FREDERICKSBURG, VIRGINIA

Comprehensive Annual Financial Report . . .

. . . for fiscal year ended _____

JUNE 30, 2011

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011

CITY OF FREDERICKSBURG, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011

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Beverly R. Cameron
City Manager

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

October 10, 2011

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Fredericksburg, Virginia (the "City") for the fiscal year ended June 30, 2011.

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

The City's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2011, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is less than an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 24,286.

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

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

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

Higher education opportunities within the City are offered at the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, coeducational residential university with an enrollment of approximately 4,300 undergraduate students. The university offers over 40 different majors and programs of study as well as several different Master's degree programs.

Economic Condition and Outlook

The dramatic national economic downturn, in conjunction with regional competition in the form of increased retail shopping and dining opportunities in neighboring counties, has applied tremendous pressures on City resources in recent years; however, positive trends in the local economy have manifested themselves in the form of higher than expected revenue during fiscal year 2011.

Economic Condition and Outlook: (Continued)

A continuation of this favorable trend may enable the City to begin a slow process of re-investing in deferred maintenance and capital spending; nevertheless, in light of the ongoing economic problems associated with continued high unemployment, a depressed housing market, and concerns over the ever-growing national debt, the City continues to maintain a conservative posture regarding cost containment while closely monitoring revenues from local and governmental tax sources.

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, which started in 1995, is the primary retail and dining component of the City and houses 2.5 million square feet of national big-box stores, restaurants, and smaller local businesses. Celebrate Virginia South, home to several hotels and the Fredericksburg Expo and Conference Center, holds the greatest opportunity for economic expansion as numerous hotels and an indoor water park are planned within the next couple years. Once online, it is anticipated these new commercial developments will provide the City much needed revenue growth in property taxes and various local taxes.

Another opportunity for economic growth rests with the University of Mary Washington Foundation's Eagle Village development project. Phase I of this four-phase, mixed-use project has been completed and includes 34,000 square feet of office space and 30,000 square feet of retail and dining.

The City's nationally recognized 40-block Historic District is a significant component of the local economy. The "Old Town" District, with its historical attractions, antique shops, a variety of charming restaurants, specialty retail shops and beautifully restore homes, is an attractive tourist destination. Even through tough economic times, tourists continued to flock to the Fredericksburg region. Money spent by tourists on such items as lodging, transportation, meals, entertainment, and retail shopping grew 8.5% during 2011. It is anticipated this trend will continue as the Fredericksburg region begins its sesquicentennial celebration of the major Civil War battles fought in and around the City of Fredericksburg.

Major Initiatives

During fiscal year 2011 the City continued to maintained its capacity to provide a high level of service to its residents in the form of major capital initiatives. The following narrative highlights the primary projects worked on during fiscal year 2011 as well as the major projects planned over the next several years.

The engineering phase for several transportation projects began during the 2011 fiscal year. The majority of these projects involve updating traffic signal equipment and optimizing the operation of several traffic signals along the Route 3 and Route 1 corridors as well as the replacement of a span wire traffic signal with a mast arm signal at the intersection of William and Sophia Streets. The primary transportation project is the replacement of the Fall Hill Avenue bridge over the Rappahannock Canal. This project involves increasing the bridge's load capacity while providing a connection point between the Rappahannock Canal bicycle and walking path with the proposed Rappahannock River Heritage Trail.

Major Initiatives: (Continued)

Implementation of the City's comprehensive bicycle/foot trail plan, Fredericksburg Pathways, continued during fiscal year 2011. Fredericksburg Pathways is designed to improve the overall transportation system in and around the Fredericksburg area by developing a network of routes for bicycle and pedestrian traffic. These routes will reduce traffic congestion by providing non-motorized transportation and recreation connections between neighborhoods, shopping areas, and popular destinations. The engineering and design phase for two components of Fredericksburg Pathways, the Virginia Central Railway Trail and the Rappahannock River Heritage Trail, was completed during the fiscal year. It is anticipated that the construction phase of these two trails will begin during fiscal year 2012.

The City is proposing a consolidated full service court system. The current court system, comprised of three buildings located at various locations along Princess Anne Street, is deficient in space, inefficient in layout, and in need of extensive renovation. Preliminary architectural studies have identified possible downtown locations, with varying cost ranges, for a new court building which would accommodate the City's desire to consolidate its court system. A timetable for the completion of this project has not yet been established. This project will be one of the most ambitious capital endeavors in the City's history and additional planning will be required before construction can begin.

Budgetary Control

The annual budget serves as the foundation for the City's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of the current fiscal year. After a required public hearing on the budget is held, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable. City Council must approve all budget revisions once the appropriation ordinance has been adopted. The annual budgets are prepared for all governmental funds, except for the Central Park Special Tax District Fund and the Fall Hill Special Tax District Fund, and they are prepared by fund and department (e.g., police). All appropriations lapse at year-end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented in Exhibit 13. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in Exhibit 24.

Financial Management Policy

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. A description of the new fund balance classifications can be found in Note 1 in the Notes to Basic Financial Statements section of this report.

Financial Management Policy: (Continued)

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

Long-Term Financial Planning

The City's Capital Improvements Plan is used as a tool to project future capital and financing needs over a five year period. The current Capital Improvements Plan calls for several major capital projects over the next several years with the primary project being the construction of a $35,000,000 courts complex. The City plans to finance this project through the issuance of $38,700,000 in general obligation debt during fiscal year 2012, with $3,700,000 being used towards refunding existing debt. Planned for fiscal year 2015 is a $4,000,000 renovation of the Renwick building, which currently houses the circuit court, a $13,000,000 school maintenance program, and a $1,000,000 bridge replacement at Alum Springs Park. The City plans to borrow the $18,000,000 needed to finance these projects. For fiscal year 2017 the City is planning several utility system enhancements at a cost of $10,000,000, a new $5,000,000 fire station in Celebrate Virginia, $2,000,000 for further development of the Riverfront Park, and $3,000,000 for improvements to the Rappahannock Regional Library. A bond issue of $20,000,000 is planned in 2017 to finance these projects.

Cash Management Policies and Practices

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

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

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

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

Pension and Other Post-Employment Benefits

The City and Component Unit School Board participate in the Virginia Retirement System defined benefit pension plan. A description of the plan can be found in Note 11 in the Notes to Basic Financial Statements section of this report.

The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. Related to these post-employment benefits, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The purpose of the Statement is to require the accrual and reporting of liabilities for the actuarially determined health insurance premiums the City will be paying for retirees. The City implemented GASB Statement No. 45 effective fiscal year 2009. A description of the City's post-employment benefits program can be found in Note 18 in the Notes to Basic Financial Statements section of this report.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This was the twenty-first consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements

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

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

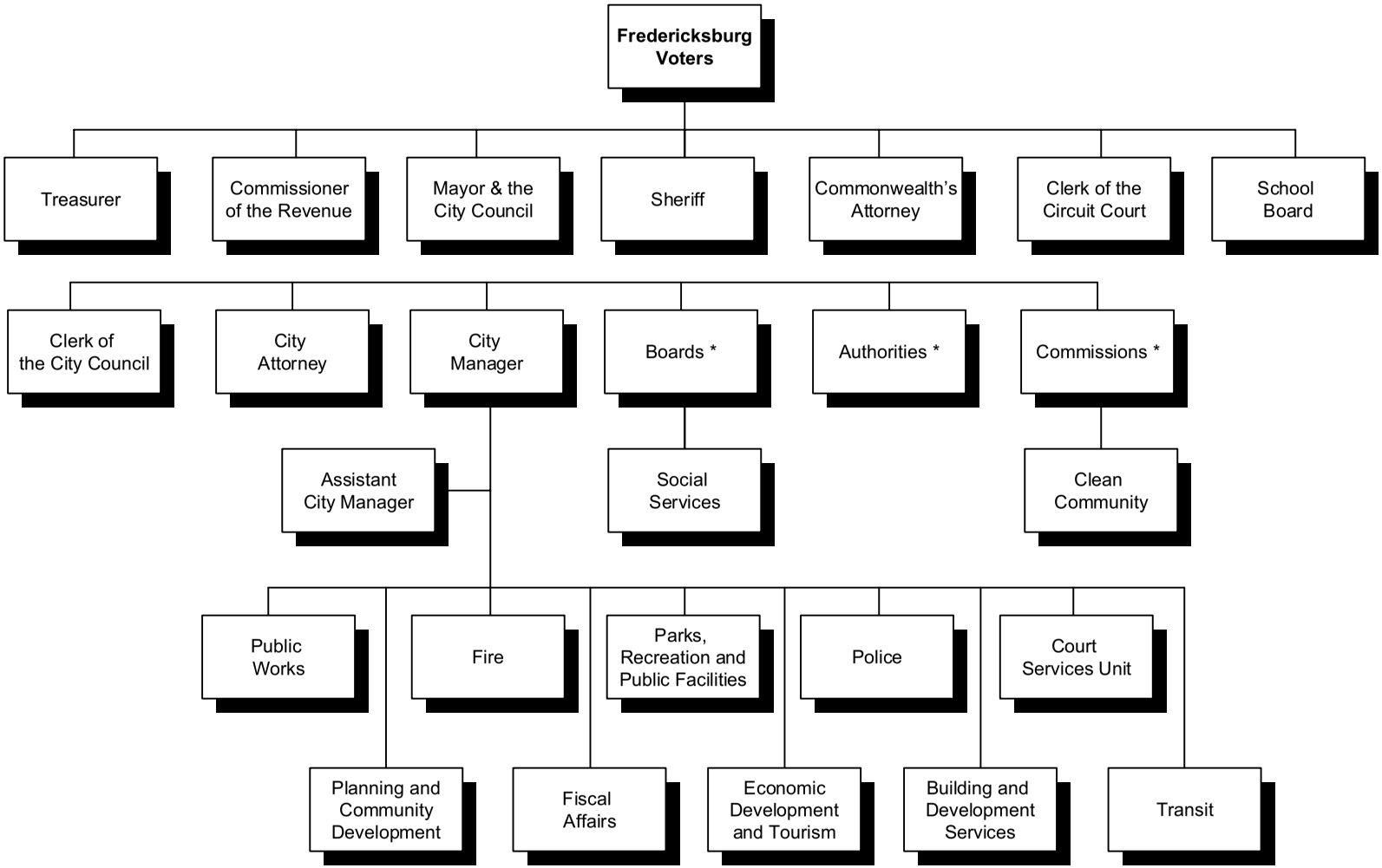
Sincerely,

Beverly R. Cameron
City Manager

Clarence A. Robinson
Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



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

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CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2011

CITY COUNCIL

Thomas J. Tomzak, M.D. ..... Mayor – At Large
Mary Katherine Greenlaw ..... Vice Mayor – At Large
Kerry P. Devine ..... At Large
Bradford C. Ellis ..... Ward 1
George C. Solley ..... Ward 2
Frederic N. Howe, III ..... Ward 3
Beatrice R. Paolucci ..... Ward 4

CONSTITUTIONAL OFFICERS

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

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

Patricia B. Green ..... Chairperson – Ward 1
Jarvis E. Bailey ..... Vice Chairperson – At Large
Michael J. Gillenwater ..... At Large
Barbara A. Miller-Richards ..... Ward 2
Jannan W. Holmes ..... Ward 3
Malvina Rollins Kay ..... Ward 4

SCHOOL BOARD ADMINISTRATIVE OFFICER

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

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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, 2010

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

President

Executive Director

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City of Fredericksburg, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fredericksburg, Virginia's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City of Fredericksburg, Virginia adopted the provisions of *GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions,* effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedule of funding progress 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 management's discussion and analysis and schedule of funding progress 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fredericksburg, Virginia's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
October 10, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- Total net assets for governmental activities were $103,568,981 at the end of fiscal year 2011. This figure is based on assets totaling $174,245,529 and liabilities of $70,676,548. Of the total net asset amount, $23,055,185 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

- Total net assets for business-type activities were $56,023,790 at the end of fiscal year 2011. The largest portion of this total is related to the water and sewer enterprise operations, valued at $38,984,387.

- Total net assets for the primary government totaled $159,592,771. Current assets were $59,648,027 as compared to total current liabilities of $17,895,368. The resulting net working capital of $41,752,659 represents a favorable liquidity position for the City.

- Total net assets for the Component Unit School Board at the end of the fiscal year were $17,774,298. Of this total, $15,614,190 represents investment in capital assets, net of related debt.

- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was $13,662,911, or 21.6% of total General Fund expenditures which totaled $63,311,781.

- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2011 unassigned General Fund balance was 18.9% of the fiscal year 2010 General Fund revenue total of $72,210,456.

- General Fund revenues increased 2.9% as compared to the preceding fiscal year. This represents an increase from the 2.4% revenue growth experienced in fiscal year 2010.

- General Fund expenditures for fiscal year 2011 decreased a modest $138,178 as compared to the fiscal year 2010 expenditure total.

- Governmental activities general obligation bond debt decreased by $3,127,831. The balance at the end of the fiscal year was $55,195,626. Of this amount, $41,405,000 is related to the construction of school facilities. Business-type activities general obligation and revenue bond debt decreased by $1,998,889. The City did not issue any new debt during fiscal year 2011.

Overview of the Financial Statements

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

Overview of the Financial Statements: (Continued)

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

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

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

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

The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include a Water Fund, a Sewer Fund, a Transit Fund, and a Parking Garage Fund.

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

The government-wide financial statements can be found on pages 19-21 of this report.

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

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

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

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

Overview of the Financial Statements: (Continued)

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

The basic governmental fund financial statements can be found on pages 25-28 of this report.

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

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

The basic proprietary fund financial statement can be found on pages 29-31 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 32 and 33 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 37-77 of this report.

Government-wide Financial Analysis

Statement of Net Assets:

Under GASB 34, governmental entities are required to report on their net asset condition. The Statement of Net Assets presents the value of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets exceeded liabilities by $159,592,771 at the close of fiscal year 2011.

A large portion of the City's net assets, $120,064,210 or 75.2%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The $39,528,561 balance of *unrestricted net assets* may be used to meet the City's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis: (Continued)

Statement of Net Assets: (Continued)

The following table presents the condensed Statement of Net Assets:

TABLE 1
Summary of Net Assets
As of June 30, 2011
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Assets:								
Current and other assets	$ 38.05	$ 34.81	$ 21.60	$ 20.66	$ 59.65	$ 55.47	$ 9.20	$ 7.39
Capital assets	136.20	141.30	60.39	61.05	196.59	202.35	15.61	15.13
Total assets	$ 174.25	$ 176.11	$ 81.99	$ 81.71	$ 256.24	$ 257.82	$ 24.81	$ 22.52
Liabilities:								
Current and other liabilities	$ 11.92	$ 11.35	$ 5.97	$ 6.91	$ 17.89	$ 18.26	$ 4.29	$ 4.15
Long-term liabilities	58.76	61.05	20.00	22.00	78.76	83.05	1.39	1.16
Total Liabilities	$ 70.68	$ 72.40	$ 25.97	$ 28.91	$ 96.65	$ 101.31	$ 5.68	$ 5.31
Net assets:								
Invested in capital assets, net of related debt	$ 80.51	$ 81.67	$ 39.55	$ 39.78	$ 120.06	$ 121.45	$ 15.61	$ 15.13
Unrestricted	23.06	22.04	16.47	13.02	39.53	35.06	3.52	2.08
Total net assets	$ 103.57	$ 103.71	$ 56.02	$ 52.80	$ 159.59	$ 156.51	$ 19.13	$ 17.21

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

Changes in Net Assets:

Governmental Activities

The net assets of the governmental activities decreased by $138,598 as compared to the $849,930 decrease in the previous fiscal year and resulted in a total net assets position of $103,568,981. This modest reduction represents the moderation of a trend noted in prior years where limited growth, or in some cases, negative growth, in such general revenue sources as sales tax, business license tax, and meals tax has not kept pace with the increase in costs in such areas as personnel, school board operations, and debt service. Governmental activities revenues increased $1,007,624 or 1.3% during fiscal year 2011 with general property taxes increasing $1,302,764 or 4.3% as compared to fiscal year 2010. Revenues from local sources exhibited only a slight increase of $306,499 during the fiscal year; however, this represents the first time since fiscal year 2008 that these revenues have demonstrated a year-over-year increase. Nevertheless, with the nation's economic recovery remaining uncertain, the City continued to maintain a conservative position in its spending as governmental activities expenses decreased $222,912 during the fiscal year.

