,125	$ 2,149,036	$ -
Construction in progress	3,440,619	1,670,395	233,501	-	5,344,515	-
Land improvements	-	-	976,403	-	976,403	-
Dams and reservoirs	663,536	-	-	-	663,536	-
Buildings and systems	18,305,808	41,553,949	9,867,983	6,682,205	76,409,945	-
Furniture, machinery and equipment	478,262	2,900,535	5,178,312	223,789	8,780,898	-
Intangible assets	6,976,115	1,556,496	-	-	8,532,611	-
Total property, plant and equipment	$ 30,565,685	$ 47,796,255	$ 16,806,885	$ 7,688,119	$ 102,856,944	$ -
Accumulated depreciation	(9,112,630)	(20,021,262)	(4,409,906)	(1,620,388)	(35,164,186)	-
Capital assets, net	$ 21,453,055	$ 27,774,993	$ 12,396,979	$ 6,067,731	$ 67,692,758	$ -
Total assets	$ 32,609,095	$ 36,477,384	$ 23,464,430	$ 6,873,368	$ 99,424,277	$ 982,900
Deferred Outflows of Resources:						
Pension contributions subsequent to the measurement date	$ 53,098	$ 111,001	$ 85,816	$ 4,855	$ 254,770	$ -
Change in proportionate share of net pension liability	10,852	-	-	3,047	13,899	-
Items related to the measurement of the net pension liability	73,577	117,504	107,149	6,448	304,678	-
Deferred charge on refunding	23,208	423,546	-	79,442	526,196	-
Total deferred outflows of resources	$ 160,735	$ 652,051	$ 192,965	$ 93,792	$ 1,099,543	$ -
Liabilities:						
Current liabilities:						
Accounts payable	$ 498,100	$ 1,020,438	$ 573,229	$ 25,833	$ 2,117,600	$ 1,657
Accrued liabilities	111,171	125,398	48,499	2,129	287,197	-
Interest payable	46,467	171,045	-	-	217,512	-
Compensated absences, current portion	38,028	81,278	35,245	874	155,425	-
Claims payable	-	-	-	-	-	871,860
Unearned revenue, current portion	25,007	55,912	-	-	80,919	-
General obligation bonds, current portion	646,438	1,162,236	-	245,117	2,053,791	-
Current liabilities payable from restricted assets:						
Customer deposits	678,352	-	-	-	678,352	-
Total current liabilities	$ 2,043,563	$ 2,616,307	$ 656,973	$ 273,953	$ 5,590,796	$ 873,517
Noncurrent liabilites:						
Unearned revenue, noncurrent portion	$ -	$ 1,615,276	$ -	$ -	$ 1,615,276	$ -
Compensated absences, noncurrent portion	23,308	14,343	48,671	536	86,858	-
Net OPEB obligation	104,150	183,170	125,084	10,457	422,861	-
Net pension liability	552,876	956,692	834,734	46,072	2,390,374	-
General obligation bonds, noncurrent portion	7,067,526	12,360,350	-	2,180,343	21,608,219	-
Total noncurrent liabilities	$ 7,747,860	$ 15,129,831	$ 1,008,489	$ 2,237,408	$ 26,123,588	$ -
Total liabilities	$ 9,791,423	$ 17,746,138	$ 1,665,462	$ 2,511,361	$ 31,714,384	$ 873,517
Deferred Inflows of Resources:						
Change in proportionate share of net pension liability	$ -	$ 45,905	$ 8,009	$ -	$ 53,914	$ -
Items related to the measurement of the net pension liability	34,251	62,507	52,746	2,740	152,244	-
Total deferred inflows of resources	$ 34,251	$ 108,412	$ 60,755	$ 2,740	$ 206,158	$ -
Net Position:						
Net investment in capital assets	$ 14,170,275	$ 14,682,844	$ 12,396,979	$ 3,721,713	$ 44,971,811	$ -
Unrestricted	8,773,881	4,592,041	9,534,199	731,346	23,631,467	109,383
Total net position	$ 22,944,156	$ 19,274,885	$ 21,931,178	$ 4,453,059	$ 68,603,278	$ 109,383

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

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Operating revenues:						
Charges for services	$ 3,322,933	$ 5,426,986	$ 307,579	$ 247,274	$ 9,304,772	$ 7,581,841
Operating expenses:						
Personal services	$ 464,105	$ 929,458	$ 2,059,741	$ 101,561	$ 3,554,865	$ -
Fringe benefits	332,860	528,191	467,920	21,182	1,350,153	5,897,554
Contractual services	1,246,362	1,319,162	433,370	90,200	3,089,094	-
Other operating expenses	237,525	628,758	945,451	58,144	1,869,878	1,360,538
Depreciation expense	647,138	1,556,399	765,063	152,037	3,120,637	-
Total operating expenses	$ 2,927,990	$ 4,961,968	$ 4,671,545	$ 423,124	$ 12,984,627	$ 7,258,092
Total operating income (loss)	$ 394,943	$ 465,018	$ (4,363,966)	$ (175,850)	$ (3,679,855)	$ 323,749
Nonoperating revenues (expenses):						
Interest income	$ 19,309	$ 20,182	$ 11,514	$ 11,514	$ 62,519	$ -
Gasoline tax receipts	-	-	924,538	230,000	1,154,538	-
Availability/connection fees	337,549	512,000	-	-	849,549	-
Miscellaneous	259,447	71,455	215,479	24,992	571,373	-
State and local grant funds	-	-	1,699,179	-	1,699,179	-
Federal grant funds	-	57,414	1,373,423	-	1,430,837	-
Interest expense	(197,758)	(523,774)	-	(70,271)	(791,803)	-
Total nonoperating revenues (expenses)	$ 418,547	$ 137,277	$ 4,224,133	$ 196,235	$ 4,976,192	$ -
Income (loss) before contributions and transfers	$ 813,490	$ 602,295	$ (139,833)	$ 20,385	$ 1,296,337	$ 323,749
Capital grants and contributions:						
State and local grant funds	$ -	$ -	$ 170,457	$ -	$ 170,457	$ -
Federal grant funds	-	-	1,512,182	-	1,512,182	-
Total capital grants and contributions	$ -	$ -	$ 1,682,639	$ -	$ 1,682,639	$ -
Transfers:						
Transfers out	$ (280,644)	$ (338,711)	$ -	$ -	$ (619,355)	$ -
Change in net position	$ 532,846	$ 263,584	$ 1,542,806	$ 20,385	$ 2,359,621	$ 323,749
Net position, beginning of year	22,411,310	19,011,301	20,388,372	4,432,674	66,243,657	(214,366)
Net position, end of year	$ 22,944,156	$ 19,274,885	$ 21,931,178	$ 4,453,059	$ 68,603,278	$ 109,383

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers and users	$ 3,390,867	$ 5,398,298	$ 332,602	$ 1,072	$ 9,122,839	$ 7,581,841
Other miscellaneous receipts	259,447	71,455	1,140,017	254,992	1,725,911	-
Payments to suppliers	(1,519,422)	(1,349,218)	(916,090)	(126,944)	(3,911,674)	(1,417,782)
Payments to and for employees	(724,137)	(1,458,357)	(2,557,976)	(125,123)	(4,865,593)	(5,864,751)
Net cash provided by (used for) operating activities	$ 1,406,755	$ 2,662,178	$ (2,001,447)	$ 3,997	$ 2,071,483	$ 299,308
Cash flows from noncapital financing activities:						
Availability and connection fees	$ 337,549	$ 512,000	$ -	$ -	$ 849,549	$ -
State, federal and local grant funds	-	57,414	1,800,986	-	1,858,400	-
Transfers	(280,644)	(338,711)	-	-	(619,355)	-
Net cash provided by (used for) noncapital financing activities	$ 56,905	$ 230,703	$ 1,800,986	$ -	$ 2,088,594	$ -
Cash flows from investing activities:						
Interest income	$ 19,309	$ 20,182	$ 11,514	$ 11,514	$ 62,519	$ -
Cash flows from capital and related financing activities:						
Purchase of capital assets	$ (1,413,951)	$ (1,768,223)	$ (1,250,827)	$ (50,343)	$ (4,483,344)	$ -
State, federal and local grant funds	-	-	1,226,237	-	1,226,237	-
Principal payment on debt	(629,715)	(1,112,839)	-	(241,163)	(1,983,717)	-
Interest paid on debt	(198,479)	(506,158)	-	(60,341)	(764,978)	-
Net cash provided by (used for) capital and related financing activities	$ (2,242,145)	$ (3,387,220)	$ (24,590)	$ (351,847)	$ (6,005,802)	$ -
Increase (decrease) in cash and cash equivalents for the year	$ (759,176)	$ (474,157)	$ (213,537)	$ (336,336)	$ (1,783,206)	$ 299,308
Cash and cash equivalents (including restricted), beginning of year	11,079,313	7,783,504	7,297,440	884,257	27,044,514	239,808
Cash and cash equivalents (including restricted), end of year	$ 10,320,137	$ 7,309,347	$ 7,083,903	$ 547,921	$ 25,261,308	$ 539,116
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ 394,943	$ 465,018	$ (4,363,966)	$ (175,850)	$ (3,679,855)	$ 323,749
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	647,138	1,556,399	765,063	152,037	3,120,637	-
Other miscellaneous receipts	259,447	71,455	1,140,017	254,992	1,725,911	-
Changes in assets and liabilities:						
Accounts receivable	23,795	42,472	-	-	66,267	-
Inventory	6,265	(64,239)	-	-	(57,974)	-
Accrued revenue	(745)	(695)	25,023	(6,202)	17,381	-
Prepaid items	(1,147)	(2,301)	608	55	(2,785)	(443,784)
Due from other governments	-	(14,553)	-	(240,000)	(254,553)	-
Deferred outflows of resources - pension contributions subsequent to measurement date	13,811	22,889	23,840	182	60,722	-
Deferred outflows of resources - change in proportionate share of net pension liability	(5,512)	-	-	(1,266)	(6,778)	-
Deferred outflows of resources - items related to measurement of net pension liability	(39,746)	(117,504)	(107,149)	(6,448)	(270,847)	-
Accounts payable	(103,640)	585,399	470,450	21,345	973,554	(57,244)
Accrued liabilities	62,987	79,843	(8,327)	80	134,583	-
Net OPEB obligation	(9,428)	(20,935)	1,142	-	(29,221)	-
Net pension liability	124,927	175,685	175,692	11,836	488,140	-
Unearned revenue	6,342	(55,912)	-	-	(49,570)	-
Claims payable	-	-	-	-	-	476,587
Compensated absences	10,731	6,389	7,707	282	25,109	-
Deferred inflows of resources - change in proportionate share of net pension liability	-	12,087	(2,670)	-	9,417	-
Deferred inflows of resources - items related to measurement of net pension liability	(21,955)	(79,319)	(128,877)	(7,046)	(237,197)	-
Deposits payable from restricted assets	38,542	-	-	-	38,542	-
Net cash provided by (used for) operating activities	$ 1,406,755	$ 2,662,178	$ (2,001,447)	$ 3,997	$ 2,071,483	$ 299,308

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

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

Statement of Fiduciary Net Position
Fiduciary Funds
At June 30, 2017

	Agency Funds	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
Assets:			
Cash and cash equivalents	$ 1,158,959	$ -	$ 1,630,552
Accounts receivable	121,425	2	8,210
Investments at fair value:			
Investment in pooled funds	-	1,235,518	-
Capital assets:			
Machinery and equipment, net of accumulated depreciation	-	-	19,911
Total assets	$ 1,280,384	$ 1,235,520	$ 1,658,673
Deferred Outflows of Resources:			
Pension contributions subsequent to the measurement date	$ -	$ -	$ 3,259
Items related to the measurement of the net pension liability	-	-	7,625
Total deferred outflows of resources	$ -	$ -	$ 10,884
Liabilities:			
Accounts payable	$ 44,558	$ -	$ 509
Accrued liabilities	87,979	-	10,612
Net OPEB obligation	-	-	2,282
Net pension liability	-	-	59,625
Amounts held for others	1,147,847	-	-
Total liabilities	$ 1,280,384	$ -	$ 73,028
Deferred Inflows of Resources:			
Items related to the measurement of the net pension liability	$ -	$ -	$ 3,939
Change in proportionate share of net pension liability	-	-	1,711
Total deferred inflows of resources	$ -	$ -	$ 5,650
Net Position:			
Held in trust for OPEB benefits and other purposes	$ -	$ 1,235,520	$ 1,590,879

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2017

	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
Additions:		
Contributions:		
Contributions	$ 112,000	$ 27,400
Investment income:		
Interest earned on investments	128,316	9,334
Miscellaneous	-	500
Total additions	$ 240,316	$ 37,234
Deductions:		
Payments for property management	$ -	$ 56,936
Other charges	1,348	-
Total deductions	$ 1,348	$ 56,936
Net increase (decrease) in plan assets	$ 238,968	$ (19,702)
Net position held in trust for OPEB benefits and other purposes:		
Balance, beginning of year	996,552	1,610,581
Balance, end of year	$ 1,235,520	$ 1,590,879

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, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
School Board				
Education	$ 49,120,020	$ 429,283	$ 19,172,845	$ -
Interest on long-term debt	64,662	-	-	-
Total School Board	$ 49,184,682	$ 429,283	$ 19,172,845	$ -
Economic Development Authority				
Community development	$ 625,565	$ 138,058	$ 211,637	$ -
Total Component Units	$ 49,810,247	$ 567,341	$ 19,384,482	$ -

General revenues

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

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Position		
School Board	Economic Development Authority	Totals
$ (29,517,892)	$ -	$ (29,517,892)
(64,662)	-	(64,662)
$ (29,582,554)	$ -	$ (29,582,554)
$ -	$ (275,870)	$ (275,870)
$ (29,582,554)	$ (275,870)	$ (29,858,424)
$ 29,368,927	$ 98,841	$ 29,467,768
12,000	3,751	15,751
409,267	138	409,405
$ 29,790,194	$ 102,730	$ 29,892,924
$ 207,640	$ (173,140)	$ 34,500
(11,992,028)	1,622,606	(10,369,422)
$ (11,784,388)	$ 1,449,466	$ (10,334,922)

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Note 1—Summary of Significant Accounting Policies:

Narrative Profile

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

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

A. Financial Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

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

A. Financial Reporting Entity: (Continued)

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

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

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

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

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

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

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

A. Financial Reporting Entity: (Continued)

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided $3,853,904 in operating and other funds to the Center in 2017.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided $1,336,914 in operating funds to the Library in 2017.

c. Rappahannock Regional Solid Waste Management Board

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The City's equity interest as of June 30, 2017 was $4,696,790.

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $8.3 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2017 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One-hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and post-closure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

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

d. Rappahannock Area Community Services Board

The Board was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of $246,876 to the Board in 2017.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

e. Rappahannock Area Agency on Aging

The Agency was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $7,880 in operating grants to the Agency in 2017.

f. George Washington Regional Commission

The Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $23,149 in operating grants to the Commission in 2017.

g. Rappahannock Juvenile Detention Center

The Center was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of $714,265 to the Center in 2017.

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

The Home was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $55,672 in operating funds to the Home in 2017.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

   i. Stafford Regional Airport Commission

   The Commission was created by City Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $21,430 in operating funds to the Commission in 2017.

   Obtaining of Financial Statements for Jointly Governed Organizations

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2017.

1. Governmental Funds:

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

Environmental Section Fund - This fund accounts for the revenues, expenditures, and other financing resources for stormwater and other environmental purposes.

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

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

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

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

   School Bond Funded Capital Fund - This fund accounts for resources and expenditures for school construction. Financing is provided by bond proceeds. The Fund is considered a major fund for financial reporting purposes.

2. Proprietary Funds:

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

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

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

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

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

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

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

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

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

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

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

b. Economic Development Authority:

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

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

C. Basis of Accounting

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

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

D. Budgets and Budgetary Accounting: (Continued)

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2017. 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, 2017.

E. Cash and Cash Equivalents

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

F. Investments

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

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

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2017, the allowance totaled $2,124,470 with $1,585,903 in the General Fund and $538,567 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Items

Prepaid expenses are reported on the consumption method.

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

J. Capital Assets

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

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

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

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

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2017.

K. Compensated Absences

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

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

L. Deferred Outflows/Inflows of Resources

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

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

M. Pensions

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

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

N. Use of Estimates

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

O. Unbilled Revenue

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

P. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Bond premium amortization for fiscal year ended June 30, 2017 was $436,285 and $12,283 for the governmental and business-type activities, respectively.

Q. Long-term Obligations

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

R. Net Position

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

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

S. Net Position Flow Assumption

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

T. Fund Equity

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

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

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

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

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

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

T. Fund Equity: (Continued)

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

	General Fund	School Bond Funded Capital Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	$ 16,969	$ -	$ -	$ 16,969
Prepaids	410,378	-	9,710	420,088
Total Nonspendable Fund Balance	$ 427,347	$ -	$ 9,710	$ 437,057
Restricted:				
Courthouse maintenance	$ 100,466	$ -	$ -	$ 100,466
Housing initiatives	-	-	100,000	100,000
Total Restricted Fund Balance	$ 100,466	$ -	$ 100,000	$ 200,466
Committed:				
Social services	$ -	$ -	$ 570,337	$ 570,337
Comprehensive services	-	-	313,969	313,969
Cowan Boulevard debt service	-	-	262,519	262,519
Public safety construction projects	-	-	346,449	346,449
Public facilities construction projects	-	-	135,674	135,674
Public works construction projects	-	-	1,055,933	1,055,933
Blight abatement	-	-	189,734	189,734
Grant related expenditures	-	-	609,912	609,912
Forfeited asset sharing program	-	-	109,846	109,846
Environmental purposes	-	-	26,820	26,820
Education debt service	-	-	2,000,490	2,000,490
Walker-Grant Center renovation project	-	1,711,044	-	1,711,044
Future capital projects	6,198,550	-	-	6,198,550
Health insurance claims	386,962	-	-	386,962
Other purposes	311,690	-	-	311,690
Total Committed Fund Balance	$ 6,897,202	$ 1,711,044	$ 5,621,683	$ 14,229,929
Assigned:				
Public works construction projects	$ -	$ -	$ 2,571,367	$ 2,571,367
Public facilities construction projects	-	-	1,820,576	1,820,576
Public safety construction projects	-	-	1,321,823	1,321,823
Court facilities construction projects	-	-	966,675	966,675
Detention stabilization	976,619	-	-	976,619
Other purposes	19,653	-	-	19,653
Total Assigned Fund Balance	$ 996,272	$ -	$ 6,680,441	$ 7,676,713
Unassigned	$ 15,854,106	$ -	$ -	$ 15,854,106
Total Fund Balances	$ 24,275,393	$ 1,711,044	$ 12,411,834	$ 38,398,271

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

U. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2017. The Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. All required disclosures are located in Note 20.

Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*,

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2017. The Statement will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. All required disclosures are located in Note 23.