Business-type Activities

The net assets of the business-type activities increased $3,220,459 to a total net asset position of $56,023,790. Much of this increase took place in the Water, Sewer, and Transit Funds as net assets grew $901,520, $1,263,682, and $939,833, respectively. Pacing the increase in the Water and Sewer Funds was a rise in residential development and the corresponding positive impact to availability and connection fees, which increased $645,328 and $1,551,178, respectively. The Water Fund net assets position also improved as operating expenditures decreased $346,424 or 12.4% as compared to fiscal year 2010. In the Sewer Fund, operating expenses grew $668,395 as depreciation expense was recorded for several recently completed capital projects.

Changes in Net Assets: (Continued)

Business-type Activities: (Continued)

Overall, the Water and Sewer Funds have experienced an eroding net asset position the past few years. Rate increases along with reductions in the day-to-day operating expenses have provided some help in stabilizing the financial position of these funds. However, with ongoing needs for capital improvements and ever growing pressures to control operating expenses, future rate increases as well as an operational restructuring of these utilities may be needed.

The Transit Fund net asset position increased as $870,726 of federal and state capital grants were received during fiscal year 2011 for the purchase of land and buildings for a new training and maintenance facility.

Component Units

The net assets of the School Board were $17,774,298. Capital assets, net of related debt, comprised the majority of this amount.

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

TABLE 2
Changes in Net Assets
For the Fiscal Year ended June 30, 2011
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Revenues:								
Program Revenues:								
Charges for services	$ 3.64	$ 3.32	$ 6.68	$ 6.47	$ 10.32	$ 9.79	$ 1.11	$ 0.84
Operating grants and contributions	10.16	10.07	6.62	5.27	16.78	15.34	37.61	37.19
Capital grants and contributions	0.84	1.75	0.87	0.93	1.71	2.68	-	0.06
General Revenues:								
Property taxes	31.25	29.95	-	-	31.25	29.95	-	-
Other local taxes	30.29	29.99	0.77	0.32	31.06	30.31	0.07	0.08
Grants not restricted	3.91	3.81	-	-	3.91	3.81	-	-
Use of property	0.16	0.13	-	-	0.16	0.13	-	-
Investment earnings	0.28	0.41	0.07	0.12	0.35	0.53	0.02	0.02
Miscellaneous	0.29	0.39	0.45	0.51	0.74	0.90	0.08	0.24
Total Revenues	$ 80.82	$ 79.82	$ 15.46	$ 13.62	$ 96.28	$ 93.44	$ 38.89	$ 38.43
Expenses:								
General government	$ 5.41	$ 5.17	$ -	$ -	$ 5.41	$ 5.17	$ -	$ -
Judicial administration	3.61	3.85	-	-	3.61	3.85	-	-
Public safety	19.94	20.20	-	-	19.94	20.20	-	-
Public works	10.71	10.97	-	-	10.71	10.97	-	-
Health and welfare	6.80	6.72	-	-	6.80	6.72	-	-
Education	26.38	26.23	-	-	26.38	26.23	36.74	37.78
Parks, recreation, and cultural	4.03	3.94	-	-	4.03	3.94	-	-
Community development	1.93	1.82	-	-	1.93	1.82	0.23	0.18
Interest	2.54	2.67	-	-	2.54	2.67	-	-
Water	-	-	2.52	2.88	2.52	2.88	-	-
Sewer	-	-	4.98	4.16	4.98	4.16	-	-
Transit	-	-	3.89	3.60	3.89	3.60	-	-
Parking	-	-	0.46	0.53	0.46	0.53	-	-
Total Expenses	$ 81.35	$ 81.57	$ 11.85	$ 11.17	$ 93.20	$ 92.74	$ 36.97	$ 37.96
Excess (deficiency) of revenues over expenses before transfers	$ (0.53)	$ (1.75)	$ 3.61	$ 2.45	$ 3.08	$ 0.70	$ 1.92	$ 0.47
Transfers	0.39	0.90	(0.39)	(0.90)	-	-	-	-
Change in net assets	$ (0.14)	$ (0.85)	$ 3.22	$ 1.55	$ 3.08	$ 0.70	$ 1.92	$ 0.47

Financial Analysis of the City's Governmental Funds

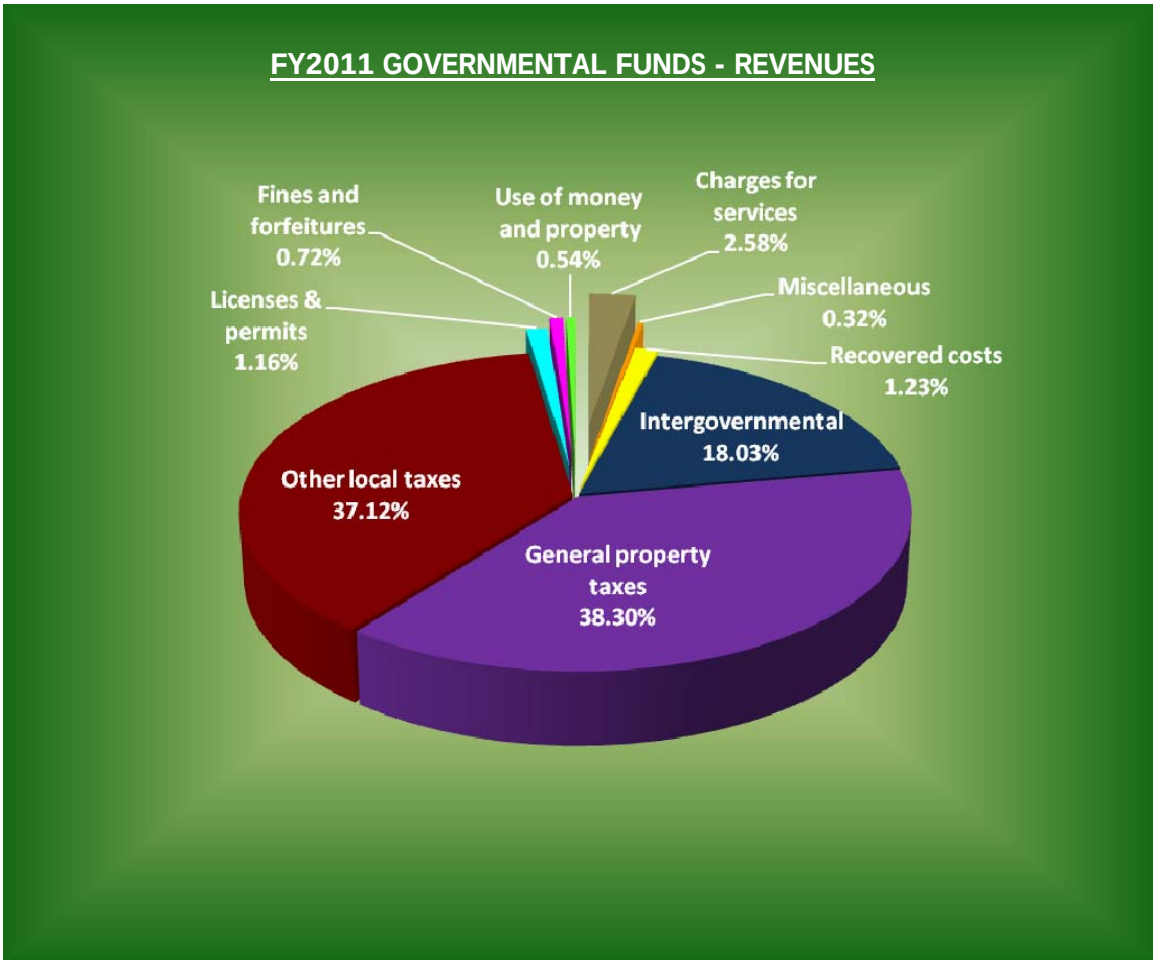
The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2011 and 2010 is presented below:

TABLE 3
Governmental Funds - Revenues

	FY 2011	FY 2010	Percentage of Total Revenues FY 2011	Increase (Decrease) from FY 2010
General property taxes	$ 31,240,415	$ 29,903,318	38.30%	$ 1,337,097
Other local taxes	30,285,024	29,978,525	37.12%	306,499
Licenses and permits	945,035	822,476	1.16%	122,559
Fines and forfeitures	586,421	344,897	0.72%	241,524
Use of money and property	441,779	537,035	0.54%	(95,256)
Charges for services	2,104,997	2,153,238	2.58%	(48,241)
Miscellaneous	257,448	391,890	0.32%	(134,442)
Recovered costs	1,004,106	1,256,605	1.23%	(252,499)
Intergovernmental	14,712,214	14,576,412	18.03%	135,802
Totals	$ 81,577,439	$ 79,964,396	100.00%	$ 1,613,043



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

Revenues: (Continued)

The City's total revenues from governmental activities were $81,577,439 in fiscal year 2011, an increase of $1,613,043 as compared to fiscal year 2010. A significant portion of the increase occurred as general property tax revenue rose $1,337,097 or 4.5%. The growth in general property taxes occurred as personal property taxes increased $991,117 or 17.3% in response to higher assessment values related to the City's growing commercial development and the realization of a full fiscal year of collection activity under a tax rate increase from $2.99 to $3.40, which become effective January 1, 2010. The percentage of general property taxes as a share of governmental revenue, particularly in the General Fund, has been rising as other revenues, most notably sales tax and other local taxes, have generally flattened out the last few years. The rate increase was significant in counter-acting the negative budgetary impacts of stagnant local revenues experienced in prior fiscal years.

Another positive impact on governmental revenues was the encouraging performance in other local tax revenues. This revenue source, which in recent years has accounted for approximately 38% of total governmental revenues, showed an overall increase for the first time since in several years. The impact of this increase was felt greatest in the General Fund where 99.7% of these revenues were accounted for during fiscal year 2011.

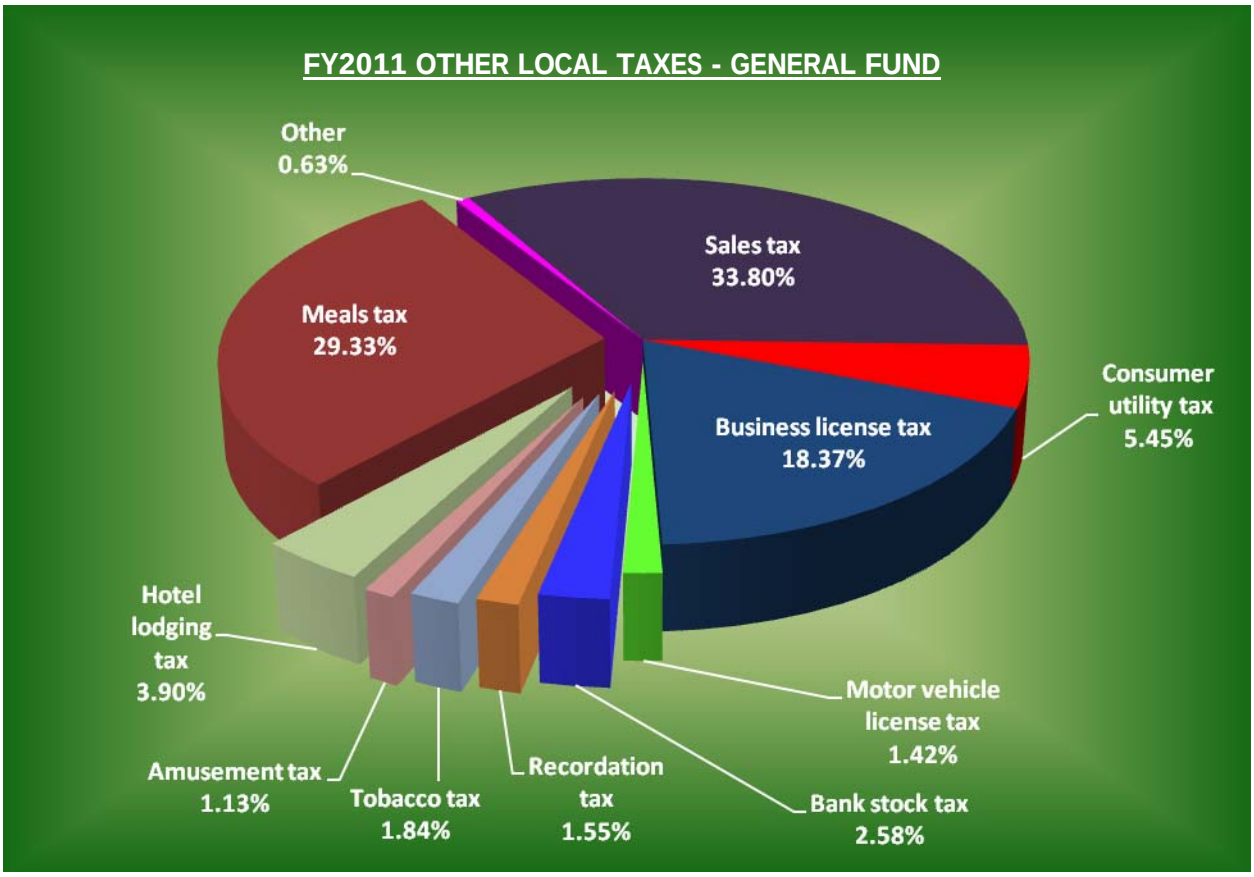
Revenue from the use of money and property continued a downward trend which began with the 2008 economic decline. As interest rates and investment returns remained at historically low levels, this revenue source experienced a decrease of $95,256 during fiscal year 2011, with the greatest impact occurring in the General Fund and the Public Works, Public Facilities, and Public Safety capital projects funds.

Other local tax revenue continues to be the most significant source of revenues supporting governmental activities. The following table reflects other local tax revenues for the General Fund for fiscal years 2011 and 2010:

TABLE 4
Other Local Taxes - General Fund

	FY 2011	FY 2010	Percentage of Total Revenues FY 2011	Increase (Decrease) from FY 2010
Sales and use tax	$ 10,191,895	$ 10,043,091	33.80%	$ 148,804
Consumer utility tax	1,644,628	1,677,699	5.45%	(33,071)
Business license tax	5,538,312	5,893,072	18.37%	(354,760)
Motor vehicle license tax	429,626	375,553	1.42%	54,073
Bank stock tax	777,521	758,805	2.58%	18,716
Recordation tax	468,241	406,123	1.55%	62,118
Tobacco tax	554,701	503,322	1.84%	51,379
Amusement tax	341,693	319,137	1.13%	22,556
Hotel lodging tax	1,175,244	1,084,542	3.90%	90,702
Meals tax	8,842,347	8,132,542	29.33%	709,805
Other	188,898	294,534	0.63%	(105,636)
Totals	$ 30,153,106	$ 29,488,420	100.00%	$ 664,686

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



In recent years various sources of local tax revenue have experienced a flattening, or in some cases, a declining growth rate. A slight reversal of this trend occurred during fiscal year 2011 as other local taxes increased $664,686 or 2.2%. This was the first increase in other local taxes in several years with a vast majority of the tax sources enjoying a favorable variance as compared to fiscal year 2010. The primary contributor for the increase was meals tax, which rose 8.7% during the fiscal year.

Expenditures:

Expenditures for governmental funds in fiscal year 2011 totaled $79,605,793, a decrease of $2,241,984 from the preceding year. This is a continuation of a trend which started in fiscal year 2008 to reduce overall expenditures in response to the economic downturn and the resulting decrease in revenues. The largest decrease occurred in the public safety and capital projects areas with a reduction in total expenditures of $511,312 and $2,116,722, respectively. The most significant change in public safety expenditures was a $408,852 reduction to the City's share for the operation of regional correction and detention facilities, which is accounted for in the General Fund.

The most notable decreases in capital projects took place in the Public Facilities and Public Safety capital funds with expenditure reductions of $529,368 and $1,166,688, respectively. The decrease to the Public Facilities capital fund is related to a major HVAC retrofit project that was completed during fiscal year 2010. The decrease to the Public Safety capital fund expenditures is attributable to the City's fiscal year 2010 efforts related to the purchase of a new fire truck and two new ambulances totaling $1,210,350.

Excluding the decrease in the public safety and capital projects functional areas discussed above, only minor increases or decreases in expenditure activity occurred in the functional areas within the General Fund and Special Revenue Funds during fiscal year 2011.