Note 2—Deposits and Investments:

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

Note 2—Deposits and Investments: (Continued)

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

Custodial Credit Risk (Investments) - The City's investments at June 30, 2017 were held by the City or in the City's name by the City's custodial banks; except for U.S. Agency investments, U.S. Treasuries, Corporate Debt investments, municipal public bonds, and commercial paper, where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

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

The City's rated debt investments as of June 30, 2017 were rated by Standard and Poor's or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings					
	AAAm	AAA	AA+	AA	AA-	A-1
U.S. Agencies	$ -	$ -	$ 15,167,099	$ -	$ -	$ -
U.S. Treasuries	-	-	2,804,665	-	-	-
Corporate Debt	-	1,369,168	2,510,577	220,523	3,481,376	-
Commercial Paper	-	-	-	-	-	6,976,047
Virginia State Non-Arbitrage Program	6,666,500	-	-	-	-	-
Money Market Mutual Fund	28,980,691	-	-	-	-	-
Total	$ 35,647,191	$ 1,369,168	$ 20,482,341	$ 220,523	$ 3,481,376	$ 6,976,047

Note 2—Deposits and Investments: (Continued)

Interest Rate Risk

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

Investment Maturities (in years)

Investment Type	Fair Value	Within 1 Year	1-5 Years
U.S. Agencies	$ 15,167,099	$ 1,404,808	$ 13,762,291
U.S. Treasuries	2,804,665	-	2,804,665
Commercial Paper	6,976,047	6,976,047	-
Virginia State Non-Abitrage Program	6,666,500	6,666,500	-
Corporate Debt	7,581,645	-	7,581,645
Total	$ 39,195,956	$ 15,047,355	$ 24,148,601

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB Statement No. 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

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

Note 3—Fair Value Measurements:

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

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

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

The City has the following recurring fair value measurements as of June 30, 2017:

Investment	June 30, 2017	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)
U.S. Agencies	$ 15,167,099	$ 15,167,099
U.S. Treasuries	2,804,665	2,804,665
Commercial Paper	6,976,047	6,976,047
Money Market Mutual Fund	28,980,691	28,980,691
Corporate Debt	7,581,645	7,581,645
Total	$ 61,510,147	$ 61,510,147

Note 4—Real and Personal Property Tax Data:

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

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

Note 5—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2017 consist of the following:

Primary Government:

	Governmental Activities				
	General	Special Revenue	Capital Projects	Total	Business-Type Activities
Property taxes	$ 2,186,850	$ -	$ -	$ 2,186,850	$ -
Water charges	-	-	-	-	887,115
Wastewater charges	-	-	-	-	1,336,984
EMS fees	123,759	-	-	123,759	-
Refuse disposal fees	146,769	-	-	146,769	-
Investment earnings	23,097	-	69,290	92,387	23,096
Other	187,809	14,995	-	202,804	16,609
Total	$ 2,668,284	$ 14,995	$ 69,290	$ 2,752,569	$ 2,263,804
Allowance for uncollectibles	(1,585,903)	-	-	(1,585,903)	(538,567)
Net receivables	$ 1,082,381	$ 14,995	$ 69,290	$ 1,166,666	$ 1,725,237

Component Units and Fiduciary Activities:

	School Board	Economic Development Authority	Fiduciary Activities
Other	$ 22,581	$ 17,847	$ 129,637
Total	$ 22,581	$ 17,847	$ 129,637
Allowance for uncollectibles	-	-	-
Net receivables	$ 22,581	$ 17,847	$ 129,637

Note 6—Due From Other Governmental Units:

	Governmental Activities				Business-Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	$ 1,945,651	$ -	$ -	$ 1,945,651	$ -	$ -
Telecommunication sales tax	139,851	-	-	139,851	-	-
PPTRA	676,647	-	-	676,647	-	-
Library of Virginia	-	2,417	-	2,417	-	-
Children's Services Act	-	429,537	-	429,537	-	-
Shared expenses and grants	146,824	-	-	146,824	-	-
Virginia Department of Transportation	-	-	628,691	628,691	-	-
Virginia Department of Motor Vehicles	-	4,334	-	4,334	-	-
Virginia Department of Emergency Management	-	224,153	-	224,153	-	-
Virginia Department of Criminal Justice Services	261	11,250	-	11,511	-	-
Noncategorical aid	64,919	-	-	64,919	-	-
Department of Health	-	31,789	-	31,789	-	-
Social services grants	-	454,646	-	454,646	-	-
Federal government:						
Community Development Block Grant	-	11,335	-	11,335	-	-
Transit grants	-	-	-	-	3,492,665	-
Interest subsidy	-	-	-	-	21,527	-
Others:						
Potomac and Rappahannock Transportation Commission	119,529	-	50,000	169,529	750,314	-
University of Mary Washington	2,976	-	-	2,976	10,000	-
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	138,471	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	635,443
Federal pass-through:						
School funds	-	-	-	-	-	450,293
Federal government:						
Head Start	-	-	-	-	-	315,646
Total	$ 3,096,658	$ 1,169,461	$ 678,691	$ 4,944,810	$ 4,412,977	$ 1,401,382

Note 7—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2017:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	$ 1,067,430
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	381,810
Transfer to the Children's Services Act Fund for the local share of the program costs	675,275
Transfers to the Environmental Section Fund to pay environmental related costs	125,500
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	4,052,131
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,273,570
Transfers to the Public Works Capital Fund to fund infrastructure and related capital projects	980,000
Transfers to the Public Safety Capital Fund to fund infrastructure and related capital projects	731,250
Transfers to the School Bond Funded Capital Fund to fund capital project	250,000
Transfers to the Public Facilities Capital Fund to fund building improvements and related costs	464,400
Total transfers in - other governmental funds	$ 12,001,366
Transfers to the General Fund for various programs	$ 613,500
Total transfers	$ 12,614,866

Reconciliation of transfers:

Transfers out from governmental funds	$ 11,995,511
Transfers from enterprise funds to governmental funds	619,355
Total transfers	$ 12,614,866

Component Unit School Board:

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

Note 8—Capital Assets:

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

Primary Government:

Governmental Activities:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 21,666,651	$ -	$ -	$ 21,666,651
Construction in progress:				
Infrastructure	$ 2,188,652	$ 2,173,173	$ 3,839,206	$ 522,619
Land improvements	140,349	32,709	-	173,058
Joint tenancy assets	1,846,473	9,211,108	-	11,057,581
Buildings	203,684	28,044	-	231,728
Total construction in progress	$ 4,379,158	$ 11,445,034	$ 3,839,206	$ 11,984,986
Total capital assets not being depreciated	$ 26,045,809	$ 11,445,034	$ 3,839,206	$ 33,651,637
Other capital assets:				
Land improvements	$ 16,243,833	$ 21,138	$ -	$ 16,264,971
Buildings and improvements	63,023,575	308,391	131,236	63,200,730
Joint tenancy assets	34,035,000	-	1,715,000	32,320,000
Infrastructure	81,550,488	5,239,036	863,454	85,926,070
Machinery, equipment and vehicles	23,863,890	2,922,517	1,116,609	25,669,798
Total other capital assets	$ 218,716,786	$ 8,491,082	$ 3,826,299	$ 223,381,569
Accumulated depreciation:				
Land improvements	$ 3,565,391	$ 494,856	$ -	$ 4,060,247
Buildings and improvements	14,813,612	1,801,022	131,236	16,483,398
Joint tenancy assets	6,468,224	808,000	628,283	6,647,941
Infrastructure	40,728,076	3,031,495	863,454	42,896,117
Machinery, equipment and vehicles	12,584,840	1,441,489	1,116,609	12,909,720
Total accumulated depreciation	$ 78,160,143	$ 7,576,862	$ 2,739,582	$ 82,997,423
Other capital assets, net	$ 140,556,643	$ 914,220	$ 1,086,717	$ 140,384,146
Net capital assets	$ 166,602,452	$ 12,359,254	$ 4,925,923	$ 174,035,783

Depreciation is allocated to:	
General government administration	$ 203,441
Judicial administration	983,646
Public safety	1,231,071
Public works	3,401,963
Health and welfare	114,806
Education	934,265
Parks and recreation	700,691
Community development	6,979
Total	$ 7,576,862

Note 8—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 2,149,036	$ -	$ -	$ 2,149,036
Construction in progress	2,699,955	2,740,996	96,436	5,344,515
Total capital assets not being depreciated	$ 4,848,991	$ 2,740,996	$ 96,436	$ 7,493,551
Other capital assets:				
Land improvements	$ 976,403	$ -	$ -	$ 976,403
Buildings and systems	77,845,006	431,009	1,866,070	76,409,945
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	8,532,611	-	-	8,532,611
Furniture, machinery and equipment	7,414,323	1,407,776	41,201	8,780,898
Total other capital assets	$ 95,431,879	$ 1,838,785	$ 1,907,271	$ 95,363,393
Accumulated depreciation:				
Land improvements	$ 71,974	$ 35,987	$ -	$ 107,961
Buildings and systems	27,192,869	2,075,453	1,866,070	27,402,252
Dams and reservoirs	169,401	13,271	-	182,672
Intangible assets	1,956,198	270,376	-	2,226,574
Furniture, machinery and equipment	4,560,378	725,550	41,201	5,244,727
Total accumulated depreciation	$ 33,950,820	$ 3,120,637	$ 1,907,271	$ 35,164,186
Other capital assets, net	$ 61,481,059	$ (1,281,852)	$ -	$ 60,199,207
Net capital assets	$ 66,330,050	$ 1,459,144	$ 96,436	$ 67,692,758

Depreciation is allocated to:	
Water operations	$ 647,138
Wastewater operations	1,556,399
Parking garage operations	152,037
Transit operations	765,063
Total	$ 3,120,637

Note 8—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 472,679	$ -	$ -	$ 472,679
Construction in progress	25,000	-	-	25,000
Total capital assets not being depreciated	$ 497,679	$ -	$ -	$ 497,679
Other capital assets:				
Land improvements	$ 175,633	$ 42,020	$ -	$ 217,653
Buildings and improvements	37,405,406	1,849,019	-	39,254,425
Machinery, equipment and vehicles	5,793,277	464,986	763,468	5,494,795
Total other capital assets	$ 43,374,316	$ 2,356,025	$ 763,468	$ 44,966,873
Accumulated depreciation:				
Land improvements	$ 88,348	$ 8,782	$ -	$ 97,130
Buildings and improvements	15,904,643	1,749,550	-	17,654,193
Machinery, equipment and vehicles	3,574,644	455,051	763,468	3,266,227
Total accumulated depreciation	$ 19,567,635	$ 2,213,383	$ 763,468	$ 21,017,550
Other capital assets, net	$ 23,806,681	$ 142,642	$ -	$ 23,949,323
Net capital assets	$ 24,304,360	$ 142,642	$ -	$ 24,447,002
Depreciation allocated to education		$ 2,213,383		

Note 9—Deferred/Unearned Revenue:

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

	Unearned Revenue	
	Government-wide Statements	
	Governmental Activities	Business-Type Activities
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	$ -	$ 1,671,188
Other	452,277	25,007
Total unearned revenue	$ 452,277	$ 1,696,195

	Deferred/Unavailable Revenue	
	Balance Sheet	Government-wide Statements
	Governmental Funds	Governmental Activities
Deferred property tax revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	$ 636,656	$ 636,656
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	367,426	-
Total deferred/unavailable revenue	$ 1,004,082	$ 636,656

Note 10—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2017	Current Portion
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	$ 44,022,847	$ -	$ 2,546,281	$ 41,476,566	$ 2,625,957
General obligation school bonds	45,260,000	-	1,715,000	43,545,000	2,150,000
Revenue bonds	1,855,000	-	195,000	1,660,000	205,000
Add: Unamortized bond premium	4,332,904	-	436,285	3,896,619	428,125
Landfill post-closure costs	1,538,675	-	39,161	1,499,514	80,000
Compensated absences	3,100,980	1,863,857	1,922,608	3,042,229	1,886,182
Net pension liability	18,816,947	10,906,729	5,746,759	23,976,917	-
Net OPEB obligation	4,359,091	1,205,298	1,039,538	4,524,851	-
Total	$ 123,286,444	$ 13,975,884	$ 13,640,632	$ 123,621,696	$ 7,375,264
Long-term obligations payable from business-type activities:					
General obligation bonds	$ 25,550,153	$ -	$ 1,983,719	$ 23,566,434	$ 2,042,043
Add: Unamortized bond premium	107,857	-	12,281	95,576	11,748
Compensated absences	217,174	165,039	139,930	242,283	155,425
Net pension liability	1,902,234	1,086,739	598,599	2,390,374	-
Net OPEB obligation	452,082	38,941	68,162	422,861	-
Total	$ 28,229,500	$ 1,290,719	$ 2,802,691	$ 26,717,528	$ 2,209,216
Total primary government	$ 151,515,944	$ 15,266,603	$ 16,443,323	$ 150,339,224	$ 9,584,480
Component Unit School Board:					
Long-term obligations payable from component unit School Board activities:					
Capital lease	$ 3,217,000	$ -	$ 212,000	$ 3,005,000	$ 225,000
Compensated absences	1,170,535	587,812	608,678	1,149,669	597,828
Net pension liability	36,284,000	10,799,000	6,528,000	40,555,000	-
Net OPEB obligation	2,121,409	477,907	289,520	2,309,796	-
Total component unit School Board	$ 42,792,944	$ 11,864,719	$ 7,638,198	$ 47,019,465	$ 822,828

Note 10—Long-term Obligations: (Continued)

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2017:

Year Ending	General Obligation Bonds		Revenue Bonds		Capital Lease	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 6,818,000	$ 4,224,180	$ 205,000	$ 76,622	$ 225,000	$ 60,401
2019	6,560,000	3,964,324	215,000	65,859	238,000	55,878
2020	6,805,000	3,709,280	225,000	54,584	251,000	51,094
2021	6,120,000	3,442,758	235,000	44,397	266,000	46,049
2022	6,365,000	3,186,046	245,000	33,697	272,000	40,703
2023	6,410,000	2,931,908	260,000	20,756	278,000	35,235
2024	6,670,000	2,680,142	275,000	7,047	283,000	29,648
2025	6,925,000	2,412,023	-	-	289,000	23,959
2026	7,200,000	2,135,994	-	-	295,000	18,150
2027	6,485,000	1,864,597	-	-	301,000	12,221
2028	6,745,000	1,596,415	-	-	307,000	6,170
2029	6,195,000	1,328,058	-	-	-	-
2030	6,460,000	1,057,202	-	-	-	-
2031	2,840,000	855,197	-	-	-	-
2032	2,940,000	752,505	-	-	-	-
2033	3,045,000	647,337	-	-	-	-
2034	3,155,000	539,530	-	-	-	-
2035	3,270,000	418,665	-	-	-	-
2036	2,685,000	284,884	-	-	-	-
2037	2,805,000	162,047	-	-	-	-
2038	2,090,000	49,638	-	-	-	-
	$ 108,588,000	$ 38,242,730	$ 1,660,000	$ 302,962	$ 3,005,000	$ 379,508

The above schedule does not include premiums.

Note 10—Long-term Obligations: (Continued)

At June 30, 2017, the City's long-term obligations consisted of the following:

Details of Long-term Obligations:

	Issued	Due Date	Rate(s)	Amount Outstanding	Current Portion
Primary Government:					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	$ 32,320,000	$ 1,805,000
2007E General Obligation Bonds	2008	2019	3.5-5.0%	1,020,000	500,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	493,000	493,000
2010A General Obligation Bonds	2010	2030	6.07%	970,000	-
2010B General Obligation Bonds	2010	2028	5.6-5.9%	1,735,000	-
2010C General Obligation Bonds	2010	2023	2.0-4.0%	1,820,000	275,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	31,335,000	1,170,000
2014A General Obligation Refunding Bonds	2015	2026	2.37%	6,135,000	620,000
2014B General Obligation Refunding Bonds	2015	2028	2.55%	6,710,000	110,000
2015A General Obligation Bonds	2015	2035	2.32%	13,225,000	1,355,000
2016A General Obligation Bonds	2016	2037	3.8-5.125%	12,825,000	490,000
Total general obligation bonds				$ 108,588,000	$ 6,818,000
Revenue bonds:					
Virginia Resources Authority Revenue Bonds	2016	2024	3.125-5.125%	$ 1,660,000	$ 205,000
Unamortized bond premium:					
2004A General Obligation School Bonds				$ 579,290	$ 79,065
2010 General Obligation Bonds				95,575	11,748
2011A General Obligation Bonds				1,094,958	103,419
2016A Virginia Resources Authority Revenue Bonds				193,884	49,035
2016A General Obligation Bonds				2,028,488	196,606
Total unamortized bond premium				$ 3,992,195	$ 439,873
Net pension liability				$ 26,367,291	$ -
Compensated absences				$ 3,284,512	$ 2,041,607
Net OPEB obligation				$ 4,947,712	$ -
Landfill post-closure costs				$ 1,499,514	$ 80,000
Total primary government				$ 150,339,224	$ 9,584,480
Component Unit School Board:					
Capital lease	2013	2028	2.0%	$ 3,005,000	$ 225,000
Compensated absences				$ 1,149,669	$ 597,828
Net pension liability				$ 40,555,000	$ -
Net OPEB obligation				$ 2,309,796	$ -
Total component unit School Board				$ 47,019,465	$ 822,828

Note 10—Long-term Obligations: (Continued)

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

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

Conduit Debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2017 totaled approximately $212,794,596. The City has no responsibility for the repayment of these debt obligations.

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

Note 11—Compensated Absences:

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

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

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

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017	Current Portion
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	$ 3,100,980	$ 1,863,857	$ 1,922,608	$ 3,042,229	$ 1,886,182
Business-type activities	217,174	165,039	139,930	242,283	155,425
Total primary government	$ 3,318,154	$ 2,028,896	$ 2,062,538	$ 3,284,512	$ 2,041,607
Component Unit School Board	1,170,535	587,812	608,678	1,149,669	597,828
Total	$ 4,488,689	$ 2,616,708	$ 2,671,216	$ 4,434,181	$ 2,639,435

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

Note 12—Pension Plan:

Plan Description

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

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

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

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as Plan 1.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.) their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting (Cont.)** Same as Plan 1.	**Vesting (Cont.)** **Defined Benefit Component: (Cont.)** Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable.

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

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

Note 12—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Note 12—Pension Plan: (Continued)

Pension Plan Data

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2017 was 12.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were $2,857,223 and $3,547,326 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the City reported a liability of $26,367,291 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2017 and 2016 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 97.29% and 96.83%, respectively.