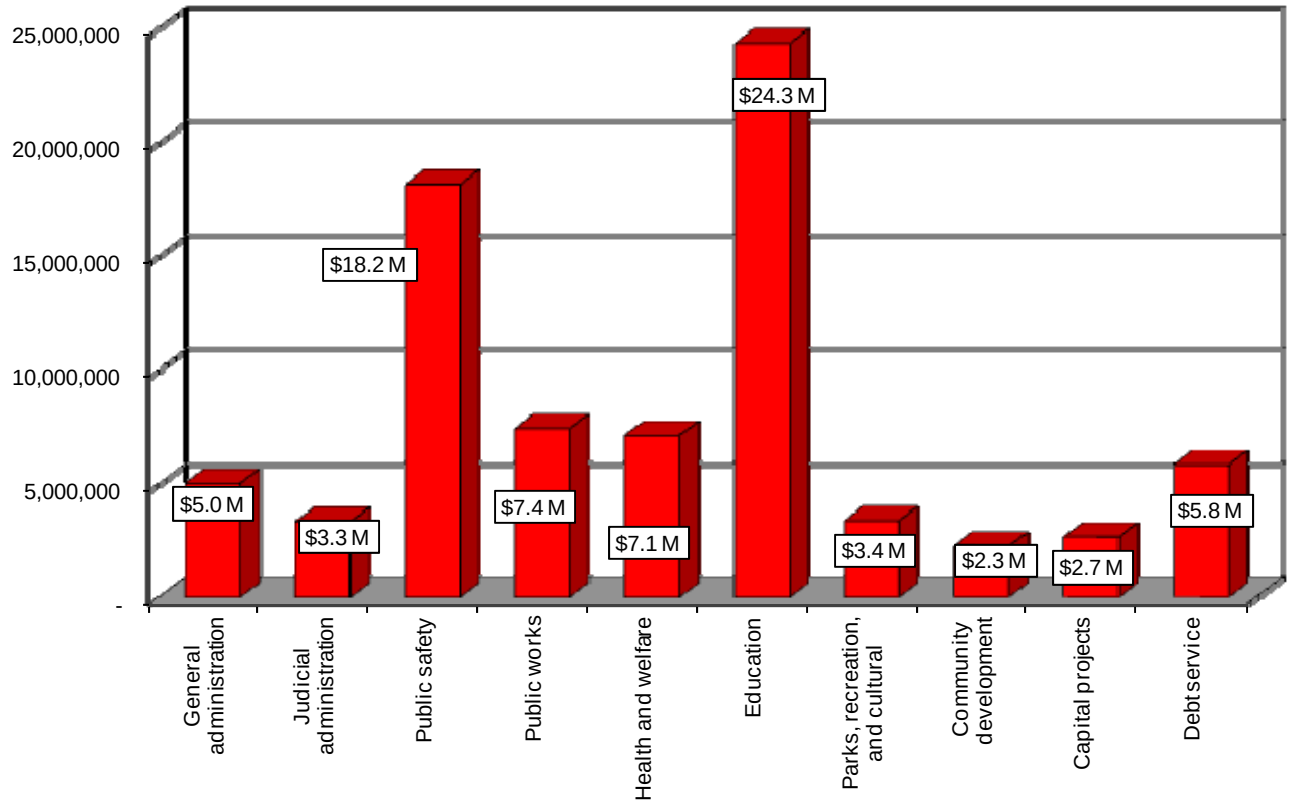
Financial Analysis of the City's Governmental Funds: (Continued)

Expenditures: (Continued)

TABLE 5
Governmental Funds - Expenditures

	FY 2011	FY 2010	Percentage of Total Expenditures FY 2011	Increase (Decrease) from FY 2010
General administration	$ 5,034,113	$ 4,785,487	6.32%	$ 248,626
Judicial administration	3,347,017	3,326,241	4.20%	20,776
Public safety	18,154,890	18,666,202	22.81%	(511,312)
Public works	7,430,631	7,648,942	9.33%	(218,311)
Health and welfare	7,136,173	7,004,337	8.97%	131,836
Education	24,343,841	24,143,850	30.58%	199,991
Parks, recreation, and cultural	3,389,943	3,441,368	4.26%	(51,425)
Community development	2,255,173	2,168,755	2.83%	86,418
Capital projects	2,675,390	4,792,112	3.36%	(2,116,722)
Debt service	5,838,622	5,870,483	7.34%	(31,861)
Totals	$ 79,605,793	$ 81,847,777	100.00%	$ (2,241,984)

FY 2011 GOVERNMENTAL FUNDS - EXPENDITURES



General Fund Budgetary Highlights

Over the course of fiscal year 2011, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

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

Total final budgeted expenditures increased $249,473 for fiscal year 2011. Total final budgeted revenues increased $3,399,837 for fiscal year 2011.

Actual General Fund expenditures were $63,311,781 versus the final budgeted expenditures totaling $65,354,757. This resulted in a favorable variance of $2,042,976. All functional areas had a favorable variance, with general government administration, public safety, and public works experiencing the most significant variance of $586,994, $432,824 and $498,931, respectively.

Actual General Fund revenues were $74,311,179 compared to final budgeted revenues totaling $73,457,315. This resulted in a favorable variance of $853,864. The majority of the variance occurred with general property taxes and other local taxes, which had favorable variances of $426,565 and $385,006, respectively. Revenue from the use of money and property had an unfavorable variance of $132,454 as earnings rates on money market and other investments remained at record low levels.

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, 2010	Net Additions/ Deletions	Balance June 30, 2011
Capital assets not being depreciated:			
Land	$ 18,240,108	$ 270,809	$ 18,510,917
Construction in progress	787,776	721,975	1,509,751
Other capital assets:			
Land improvements	9,490,965	60,538	9,551,503
Buildings and building improvements	30,690,344	270,760	30,961,104
Joint tenancy assets	42,665,000	(1,260,000)	41,405,000
Machinery, equipment, and vehicles	14,472,080	686,902	15,158,982
Infrastructure	72,438,419	93,657	72,532,076
Accumulated depreciation	(47,494,241)	(5,937,245)	(53,431,486)
Totals	$ 141,290,451	$ (5,092,604)	$ 136,197,847

Capital Asset and Debt Administration: (Continued)

Capital Assets: (Continued)

The net decrease in capital assets during the fiscal year was $5,092,604. In recent years, major additions to capital projects were linked to the completion of two new schools, a park with several athletic fields, an outdoor leisure pool, a downtown parking garage, and a new police headquarters building. This vigorous capital asset activity has slowed the past couple fiscal years in response to budget constraints dictated by the unfavorable economic environment. Many capital projects have been deferred until a turnaround in the economy occurs. Generally, capital asset activity decreased as asset dispositions and depreciation were greater than the additions made to furniture, equipment and vehicles, and infrastructure.

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

Long-term Debt

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

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2011 the City's outstanding long-term indebtedness amount totaled $76,530,741. After adjustments to reflect the revenue bonded debt of 2,638,594, the remaining total bonded debt of $73,892,147 is far below the legal debt limit of $211,856,637.

The table below shows a summary of all bonded debt activity during the 2011 fiscal year and the total City debt outstanding:

TABLE 7
Long Term Debt
As of June 30, 2011

	Governmental Activities		Business-type Activities		Total	
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
Bonds Payable:						
General obligation bonds	$ 13,790,626	$ 15,658,457	$ 18,696,521	$ 19,700,689	$ 32,487,147	$ 35,359,146
General obligation school bonds	41,405,000	42,665,000	-	-	41,405,000	42,665,000
Revenue bonds	-	-	2,638,594	3,633,315	2,638,594	3,633,315
Total long-term debt	$ 55,195,626	$ 58,323,457	$ 21,335,115	$ 23,334,004	$ 76,530,741	$ 81,657,461

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

Economic Factors

The City government continues to maintain a reasonably stable financial condition as established by the financial statements and schedules in this report. In recent years the City has been faced with immense budgetary challenges as revenues declined in response to deteriorating economic conditions and expanding regional competition in commercial retail development in neighboring localities. A considerable reduction in expenditures over the past several years has helped to neutralize the budgetary impacts of diminishing revenues. However, beginning in fiscal year 2010 and continuing during fiscal year 2011, revenues have experienced a moderate upward trend. This is mostly attributable to the City's diverse economic foundation and the development and expansion of major commercial centers.

A potential source for future economic growth opportunities and community revitalization continues to center around the 2,400 acre mega-development known as Celebrate Virginia and its primary retail shopping and dining component, Central Park. Started in 1995, Central Park now includes 2.2 million square feet of leased retail space housing many national big-box stores, restaurants, and smaller local businesses. Opportunities for growth related revenues such as property taxes and various local taxes are anticipated as Celebrate Virginia continues to develop. Possible major additions include numerous hotels and an indoor water park resort. The 125,000 square-foot indoor water park, to be built next to the Fredericksburg Expo and Conference Center, will include approximately 700 guest rooms, 100,000 square feet of conference and event space, and numerous recreational attractions to include water slides, roller coasters, miniature golf, and go-carts. The resort is estimated to create more than 1,900 jobs.

Another source for future economic growth is the University of Mary Washington Foundation's Eagle Village development project. This project will be developed over four phases and centers around the redevelopment of a 1960's-era strip shopping center. The Foundation recently completed the $115 million Phase I of the Eagle Village mixed-use project. This phase includes 30,000 square feet of retail, 34,000 square feet of Class A office, a 550-space parking garage, and a 624-bed student apartment complex.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Assets
At June 30, 2011

ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units: School Board	Component Units: Economic Development Authority
Assets:					
Cash and cash equivalents	$ 32,596,609	$ 16,540,183	$ 49,136,792	$ 6,258,049	$ 1,345,497
Receivables, net of allowance for uncollectibles	1,304,456	1,271,653	2,576,109	15,550	-
Due from other governments	4,102,006	2,994,809	7,096,815	1,401,493	-
Inventory, at cost	32,284	168,022	200,306	-	-
Prepaid expenses	12,327	100	12,427	165,139	10,000
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	625,578	625,578	-	-
Capital assets:					
Land, construction in progress and other	20,020,668	2,521,527	22,542,195	497,679	-
Other capital assets, net of accumulated depreciation	116,177,179	57,868,033	174,045,212	15,116,511	-
Capital assets, net	$ 136,197,847	$ 60,389,560	$ 196,587,407	$ 15,614,190	$ -
Total assets	$ 174,245,529	$ 81,989,905	$ 256,235,434	$ 23,454,421	$ 1,355,497
LIABLITIES AND NET ASSETS					
Liabilities:					
Accounts payable	$ 1,799,132	$ 742,288	$ 2,541,420	$ 707,795	$ -
Accrued liabilities	2,298,692	375,730	2,674,422	3,052,778	-
Unearned revenue	1,693,160	2,028,361	3,721,521	-	-
Amounts held for others	1,160,136	-	1,160,136	-	-
Liabilities payable from restricted assets	-	625,578	625,578	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	2,004,129	139,568	2,143,697	529,732	-
Revenue bonds payable	-	1,028,829	1,028,829	-	-
General obligation bonds payable	2,965,779	1,033,986	3,999,765	-	-
Due in more than one year:					
Compensated absences	1,228,337	69,148	1,297,485	488,983	-
Net OPEB obligation payable	3,322,883	311,663	3,634,546	900,835	-
Revenue bonds payable	-	1,609,765	1,609,765	-	-
General obligation bonds payable	53,420,301	18,001,199	71,421,500	-	-
Accrued landfill postclosure costs	783,999	-	783,999	-	-
Total liabilities	$ 70,676,548	$ 25,966,115	$ 96,642,663	$ 5,680,123	$ -
Net Assets:					
Invested in capital assets, net of related debt	$ 80,513,796	$ 39,550,414	$ 120,064,210	$ 15,614,190	$ -
Unrestricted	23,055,185	16,473,376	39,528,561	2,160,108	1,355,497
Total net assets	$ 103,568,981	$ 56,023,790	$ 159,592,771	$ 17,774,298	$ 1,355,497

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2011

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	$ 5,407,587	$ 85,191	$ 255,880	$ -
Judicial administration	3,609,180	219,127	849,072	-
Public safety	19,937,181	2,111,221	1,860,146	-
Public works	10,707,212	733,070	2,458,943	447,854
Health and welfare	6,797,908	-	4,730,036	-
Education	26,383,137	-	-	-
Parks, recreation and cultural	4,031,435	487,368	5,000	189,300
Community development	1,930,369	476	-	204,716
Interest on long-term debt	2,542,424	-	-	-
Total governmental activities	$ 81,346,433	$ 3,636,453	$ 10,159,077	$ 841,870
Business-type activities				
Water	$ 2,523,517	$ 2,344,438	$ 1,080,466	$ -
Sewer	4,975,289	3,821,281	2,476,944	-
Transit	3,887,158	274,395	3,063,853	870,726
Parking	460,950	238,240	-	-
Total business-type activities	$ 11,846,914	$ 6,678,354	$ 6,621,263	$ 870,726
Total Primary Government	$ 93,193,347	$ 10,314,807	$ 16,780,340	$ 1,712,596
Component Units				
Fredericksburg City Public Schools	$ 36,743,922	$ 726,171	$ 12,256,465	$ -
Fredericksburg Economic Development Authority	225,338	384,167	-	-
Total Component Units	$ 36,969,260	$ 1,110,338	$ 12,256,465	$ -

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 assets

Net assets, beginning of year

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (5,066,516)	$ -	$ (5,066,516)	$ -
(2,540,981)	-	(2,540,981)	-
(15,965,814)	-	(15,965,814)	-
(7,067,345)	-	(7,067,345)	-
(2,067,872)	-	(2,067,872)	-
(26,383,137)	-	(26,383,137)	-
(3,349,767)	-	(3,349,767)	-
(1,725,177)	-	(1,725,177)	-
(2,542,424)	-	(2,542,424)	-
$ (66,709,033)	$ -	$ (66,709,033)	$ -
$ -	$ 901,387	$ 901,387	$ -
-	1,322,936	1,322,936	-
-	321,816	321,816	-
-	(222,710)	(222,710)	-
$ -	$ 2,323,429	$ 2,323,429	$ -
$ (66,709,033)	$ 2,323,429	$ (64,385,604)	$ -
			$ (23,761,286)
			158,829
			$ (23,602,457)
$ 31,254,682	$ -	$ 31,254,682	$ -
10,191,895	-	10,191,895	-
1,644,628	-	1,644,628	-
5,538,312	-	5,538,312	-
1,175,244	-	1,175,244	-
8,842,347	-	8,842,347	-
2,892,598	765,756	3,658,354	73,937
-	-	-	25,352,401
3,909,817	-	3,909,817	-
161,460	-	161,460	-
280,319	71,152	351,471	15,563
294,113	445,142	739,255	81,672
385,020	(385,020)	-	-
$ 66,570,435	$ 897,030	$ 67,467,465	$ 25,523,573
$ (138,598)	$ 3,220,459	$ 3,081,861	$ 1,921,116
103,707,579	52,803,331	156,510,910	17,208,679
$ 103,568,981	$ 56,023,790	$ 159,592,771	$ 19,129,795

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Fund Financial Statements

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Balance Sheet
Governmental Funds
At June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and cash equivalents	$ 20,877,661	$ 11,788,144	$ 32,665,805
Receivables (net of allowances for uncollectibles):			
Property taxes	829,686	-	829,686
Accounts	124,059	-	124,059
Accrued revenue	171,359	179,352	350,711
Inventory, at cost	32,284	-	32,284
Prepaids	12,327	-	12,327
Due from other governments	2,713,348	1,388,658	4,102,006
Total assets	$ 24,760,724	$ 13,356,154	$ 38,116,878
LIABILITIES AND EQUITY			
Liabilities:			
Reconciled overdraft	$ -	$ 69,196	$ 69,196
Accounts payable	912,730	886,402	1,799,132
Accrued liabilities	1,034,860	92,815	1,127,675
Amounts held for others	1,160,136	-	1,160,136
Deferred revenue	2,313,842	-	2,313,842
Total liabilities	$ 5,421,568	$ 1,048,413	$ 6,469,981
Equity:			
Fund balance:			
Nonspendable	$ 44,611	$ -	$ 44,611
Restricted	-	193,070	193,070
Committed	5,257,805	4,461,630	9,719,435
Assigned	373,829	7,653,041	8,026,870
Unassigned	13,662,911	-	13,662,911
Total equity	$ 19,339,156	$ 12,307,741	$ 31,646,897
Total liabilities and equity	$ 24,760,724	$ 13,356,154	$ 38,116,878