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – General Employees: (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

Note 12—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees: (Continued)

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – LEOS:
Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – LEOS:
Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Note 12—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 12—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the City of Fredericksburg, Virginia Retirement Plan, Fredericksburg City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability (Asset)	$ 41,373,680	$ 26,367,291	$ 13,835,846

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

For the year ended June 30, 2017, the City recognized pension expense of $2,156,245. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 945,468	$ 1,658,238
Changes in proportion and differences between employer contributions and proportionate share of contributions	167,364	53,914
Net difference between projected and actual earnings on pension plan investments	2,507,954	-
Employer contributions subsequent to the measurement date	2,857,223	-
Total	$ 6,478,009	$ 1,712,152

Note 12—Pension Plan: (Continued)

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

$2,857,223 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government
2018	$ (621,992)
2019	(154,284)
2020	1,673,040
2021	1,011,870

Component Unit School Board (nonprofessional)

Plan Description

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

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Component Unit School Board (nonprofessional)
Inactive members or their beneficiaries currently receiving benefits	10
Inactive members:	
Vested inactive members	3
Non-vested inactive members	5
Inactive members active elsewhere in VRS	3
Total inactive members	21
Active members	31
Total covered employees	52

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 4.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were $53,315 and $86,747 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability (asset) was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Changes in Net Pension Liability (Asset)

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	$ 4,107,217	$ 4,365,258	$ (258,041)
Changes for the year:			
Service cost	$ 125,309	$ -	$ 125,309
Interest	283,678	-	283,678
Differences between expected and actual experience	(17,054)	-	(17,054)
Contributions - employer	-	85,248	(85,248)
Contributions - employee	-	60,997	(60,997)
Net investment income	-	79,053	(79,053)
Benefit payments, including refunds of employee contributions	(109,346)	(109,346)	-
Administrative expenses	-	(2,671)	2,671
Other changes	-	(33)	33
Net changes	$ 282,587	$ 113,248	$ 169,339
Balances at June 30, 2016	$ 4,389,804	$ 4,478,506	$ (88,702)

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	$ 422,133	$ (88,702)	$ (523,035)

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

For the year ended June 30, 2017, the Component Unit School Board (nonprofessional) recognized pension expense of $7,301. At June 30, 2017, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 87,508
Net difference between projected and actual earnings on pension plan investments	115,448	-
Employer contributions subsequent to the measurement date	53,315	-
Total	$ 168,763	$ 87,508

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

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

$53,315 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (nonprofessional)
2018	$ (36,628)
2019	(36,630)
2020	56,152
2021	45,046

Component Unit School Board (professional)

Plan Description

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

Contributions

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 adjusted for the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were $3,334,139 and $3,100,340 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

At June 30, 2017, the school division reported a liability of $40,555,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was .28939% as compared to .28828% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of $4,003,000. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 1,314,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,757,000	-
Net difference between projected and actual earnings on pension plan investments	2,317,000	-
Employer contributions subsequent to the measurement date	3,334,139	-
Total	$ 7,408,139	$ 1,314,000

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

$3,334,139 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (professional)
2018	$ 244,000
2019	244,000
2020	1,484,000
2021	864,000
2022	(76,000)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions: (Continued)

Mortality rates: (Continued)

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportinate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	$ 57,811,000	$ 40,555,000	$ 26,340,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13—Deferred Compensation Plan:

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

Note 14—Commitments and Contingencies:

State and Federal Programs

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

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

Environmental Matters

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

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

Construction Commitments

At June 30, 2017, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately $4,122,182 at June 30, 2017.

Note 15—Litigation:

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

Note 16—Landfill Post-closure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to post-closure monitoring. The estimated post-closure care cost for the next eight years has been recorded as a liability at June 30, 2017. The $1,499,514 reported as landfill post-closure liability at June 30, 2017 represents the estimated liability for post-closure monitoring as well as corrective action costs. All post-closure care and monitoring cost amounts are based on what it would cost to perform all post-closure care based on 2017 costs. These may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2016	$	1,538,675
Increase/(Decrease) in estimate		(39,161)
Balance at June 30, 2017	$	1,499,514

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

Note 17—Surety Bonds:

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

Note 18—Self Insurance/Risk Management:

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

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

Employee Health Insurance

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

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

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

Internal Service Fund: Liability for estimated claims incurred but not reported	$ 665,734
City General Fund: Committed Fund Balance for estimated reserves	386,962
Total	$ 1,052,696

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

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims and Payments	End of Fiscal Year Liability
2015	$ 468,802	$ 4,675,217	$ 4,754,417	$ 389,602
2016	389,602	4,743,270	4,737,599	395,273
2017	395,273	5,897,554	5,627,093	665,734

Unemployment Insurance

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

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

Property and Casualty Insurance

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

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

Note 19—Other Post-employment Benefits–Health Insurance:

City:

A. Plan Description

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

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

B. Funding Policy

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

Note 19—Other Post-employment Benefits–Health Insurance: (Continued)

City: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$	1,195,200
Interest on net OPEB obligation		336,942
Adjustment to annual required contribution		(287,903)
Annual OPEB cost (expense)	$	1,244,239
Contributions made		(1,107,700)
Increase/(decrease) in net OPEB obligation	$	136,539
Net OPEB obligation-beginning of year		4,811,173
Net OPEB obligation-end of year	$	4,947,712

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2017	$	1,244,239	89.03%	$	4,947,712
June 30, 2016		1,210,699	155.94%		4,811,173
June 30, 2015		1,430,724	68.63%		5,488,450

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2016, date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	$	15,971,700
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		15,971,700
Funded ratio (actuarial value of plan assets / AAL)		-
Covered payroll (active plan members)		22,344,600
UAAL as a percentage of covered payroll		71.48%

Note 19—Other Post-employment Benefits–Health Insurance: (Continued)

City: (Continued)

E. Actuarial Methods and Assumptions

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

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

Cost Method

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

Interest Assumptions

In the January 1, 2016 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.30% initially, reduced by decrements to an ultimate rate of 4.40% after eighty-one years. Both rates included a 3.00% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2016, was thirty years.

	Funded
Discount rate	7.00%
Payroll growth	3.00%

Note 19—Other Post-employment Benefits–Health Insurance: (Continued)

School Board:

A. Plan Description

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

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$	482,100
Interest on net OPEB obligation		74,249
Adjustment to annual required contribution		(78,442)
Annual OPEB cost (expense)	$	477,907
Contributions made		(289,520)
Increase in net OPEB obligation	$	188,387
Net OPEB obligation-beginning of year		2,121,409
Net OPEB obligation-end of year	$	2,309,796

Note 19—Other Post-employment Benefits–Health Insurance: (Continued)

School Board: (Continued)

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

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 477,907	60.58%	$ 2,309,796
June 30, 2016	561,418	35.87%	2,121,409
June 30, 2015	535,856	30.40%	1,761,391

D. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2016, date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	$ 4,143,100
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	4,143,100
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	25,190,300
UAAL as a percentage of covered payroll	16.45%

E. Actuarial Methods and Assumptions

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

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

Note 19—Other Post-employment Benefits–Health Insurance: (Continued)

School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method

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

Interest Assumptions

In the January 1, 2016 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.50% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 5.00% initially, reduced by decrements to an ultimate rate of 4.00% after eighty years. Both rates included a 2.30% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2016, was thirty years.

	Unfunded
Discount rate	3.50%
Payroll growth	3.00%

Note 20—Other Post-employment Benefits–Trust Fund – GASB Statement No. 74:

This disclosure applies to the OPEB Trust itself and includes specific OPEB disclosures required by GASB Statement No. 74 not already included in Note 19.

Plan Description

Plan administration. The City of Fredericksburg, Virginia administers the City of Fredericksburg, Virginia OPEB Plan (the Plan), a single-employer defined benefit plan that is used to provide post-employment benefits other than pensions (OPEB) for all employees who are eligible for retirement benefits of the City.

Management of the Plan is vested in the Plan Trustees, which consists of the City Manager, City Treasurer, and a citizen of the City appointed by the City Manager and the City Treasurer.

Note 20—Other Post-employment Benefits–Trust Fund – GASB Statement No. 74: (Continued)

Plan Description: (Continued)

Plan membership. At January 1, 2016, Plan membership consisted of the following:

Retirees and surviving spouses	138
Spouses of current retirees	11
Active plan members	444
Total	593

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Core fixed income	21%
Core bonds	12
Large cap US equities	22
Small cap US equities	10
Developed foreign equities	10
Emerging market equities	5
Hedge funds/absolute return	10
Real estate (REITS)	7
Commodities	3
Total	100%

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 12.78%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 20—Other Post-employment Benefits–Trust Fund – GASB Statement No. 74: (Continued)

Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 2017 were as follows:

Total OPEB liability	$	17,302,143	
Plan fiduciary net position		(1,235,520)	
City's net OPEB liability	$	16,066,623	(1)
Plan fiduciary net position as a percentage of the total OPEB liability		7.14%	

(1) Note – Net OPEB liability is calculated for the Plan at June 30, 2017 as required by GASB Statement No. 74; however, it will not be included as a liability of the City until the fiscal year ending June 30, 2018 when the City implements GASB Statement No. 75.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.00%
Healthcare cost trend rates	For pre-65 benefits: 5.10% for 2016, 8.60% for 2017, 5.80% for 2018, gradually decreasing to an ultimate rate of 4.10% for 2085 and beyond. For post-65 benefits: 6.30% for 2016, 9.10% for 2017, 6.10% for 2018, gradually decreasing to an ultimate rate of 4.40% for 2098 and beyond.

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

Note 20—Other Post-employment Benefits–Trust Fund – GASB Statement No. 74: (Continued)

Net OPEB Liability of the City: (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Tem Expected Real Rate of Return
Core fixed income	2.17%
Core bonds	2.01
Large cap US equities	4.55
Small cap US equities	5.77
Developed foreign equities	5.76
Emerging market equities	8.06
Hedge funds/absolute return	1.97
Real estate (REITS)	5.04
Commodities	3.04

Discount rate. The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current discount rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability (Asset)	$ 17,789,365	$ 16,066,623	$ 14,592,544

Note 20—Other Post-employment Benefits–Trust Fund – GASB Statement No. 74: (Continued)

Net OPEB Liability of the City: (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability (Asset)	$ 14,318,727	$ 16,066,623	$ 18,115,555

Note 21—Health Insurance Credit Program-Other Post-employment Benefit:

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 12.

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2017, 2016, and 2015 were $252,401, $132,391, and $145,879, respectively, and equaled the required contributions for each year.

Note 22—Contributions-In-Aid of Construction:

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

Note 23—Tax Abatement Disclosures - GASB Statement No. 77:

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

Technology Zones

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

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

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

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

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

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

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

Note 23—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the Fiscal Year ended June 30, 2017, the City's tax incentives totaled $67,283 under the technology zone program. There was only one participant in the technology zone incentive program for the 2017 fiscal year, as the incentive terms of several other participating companies had recently ended. Three additional technology zone performance agreements were approved by City Council near the beginning of the 2018 fiscal year.

Purpose/Zone/ Incentive Term/Opening Date	Performance Measures	Incentive/Cap Amount	2017 Incentive
Existing company expands and remains in City Central Park Technology Zone 1/1/15-12/31/19 (5 Years) June, 2014 **(TERMINATES AFTER 3/1/18)**	45 Jobs $22,000/yr. in BPOL Taxes	50% BPOL Reduction Years 1-2 30% BPOL Reduction Years 3-5 Business Personal Property Tax Reduction - Years 1 & 2 - 50% Reduction - Years 3-5 - 30%	BPOL Credit: $48,907 Business tangible pers. prop. tax: $18,376 Total $67,283

Tourism Zones

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

Eagle Village and Central Park/Celebrate Virginia South:

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

Downtown/Princess Anne Street:

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

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

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

Note 23—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)

For the fiscal year ended June 30, 2017, the City's tax incentives totaled $298,826 under the tourism zones, including the following tax incentive agreements that exceeded a threshold of $10,000:

Purpose/Zone/ Incentive Term/Opening Date	Performance Measures	Incentive/Cap Amount	2017 Incentive
New business locates to City CVAS Tourism Zone 7/1/09 - 7/1/19 (10 Years) June 21, 2009	450 Jobs $300,000/yr. in All Taxes $25M Capital Investment	100% BPOL Reduction $1.7 Million Total Limit	BPOL Credit: $183,548
New business locates to City Downtown Tourism Zone 5/1/10 - 5/1/20 (10 Years) May 1, 2010	25 Jobs $75,000/yr. in Meals/Sales Taxes Arts Display $175,000 Capital Investment	100% BPOL Waiver up to $4,000/yr. 10% Sales/Meals Taxes Reimbursement up to $14,000/yr. $18,000/yr. Limit $90,000 Total Limit	BPOL Credit: $2,687 Meals/Sales Taxes: $8,588 Total: $11,275
New business locates to City Eagle Village Tourism Zone 10 yrs. from Opening, December 13, 2014	20 FTE Jobs $130,000/yr. in Lodging, Meals, Sales and BPOL Taxes $11M Capital Investment	100% Reimbursement of 1% Local Sales Tax and 1% State Sales Tax $620,000 Limit ($310K from city)	Local sales tax reimbursement: $28,219
New business locates to City Central Park Tourism Zone 3/1/13 - 3/1/23 (10 Years) April 1, 2013	25 Jobs Local Sales Tax of at Least $34,000/yr.	100% BPOL waiver - Up to $10,000/yr. 10% Reimbursement of Local Sales Tax - up to $6,500/yr. Maximum Annual Incentive - $16,500 Maximum Total Incentive - $100,000	BPOL Credit: $8,713 Sales Taxes: $4,237 Total: $12,949
New business locates to City Downtown Tourism Zone 7/1/14 - 7/1/20 (6 Years) May 1, 2015	58,500 Working Hours (35 Jobs) Annual Meals/Sales Taxes of $2,000,000/yr. $1,800,000 Capital Investment	EDA shall award an annual performance grant of $40,000 for five years beginning July 1, 2016 through July 1, 2020	$40,000

Arts and Cultural District

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

Qualifying businesses include visual arts, dance, media arts, music studios, places of instruction, museums, art galleries, and various performing arts venues. The tax incentives for qualifying businesses are for a term of five years and include a reduction to business license tax of $250 for existing businesses and non-arts businesses that host year-round art exhibits, 100% for any new gross receipts for expanded businesses, and 100% for new businesses. Permit fee relief up to $2,000 is also available for new and expanded businesses. For the fiscal year 2017, the City's tax incentives for the Arts and Cultural District totaled $4,199.

Note 24—Upcoming GASB Pronouncements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

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

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Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	$ 29,265,500	$ 29,515,500	$ 30,044,759	$ 529,259
Public service corporations	820,000	820,000	820,716	716
Personal property	8,310,000	8,310,000	8,621,854	311,854
Mobile homes	-	-	885	885
Machinery and tools	160,500	160,500	121,248	(39,252)
Penalties	270,000	270,000	300,527	30,527
Interest	160,000	160,000	164,301	4,301
Total general property taxes	$ 38,986,000	$ 39,236,000	$ 40,074,290	$ 838,290
Other local taxes:				
Local sales and use taxes	$ 11,070,000	$ 11,070,000	$ 11,376,302	$ 306,302
Utility taxes	1,825,000	1,825,000	1,808,256	(16,744)
Business licenses and rental tax	5,870,000	5,870,000	6,320,104	450,104
Motor vehicle licenses	480,000	480,000	486,096	6,096
Bank stock taxes	730,000	730,000	862,442	132,442
Recordation taxes	450,000	450,000	567,144	117,144
Tobacco tax	525,000	525,000	509,819	(15,181)
Amusement tax	365,000	365,000	462,665	97,665
Hotel/lodging taxes	1,395,000	1,395,000	1,524,371	129,371
Meals taxes	10,450,000	10,450,000	11,141,603	691,603
Gasoline taxes	121,430	145,450	119,529	(25,921)
Other	80,000	80,000	100,913	20,913
Total other local taxes	$ 33,361,430	$ 33,385,450	$ 35,279,244	$ 1,893,794
Permits, privilege fees and licenses:				
Permits and other licenses	$ 525,250	$ 525,250	$ 667,312	$ 142,062
Animal licenses	10,000	10,000	9,747	(253)
Total permits, privilege fees and licenses	$ 535,250	$ 535,250	$ 677,059	$ 141,809
Fines and forfeitures	$ 420,000	$ 420,000	$ 310,008	$ (109,992)
Revenue from use of money and property:				
Revenue from use of money	$ 115,000	$ 115,000	$ 145,443	$ 30,443
Revenue from use of property	36,000	36,000	18,701	(17,299)
Total revenue from use of money and property	$ 151,000	$ 151,000	$ 164,144	$ 13,144
Charges for services:				
Court costs	$ 148,550	$ 208,550	$ 107,454	$ (101,096)
Commonwealth's Attorney	8,500	8,500	10,075	1,575
Sanitation and waste removal	981,650	981,650	998,126	16,476
Parks and recreation	456,670	456,670	470,994	14,324
Planning and community development	1,100	1,100	28	(1,072)
Fire and rescue services	845,000	845,000	859,889	14,889
Administrative charges	135,000	135,000	149,415	14,415
Total charges for services	$ 2,576,470	$ 2,636,470	$ 2,595,981	$ (40,489)

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Payments in-lieu of taxes	$ 27,000	$ 27,000	$ 57,569	$ 30,569
Souvenir sales	23,000	23,000	21,595	(1,405)
Donations - parks and recreation	60,000	60,000	59,057	(943)
Other	31,500	31,500	38,349	6,849
Total miscellaneous	$ 141,500	$ 141,500	$ 176,570	$ 35,070
Recovered costs:				
Health department	$ 150,000	$ 150,000	$ 106,252	$ (43,748)
Social services	100,000	100,000	101,647	1,647
Transit	100,000	100,000	100,000	-
Other	161,250	218,052	262,408	44,356
Total recovered costs	$ 511,250	$ 568,052	$ 570,307	$ 2,255
Total revenue from local sources	$ 76,682,900	$ 77,073,722	$ 79,847,603	$ 2,773,881
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	$ 150,000	$ 150,000	$ 136,409	$ (13,591)
Motor vehicle rental tax	125,000	125,000	144,528	19,528
Communication sales tax	1,750,000	1,750,000	1,682,625	(67,375)
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	10,500	10,500	31,780	21,280
Total noncategorical aid	$ 3,760,500	$ 3,760,500	$ 3,724,175	$ (36,325)
Categorical aid - shared expenses:				
Commonwealth's Attorney	$ 635,000	$ 635,000	$ 629,758	$ (5,242)
Sheriff	505,000	505,000	500,897	(4,103)
Commissioner of Revenue	135,000	135,000	136,940	1,940
Treasurer	100,000	100,000	96,902	(3,098)
Registrar	40,000	40,000	41,896	1,896
Clerk of the Circuit Court	330,000	330,000	323,366	(6,634)
Total categorical aid - shared expenses	$ 1,745,000	$ 1,745,000	$ 1,729,759	$ (15,241)
Categorical aid - other:				
Street and highway maintenance	$ 2,750,000	$ 2,750,000	$ 2,799,781	$ 49,781
Law enforcement assistance	780,000	780,000	803,612	23,612
Wireless E-911 grants	180,000	180,000	187,297	7,297
Other	21,600	21,600	-	(21,600)
Total categorical aid - other	$ 3,731,600	$ 3,731,600	$ 3,790,690	$ 59,090
Total revenue from the Commonwealth	$ 9,237,100	$ 9,237,100	$ 9,244,624	$ 7,524

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Intergovernmental: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public assistance - cost allocation	$ 33,000	$ 33,000	$ 89,337	$ 56,337
Total revenue from the Federal Government	$ 33,000	$ 33,000	$ 89,337	$ 56,337
Total revenues	$ 85,953,000	$ 86,343,822	$ 89,181,564	$ 2,837,742
Expenditures				
General government administration:				
Legislative:				
City Council	$ 244,680	$ 244,680	$ 238,848	$ 5,832
Clerk of Council	114,018	118,018	117,448	570
Total legislative	$ 358,698	$ 362,698	$ 356,296	$ 6,402
General and financial administration:				
City manager	$ 717,813	$ 818,013	$ 814,982	$ 3,031
Insurance program	901,000	884,800	858,574	26,226
Human resources	456,457	397,457	357,013	40,444
Independent auditor	71,950	84,950	84,085	865
Commissioner of the revenue	1,012,195	987,195	972,243	14,952
Board of Real Estate Assessors	10,000	10,000	100	9,900
Equalization Board	5,500	5,500	4,188	1,312
Treasurer	882,536	774,312	767,892	6,420
Fiscal affairs	792,314	736,314	733,019	3,295
Information technology	1,313,818	1,444,256	1,257,025	187,231
Copying and postage	24,600	24,600	24,036	564
Safety program	117,465	117,465	105,875	11,590
Legal services	366,589	362,589	337,615	24,974
Total general and financial administration	$ 6,672,237	$ 6,647,451	$ 6,316,647	$ 330,804
Board of elections:				
Registrar and electoral board	$ 252,860	$ 268,860	$ 268,322	$ 538
Total general government administration	$ 7,283,795	$ 7,279,009	$ 6,941,265	$ 337,744
Judicial administration:				
Courts:				
Circuit Court	$ 115,023	$ 115,023	$ 108,447	$ 6,576
General District Court	28,600	24,600	18,105	6,495
Special magistrate	3,000	3,000	-	3,000
Juvenile and Domestic Relations District Court	16,400	16,400	15,724	676
Clerk of the Circuit Court	855,280	849,280	783,130	66,150
Sheriff	2,156,620	2,188,200	2,182,349	5,851
JDR services	108,340	108,340	108,340	-
Juries	28,000	42,000	41,291	709
Court appointed attorney	12,000	2,000	1,920	80
Total courts	$ 3,323,263	$ 3,348,843	$ 3,259,306	$ 89,537