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2011

Total fund balances for governmental funds (Exhibit 3)		$ 31,646,897
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	$ 18,510,917	
Construction in progress	1,509,751	
Land improvements, net of accumulated depreciation	7,943,571	
Buildings and improvements, net of accumulated depreciation	20,913,802	
Joint tenancy assets, net of accumulated depreciation	37,313,105	
Infrastructure, net of accumulated depreciation	43,182,789	
Machinery, vehicles, and equipment, net of accumulated depreciation	6,823,912	
Total capital assets		136,197,847
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		620,682
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net assets are as follows:		
Accrued interest on debt	$ (1,171,017)	
Bonds and notes payable	(55,195,626)	
Premium on long-term debt, net of accumulated amortization	(1,190,454)	
Landfill postclosure cost liability	(783,999)	(58,341,096)
Compensated absences not reported as fund liabilities		(3,232,466)
Net OPEB obligation not reported as fund liabilities		(3,322,883)
Total net assets of governmental activities (Exhibits 1 and 2)		$ 103,568,981

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, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	$ 31,240,415	$ -	$ 31,240,415
Other local taxes	30,153,106	131,918	30,285,024
Permits, privilege fees and regulatory licenses	945,035	-	945,035
Fines and forfeitures	387,090	199,331	586,421
Use of money and property	162,296	279,483	441,779
Charges for services	1,993,961	111,036	2,104,997
Miscellaneous	129,473	127,975	257,448
Recovered costs	490,178	513,928	1,004,106
Intergovernmental:			
Revenue from the Commonwealth	8,760,625	2,729,979	11,490,604
Revenue from the Federal Government	49,000	3,172,610	3,221,610
Total revenues	$ 74,311,179	$ 7,266,260	$ 81,577,439
Expenditures			
Current:			
General government administration	$ 5,034,113	$ -	$ 5,034,113
Judicial administration	3,257,520	89,497	3,347,017
Public safety	17,767,003	387,887	18,154,890
Public works	7,428,886	1,745	7,430,631
Health and welfare	948,762	6,187,411	7,136,173
Education - local community college and other	5,750	-	5,750
Education - public school system	24,138,091	200,000	24,338,091
Parks, recreation and cultural	3,297,575	92,368	3,389,943
Community development	1,434,081	821,092	2,255,173
Capital projects	-	2,675,390	2,675,390
Debt service:			
Principal payments	-	3,127,831	3,127,831
Interest and fiscal charges	-	2,710,791	2,710,791
Total expenditures	$ 63,311,781	$ 16,294,012	$ 79,605,793
Excess (deficiency) of revenues over expenditures	$ 10,999,398	$ (9,027,752)	$ 1,971,646
Other financing sources (uses)			
Proceeds from the sale of capital assets	$ 36,665	$ -	$ 36,665
Transfers in	1,160,980	10,752,648	11,913,628
Transfers out	(10,618,454)	(910,154)	(11,528,608)
Total other financing sources (uses)	$ (9,420,809)	$ 9,842,494	$ 421,685
Net change in fund balance	$ 1,578,589	$ 814,742	$ 2,393,331
Fund balance, beginning of year, as restated	17,760,567	11,492,999	29,253,566
Fund balance, end of year	$ 19,339,156	$ 12,307,741	$ 31,646,897

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, 2011

Net change in fund balances - total governmental funds (Exhibit 5)		$ 2,393,331
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	$ 2,085,537	
Depreciation	(6,372,520)	(4,286,983)
Transfer of joint tenancy assets from Primary Government to the Component Unit School Board		(1,004,171)
Donations of capital assets received during the current period		198,550
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.		14,267
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Debt issued:		
Amortization of premium on long-term debt	$ 111,395	
Repayments of long-term debt:		
General obligation bonds	3,127,831	3,239,226
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	$ (177,427)	
Net OPEB obligation payable	(563,067)	
Accrued interest on bonds and loans	56,972	
Accrued landfill post-closure costs	(9,296)	
Net adjustment		(692,818)
Change in net assets of governmental activities (Exhibit 2)		$ (138,598)

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

Statement of Net Assets
Proprietary Funds
At June 30, 2011

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
ASSETS					
Assets:					
Current assets:					
Cash and cash equivalents	$ 7,289,386	$ 3,919,291	$ 5,313,789	$ 17,717	$ 16,540,183
Accounts receivable, net of allowance for uncollectibles	473,147	769,433	-	-	1,242,580
Accrued revenue	5,593	5,000	4,978	13,502	29,073
Inventory, at cost	132,899	35,123	-	-	168,022
Prepaid expenses	50	50	-	-	100
Due from other governments	-	2,148,096	524,339	322,374	2,994,809
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	625,578	-	-	-	625,578
Total current assets	$ 8,526,653	$ 6,876,993	$ 5,843,106	$ 353,593	$ 21,600,345
Capital Assets:					
Land	$ 701,345	$ 114,880	$ 550,686	$ 782,125	$ 2,149,036
Construction in progress	96,436	192,035	84,020	-	372,491
Dams and reservoirs	663,536	-	-	-	663,536
Buildings and systems	16,072,973	38,299,128	5,965,746	6,513,766	66,851,613
Furniture, machinery and equipment	353,408	2,529,434	2,983,924	208,330	6,075,096
Intangible assets	4,745,283	1,556,496	-	-	6,301,779
Total property, plant and equipment	$ 22,632,981	$ 42,691,973	$ 9,584,376	$ 7,504,221	$ 82,413,551
Less: Accumulated depreciation	(6,994,198)	(12,596,918)	(1,712,054)	(720,821)	(22,023,991)
Capital assets, net	$ 15,638,783	$ 30,095,055	$ 7,872,322	$ 6,783,400	$ 60,389,560
Total assets	$ 24,165,436	$ 36,972,048	$ 13,715,428	$ 7,136,993	$ 81,989,905
LIABILITIES AND NET ASSETS					
Liabilities:					
Current liabilities:					
Accounts payable	$ 367,570	$ 271,923	$ 86,392	$ 16,403	$ 742,288
Accrued liabilities	12,379	40,093	39,577	1,402	93,451
Interest payable	7,408	274,871	-	-	282,279
Compensated absences, current portion	40,529	76,220	21,966	853	139,568
Unearned revenue, current portion	21,700	55,912	-	-	77,612
Revenue bonds payable, current portion	-	1,028,829	-	-	1,028,829
General obligation bonds payable, current portion	262,926	597,106	-	173,954	1,033,986
Current liabilities payable from restricted assets:					
Customer deposits	625,578	-	-	-	625,578
Total current liabilities	$ 1,338,090	$ 2,344,954	$ 147,935	$ 192,612	$ 4,023,591
Noncurrent liabilites:					
Unearned revenue, noncurrent portion	$ -	$ 1,950,749	$ -	$ -	$ 1,950,749
Compensated absences, noncurrent portion	24,840	13,451	30,334	523	69,148
Net OPEB obligation	81,123	139,505	84,033	7,002	311,663
Revenue bonds payable, noncurrent portion	-	1,609,765	-	-	1,609,765
General obligation bonds payable, noncurrent portion	1,639,059	13,011,561	-	3,350,579	18,001,199
Total noncurrent liabilities	$ 1,745,022	$ 16,725,031	$ 114,367	$ 3,358,104	$ 21,942,524
Total liabilities	$ 3,083,112	$ 19,069,985	$ 262,302	$ 3,550,716	$ 25,966,115
Net assets:					
Invested in capital assets, net of related debt	$ 13,736,798	$ 14,682,427	$ 7,872,322	$ 3,258,867	$ 39,550,414
Unrestricted	7,345,526	3,219,636	5,580,804	327,410	16,473,376
Total net assets	$ 21,082,324	$ 17,902,063	$ 13,453,126	$ 3,586,277	$ 56,023,790

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

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Operating revenues:					
Charges for services	$ 2,344,438	$ 3,821,281	$ 274,395	$ 238,240	$ 6,678,354
Operating expenses:					
Personal services	$ 359,598	$ 815,633	$ 1,880,677	$ 95,276	$ 3,151,184
Fringe benefits	205,829	436,330	430,027	22,923	1,095,109
Contractual services	1,180,241	1,143,076	268,934	18,571	2,610,822
Other operating expenses	232,258	474,255	764,880	25,666	1,497,059
Depreciation expense	471,709	1,391,266	542,640	144,164	2,549,779
Total operating expenses	$ 2,449,635	$ 4,260,560	$ 3,887,158	$ 306,600	$ 10,903,953
Total operating income (loss)	$ (105,197)	$ (439,279)	$ (3,612,763)	$ (68,360)	$ (4,225,599)
Nonoperating revenues (expenses):					
Interest income	$ 15,844	$ 23,788	$ 15,760	$ 15,760	$ 71,152
Gasoline tax receipts	-	-	443,382	322,374	765,756
Availability/connection fees	1,080,466	2,415,283	-	-	3,495,749
Miscellaneous	165,851	120,416	158,875	-	445,142
State and local grant funds	-	-	1,724,130	-	1,724,130
Federal grant funds	-	61,661	1,339,723	-	1,401,384
Interest expense	(73,882)	(714,729)	-	(154,350)	(942,961)
Total nonoperating revenues (expenses)	$ 1,188,279	$ 1,906,419	$ 3,681,870	$ 183,784	$ 6,960,352
Income (loss) before contributions and transfers	$ 1,083,082	$ 1,467,140	$ 69,107	$ 115,424	$ 2,734,753
Capital grants and contributions:					
State and local grant funds	$ -	$ -	$ 144,203	$ -	$ 144,203
Federal grant funds	-	-	726,523	-	726,523
Total capital grants and contributions	$ -	$ -	$ 870,726	$ -	$ 870,726
Transfers:					
Transfers out	$ (181,562)	$ (203,458)	$ -	$ -	$ (385,020)
Change in net assets	$ 901,520	$ 1,263,682	$ 939,833	$ 115,424	$ 3,220,459
Net assets, beginning of year	20,180,804	16,638,381	12,513,293	3,470,853	52,803,331
Net assets, end of year	$ 21,082,324	$ 17,902,063	$ 13,453,126	$ 3,586,277	$ 56,023,790

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Cash flows from operating activities:					
Receipts from customers	$ 2,394,728	$ 3,707,574	$ 1,160,762	$ 231,155	$ 7,494,219
Other miscellaneous receipts	165,851	120,416	602,257	322,374	1,210,898
Payments to suppliers	(2,181,631)	(3,846,164)	(1,029,746)	(112,547)	(7,170,088)
Payments to and for employees	(552,882)	(1,221,774)	(2,295,300)	(116,652)	(4,186,608)
Net cash provided by (used in) operating activities	$ (173,934)	$ (1,239,948)	$ (1,562,027)	$ 324,330	$ (2,651,579)
Cash flows from noncapital financing activities:					
Availability and connection fees	$ 1,080,466	$ 2,415,283	$ -	$ -	$ 3,495,749
State, federal and local grant funds	-	61,661	3,063,853	-	3,125,514
Transfers	(181,562)	(203,458)	-	-	(385,020)
Net cash provided by (used in) noncapital financing activities	$ 898,904	$ 2,273,486	$ 3,063,853	$ -	$ 6,236,243
Cash flows from investing activities:					
Interest income	$ 15,844	$ 23,788	$ 15,760	$ 15,760	$ 71,152
Cash flows from capital and related financing activities:					
Purchase of capital assets	$ (24,425)	$ (1,048,393)	$ (861,688)	$ -	$ (1,934,506)
Disposal of capital assets	-	50,841	-	-	50,841
State, federal and local grant funds	-	-	870,726	-	870,726
Principal payment on debt	(285,864)	(1,574,493)	-	(168,023)	(2,028,380)
Interest paid on debt	(74,135)	(711,935)	-	(154,350)	(940,420)
Net cash provided by (used in) capital and related financing activities	$ (384,424)	$ (3,283,980)	$ 9,038	$ (322,373)	$ (3,981,739)
Increase (decrease) in cash and cash equivalents for the year	$ 356,390	$ (2,226,654)	$ 1,526,624	$ 17,717	$ (325,923)
Cash and cash equivalents (including restricted), beginning of year	7,558,574	6,145,945	3,787,165	-	17,491,684
Cash and cash equivalents (including restricted), end of year	$ 7,914,964	$ 3,919,291	$ 5,313,789	$ 17,717	$ 17,165,761
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (105,197)	$ (439,279)	$ (3,612,763)	$ (68,360)	$ (4,225,599)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	471,709	1,391,266	542,640	144,164	2,549,779
Other miscellaneous receipts	165,851	120,416	602,257	322,374	1,210,898
Changes in assets and liabilities:					
Accounts receivable	(15,787)	(28,095)	-	-	(43,882)
Inventory	59,311	3,462	-	-	62,773
Accrued revenue	(1,608)	1,399	45,851	(5,769)	39,873
Prepaid expenses	(15)	(15)	-	-	(30)
Due from other governments	-	(2,093,672)	840,516	(1,316)	(1,254,472)
Reconciled overdraft	-	-	-	(68,643)	(68,643)
Accounts payable	(824,324)	(1,940,938)	13,757	333	(2,751,172)
Accrued liabilities	(4,104)	(291,342)	(9,689)	-	(305,135)
Net OPEB obligation	14,165	25,969	14,165	1,180	55,479
Unearned revenue	6,252	2,006,661	-	-	2,012,913
Compensated absences	(1,620)	4,220	1,239	367	4,206
Deposits payable from restricted assets	61,433	-	-	-	61,433
Net cash provided by (used in) operating activities	$ (173,934)	$ (1,239,948)	$ (1,562,027)	$ 324,330	$ (2,651,579)

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

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

Statement of Fiduciary Net Assets
At June 30, 2011

	Agency Funds	Private Purpose Trust Funds
Assets:		
Cash and cash equivalents	$ 1,015,242	$ 1,785,667
Accounts receivable	157,808	29,553
Prepaid items	17,797	-
Capital assets:		
Machinery and equipment, net of accumulated depreciation	-	22,656
Total assets	$ 1,190,847	$ 1,837,876
Liabilities:		
Accounts payable	$ 41,540	$ 1,088
Accrued liabilities	19,830	5,635
Amounts held for others	1,129,477	-
Total liabilities	$ 1,190,847	$ 6,723
Net Assets:		
Held in trust for land conservation (see Note 1)	$ -	$ 1,831,153

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

CITY OF FREDERICKSBURG, VIRGINIA **Exhibit 11**

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
Year Ended June 30, 2011

Additions:		
Contributions:		
Contributions	$	119,188
Investment income:		
Interest earned on investments		28,582
Total additions	$	147,770
Deductions:		
Payments for property management	$	69,492
Net increase in plan assets	$	78,278
Net assets held in trust for land conservation:		
Balance, beginning of year		1,752,875
Balance, end of year	$	1,831,153

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, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
School Board				
Education	$ 36,743,922	$ 726,171	$ 12,256,465	$ -
Economic Development Authority				
Community development	225,338	384,167	-	-
Total component units	$ 36,969,260	$ 1,110,338	$ 12,256,465	$ -

General revenues

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

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Assets		
School Board	Economic Development Authority	Totals
$ (23,761,286)	$ -	$ (23,761,286)
-	158,829	158,829
$ (23,761,286)	$ 158,829	$ (23,602,457)
$ 25,342,262	$ 10,139	$ 25,352,401
73,937	-	73,937
-	15,563	15,563
81,672	-	81,672
$ 25,497,871	$ 25,702	$ 25,523,573
$ 1,736,585	$ 184,531	$ 1,921,116
16,037,713	1,170,966	17,208,679
$ 17,774,298	$ 1,355,497	$ 19,129,795

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

A. Financial Reporting Entity

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

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

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

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).

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

A. Financial Reporting Entity: (Continued)

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 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.

Inclusions in the Reporting Entity:

1. Component Units:

   a. Fredericksburg City School Board:

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

   b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided $3,245,028 in operating and other funds to the Center in 2011.

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 $1,048,690 in operating funds to the Library in 2011.

c. Rappahannock Regional Solid Waste Management Board

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

d. Rappahannock Area Community Services Board

The Board was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of $191,325 to the Board in 2011.

e. Rappahannock Area Agency on Aging

The Agency was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $7,880 in operating grants to the Agency in 2011.

f. George Washington Regional Commission

The Commission was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed $20,603 in operating grants to the Commission in 2011.

g. Rappahannock Juvenile Detention Center

The Center was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of $425,156 to the Center in 2011.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

   The Home was created by Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $33,165 in operating funds to the Home in 2011.

   i. Stafford Regional Airport Commission

   The Commission was created by Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided $21,429 in operating funds to the Commission in 2011.

   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 Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2011.

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

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

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 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.

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.

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

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

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

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

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

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

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

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

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

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

   New High School Construction Fund - This fund accounts for resources and expenditures for the construction of a new high school. Primary funding sources are school bond proceeds and investment earnings.

   New Court Construction Fund - This fund accounts for resources and expenditures for the construction of a new court complex. Financing is provided by transfers from the general fund.

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.

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

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

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

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds): (Continued)

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 assets held for land conservation.

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

Special Revenue Fund: Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special School Fund is a special revenue fund.

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

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

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

b. Economic Development Authority:

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

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

C. Basis of Accounting

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

The government-wide Statement of Net Assets 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 assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

D. Budgets and Budgetary Accounting

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

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

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

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

D. Budgets and Budgetary Accounting: (Continued)

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2011. 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, 2011.

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.

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

Investments are stated at fair value.

F. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2011, the allowance totaled $1,570,298 with $1,201,850 in the General Fund and $368,448 in the Enterprise Funds.

G. Inventory

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

H. Prepaid Expenses

Prepaid expenses are reported on the consumption method.

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

I. Capital Assets

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

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

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

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

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2011.

J. 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.

K. 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.

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

L. Retirement Plan

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

M. Unbilled Revenue

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

N. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Amortization expense for fiscal year ended June 30, 2011 was $111,395 and $29,492 for the governmental and business-type activities, respectively.

O. Long-term Obligations

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

P. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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.

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

P. Fund Equity: (Continued)

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives or contractual obligations). Assigned fund balance is established by City Council or the City Manager as amounts intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

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

	General Fund	Other Funds	Total
Fund Balances:			
Nonspendable:			
Inventory	$ 32,284	$ -	$ 32,284
Prepaids	12,327	-	12,327
Total Nonspendable Fund Balance	$ 44,611	$ -	$ 44,611
Restricted for:			
Courthouse maintenance	$ -	$ 193,070	$ 193,070
Committed to:			
Social services	$ -	$ 232,133	$ 232,133
Comprehensive services	-	230,669	230,669
Cowan Boulevard debt service	-	1,062,519	1,062,519
Homeland security	-	166,425	166,425
Public works construction projects	-	1,838,597	1,838,597
Public facilities construction projects	-	130,890	130,890
Public safety construction projects	-	11,588	11,588
Grant related projects	-	788,809	788,809
Traffic engineering	74,017	-	74,017
Planning	125,000	-	125,000
Future capital projects	3,789,255	-	3,789,255
Health insurance claims	950,000	-	950,000
Other purposes	319,533	-	319,533
Total Committed Fund Balance	$ 5,257,805	$ 4,461,630	$ 9,719,435
Assigned to:			
Public works construction projects	$ -	$ 2,735,508	$ 2,735,508
Public facilities construction projects	-	2,350,665	2,350,665
Public safety construction projects	-	1,562,892	1,562,892
Riverfront park debt service	250,000	-	250,000
New court construction project	-	1,003,976	1,003,976
Other purposes	123,829	-	123,829
Total Assigned Fund Balance	$ 373,829	$ 7,653,041	$ 8,026,870
Unassigned Fund Balance	$ 13,662,911	$ -	$ 13,662,911
Total Fund Balances	$ 19,339,156	$ 12,307,741	$ 31,646,897

Note 2—Deposits and Investments:

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

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

Custodial Credit Risk (Investments) - The City's investments at June 30, 2011 were held by the City or in the City's name by the City's custodial banks; except $20,225,853 of U.S. Agency investments, $1,998,906 of U.S. Treasuries, and $5,469,924 of Corporate Debt investments, where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

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

The City's rated debt investments as of June 30, 2011 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.

Locality's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	AAA	AAAm	AA+	A-1+
U.S. Agencies	$ 20,225,853	$ -	$ -	$ -
U.S. Government Corporate Debt	2,297,446	-	-	-
U.S. Treasuries	-	1,998,906	-	-
Corporate Debt	1,002,989	-	1,011,415	1,158,074
Virginia State Non-Arbitrage Program	-	2,523,504	-	-
Money Market Mutual Fund	-	22,427,150	-	-
Total	$ 23,526,288	$ 26,949,560	$ 1,011,415	$ 1,158,074

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, and U.S. Government Obligations with a maximum maturity of five (5) years at the time of purchase.

Investment Maturities (in years)

Investment Type	Fair Value	Less Than 1 Year	1-5 Years
U.S. Agencies	$ 20,225,853	$ 6,030,414	$ 14,195,439
U.S. Treasuries	1,998,906	-	1,998,906
U.S. Government Corporate Debt	2,297,446	2,297,446	-
Corporate Debt	3,172,478	-	3,172,478
Total	$ 27,694,683	$ 8,327,860	$ 19,366,823

External Investment Pool

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

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

Note 3—Real and Personal Property Tax Data:

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

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

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2011 consist of the following:

Primary Government:

	Governmental Activities				
	General	Special Revenue	Capital Projects	Total	Business-Type Activities
Property taxes	$ 2,009,951	$ -	$ -	$ 2,009,951	$ -
Circuit court	73,963	-	-	73,963	-
Water charges	-	-	-	-	641,958
Wastewater charges	-	-	-	-	969,070
EMS fees	54,643	-	-	54,643	-
Refuse disposal fees	101,748	-	-	101,748	-
Investment earnings	19,912	-	59,743	79,655	19,935
Other	66,737	21,025	98,584	186,346	9,138
Total	$ 2,326,954	$ 21,025	$ 158,327	$ 2,506,306	$ 1,640,101
Allowance for uncollectibles	(1,201,850)	-	-	(1,201,850)	(368,448)
Net receivables	$ 1,125,104	$ 21,025	$ 158,327	$ 1,304,456	$ 1,271,653

Component Units and Fiduciary Activities:

	School Board	Fiduciary Activities
Other	$ 15,550	$ 187,361
Total	$ 15,550	$ 187,361
Allowance for uncollectibles	-	-
Net receivables	$ 15,550	$ 187,361

Note 5—Due From Other Governmental Units:

	Governmental Activities					
	General	Special Revenue	Capital Projects	Total	Business-Type Activities	Component Unit School Board
Primary Government:						
Commonwealth of Virginia:						
Local sales taxes	$ 1,636,149	$ -	$ -	$ 1,636,149	$ -	$ -
Telecommunication sales tax	154,957	-	-	154,957	-	-
PPTRA	676,647	-	-	676,647	-	-
Comprehensive Services Act	-	409,685	-	409,685	-	-
Shared expenses and grants	125,356	-	-	125,356	-	-
Virginia Department of Rail and Public Transportation	-	-	-	-	934	-
Virginia Department of Transportation	-	-	438,605	438,605	-	-
Virginia Department of Motor Vehicles	-	3,498	-	3,498	-	-
Virginia Department of Emergency Management	-	-	2,842	2,842	-	-
Virginia Information Technology Agency	-	20,184	-	20,184	-	-
Recordation taxes	35,148	-	-	35,148	-	-
Virginia Department of Health	5,787	-	-	5,787	-	-
Noncategorical aid	40,389	-	-	40,389	-	-
Department of Fire Programs	-	6,349	-	6,349	-	-
Social services grants	-	375,068	-	375,068	-	-
Federal government:						
Community Development Block Grant	-	75,646	-	75,646	-	-
Transit grants	-	-	-	-	58,000	-
Criminal justice grants	-	56,781	-	56,781	-	-
Interest subsidy	-	-	-	-	23,123	-
Others:						
Potomac and Rappahannock Transportation Commission	34,559	-	-	34,559	765,755	73,937
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	2,124,974	-
County of King George	4,356	-	-	4,356	-	-
County of Caroline	-	-	-	-	22,023	-
Component Unit School Board:						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	433,824
State school funds	-	-	-	-	-	129,132
Federal pass-through:						
School funds	-	-	-	-	-	485,364
Federal government:						
Head Start	-	-	-	-	-	279,236
Total	$ 2,713,348	$ 947,211	$ 441,447	$ 4,102,006	$ 2,994,809	$ 1,401,493

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due To/From other funds at June 30, 2011:

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	$ 823,000
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	291,112
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	563,240
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	2,289,965
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,548,657
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	1,530,000
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	536,674
Transfers to the Public Safety Construction Fund to fund building improvements and related costs	170,000
Transfers to the New Court Construction Fund to fund new court complex capital costs	1,000,000
Transfers to the General Fund for various programs	1,160,980
Total transfers	$ 11,913,628

Reconciliation of transfers:

Transfers in from governmental funds	$ 11,528,608
Transfers from enterprise funds to governmental funds	385,020
Total transfers	$ 11,913,628

Component Unit School Board:

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

Note 7—Capital Assets:

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

Primary Government:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 18,240,108	$ 270,809	$ -	$ 18,510,917
Construction in progress:				
Infrastructure	$ 34,444	$ 535,065	$ -	$ 569,509
Land improvements	541,042	92,881	-	633,923
Buildings	212,290	236,807	142,778	306,319
Total construction in progress	$ 787,776	$ 864,753	$ 142,778	$ 1,509,751
Total capital assets not being depreciated	$ 19,027,884	$ 1,135,562	$ 142,778	$ 20,020,668
Other capital assets:				
Land improvements	$ 9,490,965	$ 60,538	$ -	$ 9,551,503
Buildings and improvements	30,690,344	270,760	-	30,961,104
Joint tenancy assets	42,665,000	-	1,260,000	41,405,000
Infrastructure	72,438,419	97,139	3,482	72,532,076
Machinery, equipment and vehicles	14,472,080	862,866	175,964	15,158,982
Total other capital assets	$ 169,756,808	$ 1,291,303	$ 1,439,446	$ 169,608,665
Accumulated depreciation:				
Land improvements	$ 1,281,539	$ 326,393	$ -	$ 1,607,932
Buildings and improvements	9,060,486	986,816	-	10,047,302
Joint tenancy assets	3,312,599	1,035,125	255,829	4,091,895
Infrastructure	26,419,978	2,932,791	3,482	29,349,287
Machinery, equipment and vehicles	7,419,639	1,091,395	175,964	8,335,070
Total accumulated depreciation	$ 47,494,241	$ 6,372,520	$ 435,275	$ 53,431,486
Other capital assets, net	$ 122,262,567	$ (5,081,217)	$ 1,004,171	$ 116,177,179
Net capital assets	$ 141,290,451	$ (3,945,655)	$ 1,146,949	$ 136,197,847

Depreciation is allocated to:	
General government administration	$ 188,042
Judicial administration	141,871
Public safety	1,182,515
Health and welfare	80,718
Education	1,035,125
Public works	3,175,560
Parks and recreation	557,999
Community development	10,690
Total	$ 6,372,520

Note 7—Capital Assets: (Continued)

Business-Type Activities:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 1,882,120	$ 266,916	$ -	$ 2,149,036
Construction in progress	2,151,557	970,674	2,749,740	372,491
Total capital assets not being depreciated	$ 4,033,677	$ 1,237,590	$ 2,749,740	$ 2,521,527
Other capital assets:				
Buildings and systems	$ 63,533,679	$ 3,317,934	$ -	$ 66,851,613
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	6,301,779	-	-	6,301,779
Furniture, machinery and equipment	6,062,449	128,721	116,074	6,075,096
Total other capital assets	$ 76,561,443	$ 3,446,655	$ 116,074	$ 79,892,024
Accumulated depreciation:				
Buildings and systems	$ 16,338,616	$ 1,747,385	$ -	$ 18,086,001
Dams and reservoirs	89,776	13,271	-	103,047
Intangible assets	949,057	146,789	-	1,095,846
Furniture, machinery and equipment	2,161,996	642,334	65,233	2,739,097
Total accumulated depreciation	$ 19,539,445	$ 2,549,779	$ 65,233	$ 22,023,991
Other capital assets, net	$ 57,021,998	$ 896,876	$ 50,841	$ 57,868,033
Net capital assets	$ 61,055,675	$ 2,134,466	$ 2,800,581	$ 60,389,560

Depreciation is allocated to:	
Water operations	$ 471,709
Wastewater operations	1,391,266
Parking garage operations	144,164
Transit operations	542,640
Total	$ 2,549,779

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 472,679	$ -	$ -	$ 472,679
Construction in progress	-	25,000	-	25,000
Total capital assets not being depreciated	$ 472,679	$ 25,000	$ -	$ 497,679
Other capital assets:				
Land improvements	$ 123,253	$ -	$ -	$ 123,253
Buildings and improvements	22,474,667	1,260,000	-	23,734,667
Machinery, equipment and vehicles	3,034,808	283,772	-	3,318,580
Total other capital assets	$ 25,632,728	$ 1,543,772	$ -	$ 27,176,500
Accumulated depreciation:				
Land improvements	$ 49,084	$ 6,163	$ -	$ 55,247
Buildings and improvements	9,059,674	838,216	-	9,897,890
Machinery, equipment and vehicles	1,867,672	239,180	-	2,106,852
Total accumulated depreciation	$ 10,976,430	$ 1,083,559	$ -	$ 12,059,989
Other capital assets, net	$ 14,656,298	$ 460,213	$ -	$ 15,116,511
Net capital assets	$ 15,128,977	$ 485,213	$ -	$ 15,614,190
Depreciation allocated to education		$ 1,083,559		

Note 8—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 revenue is comprised of the following:

	Government-wide Statements	
	Governmental Activities	**Business-Type Activities**
Unearned property tax revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	$ 1,658,457	$ -
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	-	2,006,661
Other	34,703	21,700
Total unearned revenue	$ 1,693,160	$ 2,028,361

	Balance Sheet
	Governmental Funds
Deferred property tax revenue:	
Deferred 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.	$ 620,682
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	1,658,457
Other	34,703
Total deferred revenue	$ 2,313,842

Note 9—Long-term Obligations:

A summary of long-term obligation transactions of the City for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Primary Government:					
Long-term obligations payable from governmental activities:					
General obligation bonds	$ 15,658,457	$ -	$ 1,867,831	$ 13,790,626	$ 1,527,891
General obligation school bonds	42,665,000	-	1,260,000	41,405,000	1,330,000
Add: Unamortized bond premium	1,301,849	-	111,395	1,190,454	107,888
Landfill postclosure costs	774,703	9,296	-	783,999	-
Compensated absences	3,055,039	2,071,551	1,894,124	3,232,466	2,004,129
Net OPEB obligation payable	2,759,816	1,231,550	668,483	3,322,883	-
Total	$ 66,214,864	$ 3,312,397	$ 5,801,833	$ 63,725,428	$ 4,969,908
Long-term obligations payable from business activities:					
General obligation bonds	$ 19,700,689	$ -	$ 1,004,168	$ 18,696,521	$ 1,004,109
Add: Unamortized bond premium	368,156	-	29,492	338,664	29,877
Virginia Resources Authority revenue bonds	3,633,315	-	994,721	2,638,594	1,028,829
Compensated absences	204,510	140,444	136,238	208,716	139,568
Net OPEB obligation payable	256,184	121,346	65,867	311,663	-
Total	$ 24,162,854	$ 261,790	$ 2,230,486	$ 22,194,158	$ 2,202,383
Total primary government	$ 90,377,718	$ 3,574,187	$ 8,032,319	$ 85,919,586	$ 7,172,291
Component Unit School Board:					
Long-term obligations payable from component unit school board activities:					
Compensated absences	$ 959,450	$ 558,179	$ 498,914	$ 1,018,715	$ 529,732
Net OPEB obligation payable	702,000	457,785	258,950	900,835	-
Total component unit school board	$ 1,661,450	$ 1,015,964	$ 757,864	$ 1,919,550	$ 529,732

Note 9—Long-term Obligations: (Continued)

The schedule below shows principal and interest requirements through maturity for all outstanding debt at June 30, 2011:

Year Ending	General Obligation Debt		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest
2012	$ 3,862,000	$ 3,388,945	$ 1,028,829	$ 81,041
2013	3,696,000	3,233,111	1,064,107	45,763
2014	3,770,000	3,077,226	545,658	9,276
2015	3,894,000	2,915,897	-	-
2016	3,537,000	2,756,399	-	-
2017	3,690,000	2,601,669	-	-
2018	3,848,000	2,436,903	-	-
2019	3,500,000	2,262,820	-	-
2020	3,655,000	2,093,109	-	-
2021	3,830,000	1,912,586	-	-
2022	4,005,000	1,722,997	-	-
2023	3,980,000	1,529,302	-	-
2024	4,180,000	1,330,920	-	-
2025	4,385,000	1,116,671	-	-
2026	4,600,000	894,676	-	-
2027	4,000,000	682,786	-	-
2028	4,195,000	479,128	-	-
2029	3,545,000	286,734	-	-
2030	3,720,147	105,871	-	-
	$ 73,892,147	$ 34,827,750	$ 2,638,594	$ 136,080

The above schedule does not include premiums.