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	$ 1,332,608	$ 1,332,608	$ 1,329,462	$ 3,146
Total judicial administration	$ 4,655,871	$ 4,681,451	$ 4,588,768	$ 92,683
Public safety:				
Law enforcement and traffic control:				
Police department	$ 8,099,728	$ 8,067,165	$ 7,917,097	$ 150,068
Fire and rescue:				
Fire department	$ 4,898,596	$ 4,922,681	$ 4,766,601	$ 156,080
Rescue services	257,100	257,100	257,100	-
Emergency medical services	1,434,078	1,438,731	1,424,862	13,869
Hazardous materials	43,128	43,128	20,524	22,604
E-911 communications	1,329,353	1,307,413	1,300,214	7,199
Total fire and rescue	$ 7,962,255	$ 7,969,053	$ 7,769,301	$ 199,752
Correction and detention:				
Juvenile Detention Center	$ 450,000	$ 723,381	$ 714,265	$ 9,116
Rappahannock Security Center	3,853,904	3,853,904	3,853,904	-
Total correction and detention	$ 4,303,904	$ 4,577,285	$ 4,568,169	$ 9,116
Inspections:				
Building and development services	$ 808,069	$ 778,069	$ 754,092	$ 23,977
Other protection:				
Animal control	$ 121,400	$ 121,400	$ 121,400	$ -
Public safety radio system	298,600	298,700	298,691	9
Medical Examiner	1,000	1,000	520	480
Total other protection	$ 421,000	$ 421,100	$ 420,611	$ 489
Total public safety	$ 21,594,956	$ 21,812,672	$ 21,429,270	$ 383,402
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	$ 847,226	$ 833,241	$ 789,855	$ 43,386
Street maintenance	1,252,335	1,350,184	1,230,417	119,767
Drainage	281,187	285,187	284,131	1,056
Street lights	405,000	417,000	415,524	1,476
Snow removal	125,530	80,207	69,533	10,674
Industrial park rail spur	15,500	15,500	13,099	2,401
Traffic engineering	834,100	895,747	817,335	78,412
Shop and garage	1,291,806	1,281,806	1,207,663	74,143
Total maintenance of streets, highways, bridges and sidewalks	$ 5,052,684	$ 5,158,872	$ 4,827,557	$ 331,315

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	$ 909,412	$ 1,049,412	$ 1,030,834	$ 18,578
Tree purchase program	85,000	85,000	83,745	1,255
Refuse collection	717,916	855,916	774,556	81,360
Refuse disposal	311,350	1,487,884	1,487,523	361
Recycling collection	131,271	135,271	134,554	717
Total sanitation and waste removal	$ 2,154,949	$ 3,613,483	$ 3,511,212	$ 102,271
Maintenance of buildings and grounds:				
Public facilities	$ 2,161,605	$ 2,043,444	$ 1,930,017	$ 113,427
Courthouse maintenance	148,355	273,785	273,178	607
Commuter rail	-	43,509	42,570	939
Total maintenance of buildings and grounds	$ 2,309,960	$ 2,360,738	$ 2,245,765	$ 114,973
Total public works	$ 9,517,593	$ 11,133,093	$ 10,584,534	$ 548,559
Health and welfare:				
Health:				
Supplement to local health department	$ 414,280	$ 414,280	$ 414,280	$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	$ 246,876	$ 246,876	$ 246,876	$ -
Social services:				
Other contributions	$ 355,262	$ 352,762	$ 352,262	$ 500
Total health and welfare	$ 1,016,418	$ 1,013,918	$ 1,013,418	$ 500
Education:				
Community colleges	$ 68,719	$ 68,719	$ 68,719	$ -
Appropriations to public school system	28,282,210	28,282,210	28,282,210	-
Total education	$ 28,350,929	$ 28,350,929	$ 28,350,929	$ -
Parks, recreation and cultural:				
Parks and recreation:				
Administration	$ 641,930	$ 631,930	$ 626,296	$ 5,634
Supervision	733,874	728,292	726,209	2,083
Maintenance	1,112,495	1,091,894	1,091,032	862
Motts Run	-	96,971	96,359	612
Dixon Park swimming pool	142,935	142,435	141,881	554
Total parks and recreation	$ 2,631,234	$ 2,691,522	$ 2,681,777	$ 9,745
Library:				
Regional library	$ 1,336,914	$ 1,336,914	$ 1,336,914	$ -
Cultural:				
Museums	$ 95,975	$ 224,778	$ 224,778	$ -
Total parks, recreation and cultural	$ 4,064,123	$ 4,253,214	$ 4,243,469	$ 9,745

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Community development:				
Planning and community development:				
Planning	$ 792,106	$ 708,943	$ 680,458	$ 28,485
Zoning Appeals Board	1,400	1,400	-	1,400
Transportation division	-	82,718	81,214	1,504
Community development	153,842	153,842	153,702	140
Architectural Review Board	2,000	20,200	19,895	305
Clean and Green Commission	3,000	3,000	2,927	73
Economic development and tourism	1,077,045	1,137,965	1,077,552	60,413
Total planning and community development	$ 2,029,393	$ 2,108,068	$ 2,015,748	$ 92,320
Environmental management:				
Soil and water conservation district	$ 2,000	$ 2,000	$ 2,000	$ -
Total community development	$ 2,031,393	$ 2,110,068	$ 2,017,748	$ 92,320
Nondepartmental:				
OPEB trust contribution	$ -	$ 75,000	$ 75,000	$ -
Total expenditures	$ 78,515,078	$ 80,709,354	$ 79,244,401	$ 1,464,953
Excess (deficiency) of revenues over expenditures	$ 7,437,922	$ 5,634,468	$ 9,937,163	$ 4,302,695
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	$ 40,000	$ 40,000	$ 15,786	$ (24,214)
Transfers in	711,500	613,500	613,500	-
Transfers out	(11,386,722)	(12,027,972)	(11,995,511)	32,461
Total other financing sources (uses)	$ (10,635,222)	$ (11,374,472)	$ (11,366,225)	$ 8,247
Net change in fund balance	$ (3,197,300)	$ (5,740,004)	$ (1,429,062)	$ 4,310,942
Fund balance, beginning of year	3,197,300	5,740,004	25,704,455	19,964,451
Fund balance, end of year	$ -	$ -	$ 24,275,393	$ 24,275,393

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

Schedule of Employer's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2017

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

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

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

Schedule of Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2017

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

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

Schedule of Employer Contributions
For the Years Ended June 30, 2008 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2017	$ 2,915,650	$ 2,915,650	$ -	$ 23,232,269	12.55%
2016	3,662,544	3,662,544	-	22,977,066	15.94%
2015	3,608,107	3,608,107	-	22,635,550	15.94%
2014	3,138,165	3,138,165	-	21,420,920	14.65%
2013	3,070,145	3,070,145	-	20,956,620	14.65%
2012	2,193,209	2,193,209	-	20,307,488	10.80%
2011	2,169,552	2,169,552	-	20,088,443	10.80%
2010	1,902,397	1,902,397	-	20,216,761	9.41%
2009	1,970,440	1,970,440	-	20,939,846	9.41%
2008	1,866,825	1,866,825	-	20,788,700	8.98%
Component Unit School Board (nonprofessional)					
2017	$ 53,315	$ 53,315	$ -	$ 1,284,705	4.15%
2016	86,747	86,747	-	1,249,950	6.94%
2015	85,715	85,715	-	1,235,088	6.94%
2014	86,152	86,152	-	1,191,588	7.23%
2013	84,302	84,302	-	1,166,004	7.23%
2012	49,855	49,855	-	1,105,427	4.51%
2011	48,946	48,946	-	1,085,267	4.51%
2010	49,309	49,309	-	1,133,534	4.35%
2009	50,196	50,196	-	1,153,923	4.35%
2008	72,948	72,948	-	1,122,280	6.50%
Component Unit School Board (professional)					
2017	$ 3,334,139	$ 3,334,139	$ -	$ 22,743,104	14.66%
2016	3,100,340	3,100,340	-	22,065,166	14.05%
2015	3,526,396	3,526,396	-	21,447,563	16.44%

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

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

Changes in assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees:
- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Schedule of OPEB 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)
January 1, 2016 (1)	$ -	$ 15,971,700	$ 15,971,700	0.00%	$ 22,344,600	71.48%
January 1, 2014	-	22,618,400	22,618,400	0.00%	20,837,300	108.55%
January 1, 2012	-	20,305,900	20,305,900	0.00%	20,443,300	99.33%

School Board:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2016	$ -	$ 4,143,100	$ 4,143,100	0.00%	$ 25,190,300	16.45%
January 1, 2014	-	4,512,700	4,512,700	0.00%	23,123,600	19.52%
January 1, 2012	-	3,206,600	3,206,600	0.00%	19,647,600	16.32%

(1) The City established an irrevocable OPEB trust fund after the January 1, 2016 actuarial valuation date. The resulting Actuarial Value of Assets of $963,400 had the effect of reducing the Unfunded Acturarial Accrued Liability to $15,008,300.

Schedule of Changes in the City's Net OPEB Liability and Related Ratios
Last Ten Fiscal Years

		2017
Total OPEB liability		
Service cost	$	199,978
Interest		1,163,246
Benefit payments		(941,888)
Net change in total OPEB liability	$	421,336
Total OPEB liability - beginning		16,880,807
Total OPEB liability - ending (a)	$	17,302,143
Plan fiduciary net position		
Contributions - employer	$	1,053,888
Net investment income		128,315
Benefit payments		(941,888)
Administrative expense		(1,347)
Net change in plan fiduciary net position	$	238,968
Plan fiduciary net position - beginning		996,552
Plan fiduciary net position - ending (b)	$	1,235,520
City's net OPEB liability - ending (a) - (b)	$	16,066,623
Plan fiduciary net position as a percentage of the total OPEB liability		7.14%
Covered-employee payroll	$	22,344,600
City's net OPEB liability as a percentage of covered payroll		71.90%

This schedule is intended to show information for 10 years. While 2017 is the first year for this presentation, additional years will be included as they become available.

Schedule of Employer Contributions - OPEB
Last Ten Fiscal Years

Date	Actuarially Determined Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	$ 1,195,200	$ 1,053,900	$ 141,300	$ 22,344,600	4.72%
2016	1,148,800	1,888,000	(739,200)	22,344,600	8.45%

Information prior to 2015 was obtained from the VRS actuarial valuation performed for that year.

Notes to Schedule

Valuation date: January 1, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll, closed
Amortization period	29 years
Asset valuation method	Market Value
Inflation	2.50 percent
Healthcare cost trend rates	For pre-65 benefits: 5.10% for 2016, 8.60% for 2017, 5.80% for 2018, gradually decreasing to an ultimate rate of 4.10% for 2085 and beyond. For post-65 benefits: 6.30% for 2016, 9.10% for 2017, 6.10% for 2018, gradually decreasing to an ultimate rate of 4.40% for 2098 and beyond.
Salary increases	3.25 percent, average, including inflation 7.00 percent, net of OPEB plan investment expense, including inflation.
Investment rate of return	7.00 percent
Retirement age	In the 2016 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2016 actuarial valuation, assumed life expentancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table.

Schedule of Investment Returns
Last Ten Fiscal Years

	2017
Annual money-weighted rate of return, net of investment expense	12.78%

This schedule is intended to show information for 10 years. While 2017 is the first year for this presentation, additional years will be included as they become available.

OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule
School Bond Funded Capital Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 64,047	$ 64,047
Expenditures				
Capital projects:				
Walker-Grant Middle School roof replacement	$ -	$ 136,600	$ 136,600	$ -
Walker-Grant Center renovation project	-	11,403,527	9,142,565	2,260,962
Total expenditures	$ -	$ 11,540,127	$ 9,279,165	$ 2,260,962
Excess (deficiency) of revenues over (under) expenditures	$ -	$ (11,540,127)	$ (9,215,118)	$ 2,325,009
Other Financing Sources (Uses)				
Issuance of bonds	$ -	$ 136,600	$ -	$ (136,600)
Transfers in	-	250,000	250,000	-
Total other financing sources (uses)	$ -	$ 386,600	$ 250,000	$ (136,600)
Net change in fund balance	$ -	$ (11,153,527)	$ (8,965,118)	$ 2,188,409
Fund balance, beginning of year	-	11,153,527	10,676,162	(477,365)
Fund balance, end of year	$ -	$ -	$ 1,711,044	$ 1,711,044

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

Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2017

	Special Revenue	Capital Projects	Debt Service	Total
Assets:				
Cash and cash equivalents	$ 1,478,035	$ 8,295,043	$ 2,000,490	$ 11,773,568
Accrued revenue	14,995	69,290	-	84,285
Prepaid items	9,710	-	-	9,710
Due from other governments	1,169,461	678,691	-	1,848,152
Total assets	$ 2,672,201	$ 9,043,024	$ 2,000,490	$ 13,715,715
Liabilities:				
Accounts payable	$ 306,226	$ 249,592	$ -	$ 555,818
Accrued liabilities	153,128	218,310	-	371,438
Unearned revenue	20,000	356,625	-	376,625
Total liabilities	$ 479,354	$ 824,527	$ -	$ 1,303,881
Fund Balances:				
Nonspendable	$ 9,710	$ -	$ -	$ 9,710
Restricted	100,000	-	-	100,000
Committed	2,083,137	1,538,056	2,000,490	5,621,683
Assigned	-	6,680,441	-	6,680,441
Total fund balances	$ 2,192,847	$ 8,218,497	$ 2,000,490	$ 12,411,834
Total liabilities and fund balances	$ 2,672,201	$ 9,043,024	$ 2,000,490	$ 13,715,715

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue	Capital Projects	Debt Service	Total
Revenues				
Other local taxes	$ -	$ 50,000	$ -	$ 50,000
Permits, privilege fees and regulatory licenses	23,138	-	-	23,138
Fines and forfeitures	2,000	843	-	2,843
Use of money and property	1,192	238,869	-	240,061
Charges for services	24,098	53,021	-	77,119
Miscellaneous	188,428	-	279,922	468,350
Recovered costs	425,161	124,242	-	549,403
Intergovernmental:				
Revenue from the Commonwealth	3,391,018	979,565	-	4,370,583
Revenue from the Federal Government	2,718,260	353,719	-	3,071,979
Total revenues	$ 6,773,295	$ 1,800,259	$ 279,922	$ 8,853,476
Expenditures				
Current:				
Judicial administration	$ 253,653	$ -	$ -	$ 253,653
Public safety	432,988	-	-	432,988
Public works	214,887	-	-	214,887
Health and welfare	7,180,361	-	-	7,180,361
Parks, recreation and cultural	110,944	-	-	110,944
Community development	799,275	-	-	799,275
Capital projects	-	5,053,149	-	5,053,149
Debt service:				
Principal payments	-	-	4,456,281	4,456,281
Interest and fiscal charges	-	-	3,763,249	3,763,249
Total expenditures	$ 8,992,108	$ 5,053,149	$ 8,219,530	$ 22,264,787
Excess (deficiency) of revenues over (under) expenditures	$ (2,218,813)	$ (3,252,890)	$ (7,939,608)	$ (13,411,311)
Other financing sources (uses)				
Proceeds from the sale of capital assets	$ 3,783	$ -	$ -	$ 3,783
Transfers in	2,250,015	2,175,650	7,325,701	11,751,366
Total other financing sources (uses)	$ 2,253,798	$ 2,175,650	$ 7,325,701	$ 11,755,149
Net change in fund balance	$ 34,985	$ (1,077,240)	$ (613,907)	$ (1,656,162)
Fund balances, beginning of year	2,157,862	9,295,737	2,614,397	14,067,996
Fund balances, end of year	$ 2,192,847	$ 8,218,497	$ 2,000,490	$ 12,411,834

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2017

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Environmental Section Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
Assets:								
Cash and cash equivalents	$ 236,528	$ 560,545	$ 40,786	$ 262,519	$ 34,881	$ 148,577	$ 194,199	$ 1,478,035
Accrued revenue	8,150	4,924	1,921	-	-	-	-	14,995
Prepaid items	3,650	4,760	-	-	1,300	-	-	9,710
Due from other governments	446,216	288,002	435,243	-	-	-	-	1,169,461
Total assets	$ 694,544	$ 858,231	$ 477,950	$ 262,519	$ 36,181	$ 148,577	$ 194,199	$ 2,672,201
Liabilities:								
Accounts payable	$ 26,977	$ 112,739	$ 161,435	$ -	$ 154	$ 456	$ 4,465	$ 306,226
Accrued liabilities	93,580	10,820	2,546	-	7,907	38,275	-	153,128
Unearned revenue	-	20,000	-	-	-	-	-	20,000
Total liabilities	$ 120,557	$ 143,559	$ 163,981	$ -	$ 8,061	$ 38,731	$ 4,465	$ 479,354
Fund Balances:								
Nonspendable	$ 3,650	$ 4,760	$ -	$ -	$ 1,300	$ -	$ -	$ 9,710
Restricted	-	100,000	-	-	-	-	-	100,000
Committed	570,337	609,912	313,969	262,519	26,820	109,846	189,734	2,083,137
Total fund balances	$ 573,987	$ 714,672	$ 313,969	$ 262,519	$ 28,120	$ 109,846	$ 189,734	$ 2,192,847
Total liabilities and fund balances	$ 694,544	$ 858,231	$ 477,950	$ 262,519	$ 36,181	$ 148,577	$ 194,199	$ 2,672,201