Note 9—Long-term Obligations: (Continued)

At June 30, 2011, the City's long-term obligations consisted of the following:

	Issued	Due Date	Rate(s)	Amount Outstanding	Current Portion
Primary Government:					
General obligation bonds:					
2001A General Obligation Refunding Bonds	2001	2022	4.5-6.5%	$ 4,645,147	$ 975,000
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	41,405,000	1,330,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	8,915,000	440,000
2007E General Obligation Bonds	2008	2028	3.5-5.0%	9,665,000	395,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	3,252,000	487,000
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%	3,305,000	235,000
Total general obligation bonds				$ 73,892,147	$ 3,862,000
Revenue bonds:					
Virginia Resources Authority Wastewater Bonds	1992	2014	3.40%	$ 2,638,594	$ 1,028,829
Unamortized bond premium:					
2004A General Obligation School Bonds				$ 1,141,349	$ 103,087
2007E General Obligation Bonds				213,499	20,874
2010 General Obligation Bonds				174,270	13,804
Total unamortized bond premium				$ 1,529,118	$ 137,765
Compensated absences				$ 3,441,182	$ 2,143,697
Net OPEB obligation payable				$ 3,634,546	$ -
Landfill postclosue costs				$ 783,999	$ -
Total primary government				$ 85,919,586	$ 7,172,291
Component Unit School Board:					
Compensated absences				$ 1,018,715	$ 529,732
Net OPEB obligation payable				$ 900,835	$ -
Total component unit school board				$ 1,919,550	$ 529,732

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

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

Note 9—Long-term Obligations: (Continued)

Conduit debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2011 totaled approximately $259,785,477. The City has no responsibility for the repayment of these debt obligations.

Federal Arbitrage Regulations:

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

Note 10—Compensated Absences:

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

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

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

	Balance July 1, 2010	Increase	Decrease	Balance June 30, 2011	Current Portion
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	$ 3,055,039	$ 2,071,551	$ 1,894,124	$ 3,232,466	$ 2,004,129
Business-type activities	204,510	140,444	136,238	208,716	139,568
Total primary government	$ 3,259,549	$ 2,211,995	$ 2,030,362	$ 3,441,182	$ 2,143,697
Component Unit School Board	959,450	558,179	498,914	1,018,715	529,732
Total	$ 4,218,999	$ 2,770,174	$ 2,529,276	$ 4,459,897	$ 2,673,429

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

Note 11—Defined Benefit Pension Plan:

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

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

Note 11—Defined Benefit Pension Plan:

A. Plan Description: (Continued)

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School's non-professional employee contribution rates for the fiscal year ended 2011 were 10.80% and 4.51% of annual covered payroll, respectively.

The School Board's contributions for professional employees were $706,636, $1,282,402 and $1,613,182, to the teacher cost-sharing pool for the fiscal years ended June 30, 2011, 2010 and 2009, respectively. The contribution rate was 8.81% in 2009, 8.81% from July 2009 through March 2010, zero (0.00%) for April through June 2010 and 3.93% in 2011.

C. Annual Pension Cost

For fiscal year 2011, the City's annual pension cost of $2,169,550 was equal to the City's required and actual contributions.

Note 11—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost: (Continued)

For fiscal year 2011, the City School Board's annual pension cost for the Board's non-professional employees was $48,945, which was equal to the Board's required and actual contributions.

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
City:			
June 30, 2011	$ 2,169,550	100%	$ -
June 30, 2010	1,902,589	100%	-
June 30, 2009	1,970,443	100%	-
School Board Non-Professional:			
June 30, 2011	$ 48,945	100%	$ -
June 30, 2010	49,309	100%	-
June 30, 2009	50,196	100%	-

(1) Employer portion only

The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the City's plan was 76.15% funded. The actuarial accrued liability for benefits was $97,601,073, and the actuarial value of assets was $74,324,775, resulting in an unfunded actuarial accrued liability (UAAL) of $23,276,298. The covered payroll (annual payroll of active employees covered by the plan) was $20,185,677, and ratio of the UAAL to the covered payroll was 115.31%.

As of June 30, 2010, the most recent actuarial valuation date, the City School Board's plan was 93.77% funded. The actuarial accrued liability for benefits was $3,130,611, and the actuarial value of assets was $2,935,480, resulting in an unfunded actuarial accrued liability (UAAL) of $195,131. The covered payroll (annual payroll of active employees covered by the plan) was $1,136,716, and ratio of the UAAL to the covered payroll was 17.17%.

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

Note 12—Deferred Compensation Plan:

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

Note 13—Commitments and Contingencies:

State and Federal Programs

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

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, 2011, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately $2,985,209 at June 30, 2011.

The School Board had no significant construction or related commitments outstanding at June 30, 2011.

Note 14—Litigation:

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

Note 15—Landfill Postclosure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to postclosure monitoring. The estimated postclosure care cost for the next twenty years is $783,999 and has been recorded as a long-term liability at June 30, 2011. These amounts are based on what it would cost to perform all postclosure care based on 2011 costs. These costs may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2010	$	774,703
Increase in estimate		9,296
Balance at June 30, 2011	$	783,999

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

Note 16—Surety Bonds:

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

Note 17—Self Insurance/Risk Management:

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

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

Employee Health Insurance

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

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

City General Fund	
Estimated claims incurred but not reported	$ 333,964
Estimated maximum stop-loss liability based on premium cost and experience rate	616,036
Total funds committed	$ 950,000

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
2009	$ 298,261	$ 2,974,484	$ 2,905,939	$ 366,806
2010	366,806	2,901,749	2,864,639	403,916
2011	403,916	2,889,554	2,959,506	333,964

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 17—Self Insurance/Risk Management: (Continued)

Property and Casualty Insurance

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

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

Note 18—Other Post-Employment Benefits Program:

City:

A. Plan Description:

In addition to the pension benefits described in Note 11, the City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (i.e. 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 (i.e. 50 years of age and 30 years of continuous service) and complete 15 years of service at the City, will receive $4.00 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.

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 $4.00 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 18—Other Post-Employment Benefits Program: (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	$	1,340,500
Interest on net OPEB obligation		120,640
Adjustment to annual required contribution		(108,244)
Annual OPEB cost (expense)	$	1,352,896
Contributions made		734,350
Increase in net OPEB obligation	$	618,546
Net OPEB obligation-beginning of year		3,016,000
Net OPEB obligation-end of year	$	3,634,546

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

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2011	$	1,352,896	54.28%	$	3,634,546
June 30, 2010		2,053,384	26.56%		3,016,000
June 30, 2009		2,053,000	26.55%		1,508,000

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010 is as follows:

Actuarial accrued liability (AAL)	$	19,834,600
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		19,834,600
Funded ratio (actuarial value of plan assets / AAL)		-
Covered payroll (active plan members)		20,997,500
UAAL as a percentage of covered payroll		94.46%

Note 18—Other Post-Employment Benefits Program: (Continued)

City: (Continued)

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

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, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.60% initially, reduced by decrements to an ultimate rate of 4.70% after eighty years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2010, was thirty years.

	Unfunded
Discount rate	4.00%
Payroll growth	3.75%

Note 18—Other Post-Employment Benefits Program: (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 55, 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	$	454,900
Interest on net OPEB obligation		28,080
Adjustment to annual required contribution		(25,195)
Annual OPEB cost (expense)	$	457,785
Contributions made		258,950
Increase in net OPEB obligation	$	198,835
Net OPEB obligation-beginning of year		702,000
Net OPEB obligation-end of year	$	900,835

Note 18—Other Post-Employment Benefits Program: (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 the last three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 457,785	56.57%	$ 900,835
June 30, 2010	606,089	42.09%	702,000
June 30, 2009	606,000	42.08%	351,000

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010 is as follows:

Actuarial accrued liability (AAL)	$ 4,218,700
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	4,218,700
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	21,140,600
UAAL as a percentage of covered payroll	19.96%

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 18—Other Post-Employment Benefits Program: (Continued)

School Board: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation: (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, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.60% initially, reduced by decrements to an ultimate rate of 4.70% after eighty years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2010, was thirty years.

	Unfunded
Discount rate	4.00%
Payroll growth	3.75%

Note 19—Health Insurance Credit Program-Other Post-Employment Benefit (OPEB):

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.

Note 19—Health Insurance Credit Program-Other Post-Employment Benefit (OPEB): (Continued)

A. Plan Description: (Continued)

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.04% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2011, 2010, and 2009 were $107,934, $151,385, and $197,691, respectively, and equaled the required contributions for each year.

Note 20—Restatement of Beginning Fund Balance:

	General Fund	Special Revenue Funds
Beginning fund balance, as previously reported	$ 17,718,299	$ 3,379,296
Reclassification of Regional Transportation Fund and Prisoner Extradition Fund in accordance with GASB 54	42,268	(42,268)
Beginning fund balance, as restated	$ 17,760,567	$ 3,337,028

Note 21—Debt Refunding:

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2011, $3,230,000 of bonds outstanding are considered defeased from refunding transactions in prior years.

Note 22—Subsequent Event:

Subsequent to June 30, 2011, the Fredericksburg Economic Development Authority assigned a contract for the purchase of real property in the amount of $925,000 to the City of Fredericksburg, Virginia. The Authority has approved a loan to the City of Fredericksburg, Virginia in the amount of $725,000 and a grant of $200,000 in connection with the assignment of this contract.

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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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	$ 23,410,500	$ 23,410,500	$ 23,158,658	$ (251,842)
Public service corporations	572,500	572,500	774,940	202,440
Personal property	5,670,000	6,420,000	6,706,228	286,228
Mobile homes	600	600	797	197
Machinery and tools	180,250	180,250	268,410	88,160
Penalties	175,000	175,000	222,389	47,389
Interest	55,000	55,000	108,993	53,993
Total general property taxes	$ 30,063,850	$ 30,813,850	$ 31,240,415	$ 426,565
Other local taxes:				
Local sales and use taxes	$ 9,400,000	$ 10,180,000	$ 10,191,895	$ 11,895
Utility taxes	1,650,000	1,650,000	1,644,628	(5,372)
Business licenses and rental tax	5,095,000	5,445,000	5,538,312	93,312
Motor vehicle licenses	330,100	380,100	429,626	49,526
Bank stock taxes	495,000	695,000	777,521	82,521
Recordation taxes	500,000	500,000	468,241	(31,759)
Tobacco tax	500,000	500,000	554,701	54,701
Amusement tax	180,000	260,000	341,693	81,693
Hotel/lodging taxes	1,050,000	1,050,000	1,175,244	125,244
Meals taxes	7,920,000	8,820,000	8,842,347	22,347
Gasoline taxes	198,000	198,000	51,830	(146,170)
Other	90,000	90,000	137,068	47,068
Total other local taxes	$ 27,408,100	$ 29,768,100	$ 30,153,106	$ 385,006
Permits, privilege fees and licenses:				
Permits and other licenses	$ 609,450	$ 909,450	$ 933,329	$ 23,879
Animal licenses	7,000	7,000	11,706	4,706
Total permits, privilege fees and licenses	$ 616,450	$ 916,450	$ 945,035	$ 28,585
Fines and forfeitures	$ 335,000	$ 335,000	$ 387,090	$ 52,090
Revenue from use of money and property:				
Revenue from use of money	$ 250,000	$ 250,000	$ 85,207	$ (164,793)
Revenue from use of property	44,750	44,750	77,089	32,339
Total revenue from use of money and property	$ 294,750	$ 294,750	$ 162,296	$ (132,454)
Charges for services:				
Court costs	$ 83,300	$ 83,300	$ 103,877	$ 20,577
Commonwealth's attorney	2,000	2,000	4,214	2,214
Sanitation and waste removal	727,000	727,000	733,070	6,070
Parks and recreation	424,000	432,000	487,368	55,368
Planning and community development	2,100	2,100	476	(1,624)
Fire and rescue services	636,000	656,000	579,765	(76,235)
Administrative charges	75,000	75,000	85,191	10,191
Total charges for services	$ 1,949,400	$ 1,977,400	$ 1,993,961	$ 16,561

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	$ 21,515	$ 21,515	$ 24,073	$ 2,558
Souvenir sales	18,500	18,500	19,798	1,298
Donations - parks and recreation	-	-	52,363	52,363
Other	34,000	34,000	33,239	(761)
Total miscellaneous revenue	$ 74,015	$ 74,015	$ 129,473	$ 55,458
Recovered costs:				
Circuit court secretaries	$ -	$ -	$ 15,245	$ 15,245
Health department	240,000	240,000	217,492	(22,508)
Social services	120,000	120,000	112,962	(7,038)
Transit	177,750	177,750	65,231	(112,519)
Other	37,250	44,250	79,248	34,998
Total recovered costs	$ 575,000	$ 582,000	$ 490,178	$ (91,822)
Total revenue from local sources	$ 61,316,565	$ 64,761,565	$ 65,501,554	$ 739,989
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	$ 95,000	$ 95,000	$ 160,305	$ 65,305
Motor vehicle rental tax	95,000	95,000	124,033	29,033
Communication sales tax	1,850,000	1,850,000	1,882,619	32,619
Personal property relief	1,725,000	1,725,000	1,728,833	3,833
Other	9,220	9,220	14,027	4,807
Total noncategorical aid	$ 3,774,220	$ 3,774,220	$ 3,909,817	$ 135,597
Categorical aid - shared expenses:				
Commonwealth's attorney	$ 530,000	$ 530,000	$ 548,783	$ 18,783
Sheriff	465,000	465,000	480,048	15,048
Commissioner of revenue	120,000	120,000	121,939	1,939
Treasurer	90,000	90,000	97,650	7,650
Medical examiner	400	400	-	(400)
Registrar	40,000	40,000	36,291	(3,709)
Clerk of the circuit court	250,000	285,000	300,289	15,289
Total categorical aid - shared expenses	$ 1,495,400	$ 1,530,400	$ 1,585,000	$ 54,600
Categorical aid - other:				
Street and highway maintenance	$ 2,120,000	$ 2,270,000	$ 2,278,016	$ 8,016
Law enforcement assistance	750,000	750,000	762,762	12,762
Wireless E-911 grants	200,000	200,000	87,262	(112,738)
Other	121,130	121,130	137,768	16,638
Total categorical aid - other	$ 3,191,130	$ 3,341,130	$ 3,265,808	$ (75,322)
Total revenue from the Commonwealth	$ 8,460,750	$ 8,645,750	$ 8,760,625	$ 114,875

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Emergency services	$ -	$ -	$ 10,680	$ 10,680
Public assistance - cost allocation	50,000	50,000	38,320	(11,680)
Total revenue from the Federal Government	$ 50,000	$ 50,000	$ 49,000	$ (1,000)
Total revenues	$ 69,827,315	$ 73,457,315	$ 74,311,179	$ 853,864
Expenditures				
General government administration:				
Legislative:				
City council	$ 204,250	$ 199,250	$ 190,200	$ 9,050
Clerk of council	102,800	117,750	100,947	16,803
Total legislative	$ 307,050	$ 317,000	$ 291,147	$ 25,853
General and financial administration:				
City manager	$ 518,136	$ 534,536	$ 532,273	$ 2,263
Insurance program	698,000	668,000	569,932	98,068
Human resources	301,610	301,610	270,219	31,391
Independent auditor	87,235	87,235	80,156	7,079
Commissioner of the revenue	871,717	871,717	864,843	6,874
Board of real estate assessors	10,000	260,000	264	259,736
Treasurer	674,071	760,071	740,604	19,467
Fiscal affairs	575,445	577,645	569,903	7,742
Information systems	637,017	677,102	646,917	30,185
Copying and postage	28,850	28,850	25,469	3,381
Safety program	72,082	47,082	31,791	15,291
Legal services	289,119	289,119	243,127	45,992
Total general and financial administration	$ 4,763,282	$ 5,102,967	$ 4,575,498	$ 527,469
Board of elections:				
Registrar and electoral board	$ 194,140	$ 201,140	$ 167,468	$ 33,672
Total general government administration	$ 5,264,472	$ 5,621,107	$ 5,034,113	$ 586,994
Judicial administration:				
Courts:				
Circuit court	$ 87,431	$ 87,431	$ 85,981	$ 1,450
General district court	43,950	43,950	22,570	21,380
Special magistrates	13,000	16,000	15,796	204
Juvenile and domestic relations court	20,800	20,800	16,804	3,996
Clerk of the circuit court	667,992	712,392	643,857	68,535
Sheriff	1,302,610	1,327,610	1,326,573	1,037
JDR services	30,630	30,630	30,630	-
Juries	30,000	30,000	27,930	2,070
Court appointed attorney	18,000	15,000	9,855	5,145
Total courts	$ 2,214,413	$ 2,283,813	$ 2,179,996	$ 103,817