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2017

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Environmental Section Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
Revenues								
Permits, privilege fees and regulatory licenses	$ -	$ 9,888	$ -	$ -	$ 13,250	$ -	$ -	$ 23,138
Fines and forfeitures	-	-	-	-	2,000	-	-	2,000
Use of money and property	-	629	-	-	-	563	-	1,192
Charges for services	-	24,098	-	-	-	-	-	24,098
Miscellaneous	2,986	184,257	-	-	-	-	1,185	188,428
Recovered costs	42,590	363,399	-	-	-	465	18,707	425,161
Intergovernmental:								
Revenue from the Commonwealth	1,567,769	467,508	1,350,086	-	-	5,655	-	3,391,018
Revenue from the Federal Government	2,413,390	232,708	72,162	-	-	-	-	2,718,260
Total revenues	$ 4,026,735	$ 1,282,487	$ 1,422,248	$ -	$ 15,250	$ 6,683	$ 19,892	$ 6,773,295
Expenditures								
Judicial administration	$ -	$ 253,653	$ -	$ -	$ -	$ -	$ -	$ 253,653
Public safety	-	416,277	-	-	-	16,711	-	432,988
Public works	-	-	-	-	192,567	-	22,320	214,887
Health and welfare	5,005,800	-	2,174,561	-	-	-	-	7,180,361
Parks, recreation and cultural	-	110,944	-	-	-	-	-	110,944
Community development	-	799,275	-	-	-	-	-	799,275
Total expenditures	$ 5,005,800	$ 1,580,149	$ 2,174,561	$ -	$ 192,567	$ 16,711	$ 22,320	$ 8,992,108
Excess (deficiency) of revenues over (under) expenditures	$ (979,065)	$ (297,662)	$ (752,313)	$ -	$ (177,317)	$ (10,028)	$ (2,428)	$ (2,218,813)
Other financing sources (uses)								
Transfers in	$ 1,067,430	$ 381,810	$ 675,275	$ -	$ 125,500	$ -	$ -	$ 2,250,015
Proceeds from the sale of capital assets	3,783	-	-	-	-	-	-	3,783
Total other financing sources (uses)	$ 1,071,213	$ 381,810	$ 675,275	$ -	$ 125,500	$ -	$ -	$ 2,253,798
Net change in fund balance	$ 92,148	$ 84,148	$ (77,038)	$ -	$ (51,817)	$ (10,028)	$ (2,428)	$ 34,985
Fund balances, beginning of year	481,839	630,524	391,007	262,519	79,937	119,874	192,162	2,157,862
Fund balances, end of year	$ 573,987	$ 714,672	$ 313,969	$ 262,519	$ 28,120	$ 109,846	$ 189,734	$ 2,192,847

Combining Balance Sheet
Nonmajor Capital Projects Funds
At June 30, 2017

	Public Works Capital Fund	Public Facilities Capital Fund	Public Safety Capital Fund	New Court Capital Fund	Total
Assets:					
Cash and cash equivalents	$ 3,726,636	$ 1,956,557	$ 1,645,175	$ 966,675	$ 8,295,043
Accrued revenue	23,097	23,096	23,097	-	69,290
Due from other governments	678,691	-	-	-	678,691
Total assets	$ 4,428,424	$ 1,979,653	$ 1,668,272	$ 966,675	$ 9,043,024
Liabilities:					
Accounts payable	$ 226,189	$ 23,403	$ -	$ -	$ 249,592
Accrued liabilities	218,310	-	-	-	218,310
Unearned revenue	356,625	-	-	-	356,625
Total liabilities	$ 801,124	$ 23,403	$ -	$ -	$ 824,527
Fund Balances:					
Committed	$ 1,055,933	$ 135,674	$ 346,449	$ -	$ 1,538,056
Assigned	2,571,367	1,820,576	1,321,823	966,675	6,680,441
Total fund balances	$ 3,627,300	$ 1,956,250	$ 1,668,272	$ 966,675	$ 8,218,497
Total liabilities and fund balances	$ 4,428,424	$ 1,979,653	$ 1,668,272	$ 966,675	$ 9,043,024

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2017

	Public Works Capital Fund	Public Facilities Capital Fund	Public Safety Capital Fund	New Court Capital Fund	Total
Revenues					
Other local taxes	$ 50,000	$ -	$ -	$ -	$ 50,000
Fines and forfeitures	843	-	-	-	843
Use of money and property	55,798	126,373	56,562	136	238,869
Charges for services	-	-	-	53,021	53,021
Recovered costs	105,486	-	18,756	-	124,242
Intergovernmental:					
Revenue from the Commonwealth	829,565	-	150,000	-	979,565
Revenue from the Federal Government	340,000	13,719	-	-	353,719
Total revenues	$ 1,381,692	$ 140,092	$ 225,318	$ 53,157	$ 1,800,259
Expenditures					
Capital projects	$ 2,664,572	$ 726,349	$ 1,460,013	$ 202,215	$ 5,053,149
Excess (deficiency) of revenues over (under) expenditures	$ (1,282,880)	$ (586,257)	$ (1,234,695)	$ (149,058)	$ (3,252,890)
Other financing sources (uses)					
Transfers in	$ 980,000	$ 464,400	$ 731,250	$ -	$ 2,175,650
Net change in fund balance	$ (302,880)	$ (121,857)	$ (503,445)	$ (149,058)	$ (1,077,240)
Fund balances, beginning of year	3,930,180	2,078,107	2,171,717	1,115,733	9,295,737
Fund balances, end of year	$ 3,627,300	$ 1,956,250	$ 1,668,272	$ 966,675	$ 8,218,497

Combining Balance Sheet
Nonmajor Debt Service Funds
At June 30, 2017

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Assets:			
Cash and cash equivalents	$ -	$ 2,000,490	$ 2,000,490
Fund Balances:			
Committed	$ -	$ 2,000,490	$ 2,000,490
Total liabilities and fund balances	$ -	$ 2,000,490	$ 2,000,490

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2017

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Revenues			
Miscellaneous	$ 279,922	$ -	$ 279,922
Expenditures			
Debt service:			
Principal	$ 2,690,141	$ 1,766,140	$ 4,456,281
Interest and fiscal charges	1,641,912	2,121,337	3,763,249
Total expenditures	$ 4,332,053	$ 3,887,477	$ 8,219,530
Excess (deficiency) of revenues over (under) expenditures	$ (4,052,131)	$ (3,887,477)	$ (7,939,608)
Other financing sources (uses)			
Transfers in	$ 4,052,131	$ 3,273,570	$ 7,325,701
Net change in fund balance	$ -	$ (613,907)	$ (613,907)
Fund balances, beginning of year	-	2,614,397	2,614,397
Fund balances, end of year	$ -	$ 2,000,490	$ 2,000,490

Combining Statement of Fiduciary Net Position - Agency Funds
At June 30, 2017

	Criminal Justice Academy	Special Welfare	Court Service Unit	Rappahannock Area Youth Services	Revenue Maximization	Community Development Authority	Total
Assets:							
Cash and cash equivalents	$ 388,629	$ 15,160	$ 147,131	$ 285,153	$ 20,451	$ 302,435	$ 1,158,959
Accounts receivable	-	-	-	121,425	-	-	121,425
Total assets	$ 388,629	$ 15,160	$ 147,131	$ 406,578	$ 20,451	$ 302,435	$ 1,280,384
Liabilities:							
Accounts payable	$ 8,855	$ -	$ 17,152	$ 18,551	$ -	$ -	$ 44,558
Accrued liabilities	54,752	-	705	32,522	-	-	87,979
Amounts held for others	325,022	15,160	129,274	355,505	20,451	302,435	1,147,847
Total liabilities	$ 388,629	$ 15,160	$ 147,131	$ 406,578	$ 20,451	$ 302,435	$ 1,280,384

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	$ 158,387	$ 388,629	$ 158,387	$ 388,629
Accounts receivable	19,919	-	19,919	-
Total assets	$ 178,306	$ 388,629	$ 178,306	$ 388,629
Liabilities:				
Accounts payable	$ 9,059	$ 8,855	$ 9,059	$ 8,855
Accrued liabilities	34,464	54,752	34,464	54,752
Amounts held for others	134,783	325,022	134,783	325,022
Total liabilities	$ 178,306	$ 388,629	$ 178,306	$ 388,629
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	$ 18,358	$ 21,832	$ 25,030	$ 15,160
Liabilities:				
Amounts held for others	$ 18,358	$ 21,832	$ 25,030	$ 15,160
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	$ 147,567	$ 236,571	$ 237,007	$ 147,131
Liabilities:				
Accounts payable	$ 18,016	$ 17,152	$ 18,016	$ 17,152
Accrued liabilities	811	705	811	705
Amounts held for others	128,740	218,714	218,180	129,274
Total liabilities	$ 147,567	$ 236,571	$ 237,007	$ 147,131

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
RAPPAHANNOCK AREA YOUTH SERVICES				
Assets:				
Cash and cash equivalents	$ -	$ 285,153	$ -	$ 285,153
Accounts receivable	329,912	121,425	329,912	121,425
Total assets	$ 329,912	$ 406,578	$ 329,912	$ 406,578
Liabilities:				
Reconciled overdraft	$ 103,908	$ -	$ 103,908	$ -
Accounts payable	25,882	18,551	25,882	18,551
Accrued liabilities	10,342	32,522	10,342	32,522
Amounts held for others	189,780	355,505	189,780	355,505
Total liabilities	$ 329,912	$ 406,578	$ 329,912	$ 406,578
REVENUE MAXIMIZATION				
Assets:				
Cash and cash equivalents	$ 20,451	$ -	$ -	$ 20,451
Liabilities:				
Amounts held for others	$ 20,451	$ -	$ -	$ 20,451
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	$ 284,720	$ 611,181	$ 593,466	$ 302,435
Liabilities:				
Amounts held for others	$ 284,720	$ 611,181	$ 593,466	$ 302,435
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	$ 629,483	$ 1,543,366	$ 1,013,890	$ 1,158,959
Accounts receivable	349,831	121,425	349,831	121,425
Total assets	$ 979,314	$ 1,664,791	$ 1,363,721	$ 1,280,384
Liabilities:				
Reconciled overdraft	$ 103,908	$ -	$ 103,908	$ -
Accounts payable	52,957	44,558	52,957	44,558
Accrued liabilities	45,617	87,979	45,617	87,979
Amounts held for others	776,832	1,532,254	1,161,239	1,147,847
Total liabilities	$ 979,314	$ 1,664,791	$ 1,363,721	$ 1,280,384

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Miscellaneous	$ -	$ 2,986	$ 2,986	$ -
Recovered costs	$ 79,277	$ 79,277	$ 42,590	$ (36,687)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	$ 1,936,620	$ 1,944,120	$ 1,567,769	$ (376,351)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	$ 2,155,043	$ 2,167,043	$ 2,413,390	$ 246,347
Total revenues	$ 4,170,940	$ 4,193,426	$ 4,026,735	$ (166,691)
Expenditures				
Health and welfare	$ 5,260,233	$ 5,293,219	$ 5,005,800	$ 287,419
State, Federal and Local Grants Fund				
Revenues				
Permits and other licenses	$ 10,100	$ 10,100	$ 9,888	$ (212)
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 629	$ 629
Miscellaneous	$ 72,500	$ 93,867	$ 184,257	$ 90,390
Charges for services:				
Court costs	$ -	$ -	$ 21,449	$ 21,449
Parks and recreation fees	8,000	8,000	2,649	(5,351)
Total charges for services	$ 8,000	$ 8,000	$ 24,098	$ 16,098
Recovered costs:				
Stafford and Spotsylvania Counties	$ 342,000	$ 342,000	$ 342,000	$ -
Other	-	-	21,399	21,399
Total recovered costs	$ 342,000	$ 342,000	$ 363,399	$ 21,399
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Dispatch grant	$ -	$ 68,473	$ 68,473	$ -
Hazardous materials grant	30,000	30,000	175,000	145,000
Fire services program	76,972	76,972	78,811	1,839
VA domestic violence victim fund	40,000	40,000	45,000	5,000
Victim-witness program	33,431	33,431	33,431	-
Four-for-life grant	25,000	25,000	31,789	6,789
Other	23,680	172,934	35,004	(137,930)
Total revenue from the Commonwealth	$ 229,083	$ 446,810	$ 467,508	$ 20,698
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	$ 138,820	$ 140,287	$ 109,857	$ (30,430)
Arts grant	-	-	5,000	5,000
Community development block grants	157,020	157,020	117,851	(39,169)
Total revenue from the Federal Government	$ 295,840	$ 297,307	$ 232,708	$ (64,599)
Total revenues	$ 957,523	$ 1,198,084	$ 1,282,487	$ 84,403

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures				
Judicial administration:				
Victim-witness program	$ 204,186	$ 204,186	$ 172,010	$ 32,176
Domestic violence victim fund grant	71,720	71,720	53,901	17,819
Records preservation program	-	12,640	27,742	(15,102)
Total judicial administration	$ 275,906	$ 288,546	$ 253,653	$ 34,893
Public safety:				
Hazardous materials response program	$ 30,000	$ 179,052	$ 162,559	$ 16,493
Fire services program	76,972	92,588	71,583	21,005
Four-for-life grant	25,000	25,000	31,789	(6,789)
Rescue squad assistance	-	35,000	-	35,000
Dispatch grant	-	68,473	68,473	-
Camera grant	-	76,614	-	76,614
LEMPG	10,680	13,502	10,652	2,850
ICAC grant	6,000	6,000	5,262	738
Community projects	-	9,109	8,193	916
Crime prevention	-	3,236	1,000	2,236
E-911 educational grant	2,000	2,000	2,000	-
E-summons	-	-	2,040	(2,040)
Prisoner extradition	-	-	16,057	(16,057)
State homeland security grant	-	60,000	975	59,025
DOJ grant	14,500	15,967	15,856	111
DMV grants	24,025	32,376	19,838	12,538
Total public safety	$ 189,177	$ 618,917	$ 416,277	$ 202,640
Parks, recreation and cultural:				
Soap Box Derby	$ 21,500	$ 21,500	$ 13,255	$ 8,245
Starfires drill team	10,000	10,000	2,098	7,902
Farmers' market	22,600	22,600	17,223	5,377
Midnight madness	15,000	15,000	11,991	3,009
Fredericksburg Arts Commission	40,000	40,000	37,055	2,945
Other	8,000	48,082	29,322	18,760
Total parks, recreation and cultural	$ 117,100	$ 157,182	$ 110,944	$ 46,238
Community development:				
Community development block grant	$ 206,870	$ 206,870	$ 160,098	$ 46,772
Downtown 31 celebration	50,000	50,000	15,876	34,124
Regional consumer marketing	363,000	363,000	359,440	3,560
Regional group tourism	150,000	198,100	189,402	8,698
PEG access	-	60,000	47,928	12,072
United Way special events	-	-	26,531	(26,531)
Total community development	$ 769,870	$ 877,970	$ 799,275	$ 78,695
Total expenditures	$ 1,352,053	$ 1,942,615	$ 1,580,149	$ 362,466
Children's Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Children's Services Act grants	$ 1,085,199	$ 1,395,199	$ 1,350,086	$ (45,113)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	$ 41,153	$ 41,153	$ 72,162	$ 31,009
Total revenues	$ 1,126,352	$ 1,436,352	$ 1,422,248	$ (14,104)
Expenditures				
Health and Welfare:				
Children's Services Act program	$ 1,874,432	$ 2,224,432	$ 2,174,561	$ 49,871

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
Environmental Section Fund				
Revenues				
Permits and other licenses	$ 85,000	$ 85,000	$ 13,250	$ (71,750)
Fines and forfeitures	$ -	$ -	$ 2,000	$ 2,000
Total revenues	$ 85,000	$ 85,000	$ 15,250	$ (69,750)
Expenditures				
Public works:				
VSMP administation	$ 210,500	$ 210,500	$ 192,567	$ 17,933
Blight Abatement Fund				
Revenues				
Miscellaneous	$ -	$ -	$ 1,185	$ 1,185
Recovered costs	$ -	$ -	$ 18,707	$ 18,707
Total revenues	$ -	$ -	$ 19,892	$ 19,892
Expenditures				
Public works:				
Blight abatement	$ 95,000	$ 95,000	$ 22,320	$ 72,680
Forfeited Asset Sharing Program Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 563	$ 563
Recovered costs	$ -	$ -	$ 465	$ 465
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Forfeited asset sharing program	$ -	$ 60,083	$ 5,655	$ (54,428)
Revenue from the Federal Government:				
Categorical aid:				
Forfeited asset sharing program	$ -	$ 1,218	$ -	$ (1,218)
Total revenues	$ -	$ 61,301	$ 6,683	$ (54,618)
Expenditures				
Public safety:				
Forfeited asset sharing program	$ -	$ 97,853	$ 16,711	$ 81,142
Capital Projects Funds				
Public Works Capital Fund				
Revenues				
Other local taxes:				
Gasoline taxes	$ 50,000	$ 50,000	$ 50,000	$ -
Fines and forfeitures	$ 20,000	$ 20,000	$ 843	$ (19,157)
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 55,798	$ 55,798
Recovered costs	$ -	$ -	$ 105,486	$ 105,486
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	$ 625,000	$ 1,613,387	$ 829,565	$ (783,822)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Works Capital Fund: (continued)				
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
VDOT grants	$ -	$ -	$ 340,000	$ 340,000
Total revenues	$ 695,000	$ 1,683,387	$ 1,381,692	$ (301,695)
Expenditures				
Capital projects:				
Annual pavement rehabilitation	$ 1,400,000	$ 1,835,900	$ 793,205	$ 1,042,695
Drainage improvements	-	75,000	-	75,000
Historic district improvements	50,000	100,000	-	100,000
Culvert repair	75,000	75,000	34,513	40,487
Amelia and Charles Street parking lot	-	1,300	1,300	-
Pedestrian signals	-	1,199,274	386,892	812,382
Riverfront Park	500,000	810,851	70,186	740,665
Rappahannock Canal repairs	-	56,056	38,876	17,180
Stormwater management plan	75,000	141,434	15,254	126,180
Fall Hill Avenue widening	2,880,000	2,880,000	-	2,880,000
Signalization	100,000	10,000	9,244	756
Payne Street reconstruction	-	-	155,563	(155,563)
Dandridge Street reconstruction	-	-	166,678	(166,678)
William Street paving	-	-	101,646	(101,646)
Dixon Street paving	-	-	157,369	(157,369)
Blue & Gray Parkway paving	-	-	175,982	(175,982)
Embrey Dam/Rappahannock Canal footbridge	100,000	100,000	-	100,000
Route 1 over Hazel Run bridge repair	-	45,000	45,000	-
Traffic operations center	-	405,700	413,859	(8,159)
Wheeled refuse cart program	100,000	125,000	99,005	25,995
Total capital projects	$ 5,280,000	$ 7,860,515	$ 2,664,572	$ 5,195,943
Public Facilities Capital Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ 25,000	$ 25,000	$ 46,057	$ 21,057
Use of property	-	-	80,316	80,316
Total revenue from use of money and property	$ 25,000	$ 25,000	$ 126,373	$ 101,373
Intergovernmental:				
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	$ -	$ -	$ 13,719	$ 13,719
Total revenues	$ 25,000	$ 25,000	$ 140,092	$ 115,092
Expenditures				
Capital projects:				
General parks maintenance improvements	$ -	$ 93,372	$ -	$ 93,372
Roof replacements	95,000	95,000	87,849	7,151
Computer equipment replacement	237,500	286,755	205,583	81,172
Executive Plaza building	-	77,122	21,379	55,743
Memorial Park restroom	105,000	82,830	-	82,830
Energy retrofits	55,000	55,000	-	55,000