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth attorney:				
Commonwealth attorney	$ 1,148,743	$ 1,148,743	$ 1,077,524	$ 71,219
Total judicial administration	$ 3,363,156	$ 3,432,556	$ 3,257,520	$ 175,036
Public safety:				
Law enforcement and traffic control:				
Police department	$ 7,023,610	$ 7,033,610	$ 6,906,273	$ 127,337
Auxiliary police	13,000	13,000	11,505	1,495
Total law enforcement and traffic control	$ 7,036,610	$ 7,046,610	$ 6,917,778	$ 128,832
Fire and rescue:				
Fire department	$ 4,070,760	$ 4,108,886	$ 4,096,664	$ 12,222
Rescue services	280,200	280,200	278,905	1,295
Emergency medical services	935,580	1,020,580	918,736	101,844
Hazardous materials	26,680	26,680	21,033	5,647
E-911 communications	948,000	955,200	915,489	39,711
Total fire and rescue	$ 6,261,220	$ 6,391,546	$ 6,230,827	$ 160,719
Correction and detention:				
Juvenile detention center	$ 418,515	$ 434,243	$ 425,156	$ 9,087
Rappahannock security center	3,245,224	3,245,224	3,245,028	196
Prisoner extradition	-	7,000	3,395	3,605
Total correction and detention	$ 3,663,739	$ 3,686,467	$ 3,673,579	$ 12,888
Inspections:				
Building and development services	$ 875,804	$ 975,804	$ 856,705	$ 119,099
Other protection:				
Animal control	$ 98,200	$ 98,200	$ 88,034	$ 10,166
Medical examiner	1,200	1,200	80	1,120
Total other protection	$ 99,400	$ 99,400	$ 88,114	$ 11,286
Total public safety	$ 17,936,773	$ 18,199,827	$ 17,767,003	$ 432,824
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	$ 801,090	$ 781,090	$ 727,871	$ 53,219
Street maintenance	882,574	1,016,574	946,210	70,364
Drainage	220,989	220,989	198,744	22,245
Street lights	384,000	389,000	334,006	54,994
Snow removal	121,500	121,500	69,575	51,925
Industrial park rail spur	15,500	15,500	14,786	714
Traffic engineering	364,181	396,976	320,056	76,920
Shop and garage	1,307,304	1,292,304	1,253,997	38,307
Riparian lands stewardship	-	80,000	80,000	-
Graphics	92,009	101,034	88,742	12,292
Total maintenance of streets, highways, bridges and sidewalks	$ 4,189,147	$ 4,414,967	$ 4,033,987	$ 380,980

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	$ 687,655	$ 692,655	$ 689,282	$ 3,373
Tree purchase program	10,000	31,000	30,601	399
Refuse collection	586,748	586,748	556,595	30,153
Refuse disposal	75,465	142,465	135,741	6,724
Recycling collection	119,516	119,516	118,628	888
Total sanitation and waste removal	$ 1,479,384	$ 1,572,384	$ 1,530,847	$ 41,537
Maintenance of buildings and grounds:				
General properties	$ 1,677,678	$ 1,677,678	$ 1,652,732	$ 24,946
Environmental management system	5,400	5,400	-	5,400
Buildings and grounds - special	255,888	257,388	211,320	46,068
Total maintenance of buildings and grounds	$ 1,938,966	$ 1,940,466	$ 1,864,052	$ 76,414
Total public works	$ 7,607,497	$ 7,927,817	$ 7,428,886	$ 498,931
Health and welfare:				
Health:				
Supplement to local health department	$ 414,276	$ 414,276	$ 414,276	$ -
Mental health and mental retardation:				
Chapter X board	$ 191,325	$ 191,325	$ 191,325	$ -
Social services:				
Other contributions	$ 375,380	$ 373,880	$ 343,161	$ 30,719
Total health and welfare	$ 980,981	$ 979,481	$ 948,762	$ 30,719
Education:				
Community colleges	$ 5,750	$ 5,750	$ 5,750	$ -
Appropriations to public school system	24,138,100	24,138,100	24,138,091	9
Total education	$ 24,143,850	$ 24,143,850	$ 24,143,841	$ 9
Parks, recreation and cultural:				
Parks and recreation:				
Administration	$ 546,034	$ 546,034	$ 527,346	$ 18,688
Supervision	590,711	600,711	596,675	4,036
Maintenance	925,129	944,162	928,119	16,043
Dixon Park swimming pool	125,850	125,850	110,770	15,080
Total parks and recreation	$ 2,187,724	$ 2,216,757	$ 2,162,910	$ 53,847
Library:				
Regional library	$ 1,048,690	$ 1,048,690	$ 1,048,690	$ -
Cultural:				
Museums	$ 85,975	$ 85,975	$ 85,975	$ -
Total parks, recreation and cultural	$ 3,322,389	$ 3,351,422	$ 3,297,575	$ 53,847

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures: (continued)				
Community Development:				
Planning and community development:				
Planning	$ 452,970	$ 632,970	$ 456,915	$ 176,055
Zoning appeals board	1,600	1,600	755	845
Community development	56,555	56,555	50,032	6,523
Architectural review board	2,000	2,000	208	1,792
Clean and green commission	-	1,500	1,060	440
Commuter rail	50,000	50,000	39,239	10,761
Economic development and tourism	930,383	944,722	876,522	68,200
Total planning and community development	$ 1,493,508	$ 1,689,347	$ 1,424,731	$ 264,616
Environmental management:				
Soil and water conservation district	$ 9,350	$ 9,350	$ 9,350	$ -
Total community development	$ 1,502,858	$ 1,698,697	$ 1,434,081	$ 264,616
Total expenditures	$ 64,121,976	$ 65,354,757	$ 63,311,781	$ 2,042,976
Excess (deficiency) of revenues over expenditures	$ 5,705,339	$ 8,102,558	$ 10,999,398	$ 2,896,840
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	$ 10,500	$ 10,500	$ 36,665	$ 26,165
Transfers in	1,747,190	1,747,190	1,160,980	(586,210)
Transfers out	(7,391,503)	(10,615,252)	(10,618,454)	(3,202)
Total other financing sources (uses)	$ (5,633,813)	$ (8,857,562)	$ (9,420,809)	$ (563,247)
Net change in fund balance	$ 71,526	$ (755,004)	$ 1,578,589	$ 2,333,593
Fund balance, beginning of year, as restated	(71,526)	755,004	17,760,567	17,005,563
Fund balance, end of year	$ -	$ -	$ 19,339,156	$ 19,339,156

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

Schedule of Pension and OPEB Funding Progress

Virginia Retirement System
City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2010	$ 74,324,775	$ 97,601,073	$ 23,276,298	76.15%	$ 20,185,677	115.31%
June 30, 2009	73,853,295	87,566,204	13,712,909	84.34%	20,400,054	67.22%
June 30, 2008	72,412,423	81,824,935	9,412,513	88.50%	21,014,941	44.79%

School Board Non-Professional:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2010	$ 2,935,480	$ 3,130,611	$ 195,131	93.77%	$ 1,136,716	17.17%
June 20, 2009	2,808,219	2,705,156	(103,063)	103.81%	1,135,523	(9.08%)
June 30, 2008	2,636,220	2,486,223	(149,996)	106.03%	1,127,948	(13.30%)

Other Post-Employment Benefits
City:

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

School Board:

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

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OTHER SUPPLEMENTARY INFORMATION

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Combining Balance Sheet
Nonmajor Governmental Funds
At June 30, 2011

	Special Revenue	Capital Projects	Total
ASSETS			
Assets:			
Cash and cash equivalents	$ 2,140,151	$ 9,647,993	$ 11,788,144
Accrued revenue	21,025	158,327	179,352
Due from other governments	947,211	441,447	1,388,658
Total assets	$ 3,108,387	$ 10,247,767	$ 13,356,154
LIABILITIES AND EQUITY			
Liabilities:			
Reconciled overdraft	$ 69,196	$ -	$ 69,196
Accounts payable	278,776	607,626	886,402
Accrued liabilities	86,790	6,025	92,815
Total liabilities	$ 434,762	$ 613,651	$ 1,048,413
Equity:			
Fund Balance:			
Restricted	$ 193,070	$ -	$ 193,070
Committed	2,480,555	1,981,075	4,461,630
Assigned	-	7,653,041	7,653,041
Total equity	$ 2,673,625	$ 9,634,116	$ 12,307,741
Total liabilities and equity	$ 3,108,387	$ 10,247,767	$ 13,356,154

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

	Special Revenue	Capital Projects	Debt Service	Total
Revenues				
Other local taxes	$ -	$ 131,918	$ -	$ 131,918
Fines and forfeitures	-	199,331	-	199,331
Use of money and property	165	279,318	-	279,483
Charges for services	52,806	58,230	-	111,036
Miscellaneous	102,975	25,000	-	127,975
Recovered costs	429,563	84,365	-	513,928
Intergovernmental:				
Revenue from the Commonwealth	2,487,072	242,907	-	2,729,979
Revenue from the Federal Government	2,795,986	376,624	-	3,172,610
Total revenues	$ 5,868,567	$ 1,397,693	$ -	$ 7,266,260
Expenditures				
Current:				
Judicial administration	$ 89,497	$ -	$ -	$ 89,497
Public safety	387,887	-	-	387,887
Public works	1,745	-	-	1,745
Health and welfare	6,187,411	-	-	6,187,411
Education - public school system	-	200,000	-	200,000
Parks, recreation and cultural	92,368	-	-	92,368
Community development	821,092	-	-	821,092
Capital projects	-	2,675,390	-	2,675,390
Debt service:				
Principal payments	-	-	3,127,831	3,127,831
Interest and fiscal charges	-	-	2,710,791	2,710,791
Total expenditures	$ 7,580,000	$ 2,875,390	$ 5,838,622	$ 16,294,012
Excess (deficiency) of revenues over expenditures	$ (1,711,433)	$ (1,477,697)	$ (5,838,622)	$ (9,027,752)
Other financing sources (uses)				
Transfers in	$ 1,677,352	$ 3,236,674	$ 5,838,622	$ 10,752,648
Transfers out	(629,322)	(280,832)	-	(910,154)
Total other financing sources (uses)	$ 1,048,030	$ 2,955,842	$ 5,838,622	$ 9,842,494
Net change in fund balance	$ (663,403)	$ 1,478,145	$ -	$ 814,742
Fund balance, beginning of year, as restated	3,337,028	8,155,971	-	11,492,999
Fund balance, end of year	$ 2,673,625	$ 9,634,116	$ -	$ 12,307,741

Combining Balance Sheet
Nonmajor Special Revenue Funds
At June 30, 2011

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre-hensive Services Act Fund	Central Park Special Tax District Fund	Courthouse Maintenance Fund	Total
ASSETS						
Assets:						
Cash and cash equivalents	$ -	$ 888,450	$ 373	$ 1,062,519	$ 188,809	$ 2,140,151
Accrued revenue	13,135	3,629	-	-	4,261	21,025
Due from other governments	375,068	162,458	409,685	-	-	947,211
Total assets	$ 388,203	$ 1,054,537	$ 410,058	$ 1,062,519	$ 193,070	$ 3,108,387
LIABILITIES AND EQUITY						
Liabilities:						
Reconciled overdraft	$ 69,196	$ -	$ -	$ -	$ -	$ 69,196
Accounts payable	28,608	72,355	177,813	-	-	278,776
Accrued liabilities	58,266	26,948	1,576	-	-	86,790
Total liabilities	$ 156,070	$ 99,303	$ 179,389	$ -	$ -	$ 434,762
Equity:						
Fund Balance:						
Restricted	$ -	$ -	$ -	$ -	$ 193,070	$ 193,070
Committed	232,133	955,234	230,669	1,062,519	-	2,480,555
Total equity	$ 232,133	$ 955,234	$ 230,669	$ 1,062,519	$ 193,070	$ 2,673,625
Total liabilities and equity	$ 388,203	$ 1,054,537	$ 410,058	$ 1,062,519	$ 193,070	$ 3,108,387

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2011

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Compre-hensive Services Act Fund	Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Courthouse Maintenance Fund	Total
Revenues							
Use of money and property	$ -	$ 165	$ -	$ -	$ -	$ -	$ 165
Charges for services	-	-	-	-	-	52,806	52,806
Miscellaneous	-	102,975	-	-	-	-	102,975
Recovered costs	107,569	321,994	-	-	-	-	429,563
Intergovernmental:							
Revenue from the Commonwealth	1,398,518	161,021	927,533	-	-	-	2,487,072
Revenue from the Federal Government	2,365,665	430,321	-	-	-	-	2,795,986
Total revenues	$ 3,871,752	$ 1,016,476	$ 927,533	$ -	$ -	$ 52,806	$ 5,868,567
Expenditures							
Current:							
Judicial administration	$ -	$ 89,497	$ -	$ -	$ -	$ -	$ 89,497
Public safety	-	387,887	-	-	-	-	387,887
Public works	-	1,745	-	-	-	-	1,745
Health and welfare	4,612,942	-	1,574,469	-	-	-	6,187,411
Parks, recreation and cultural	-	92,368	-	-	-	-	92,368
Community Development	-	821,092	-	-	-	-	821,092
Total expenditures	$ 4,612,942	$ 1,392,589	$ 1,574,469	$ -	$ -	$ -	$ 7,580,000
Excess (deficiency) of revenues over expenditures	$ (741,190)	$ (376,113)	$ (646,936)	$ -	$ -	$ 52,806	$ (1,711,433)
Other financing sources (uses)							
Transfers in	$ 823,000	$ 291,112	$ 563,240	$ -	$ -	$ -	$ 1,677,352
Transfers out	-	-	-	(300,000)	(242,648)	(86,674)	(629,322)
Total other financing sources (uses)	$ 823,000	$ 291,112	$ 563,240	$ (300,000)	$ (242,648)	$ (86,674)	$ 1,048,030
Net change in fund balance	$ 81,810	$ (85,001)	$ (83,696)	$ (300,000)	$ (242,648)	$ (33,868)	$ (663,403)
Fund balance, beginning of year, as restated	150,323	1,040,235	314,365	1,362,519	242,648	226,938	3,337,028
Fund balance, end of year	$ 232,133	$ 955,234	$ 230,669	$ 1,062,519	$ -	$ 193,070	$ 2,673,625

Combining Balance Sheet
Nonmajor Capital Projects Funds
At June 30, 2011

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	New Court Construction Fund	Total
ASSETS					
Assets:					
Cash and cash equivalents	$ 4,205,204	$ 2,877,845	$ 1,554,607	$ 1,010,337	$ 9,647,993
Accrued revenue	113,715	19,912	19,912	4,788	158,327
Due from other governments	399,173	42,274	-	-	441,447
Total assets	$ 4,718,092	$ 2,940,031	$ 1,574,519	$ 1,015,125	$ 10,247,767
LIABILITIES AND EQUITY					
Liabilities:					
Accounts payable	$ 137,962	$ 458,476	$ 39	$ 11,149	$ 607,626
Accrued liabilities	6,025	-	-	-	6,025
Total liabilities	$ 143,987	$ 458,476	$ 39	$ 11,149	$ 613,651
Equity:					
Fund Balance:					
Committed	$ 1,838,597	$ 130,890	$ 11,588	$ -	$ 1,981,075
Assigned	2,735,508	2,350,665	1,562,892	1,003,976	7,653,041
Total equity	$ 4,574,105	$ 2,481,555	$ 1,574,480	$ 1,003,976	$ 9,634,116
Total liabilities and equity	$ 4,718,092	$ 2,940,031	$ 1,574,519	$ 1,015,125	$ 10,247,767