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Capital Fund: (continued)				
Expenditures: (continued)				
Facilities improvements	$ -	$ 75,282	$ 74,118	$ 1,164
City elevator repairs	-	4,900	5,548	(648)
Area plan updates	75,000	225,000	152,460	72,540
IT resilience	96,900	96,900	21,541	75,359
HVAC replacements	75,000	167,785	157,871	9,914
Telephone system replacements	-	5,464	-	5,464
Total capital projects	$ 739,400	$ 1,265,410	$ 726,349	$ 539,061
Public Safety Capital Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ 25,000	$ 25,000	$ 56,562	$ 31,562
Recovered costs	$ -	$ -	$ 18,756	$ 18,756
Intergovernmental:				
Revenue from the Commonwealth:				
Public safety grants	$ 150,000	$ 150,000	$ 150,000	$ -
Total revenues	$ 175,000	$ 175,000	$ 225,318	$ 50,318
Expenditures				
Capital projects:				
SCBA replacement	$ 60,000	$ 60,000	$ 60,000	$ -
Public safety radio system upgrade	-	1,298,795	932,682	366,113
Emergency medical vehicles	260,000	260,000	9,665	250,335
Fire station upgrades	100,000	218,818	116,869	101,949
911 center improvements	275,000	275,000	234,715	40,285
Tactical firearms training building	-	100,000	-	100,000
Police camera system	185,000	198,915	106,082	92,833
Total capital projects	$ 880,000	$ 2,411,528	$ 1,460,013	$ 951,515
New Court Capital Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 136	$ 136
Charges for services:				
Courthouse construction fees	$ -	$ -	$ 53,021	$ 53,021
Total revenues	$ -	$ -	$ 53,157	$ 53,157
Expenditures				
Capital projects:				
Renwick courthouse redevelopment	$ 250,000	$ 252,000	$ 8,180	$ 243,820
New court radio project	-	-	194,035	(194,035)
Total capital projects	$ 250,000	$ 252,000	$ 202,215	$ 49,785
Debt Service Funds				
General Obligation Bond Debt Service Fund				
Revenues				
Miscellaneous	$ -	$ 279,922	$ 279,922	$ -
Expenditures				
Principal and interest	$ 4,079,286	$ 4,359,208	$ 4,332,053	$ 27,155
Education Debt Service Fund				
Expenditures				
Principal and interest	$ 3,426,904	$ 3,887,477	$ 3,887,477	$ -

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, 2017

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	$ 5,827,272	$ 724,270	$ 840,064	$ 7,391,606
Accrued revenue	-	22,581	-	22,581
Due from other governments	644,954	756,428	-	1,401,382
Prepaid items	339,286	23,539	-	362,825
Total assets	$ 6,811,512	$ 1,526,818	$ 840,064	$ 9,178,394
Liabilities:				
Accounts payable	$ 566,832	$ 112,967	$ 68,430	$ 748,229
Accrued liabilities	3,449,033	457,153	-	3,906,186
Total liabilities	$ 4,015,865	$ 570,120	$ 68,430	$ 4,654,415
Fund Balances:				
Nonspendable:				
Prepaid items	$ 339,286	$ 23,539	$ -	$ 362,825
Committed:				
Grant related expenditures	-	933,159	-	933,159
Subsequent year's expenditures	250,000	-	-	250,000
Assigned:				
Capital projects	-	-	771,634	771,634
Debt service	300,000	-	-	300,000
Unassigned	1,906,361	-	-	1,906,361
Total fund balances	$ 2,795,647	$ 956,698	$ 771,634	$ 4,523,979
Total liabilities and fund balances	$ 6,811,512	$ 1,526,818	$ 840,064	$ 9,178,394

Component Unit School Board
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2017

Total fund balances for governmental funds (Exhibit 34)		$ 4,523,979
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	$ 472,679	
Construction in progress	25,000	
Land improvements, net of accumulated depreciation	120,523	
Buildings and improvements, net of accumulated depreciation	21,600,232	
Machinery, equipment, and vehicles, net of accumulated depreciation	2,228,568	24,447,002
The net pension asset is not an available resource and, therefore, is not reported in the funds.		88,702
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		(1,401,508)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		3,387,454
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Capital lease		(3,005,000)
Net OPEB obligation not reported as fund liabilities		(2,309,796)
Net pension liability not reported as fund liabilities		(40,555,000)
Compensated absences not reported as fund liabilities		(1,149,669)
Deferred outflows - items related to measurement of net pension liability		2,432,448
Deferred outflows - changes in proportionate share of net pension liability		1,757,000
Total net position of governmental activities (Exhibits 1 and 12)		$ (11,784,388)

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Use of money and property	$ 12,000	$ -	$ -	$ 12,000
Charges for services	139,697	289,586	-	429,283
Miscellaneous	83,107	326,160	-	409,267
Recovered costs	249,241	27,091	248,276	524,608
Intergovernmental:				
Appropriation from primary government	27,760,210	-	522,000	28,282,210
Revenue from the Commonwealth	13,954,518	407,189	-	14,361,707
Revenue from the Federal Government	55,613	4,755,525	-	4,811,138
Total revenues	$ 42,254,386	$ 5,805,551	$ 770,276	$ 48,830,213
Expenditures				
Current:				
Education:				
Instruction	$ 31,204,185	$ 3,578,139	$ -	$ 34,782,324
Administration, attendance and health	3,098,795	-	-	3,098,795
Transportation	1,632,997	-	-	1,632,997
Facilities operations	4,147,226	-	-	4,147,226
Technology	1,553,473	153,225	-	1,706,698
School food service operations	171,629	1,950,193	-	2,121,822
Capital projects	-	-	395,484	395,484
Debt service:				
Principal	212,000	-	-	212,000
Interest	64,662	-	-	64,662
Total expenditures	$ 42,084,967	$ 5,681,557	$ 395,484	$ 48,162,008
Excess (deficiency) of revenues over (under) expenditures	$ 169,419	$ 123,994	$ 374,792	$ 668,205
Net change in fund balance	$ 169,419	$ 123,994	$ 374,792	$ 668,205
Fund balances, beginning of year	2,626,228	832,704	396,842	3,855,774
Fund balances, end of year	$ 2,795,647	$ 956,698	$ 771,634	$ 4,523,979

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, 2017

Net change in fund balances - total governmental funds (Exhibit 36)	$	668,205
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(944,075)
Transfer of joint tenancy assets from Primary Government to the Component Unit School Board		1,086,717
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows related to the measurement of the net pension liability/asset		1,539,838
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Repayments of long-term debt:		
Capital lease		212,000
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:		
Net OPEB obligation		(188,387)
Net pension asset		(169,339)
Net pension liability		(4,271,000)
Deferred outflows of resources related to pension		2,252,815
Compensated absences		20,866
Change in net position of governmental activities (Exhibit 12)	$	207,640

Component Unit School Board
School Operating Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	$ 1,200	$ 1,200	$ 12,000	$ 10,800
Charges for services:				
Charges for education	$ 160,400	$ 160,400	$ 139,697	$ (20,703)
Miscellaneous	$ 28,200	$ 28,200	$ 83,107	$ 54,907
Recovered costs:				
Education	$ -	$ -	$ 249,241	$ 249,241
Intergovernmental:				
Appropriation from primary government	$ 27,544,710	$ 27,760,210	$ 27,760,210	$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	$ 3,672,346	$ 3,672,346	$ 3,580,784	$ (91,562)
Basic aid	6,448,904	6,492,359	6,521,381	29,022
Other	3,799,640	3,897,553	3,852,353	(45,200)
Total revenue from the Commonwealth	$ 13,920,890	$ 14,062,258	$ 13,954,518	$ (107,740)
Revenue from the Federal Government:				
Categorical aid:				
Gear up	$ -	$ -	$ 55,613	$ 55,613
Total revenues	$ 41,655,400	$ 42,012,268	$ 42,254,386	$ 242,118
Expenditures				
Current:				
Education:				
Instruction	$ 31,189,183	$ 31,986,551	$ 31,204,185	$ 782,366
Administration, attendance and health	3,228,028	3,269,028	3,098,795	170,233
Transportation	1,697,666	1,763,166	1,632,997	130,169
School food service operations	100,000	110,000	171,629	(61,629)
Facilities operations	4,212,530	4,342,030	4,147,226	194,804
Technology	1,424,493	1,692,493	1,553,473	139,020
Debt service:				
Principal	212,000	212,000	212,000	-
Interest and fiscal charges	57,000	65,000	64,662	338
Total expenditures	$ 42,120,900	$ 43,440,268	$ 42,084,967	$ 1,355,301
Excess (deficiency) of revenues over (under) expenditures	$ (465,500)	$ (1,428,000)	$ 169,419	$ 1,597,419
Net change in fund balance	$ (465,500)	$ (1,428,000)	$ 169,419	$ 1,597,419
Fund balance, beginning of year	465,500	1,428,000	2,626,228	1,198,228
Fund balance, end of year	$ -	$ -	$ 2,795,647	$ 2,795,647

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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	$ 388,300	$ 388,300	$ 289,586	$ (98,714)
Miscellaneous	$ -	$ 30,000	$ 326,160	$ 296,160
Recovered costs:				
Education	$ 259,160	$ 491,320	$ 27,091	$ (464,229)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	$ 64,603	$ 64,603	$ 34,911	$ (29,692)
Preschool initiative grant	168,187	168,187	183,750	15,563
VPSA techology grant	154,000	154,000	154,000	-
Other	26,000	26,000	34,528	8,528
Total revenue from the Commonwealth	$ 412,790	$ 412,790	$ 407,189	$ (5,601)
Revenue from the Federal Government:				
Categorical aid:				
Title I	$ 885,943	$ 1,021,191	$ 1,019,135	$ (2,056)
School food	1,350,712	1,350,712	1,625,695	274,983
Head Start	886,900	654,740	1,128,305	473,565
Special education IDEA	661,221	661,221	752,635	91,414
Other	296,009	296,009	229,755	(66,254)
Total revenue from the Federal Government	$ 4,080,785	$ 3,983,873	$ 4,755,525	$ 771,652
Total revenues	$ 5,141,035	$ 5,306,283	$ 5,805,551	$ 499,268
Expenditures				
Current:				
Education:				
Instruction	$ 3,183,418	$ 3,668,666	$ 3,578,139	$ 90,527
Technology	154,000	154,000	153,225	775
School food service operations	1,803,617	1,863,617	1,950,193	(86,576)
Total expenditures	$ 5,141,035	$ 5,686,283	$ 5,681,557	$ 4,726
Excess (deficiency) of revenues over (under) expenditures	$ -	$ (380,000)	$ 123,994	$ 503,994
Net change in fund balance	$ -	$ (380,000)	$ 123,994	$ 503,994
Fund balance, beginning of year	-	380,000	832,704	452,704
Fund balance, end of year	$ -	$ -	$ 956,698	$ 956,698

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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Capital Projects Fund				
Revenues				
Recovered costs:				
Education	$ -	$ -	$ 248,276	$ 248,276
Intergovernmental:				
Appropriation from primary government	$ 522,000	$ 522,000	$ 522,000	$ -
Total revenues	$ 522,000	$ 522,000	$ 770,276	$ 248,276
Expenditures				
Capital projects:				
School buses	$ 185,000	$ 185,000	$ 182,743	$ 2,257
School computer technology	150,000	150,000	136,049	13,951
Walker-Grant improvements	8,000,000	-	1,554	(1,554)
School bus garage facility	102,000	102,000	-	102,000
Other	85,000	85,000	75,138	9,862
Total capital projects	$ 8,522,000	$ 522,000	$ 395,484	$ 126,516
Excess (deficiency) of revenues over (under) expenditures	$ (8,000,000)	$ -	$ 374,792	$ 374,792
Net change in fund balance	$ (8,000,000)	$ -	$ 374,792	$ 374,792
Fund balance, beginning of year	8,000,000	-	396,842	396,842
Fund balance, end of year	$ -	$ -	$ 771,634	$ 771,634

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

Statistical Section

Contents	Tables
Financial Trends These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.	1 - 5
Revenue Capacity These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	6 - 9
Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.	10 - 14
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	15, 16
Operating Information These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	17 - 19

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

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CITY OF FREDERICKSBURG, VIRGINIA **Table 1**

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

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Governmental activities:										
Invested in capital assets, net of related debt	$ 81,234,288	$ 80,177,661	$ 81,665,145	$ 80,513,796	$ 80,274,520	$ 81,353,678	$ 84,961,559	$ 88,179,245	$ 85,329,030	$ 88,860,358
Unrestricted	28,429,225	24,379,848	22,042,434	23,055,185	27,061,221	31,143,089	30,874,128	6,205,397	9,448,661	8,241,949
Total governmental activities net position	$ 109,663,513	$ 104,557,509	$ 103,707,579	$ 103,568,981	$ 107,335,741	$ 112,496,767	$ 115,835,687	$ 94,384,642	$ 94,777,691	$ 97,102,307
Business-type activities:										
Invested in capital assets, net of related debt	$ 29,319,742	$ 38,744,975	$ 39,780,366	$ 39,550,414	$ 40,307,710	$ 44,809,475	$ 47,687,656	$ 47,153,509	$ 44,280,931	$ 44,971,811
Unrestricted	21,584,625	12,503,966	13,022,965	16,473,376	17,161,279	16,705,512	17,779,917	17,046,024	21,962,726	23,631,467
Total business-type activities net position	$ 50,904,367	$ 51,248,941	$ 52,803,331	$ 56,023,790	$ 57,468,989	$ 61,514,987	$ 65,467,573	$ 64,199,533	$ 66,243,657	$ 68,603,278
Primary government:										
Net investment in capital assets	$ 110,554,030	$ 118,922,636	$ 121,445,511	$ 120,064,210	$ 120,582,230	$ 126,163,153	$ 132,649,215	$ 135,332,754	$ 129,609,961	$ 133,832,169
Unrestricted	50,013,850	36,883,814	35,065,399	39,528,561	44,222,500	47,848,601	48,654,045	23,251,421	31,411,387	31,873,416
Total primary government net position	$ 160,567,880	$ 155,806,450	$ 156,510,910	$ 159,592,771	$ 164,804,730	$ 174,011,754	$ 181,303,260	$ 158,584,175	$ 161,021,348	$ 165,705,585

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

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

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Expenses										
Governmental activities:										
General government	$ 5,254,913	$ 5,760,023	$ 5,171,028	$ 5,407,587	$ 5,833,003	$ 6,889,501	$ 6,397,126	$ 6,285,041	$ 6,866,241	$ 7,065,308
Judicial administration	3,559,936	3,701,857	3,854,380	3,609,180	3,879,790	4,341,611	4,392,902	4,478,163	5,566,392	5,700,242
Public safety	19,073,783	20,056,605	20,200,427	19,937,181	19,316,975	19,579,277	20,623,797	20,645,685	21,630,457	22,472,125
Public works	9,882,486	10,194,381	10,964,359	10,707,212	10,898,437	11,584,108	12,681,384	13,162,173	12,836,598	12,324,625
Health and welfare	6,465,395	6,661,643	6,721,050	6,797,908	6,790,459	6,426,311	6,594,938	7,279,605	7,014,254	7,951,696
Education	28,328,165	27,341,339	26,228,250	26,383,137	27,249,752	28,633,110	28,797,870	28,803,904	29,862,457	30,433,939
Parks, recreation and cultural	4,588,059	4,400,464	3,936,068	4,031,435	4,340,912	4,554,212	4,765,119	4,790,452	4,748,604	5,025,061
Community development	2,344,557	1,965,407	1,819,607	1,930,369	2,154,832	2,165,794	2,186,948	2,694,020	2,882,580	2,652,990
Interest on long-term debt	2,948,621	2,859,774	2,674,176	2,542,424	3,186,127	3,485,231	3,343,630	3,150,988	3,419,833	3,357,340
Total governmental activities expenses	$ 82,445,915	$ 82,941,493	$ 81,569,345	$ 81,346,433	$ 83,650,287	$ 87,659,155	$ 89,783,714	$ 91,290,031	$ 94,827,416	$ 96,983,326
Business-type activities:										
Water	$ 3,148,696	$ 2,748,400	$ 2,882,295	$ 2,523,517	$ 2,884,071	$ 2,999,771	$ 2,751,523	$ 2,933,514	$ 2,972,130	$ 3,125,748
Sewer	4,172,099	4,476,638	4,156,245	4,975,289	5,256,052	4,875,587	4,874,582	4,795,857	5,092,925	5,485,742
Transit	3,345,639	3,893,458	3,600,428	3,887,158	4,097,929	4,157,157	4,437,179	4,275,370	4,410,391	4,671,545
Parking	495,917	493,920	528,819	460,950	476,315	456,999	470,905	448,933	443,485	493,395
Total business-type activities expenses	$ 11,162,351	$ 11,612,416	$ 11,167,787	$ 11,846,914	$ 12,714,367	$ 12,489,514	$ 12,534,189	$ 12,453,674	$ 12,918,931	$ 13,776,430
Total primary government expenses	$ 93,608,266	$ 94,553,909	$ 92,737,132	$ 93,193,347	$ 96,364,654	$ 100,148,669	$ 102,317,903	$ 103,743,705	$ 107,746,347	$ 110,759,756

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

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

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 50,515	$ 93,045	$ 79,215	$ 85,191	$ 82,624	$ 94,773	$ 109,152	$ 152,025	$ 157,793	$ 149,415
Judicial administration	112,162	106,210	196,474	219,127	214,894	209,917	204,046	220,427	195,804	191,999
Public safety	1,361,978	1,834,819	1,848,719	2,111,221	1,943,884	2,042,868	1,862,973	2,087,775	1,891,374	1,872,937
Public works	689,151	727,253	725,710	733,070	743,145	757,997	828,049	967,752	985,924	998,126
Parks, recreation and cultural	550,465	518,630	469,802	487,368	459,848	440,392	471,289	497,253	455,603	473,643
Community development	2,470	1,685	691	476	145	274	1,169	263	57	28
Operating grants and contributions	10,656,874	10,522,749	10,073,459	10,159,077	11,758,221	9,685,095	9,985,588	10,896,754	10,645,954	11,601,213
Capital grants and contributions	453,402	202,849	1,750,758	841,870	1,725,467	2,967,105	4,595,323	2,011,484	1,460,003	3,192,416
Total governmental activities program revenues	$ 13,877,017	$ 14,007,240	$ 15,144,828	$ 14,637,400	$ 16,928,228	$ 16,198,421	$ 18,057,589	$ 16,833,733	$ 15,792,512	$ 18,479,777
Business-type activities:										
Charges for services:										
Water	$ 2,150,126	$ 2,180,347	$ 2,261,200	$ 2,344,438	$ 2,448,425	$ 2,689,470	$ 2,829,872	$ 3,035,359	$ 3,285,584	$ 3,322,933
Sewer	3,264,915	3,457,792	3,742,221	3,821,281	4,013,111	4,526,072	4,857,512	5,144,191	5,408,049	5,426,986
Transit	116,661	159,741	271,610	274,395	368,072	344,624	423,081	403,921	470,343	307,579
Parking	106,916	130,281	192,461	238,240	261,991	304,003	328,385	353,532	283,741	247,274
Operating grants and contributions	4,560,490	4,342,760	5,270,270	6,621,263	5,493,221	3,521,961	4,784,398	3,514,732	4,336,969	3,979,565
Capital grants and contributions	2,301,859	566,957	931,897	870,726	763,564	4,397,886	2,307,225	145,599	410,573	1,682,639
Total business-type activities program revenues	$ 12,500,967	$ 10,837,878	$ 12,669,659	$ 14,170,343	$ 13,348,384	$ 15,784,016	$ 15,530,473	$ 12,597,334	$ 14,195,259	$ 14,966,976
Total primary government program revenues	$ 26,377,984	$ 24,845,118	$ 27,814,487	$ 28,807,743	$ 30,276,612	$ 31,982,437	$ 33,588,062	$ 29,431,067	$ 29,987,771	$ 33,446,753
Net (expense)/revenue										
Governmental activities	$ (68,568,898)	$ (68,934,253)	$ (66,424,517)	$ (66,709,033)	$ (66,722,059)	$ (71,460,734)	$ (71,726,125)	$ (74,456,298)	$ (79,034,904)	$ (78,503,549)
Business-type activities	1,338,616	(774,538)	1,501,872	2,323,429	634,017	3,294,502	2,996,284	143,660	1,276,328	1,190,546
Total primary government net expense	$ (67,230,282)	$ (69,708,791)	$ (64,922,645)	$ (64,385,604)	$ (66,088,042)	$ (68,166,232)	$ (68,729,841)	$ (74,312,638)	$ (77,758,576)	$ (77,313,003)

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

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

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	$ 27,791,803	$ 29,632,428	$ 29,951,918	$ 31,254,682	$ 33,896,976	$ 34,601,092	$ 35,247,134	$ 37,567,214	$ 38,983,743	$ 40,022,650
Local sales and use taxes	12,746,040	11,929,648	10,043,091	10,191,895	10,311,633	10,840,598	10,663,183	10,780,677	11,176,401	11,376,302
Consumer utility taxes	1,527,028	1,517,109	1,677,699	1,644,628	1,831,083	1,795,046	1,844,379	1,856,992	1,810,911	1,808,256
Business license taxes	5,436,366	5,847,174	5,893,072	5,538,312	5,735,557	5,994,920	5,641,614	5,943,742	6,101,499	6,320,104
Hotel/Lodging taxes	918,952	1,050,586	1,084,542	1,175,244	1,182,500	1,204,855	1,149,906	1,329,542	1,432,190	1,524,371
Meals taxes	7,042,409	7,080,021	8,132,542	8,842,347	9,373,302	9,657,796	9,752,120	10,115,765	10,693,375	11,141,603
Other local taxes	3,406,556	2,707,109	3,147,579	2,892,598	2,877,503	2,914,744	3,837,495	4,391,651	3,911,733	3,158,608
Unrestricted grants and contributions	2,027,309	1,967,696	3,810,995	3,909,817	3,741,002	4,696,323	5,557,931	3,820,401	3,814,470	3,724,175
Unrestricted revenues from use of money and property	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109	122,448	88,766	99,017
Gain/(loss) on disposal of assets	1,073,425	(846,807)	-	-	-	-	-	283,009	465,933	369,235
Miscellaneous	1,837,386	733,896	391,890	294,113	512,888	243,201	287,916	403,665	329,387	664,489
Transfers	834,798	856,580	904,224	385,020	600,000	620,436	604,393	603,480	619,545	619,355
Total governmental activities	$ 66,366,740	$ 63,828,249	$ 65,574,587	$ 66,570,435	$ 70,488,819	$ 72,917,306	$ 75,048,180	$ 77,218,586	$ 79,427,953	$ 80,828,165
Business-type activities:										
Taxes:										
Other local taxes	$ 536,846	$ 1,355,225	$ 321,058	$ 765,756	$ 726,653	$ 897,209	$ 961,084	$ 743,502	$ 687,620	$ 1,154,538
Unrestricted revenues from use of money and property	448,499	275,621	123,522	71,152	85,668	31,694	70,392	65,812	111,862	62,519
Miscellaneous	1,581,616	344,846	512,162	445,142	598,861	443,029	529,219	655,766	587,859	571,373
Transfers	(834,798)	(856,580)	(904,224)	(385,020)	(600,000)	(620,436)	(604,393)	(603,480)	(619,545)	(619,355)
Total business-type activities	$ 1,732,163	$ 1,119,112	$ 52,518	$ 897,030	$ 811,182	$ 751,496	$ 956,302	$ 861,600	$ 767,796	$ 1,169,075
Total primary government	$ 68,098,903	$ 64,947,361	$ 65,627,105	$ 67,467,465	$ 71,300,001	$ 73,668,802	$ 76,004,482	$ 78,080,186	$ 80,195,749	$ 81,997,240
Change in Net Position										
Governmental activities	$ (2,202,158)	$ (5,106,004)	$ (849,930)	$ (138,598)	$ 3,766,760	$ 1,456,572	$ 3,322,056	$ 2,762,288	$ 393,049	$ 2,324,616
Business-type activities	3,070,779	344,574	1,554,390	3,220,459	1,445,199	4,045,998	3,952,586	1,005,260	2,044,124	2,359,621
Total primary government	$ 868,621	$ (4,761,430)	$ 704,460	$ 3,081,861	$ 5,211,959	$ 5,502,570	$ 7,274,642	$ 3,767,548	$ 2,437,173	$ 4,684,237

CITY OF FREDERICKSBURG, VIRGINIA **Table 3**

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

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
General fund										
Reserved	$ 225,153	$ 189,721	$ 445,308	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	17,750,689	15,924,951	17,272,991	-	-	-	-	-	-	-
Nonspendable	-	-	-	44,611	348,945	359,240	480,656	370,237	387,695	427,347
Restricted	-	-	-	-	-	-	-	-	327,422	100,466
Committed	-	-	-	5,257,805	5,004,661	7,786,761	6,236,045	6,731,037	4,347,210	6,897,202
Assigned	-	-	-	373,829	292,876	858,372	769,149	47,997	1,306,350	996,272
Unassigned	-	-	-	13,662,911	20,225,801	18,571,037	19,799,255	20,988,745	19,335,778	15,854,106
Total general fund	$ 17,975,842	$ 16,114,672	$ 17,718,299	$ 19,339,156	$ 25,872,283	$ 27,575,410	$ 27,285,105	$ 28,138,016	$ 25,704,455	$ 24,275,393
All other governmental funds										
Reserved	$ 870,711	$ 1,232,229	$ 250,474	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special revenue funds	2,730,594	3,255,921	3,346,494	-	-	-	-	-	-	-
Capital projects funds	11,504,973	9,629,901	7,938,299	-	-	-	-	-	-	-
Nonspendable, reported in:										
Special revenue funds	-	-	-	-	-	1,190	4,569	4,876	581	9,710
Restricted, reported in:										
Special revenue funds	-	-	-	193,070	243,980	290,342	336,280	332,993	-	100,000
Committed, reported in:										
Special revenue funds	-	-	-	2,480,555	1,821,770	1,487,032	1,966,427	1,758,385	2,157,281	2,083,137
Capital projects funds	-	-	-	1,981,075	31,832,728	24,819,754	9,247,406	2,351,359	12,032,685	3,249,100
Debt service Funds	-	-	-	-	-	805,804	2,462,142	2,308,258	2,614,397	2,000,490
Assigned, reported in:										
Capital projects funds	-	-	-	7,653,041	8,261,194	9,501,088	5,784,081	8,251,305	7,939,214	6,680,441
Total all other governmental funds	$ 15,106,278	$ 14,118,051	$ 11,535,267	$ 12,307,741	$ 42,159,672	$ 36,905,210	$ 19,800,905	$ 15,007,176	$ 24,744,158	$ 14,122,878

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

Table 4

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
General property taxes	$ 27,840,128	$ 29,410,334	$ 29,903,318	$ 31,240,415	$ 33,961,795	$ 34,698,020	$ 35,293,983	$ 37,516,803	$ 39,027,174	$ 40,074,290
Other local taxes	31,077,351	30,131,647	29,978,525	30,285,024	31,311,578	32,407,959	32,888,697	34,418,369	35,126,109	35,329,244
Permits, privilege fees and regulatory licenses	653,453	717,349	822,476	945,035	748,371	676,892	598,444	726,685	691,636	700,197
Fines and forfeitures	408,580	466,213	344,897	586,421	479,355	603,398	477,161	523,547	350,564	312,851
Revenue from use of money and property	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109	405,457	554,699	468,252
Charges for services	1,704,708	2,098,080	2,153,238	2,104,997	2,216,814	2,265,931	2,401,073	2,675,263	2,644,355	2,673,100
Miscellaneous	563,376	392,910	391,890	257,448	485,647	214,655	274,259	273,284	248,557	644,920
Recovered costs	1,694,312	1,364,758	1,256,605	1,004,106	1,491,448	1,087,070	959,739	1,143,810	1,038,569	1,119,710
Intergovernmental:										
Commonwealth	10,169,012	9,936,350	11,239,010	11,490,604	13,345,182	12,561,997	15,071,859	12,829,369	12,909,183	13,615,207
Federal	2,968,573	2,756,944	3,337,402	3,221,610	3,879,508	4,775,305	4,363,883	3,761,934	2,603,528	3,161,316
Total revenues	$ 78,804,161	$ 78,627,394	$ 79,964,396	$ 81,577,439	$ 88,346,073	$ 89,639,522	$ 92,791,207	$ 94,274,521	$ 95,194,374	$ 98,099,087
Expenditures										
General government administration	$ 5,047,982	$ 5,402,264	$ 4,785,487	$ 5,034,113	$ 5,785,583	$ 6,669,886	$ 6,178,075	$ 6,309,106	$ 7,905,904	$ 7,016,265
Judicial administration	3,575,964	3,324,483	3,326,241	3,347,017	3,707,295	3,872,721	4,058,896	4,426,162	4,757,907	4,842,421
Public safety	18,603,995	18,220,229	18,666,202	18,154,890	18,006,243	18,838,158	19,354,308	20,738,813	21,014,424	21,862,258
Public works	7,273,319	7,206,095	7,648,942	7,430,631	7,932,048	8,134,695	8,719,453	8,680,717	9,938,991	10,799,421
Health and welfare	6,859,859	6,976,070	7,004,337	7,136,173	7,181,433	6,692,144	6,878,616	7,776,388	7,343,391	8,193,779
Education	24,441,360	25,202,840	24,143,850	24,343,841	25,243,849	26,663,850	26,853,825	26,883,825	27,937,535	28,350,929
Parks, recreation and cultural	4,053,007	4,090,417	3,441,368	3,389,943	3,733,260	3,755,802	3,883,740	4,041,718	4,134,366	4,354,413
Community development	2,732,018	2,380,204	2,168,755	2,255,173	2,416,979	2,487,037	2,602,400	2,848,613	3,102,783	2,817,023
Capital projects	6,735,321	3,456,377	4,792,112	2,675,390	9,269,823	10,160,076	25,044,316	13,197,828	12,206,160	14,332,314
Debt service										
Principal	3,296,107	3,126,779	3,026,695	3,127,831	2,857,891	2,704,885	3,588,507	4,437,379	3,966,345	4,456,281
Interest and other fiscal charges	3,064,543	3,046,535	2,843,788	2,710,791	2,675,680	3,860,585	3,658,596	3,457,000	3,593,740	3,763,249
Total expenditures	$ 85,683,475	$ 82,432,293	$ 81,847,777	$ 79,605,793	$ 88,810,084	$ 93,839,839	$ 110,820,732	$ 102,797,549	$ 105,901,546	$ 110,788,353
Excess (deficiency) of revenues over expenditures	$ (6,879,314)	$ (3,804,899)	$ (1,883,381)	$ 1,971,646	$ (464,011)	$ (4,200,317)	$ (18,029,525)	$ (8,523,028)	$ (10,707,172)	$ (12,689,266)
Other financing sources (uses)										
Transfers in	$ 834,798	$ 10,133,320	$ 9,732,457	$ 11,913,628	$ 9,615,156	$ 10,600,181	$ 10,924,477	$ 12,138,388	$ 12,726,061	$ 12,614,866
Transfers out	-	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)	(9,979,745)	(10,320,084)	(11,534,908)	(12,106,516)	(11,995,511)
Refunding bonds issued	-	2,672,836	-	-	2,469,101	-	-	5,714,176	-	-
Bonds issued	2,462,150	-	-	-	33,860,000	-	-	3,832,391	14,820,000	-
Premium on bonds issued	64,015	-	-	-	1,760,063	-	-	-	2,490,218	-
Payments to refunded bond escrow agent	-	(2,650,207)	-	-	(2,592,336)	-	-	(5,698,218)	-	-
Long-term notes payable issued	-	-	-	-	725,000	-	-	-	-	-
Sale of capital assets	1,105,125	76,293	-	36,665	27,241	28,546	13,658	130,381	80,830	19,569
Total other financing sources (uses)	$ 4,466,088	$ 955,502	$ 904,224	$ 421,685	$ 36,849,069	$ 648,982	$ 618,051	$ 4,582,210	$ 18,010,593	$ 638,924
Net change in fund balances	$ (2,413,226)	$ (2,849,397)	$ (979,157)	$ 2,393,331	$ 36,385,058	$ (3,551,335)	$ (17,411,474)	$ (3,940,818)	$ 7,303,421	$ (12,050,342)
Debt service as a percentage of noncapital expenditures	8.03%	7.84%	7.59%	7.53%	6.93%	7.86%	8.44%	8.84%	7.88%	8.52%

CITY OF FREDERICKSBURG, VIRGINIA **Table 5**

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

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Business License Tax	Motor Vehicle License Tax	Bank Stock Tax	Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
2008	$ 27,840,128	$ 12,746,040	$ 1,527,028	$ 5,436,366	$ 300,786	$ 459,020	$ 715,884	$ 593,940	$ 918,952	$ 7,042,409	$ 57,580,553
2009	29,410,334	11,929,648	1,517,109	5,847,174	377,547	469,094	460,085	530,216	1,050,586	7,080,021	58,671,814
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	758,805	406,123	503,322	1,084,542	8,132,542	75,939,346
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	777,521	468,241	554,701	1,175,244	8,842,347	60,862,930
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	696,511	402,018	578,303	1,182,500	9,373,302	64,494,095
2013	34,698,020	10,840,598	1,795,046	5,994,920	450,126	657,687	408,981	442,569	1,204,855	9,657,796	66,150,598
2014	35,293,983	10,663,183	1,844,379	5,641,614	455,246	700,378	567,244	543,916	1,149,906	9,752,120	66,611,969
2015	37,516,803	10,780,677	1,856,992	5,943,742	471,438	792,451	456,665	525,413	1,329,542	10,115,765	69,789,488
2016	39,027,174	11,176,401	1,810,911	6,101,499	472,014	755,230	711,445	513,669	1,432,190	10,693,375	72,693,908
2017	40,074,290	11,376,302	1,808,256	6,320,104	486,096	862,442	567,144	509,819	1,524,371	11,141,603	74,670,427

CITY OF FREDERICKSBURG, VIRGINIA **Table 6**

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

Fiscal Year	Real Estate	Direct Tax Rate	Personal Property	Direct Tax Rate	Machinery and Tools	Direct Tax Rate	Public Service	Service Charges	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2008	$ 4,045,740,800	$ 0.53	$ 247,570,187	$ 2.99	$ 8,972,280	$ 0.80	$ 45,382,045	$ 4,023,600	$ 4,351,688,912	$ 0.67	$ 4,351,688,912	$ 100.00%
2009	4,106,387,300	0.56	244,149,967	2.99	9,064,237	0.80	87,776,155	4,060,300	4,451,437,959	0.70	4,451,437,959	100.00%
2010	3,501,342,300	0.68	237,860,715	3.40	20,065,271	0.80	92,224,942	3,464,100	3,854,957,328	0.85	3,854,957,328	100.00%
2011	3,542,088,600	0.68	252,413,838	3.40	33,658,145	0.80	106,522,343	3,464,100	3,938,147,026	0.86	3,938,147,026	100.00%
2012	3,606,739,500	0.72	266,300,640	3.40	34,817,018	0.80	121,621,449	3,464,100	4,032,942,707	0.90	4,032,942,707	100.00%
2013	3,519,520,600	0.74	289,788,976	3.40	29,433,766	0.80	112,250,088	3,427,400	3,954,420,830	0.94	3,954,420,830	100.00%
2014	3,596,021,600	0.74	296,590,842	3.40	25,812,744	0.80	98,288,766	3,927,400	4,020,641,352	0.94	4,020,641,352	100.00%
2015	3,626,209,900	0.79	301,993,080	3.40	22,001,821	0.80	100,894,855	3,427,400	4,054,527,056	0.99	4,054,527,056	100.00%
2016	3,651,843,200	0.82	311,513,383	3.40	16,746,858	0.80	98,498,817	3,427,400	4,082,029,658	1.02	4,082,029,658	100.00%
2017	3,956,381,500	0.77	312,718,088	3.40	15,692,250	0.80	103,541,921	3,541,360	4,391,875,119	0.96	4,391,875,119	100.00%

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA **Table 7**

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

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Total Direct Tax Rate
2008	$ 0.53	$ 2.99	$ 0.53	$ 0.80	$ 0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90
2013	0.74	3.40	0.74	0.80	0.94
2014	0.74	3.40	0.74	0.80	0.94
2015	0.79	3.40	0.79	0.80	0.99
2016	0.82	3.40	0.82	0.80	1.02
2017	0.77	3.40	0.77	0.80	0.96

(1) Source: Commissioner of Revenue.
(2) Property tax rates are based on $100 of assessed value.

CITY OF FREDERICKSBURG, VIRGINIA **Table 8**

Principal Property Taxpayers
Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2017 2016-2017 Assessed Valuation	Rank	% of Total Assessed Valuation (1)	Fiscal Year 2008 2007-2008 Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Central Park Retail LLC	Retail	$ 72,378,300	1	1.78 %	$ -	-	- %
Mach II MCB Silver Portfolio	Central Park property	63,552,900	2	1.56	-	-	-
The Apartments at Cobblestone	New home sales	59,887,100	3	1.47	-	-	-
Virginia Electric & Power Co.	Public utility	50,271,803	4	1.24	-	-	-
Mid-America Apartments LP	Apartment complex	45,494,600	5	1.12	-	-	-
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	40,627,400	6	1.00	68,427,400	2	1.67
Mid-America Apts. LP Seasons at Cel. VA.	Apartment complex	38,196,000	7	0.94	-	-	-
Central Park Marketplace Holdings LLC	Central Park property	34,733,600	8	0.85	-	-	-
Residences at Belmont Apts. LLC	Apartment complex	33,667,000	9	0.83	-	-	-
Verizon Virginia, Inc.	Public utility	26,629,620	10	0.66	-	-	-
Fredericksburg 35 LLC	Central Park property	-	-	-	118,492,200	1	2.89
Celebrate Virginia South LLC	Office buildings, retail	-	-	-	67,618,600	3	1.65
Stellar Belmond	Apartment complex	-	-	-	34,348,300	4	0.84
Wal-Mart Real Estate Business	Commercial	-	-	-	25,447,300	5	0.62
Hylton Venture LLC	Land development	-	-	-	28,774,800	6	0.70
Virginia Landmark Hotels	Hotels	-	-	-	21,776,800	7	0.53
Lowes Home Center, Inc.	Retail	-	-	-	19,569,800	8	0.48
Snowden Village	Office buildings	-	-	-	22,378,100	9	0.55
CVA Expo Center	Trade shows, conventions	-	-	-	22,063,000	10	0.54
Total		$ 465,438,323		11.45 %	$ 428,896,300		10.47 %

Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA **Table 9**

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1) (3)	Total Collections to Date	
		Amount (1) (3)	Percentage of Levy (2)		Amount (1) (3)	Percentage of Levy (2)
2008	$ 29,330,707	$ 28,961,391	98.74%	$ 316,609	$ 29,278,000	99.82%
2009	30,902,557	30,222,352	97.80%	617,944	30,840,296	99.80%
2010	32,129,525	31,050,501	96.64%	1,007,414	32,057,915	99.78%
2011	33,269,826	32,103,892	96.50%	974,238	33,078,130	99.42%
2012	35,663,960	34,417,182	96.50%	832,832	35,250,014	98.84%
2013	36,540,252	35,453,742	97.03%	705,332	36,159,074	98.96%
2014	37,507,994	35,982,391	95.93%	1,133,089	37,115,480	98.95%
2015	39,392,612	38,212,293	97.00%	715,092	38,927,385	98.82%
2016	40,976,073	39,725,807	96.95%	661,349	40,387,156	98.56%
2017	41,500,053	40,450,013	97.47%	-	40,450,013	97.47%

(1) Exclusive of penalties and interest.
(2) Percentages are calculated using levy for fiscal year.
(3) The Commonwealth reimbursement under the Personal Property Tax Relief Act is included in total collections.

CITY OF FREDERICKSBURG, VIRGINIA **Table 10**

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities			Business-Type Activities					
Fiscal Years	General Obligation Bonds	Notes	Revenue Bonds	General Obligation Bonds	Notes	Revenue Bonds	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
2008	$ 65,988,291	$ -	$ -	$ 15,160,159	$ -	$ 5,524,919	$ 86,673,369	9.75%	$ 3,785
2009	62,766,729	-	-	14,445,225	-	4,595,059	81,807,013	9.17%	3,503
2010	59,625,306	-	-	20,068,845	-	3,633,315	83,327,466	8.73%	3,431
2011	56,386,080	-	-	19,035,185	-	2,638,594	78,059,859	7.43%	3,038
2012	88,917,128	725,000	-	17,984,434	-	1,609,765	109,236,327	10.26%	4,198
2013	85,946,002	725,000	-	16,964,140	-	545,659	104,180,801	9.33%	3,815
2014	82,110,710	725,000	-	15,939,460	-	-	98,775,170	8.12%	3,511
2015	82,357,412	-	-	27,611,336	-	-	109,968,748	9.15%	3,898
2016	93,367,519	-	2,103,232	25,658,010	-	-	121,128,761	9.64%	4,308
2017	88,724,301	-	1,853,884	23,662,010	-	-	114,240,195	8.70%	4,037

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

(1) See the Schedule of Demographic and Economic Statistics - Table 15.

CITY OF FREDERICKSBURG, VIRGINIA **Table 11**

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

Fiscal Year	Gross Bonded Debt	Less: Amounts Reserved for Debt Service	Net Bonded Debt (1)	Ratio of Net General Obligation Debt to Assessed Value (2)	Net Bonded Debt per Capita (3)
2008	$ 81,148,450	$ -	$ 81,148,450	1.86%	$ 3,544
2009	77,211,954	-	77,211,954	1.73%	3,306
2010	79,694,151	-	79,694,151	2.07%	3,281
2011	75,421,265	-	75,421,265	1.92%	2,936
2012	107,626,562	-	107,626,562	2.67%	4,136
2013	103,635,142	805,804	102,829,338	2.60%	3,766
2014	98,775,170	2,462,142	96,313,028	2.40%	3,424
2015	109,968,748	2,308,258	107,660,490	2.66%	3,816
2016	119,025,529	2,614,397	116,411,132	2.85%	4,140
2017	112,386,311	2,000,490	110,385,821	2.51%	3,901

(1) Excludes revenue bonds, capital leases, compensated absences, landfill post-closure costs, net OPEB obligation payable, and net pension liability.
(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 6.
(3) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 15.

CITY OF FREDERICKSBURG, VIRGINIA **Table 12**

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Debt limit	$ 231,895,610	$ 237,514,942	$ 207,207,276	$ 211,856,637	$ 216,056,402	$ 212,771,995	$ 215,659,654	$ 218,129,465	$ 219,586,863	$ 252,766,739
Total net debt applicable to limit	79,400,147	75,597,147	78,024,146	73,892,147	104,475,147	99,973,210	93,731,873	105,466,742	112,218,603	106,587,510
Legal debt margin	$ 152,495,463	$ 161,917,795	$ 129,183,130	$ 137,964,490	$ 111,581,255	$ 112,798,785	$ 121,927,781	$ 112,662,723	$ 107,368,260	$ 146,179,229
Total net debt applicable to the limit as a percentage of debt limit	34.24%	31.83%	37.66%	34.88%	48.36%	46.99%	43.46%	48.35%	51.10%	42.17%

Legal Debt Margin Calculation for Fiscal Year 2017:

Assessed value	$ 4,059,923,421
Add back: exempt real property	1,206,050,300
Total assessed value	$ 5,265,973,721
Debt limit (4.8% of total assessed value)	$ 252,766,739
Net debt applicable to limit	106,587,510
Legal debt margin	$ 146,179,229

CITY OF FREDERICKSBURG, VIRGINIA **Table 13**

Pledged-Revenue Coverage
Last Ten Fiscal Years

	Water and Sewer Bonds					
				Debt Service		
Fiscal Year	Water & Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage
2008	$ 7,142,159	$ 6,799,902	$ 342,257	$ 1,272,693	$ 520,893	$ 0.19
2009	7,361,317	6,559,626	801,691	1,514,393	665,412	0.37
2010	7,693,179	6,388,224	1,304,955	1,583,149	650,316	0.58
2011	10,049,028	6,710,195	3,338,833	1,860,357	788,611	1.26
2012	9,218,671	7,394,400	1,824,271	1,905,625	745,723	0.69
2013	8,241,838	7,211,193	1,030,645	1,902,540	664,165	0.40
2014	9,101,122	7,019,203	2,081,919	1,380,571	606,902	1.05
2015	9,342,915	7,097,478	2,245,437	835,936	631,893	1.53
2016	10,357,703	7,294,421	3,063,282	1,707,399	770,634	1.24
2017	10,027,275	7,889,958	2,137,317	1,742,554	721,532	0.87

CITY OF FREDERICKSBURG, VIRGINIA **Table 14**

Direct and Overlapping Debt
As of June 30, 2017

	Debt Outstanding	Percentage	Share of Direct and Overlapping Debt
Direct Debt:			
Primary Government:			
General Obligation Bonds	$ 112,386,311	100.00%	$ 112,386,311
VRA Revenue Bonds	1,853,884	100.00%	1,853,884
Total Primary Government Direct Debt	$ 114,240,195		$ 114,240,195

The City has no overlapping debt.

CITY OF FREDERICKSBURG, VIRGINIA **Table 15**

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Per Capita Personal Income (2)	School Enrollment (3)	Unemploy-ment Rate (4)
2008	22,899 $	889,030,776 $	38,824	2,540	5.7%
2009	23,353	892,131,306	38,202	2,655	9.2%
2010	24,286 *	954,391,228	39,298	2,793	9.6%
2011	25,691 *	1,050,582,063	40,893	3,037	10.3%
2012	26,024 *	1,064,199,432	40,893	3,072	8.8%
2013	27,307 *	1,116,665,151	40,893	3,139	8.2%
2014	28,132 *	1,215,808,776	43,218	3,214	5.9%
2015	28,213 *	1,201,676,309	42,593	3,300	6.2%
2016	28,118 *	1,256,818,364	44,698	3,478	4.8%
2017	28,297 *	1,313,009,097	46,401	3,546	4.6%

(1) Source: Weldon Cooper Center for Public Service (* US Census Bureau).
(2) Source: Bureau of Economic Analysis. Per capita income includes the City of Fredericksburg combined with Spotsylvania County.
(3) Source: Fredericksburg School Board office.
(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA **Table 16**

Principal Employers
Current Year and the Period Nine Years Prior

	Fiscal Year 2017			Fiscal Year 2008	
Employer	**Number of Employees (1)**	**Rank**	**Percentage of Total Employment**	**Number of Employees (2)**	**Rank**
Mary Washington Healthcare	4,576	1	24.14%	1000 and over	1
University of Mary Washington	886	2	4.67%	1000 and over	2
City of Fredericksburg	776	3	4.09%	500 to 999	3
City of Fredericksburg School Board	742	4	3.91%	500 to 999	4
Wal-Mart	550	5	2.90%	500 to 999	5
Wegmans	535	6	2.82%	-	-
Snowden Services	457	7	2.41%	-	-
Free Lance Star Publishing, Inc.	425	8	2.24%	250 to 499	6
RACSB	317	9	1.67%	250 to 499	8
OS Restaurant Services	208	10	1.10%	-	-
VDOT	-	-	-	250 to 499	7
USPS	-	-	-	100 to 249	9
Lowe's Home Centers, Inc.	-	-	-	100 to 249	10

(1) Source: Department of Economic Development and Tourism.
(2) For fiscal year 2008 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA **Table 17**

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

	Fiscal Year									
Function	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
General government	43	40	38	41	41	43	44	51	52	51
Judicial administration	41	39	38	39	39	40	42	48	48	50
Public safety	162	162	164	162	166	162	156	165	159	161
Public works	86	81	75	73	74	73	78	72	73	80
Health and welfare	35	35	35	34	33	32	34	33	35	35
Parks and recreation	19	17	17	17	16	17	32	19	19	18
Community development	13	12	12	12	11	13	14	14	16	15
Water	9	10.5	10.5	10	10	9	6	11	12	12
Wastewater	21	18.5	16.5	19	19	17	12	20	21	18
Transit	12	13	13	13	13	14	15	15	14	15
Parking garage	1	1	1	1	1	1	1	1	1	1
Totals	442	429	420	421	423	421	434	449	450	456

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Public safety:										
Police department:										
Physical arrests	2,850	3,168	3,477	3,772	3,621	3,722	3,660	3,974	3,522	3,435
Traffic violations (1)	7,290	7,335	6,546	7,937	7,914	7,824	5,981	5,320	3,733	3,738
Parking violations	10,671	8,397	7,467	7,223	6,965	6,528	7,513	6,235	6,219	7,577
Sheriffs department:										
Civil papers (2)	44,088	41,379	48,074	48,918	50,764	63,886	58,338	58,111	59,405	59,568
Fire and rescue:										
Number of calls answered	6,145	5,885	5,882	5,825	5,471	5,407	5,311	5,344	5,462	5,554
Inspections	2,030	1,478	1,624	1,596	1,548	1,650	1,673	2,072	2,015	1,762
Building inspections:										
Permits issued	1,781	1,541	1,486	1,633	1,558	1,554	1,618	1,640	1,703	1,580
Animal control:										
Number of calls answered	1,010	811	1,015	897	864	1,022	926	520	895	876
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	311	277	327	517	400	309	212	248	377	359
Waste removal:										
Refuse collected (thousands of pounds/day)	24.7	20.6	21.4	20.7	19.3	19.0	20.6	21.1	21.4	20.4
Recycling collected:										
Leaves (cubic yards)	6,292	5,604	5,604	5,038	4,510	5,421	5,336	5,027	4,218	4,820
General services:										
Buildings maintained (thousands of square feet)	496.9	501.9	500.5	500.5	480.5	462.3	551.2	551.9	604.2	550.8
Culture and recreation:										
Parks and recreation:										
Number of programs (3)	518	510	464	471	514	495	414	397	377	394
Number of participants (3)	20,964	18,563	16,193	19,082	20,425	19,525	14,177	13,966	8,421	12,576
Community development:										
Planning:										
Zoning permits issued (4) (5)	237	291	260	283	390	338	309	367	365	364

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water:										
Number of connections	7,274	7,351	7,453	7,614	7,718	7,801	7,861	7,911	7,950	8,047
Average daily consumption (thousands of gallons)	2,639	2,492	2,334	2,557	2,584	2,649	2,537	2,650	2,544	2,561
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,700	2,794	3,210	2,700	3,010	2,493	2,833	3,290	3,350	2,720
Transit:										
Ridership per service area:										
City of Fredericksburg (7)	208,410	273,685	261,238	274,540	278,657	279,363	259,790	238,024	214,439	193,786
UMW - Eagle Express	16,444	15,014	12,030	15,323	12,284	13,685	11,679	10,287	11,371	7,893
Spotsylvania County	81,315	113,669	97,343	96,248	116,623	117,633	114,162	114,417	94,740	79,935
South Stafford County (6)	32,112	39,234	40,830	45,288	44,341	68,614	65,033	63,781	62,618	55,409
North Stafford County (6)	62,895	77,303	74,369	70,397	72,366	39,446	33,751	38,495	34,036	32,622
Caroline County	6,189	8,160	7,155	5,882	7,352	10,425	11,094	12,168	10,192	7,397
King George County	15,867	21,550	16,792	16,993	17,033	-	-	-	-	
Component Unit - School Board:										
Education:										
Number of students	2,540	2,655	2,793	3,037	3,072	3,139	3,214	3,300	3,356	3,546
Number of teachers	256	257	256	258	258	264	267	265	269	304
Cost per pupil	$ 14,416	$ 13,911	$ 13,276	$ 11,882	$ 12,546	$ 13,853	$ 14,235	$ 13,771	$ 13,849	$ 13,582

Source: Individual city departments.

(1) Reduction in traffic violations issued is due to Police Department staffing shortage and shift in work functions.
(2) Beginning in FY13, increase in civil papers served is due to increased jury summons for Circuit Court.
(3) Program and participant decrease is due to elimination of unprofitable programs and change in tracking methods of new software.
(4) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.
(5) Data presented on a calendar year basis (FY2007 and FY2008).
(6) Beginning in FY13, north and south Stafford transit routes have shifted due to new census data.
(7) Ridership decreases are due to road construction in the area, low gas prices, and the opening of the Spotsylvania VRE station.

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	35	33	31	31	31	35	34	34	40	40
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	7	8	8	9	10	11	12	12	14	15
Sheriffs department:										
Patrol units	14	15	15	15	15	16	16	19	20	22
Building inspections:										
Vehicles	7	7	7	7	7	7	6	5	5	5
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	22	22	21	20	20	20	20	20	20	20
Streets (moving lane miles)	189	189	189	189	189	189	189	189	189	189
Traffic signals	61	61	61	61	61	61	60	61	61	56
Waste removal:										
Trucks/vehicles	7	7	8	10	10	7	7	7	7	6
Building maintenance:										
Trucks/vehicles	10	8	10	10	10	10	13	15	16	16
Health and welfare:										
Department of Social Services:										
Vehicles	6	6	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	13	15	13	13	14	14	13	15	15	15
Parks	13	13	17	18	18	18	18	19	19	19
Park acreage	1,015	1,015	1,051	1,055	1,055	1,055	1,057	1,085	1,085	1,085
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	5	5	5	5	5	5	5	5	5	5
School buses	36	36	37	38	37	41	41	42	43	44

Source: Individual City departments.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Fredericksburg, Virginia's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2017

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2017. City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Fredericksburg, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fredericksburg, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Fredericksburg, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2017

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Primary Government:				
Department of Agriculture:				
Pass-through Payments:				
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition	10.561	0010116/0010117	$ 414,500	$ -
Total Department of Agriculture			$ 414,500	$ -
National Endowment for the Arts:				
Pass-through Payments:				
Virginia Commission for the Arts:				
Promotion of the Arts Partnership Agreements	45.025	16-16100-2049	$ 5,000	$ -
Total National Endowment for the Arts			$ 5,000	$ -
Department of Housing and Urban Development:				
Direct Payments:				
Community Development Block Grant/Entitlement Grants	14.218	N/A	$ 117,851	$ 41,776
Total Department of Housing and Urban Development			$ 117,851	$ 41,776
Department of Justice:				
Direct Payments:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	$ 15,856	$ -
Pass-through Payments:				
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	CJS86015	63,481	-
Total Department of Justice			$ 79,337	$ -
Department of Transportation:				
Direct Payments:				
Federal Transit - Formula Grants	20.507	N/A	$ 2,749,516	$ -
Pass-through Payments:				
Virginia Department of Transportation:				
Highway Planning and Construction	20.205	105210/100451	$ 353,719	$ -
Formula Grants for Rural Areas	20.509	42516-06	136,089	-
Total Federal Transit Formula Grants			$ 3,239,324	$ -
Virginia Department of Motor Vehicles:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	60507-56219/57200	$ 11,413	$ -
National Priority Safety Programs	20.616	60507-57265	8,426	-
Total Highway Safety Cluster			$ 19,839	$ -
Total Department of Transportation			$ 3,259,163	$ -

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Primary Government: (continued)				
Department of Health and Human Services:				
Pass-through Payments:				
Department of Social Services:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760116/0760117	$ 50,151	$ -
Promoting Safe and Stable Families	93.556	0950115/0950116	20,903	-
Temporary Assistance for Needy Families	93.558	0400116/0400117	277,341	-
Refugee and Entrant Assistance State Administered Programs	93.566	0500116/0500117	21,294	-
Low-Income Home Energy Assistance	93.568	0600416/0600417	31,103	-
Chafee Education and Training Vouchers Program	93.599	9160115/9160116	1,018	-
Adoption and Legal Guardianship Incentive Payments	93.603	1130114/1130115	2,343	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	900116	315	-
Foster Care - Title IV-E	93.658	1100116/1100117	325,561	-
Adoption Assistance	93.659	1120116/1120117	585,547	-
Social Services Block Grant	93.667	1000116/1000117	253,511	-
Chafee Foster Care Independence Program	93.674	9150116/9150117	3,209	-
Children's Health Insurance Program	93.767	0540116/0540117	19,518	-
Medical Assistance Program	93.778	1200116/1200117	568,576	-
Total Department of Health and Human Services			$ 2,160,390	$ -
Department of Homeland Security:				
Pass-through Payments:				
Department of Emergency Services:				
Emergency Management Performance Grants	97.042	DEM6274500	$ 10,680	$ -
Total Department of Homeland Security			$ 10,680	$ -
Total Expenditures of Federal Awards - Primary Government			$ 6,046,921	$ 41,776
Component Unit - School Board:				
Department of Agriculture:				
Pass-through Payments:				
Department of Agriculture:				
Child Nutrition Cluster:				
Food Distribution Service	10.555	2017IN109941/ 201616N109941	$ 137,595	$ -
Virginia Department of Education:				
National School Lunch Program (SL-4) (SL-11)	10.555	2017IN109941/ 201616N109941	1,122,637	-
Total 10.555			$ 1,260,232	$ -
School Breakfast Program	10.553	2017IN109941/ 201616N109941	$ 365,463	$ -
Total Child Nurtition Cluster			$ 1,625,695	$ -
Total Department of Agriculture			$ 1,625,695	$ -
Department of Health and Human Services:				
Direct Payments:				
Head Start	93.600	N/A	$ 1,128,305	$ -
Total Department of Health and Human Services			$ 1,128,305	$ -

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2017 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
Component Unit - School Board: (continued)				
Department of Education:				
Pass-through Payments:				
Virginia Council on Higher Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	PS334S140027	$ 55,613	$ -
Virginia Department of Education:				
Title I Grants to Local Educational Agencies	84.010	S010A150046/ S010A160046	1,019,135	-
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	H027A150107/ H027A160107	$ 752,635	$ -
Special Education - Preschool Grants	84.173	H173A150112/ H173A140112	16,177	-
Total Special Education Cluster (IDEA)			$ 768,812	$ -
English Language Acquisition State Grants	84.365	S365A150046/ S365A160046	34,595	-
Career and Technical Education - Basic Grants to States	84.048	V048A150046/ V048A160046	55,873	-
Supporting Effective Instruction State Grant	84.367	S367A160044	123,110	-
Total Department of Education			$ 2,057,138	$ -
Total Expenditures of Federal Awards - Component Unit School Board			$ 4,811,138	$ -
Total Expenditures of Federal Awards - Reporting Entity			$ 10,858,059	$ 41,776

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

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Fredericksburg, Virginia under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

(3) The City did not elect to use the 10% de minimus indirect cost rate.

Note 3 - 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	$	89,337
Special Revenue Funds:		
Virginia Public Assistance Fund		2,413,390
Children's Services Act Fund		72,162
State, Federal, and Local Grants Fund		232,708
Capital Projects Funds:		
Public Works Construction Fund		340,000
Public Facilities Construction Fund		13,719
Proprietary Funds:		
Transit Fund		2,885,605
Wastewater Fund		57,414
Total Primary Government	$	6,104,335
Component Unit School Board:		
School Operating Fund	$	55,613
Special School Fund		4,755,525
Total Component Unit School Board	$	4,811,138
Less:		
Build America Bonds Interest Subsidy	$	(57,414)
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	$	10,858,059

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.555/10.553	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

There were no prior year findings.