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2011

	Public Works Construction Fund	Public Facilities Construction Fund	New High School Construction Fund	Public Safety Construction Fund	New Court Construction Fund	Total
Revenues						
Other local taxes	$ 131,918	$ -	$ -	$ -	$ -	$ 131,918
Fines and forfeitures	199,331	-	-	-	-	199,331
Use of money and property	65,301	149,191	6	64,820	-	279,318
Charges for services	-	-	-	-	58,230	58,230
Miscellaneous	-	25,000	-	-	-	25,000
Recovered costs	21,965	62,400	-	-	-	84,365
Intergovernmental:						
Revenue from the Commonwealth	236,998	5,909	-	-	-	242,907
Revenue from the Federal Government	340,259	36,365	-	-	-	376,624
Total revenues	$ 995,772	$ 278,865	$ 6	$ 64,820	$ 58,230	$ 1,397,693
Expenditures						
Current:						
Education - public school system	$ -	$ 200,000	$ -	$ -	$ -	$ 200,000
Capital projects	1,133,161	1,325,557	-	161,246	55,426	2,675,390
Total expenditures	$ 1,133,161	$ 1,525,557	$ -	$ 161,246	$ 55,426	$ 2,875,390
Excess (deficiency) of revenues over expenditures	$ (137,389)	$ (1,246,692)	$ 6	$ (96,426)	$ 2,804	$ (1,477,697)
Other financing sources (uses)						
Transfers in	$ 1,530,000	$ 536,674	$ -	$ 170,000	$ 1,000,000	$ 3,236,674
Transfers out	-	-	(280,832)	-	-	(280,832)
Total other financing sources (uses)	$ 1,530,000	$ 536,674	$ (280,832)	$ 170,000	$ 1,000,000	$ 2,955,842
Net change in fund balance	$ 1,392,611	$ (710,018)	$ (280,826)	$ 73,574	$ 1,002,804	$ 1,478,145
Fund balance, beginning of year	3,181,494	3,191,573	280,826	1,500,906	1,172	8,155,971
Fund balance, end of year	$ 4,574,105	$ 2,481,555	$ -	$ 1,574,480	$ 1,003,976	$ 9,634,116

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended June 30, 2011

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Expenditures			
Debt service:			
Principal	$ 1,713,072	$ 1,414,759	$ 3,127,831
Interest and fiscal charges	576,893	2,133,898	2,710,791
Total expenditures	$ 2,289,965	$ 3,548,657	$ 5,838,622
Excess (deficiency) of revenues over expenditures	$ (2,289,965)	$ (3,548,657)	$ (5,838,622)
Other financing sources (uses)			
Transfers in	$ 2,289,965	$ 3,548,657	$ 5,838,622
Net change in fund balance	$ -	$ -	$ -
Fund balance, beginning of year	-	-	-
Fund balance, end of year	$ -	$ -	$ -

CITY OF FREDERICKSBURG, VIRGINIA

Combining Statement of Fiduciary Net Assets
At June 30, 2011

	Criminal Justice Academy	Special Welfare	Court Service Unit	CASA Program	Rappahannock Area Youth Commission
ASSETS					
Assets:					
Cash and cash equivalents	$ 523,921	$ 17,461	$ 163,000	$ -	$ 5,002
Accounts receivable	37,123	-	-	-	119,737
Prepaid items	12,124	-	-	-	5,673
Total assets	$ 573,168	$ 17,461	$ 163,000	$ -	$ 130,412
LIABILITIES AND NET ASSETS					
Liabilities:					
Reconciled overdraft	$ -	$ -	$ -	$ 756	$ -
Accounts payable	22,520	-	7,155	134	11,731
Accrued liabilities	19,830	-	-	-	-
Amounts held for others	530,818	17,461	155,845	(890)	118,681
Total liabilities	$ 573,168	$ 17,461	$ 163,000	$ -	$ 130,412
Net Assets	$ -	$ -	$ -	$ -	$ -

Exhibit 22

Revenue Maximization Fund	Forfeited Asset Sharing Program Fund	Community Development Authority	Total
$ 20,451	$ 61,696	$ 224,467	$ 1,015,998
-	948	-	157,808
-	-	-	17,797
$ 20,451	$ 62,644	$ 224,467	$ 1,191,603
$ -	$ -	$ -	$ 756
-	-	-	41,540
-	-	-	19,830
20,451	62,644	224,467	1,129,477
$ 20,451	$ 62,644	$ 224,467	$ 1,191,603
$ -	$ -	$ -	$ -

AGENCY FUNDS
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	$ 327,561	$ 523,921	$ 327,561	$ 523,921
Accounts receivable	12,226	37,123	12,226	37,123
Prepaid items	12,223	12,124	12,223	12,124
Total assets	$ 352,010	$ 573,168	$ 352,010	$ 573,168
Liabilities:				
Accounts payable	$ 21,738	$ 22,520	$ 21,738	$ 22,520
Accrued liabilities	23,980	19,830	23,980	19,830
Deferred revenue	73,508	-	73,508	-
Amounts held for others	232,784	530,818	232,784	530,818
Total liabilities	$ 352,010	$ 573,168	$ 352,010	$ 573,168
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	$ 22,569	$ 16,816	$ 21,924	$ 17,461
Liabilities:				
Amounts held for others	$ 22,569	$ 16,816	$ 21,924	$ 17,461
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	$ 203,327	$ 238,552	$ 278,879	$ 163,000
Accounts receivable	4,606	-	4,606	-
Prepaid items	5,488	-	5,488	-
Total assets	$ 213,421	$ 238,552	$ 288,973	$ 163,000
Liabilities:				
Accounts payable	$ 16,951	$ 7,155	$ 16,951	$ 7,155
Amounts held for others	196,470	231,397	272,022	155,845
Total liabilities	$ 213,421	$ 238,552	$ 288,973	$ 163,000

AGENCY FUNDS
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
CASA PROGRAM				
Assets:				
Cash and cash equivalents	$ 209,348	$ 140,320	$ 349,668	$ -
Accounts receivable	4,245	-	4,245	-
Prepaid items	656	-	656	-
Total assets	$ 214,249	$ 140,320	$ 354,569	$ -
Liabilities:				
Reconciled overdraft	$ -	$ 756	$ -	$ 756
Accounts payable	-	134	-	134
Amounts held for others	214,249	139,430	354,569	(890)
Total liabilities	$ 214,249	$ 140,320	$ 354,569	$ -
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	$ 66,264	$ 467,762	$ 529,024	$ 5,002
Accounts receivable	99,984	119,737	99,984	119,737
Prepaid items	-	5,673	-	5,673
Total assets	$ 166,248	$ 593,172	$ 629,008	$ 130,412
Liabilities:				
Accounts payable	$ 39,397	$ 11,731	$ 39,397	$ 11,731
Amounts held for others	126,851	581,441	589,611	118,681
Total liabilities	$ 166,248	$ 593,172	$ 629,008	$ 130,412
REVENUE MAXIMIZATION FUND				
Assets:				
Cash and cash equivalents	$ 20,451	$ -	$ -	$ 20,451
Liabilities:				
Amounts held for others	$ 20,451	$ -	$ -	$ 20,451
FORFEITED ASSET SHARING PROGRAM FUND				
Assets:				
Cash and cash equivalents	$ 60,770	$ 18,695	$ 17,769	$ 61,696
Accounts receivable	-	948	-	948
Total assets	$ 60,770	$ 19,643	$ 17,769	$ 62,644
Liabilities:				
Accounts payable	$ 68	$ -	$ 68	$ -
Amounts held for others	60,702	19,643	17,701	62,644
Total liabilities	$ 60,770	$ 19,643	$ 17,769	$ 62,644

AGENCY FUNDS
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
COMMUNITY DEVELOPMENT AUTHORITY				
Assets:				
Cash and cash equivalents	$ 149,715	$ 1,266,887	$ 1,192,135	$ 224,467
Liabilities:				
Amounts held for others	$ 149,715	$ 1,266,887	$ 1,192,135	$ 224,467
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	$ 1,060,005	$ 2,672,953	$ 2,716,960	$ 1,015,998
Accounts receivable	121,061	157,808	121,061	157,808
Prepaid items	18,367	17,797	18,367	17,797
Total assets	$ 1,199,433	$ 2,848,558	$ 2,856,388	$ 1,191,603
Liabilities:				
Reconciled overdraft	$ -	$ 756	$ -	$ 756
Accounts payable	78,154	41,540	78,154	41,540
Accrued liabilities	23,980	19,830	23,980	19,830
Deferred revenue	73,508	-	73,508	-
Amounts held for others	1,023,791	2,786,432	2,680,746	1,129,477
Total liabilities	$ 1,199,433	$ 2,848,558	$ 2,856,388	$ 1,191,603

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Recovered costs	$ 122,630	$ 146,414	$ 107,569	$ (38,845)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	$ 1,458,920	$ 1,458,920	$ 1,398,518	$ (60,402)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	$ 2,583,740	$ 2,610,207	$ 2,365,665	$ (244,542)
Total revenues	$ 4,165,290	$ 4,215,541	$ 3,871,752	$ (343,789)
Expenditures				
Health and welfare	$ 4,988,290	$ 5,041,223	$ 4,612,942	$ 428,281
State, Federal and Local Grants Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 165	$ 165
Miscellaneous	$ 221,030	$ 235,077	$ 102,975	$ (132,102)
Recovered costs:				
Stafford and Spotsylvania Counties	$ 356,400	$ 356,400	$ 321,994	$ (34,406)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Arts grant	$ 5,000	$ 5,000	$ 5,000	$ -
Hazardous materials grant	30,000	30,000	30,000	-
Fire services program	47,215	47,215	55,666	8,451
VA domestic violence victim fund	40,000	40,000	20,000	(20,000)
Other	15,022	15,022	50,355	35,333
Total revenue from the Commonwealth	$ 137,237	$ 137,237	$ 161,021	$ 23,784
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	$ 107,039	$ 441,619	$ 225,605	$ (216,014)
FAMPO/CMAQ grant	-	-	3,583	3,583
Community development block grants	231,856	231,856	201,133	(30,723)
Total revenue from the Federal Government	$ 338,895	$ 673,475	$ 430,321	$ (243,154)
Total revenues	$ 1,053,562	$ 1,402,189	$ 1,016,476	$ (385,713)
Expenditures				
Judicial administration:				
Victim-witness	$ 94,450	$ 94,450	$ 89,497	$ 4,953

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures: (continued)				
Public safety:				
Hazardous materials response program	$ 30,000	$ 30,000	$ 23,879	$ 6,121
Fire services program	47,215	107,244	39,831	67,413
Crime prevention	-	5,135	1,300	3,835
Byrne ARRA grant	-	-	1,068	(1,068)
Victim witness ARRA grant	22,269	22,269	25,283	(3,014)
Domestic violence	59,685	60,343	57,739	2,604
Community projects	-	16,659	9,094	7,565
JAG formula grant	-	98,138	93,020	5,118
DCJS grants	53,210	53,210	51,285	1,925
PSAP-GIS implementation	-	9,420	9,430	(10)
COPS grant	-	55,441	28,600	26,841
DMV grants	-	18,325	15,031	3,294
State homeland security grant	-	166,425	7,930	158,495
Criminal justice system improvement	-	23,382	24,397	(1,015)
Total public safety	$ 212,379	$ 665,991	$ 387,887	$ 278,104
Public works:				
CSX tree project	$ -	$ -	$ 1,745	$ (1,745)
Parks, recreation and cultural:				
Soap Box Derby	$ 25,000	$ 25,000	$ 23,081	$ 1,919
Starfire drill team	45,030	45,030	8,297	36,733
First Fridays	65,000	65,000	601	64,399
Other	36,500	141,355	60,389	80,966
Total parks, recreation and cultural	$ 171,530	$ 276,385	$ 92,368	$ 184,017
Community development:				
Community development block grant	$ 266,966	$ 266,966	$ 225,582	$ 41,384
CDBG ARRA grant	-	-	20,198	(20,198)
First Night celebration	61,000	61,000	49,084	11,916
Regional consumer marketing	429,600	617,330	363,694	253,636
Regional group tourism	105,000	164,460	160,035	4,425
Other	-	-	2,499	(2,499)
Total community development	$ 862,566	$ 1,109,756	$ 821,092	$ 288,664
Total expenditures	$ 1,340,925	$ 2,146,582	$ 1,392,589	$ 753,993

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
Comprehensive Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	$ 687,270	$ 940,903	$ 927,533	$ (13,370)
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	$ 1,250,510	$ 1,624,143	$ 1,574,469	$ 49,674
Courthouse Maintenance Fund				
Revenues				
Charges for services:				
Courthouse maintenance fees	$ -	$ -	$ 52,806	$ 52,806
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	$ -	$ 606,300	$ 131,918	$ (474,382)
Fines and forfeitures	$ -	$ 20,000	$ 199,331	$ 179,331
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 65,301	$ 65,301
Recovered costs	$ -	$ -	$ 21,965	$ 21,965
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT revenue sharing	$ -	$ 526,300	$ 135,046	$ (391,254)
VDOT RSTP grants	-	-	68,520	68,520
FEMA grant	-	-	33,432	33,432
Total revenue from the Commonwealth	$ -	$ 526,300	$ 236,998	$ (289,302)
Revenue from the Federal Government:				
Categorical aid:				
VDOT RSTP grants	$ -	$ 850,000	$ 35,284	$ (814,716)
CMAQ grants	-	600,000	157,480	(442,520)
FEMA grant	-	-	147,495	147,495
Total revenue from the Federal Government	$ -	$ 1,450,000	$ 340,259	$ (1,109,741)
Total revenues	$ -	$ 2,602,600	$ 995,772	$ (1,606,828)

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Works Construction Fund: (continued)				
Expenditures				
Capital projects:				
Annual pavement rehabilitation	$ -	$ 400,000	$ 74,377	$ 325,623
Princess Anne Street intersection improvement	-	500,000	-	500,000
Salt storage facility	-	750,000	-	750,000
Cowan Boulevard extension	-	-	473	(473)
Sophia & William Street intersection	-	239,350	39,476	199,874
Traffic signal improvement - pedestrian sign	-	111,000	-	111,000
Riverfront Park	-	79,623	14,611	65,012
Route 1 traffic signal grant	-	335,650	78,480	257,170
Fleet replacements	-	300,000	300,002	(2)
Lafayette Boulevard bond forfeiture	-	-	9,846	(9,846)
Stormwater pipe emergency repairs	-	-	26,108	(26,108)
Telecommunications fiber installation	-	46,893	59,960	(13,067)
Route 3 traffic signal grant	-	375,000	79,000	296,000
Cowan Boulevard streetlights	-	6,800	6,800	-
Historic downtown improvements	-	100,000	-	100,000
Historic downtown signs	-	115,000	106,235	8,765
Fall Hill Avenue bridge over I-95	-	450,000	67,700	382,300
Fall Hill Avenue canal bridge	-	1,441,600	270,093	1,171,507
Total capital projects	$ -	$ 5,250,916	$ 1,133,161	$ 4,117,755
Public Facilities Construction Fund				
Revenues				
Other local taxes:				
Gasoline tax	$ -	$ 110,000	$ -	$ (110,000)
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 64,820	$ 64,820
Use of property	-	-	84,371	84,371
Total revenue from use of money and property	$ -	$ -	$ 149,191	$ 149,191
Miscellaneous	$ -	$ -	$ 25,000	$ 25,000
Recovered costs	$ -	$ -	$ 62,400	$ 62,400
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT CMAQ grant	$ -	$ -	$ 5,909	$ 5,909
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	$ -	$ 3,025,000	$ 36,365	$ (2,988,635)
Total revenues	$ -	$ 3,135,000	$ 278,865	$ (2,856,135)
Expenditures				
Education:				
Appropriations to public school system	$ -	$ 200,000	$ 200,000	$ -

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds with Legally Adopted Budgets
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Construction Fund: (continued)				
Expenditures: (continued)				
Capital projects:				
Cal Ripken Sr. baseball field	$ -	$ 400,000	$ 360,000	$ 40,000
Circuit court renovations	-	86,675	-	86,675
Fleet replacements	-	50,000	48,459	1,541
Computer equipment replacement	-	275,000	69,206	205,794
Regional library	-	50,000	79,325	(29,325)
Mary Washington monument	-	-	15,000	(15,000)
Public facilities general improvements	-	100,000	90,372	9,628
Playground equipment replacement	-	100,000	74,604	25,396
Powhatan park	-	-	33,032	(33,032)
Cowen boulevard trail	-	140,000	-	140,000
Pathways - VCR trail	-	1,850,000	49,213	1,800,787
Rappahannock river heritage trail	-	1,400,000	125,176	1,274,824
Downman House	-	100,000	100,000	-
City elevator repairs	-	200,000	17,224	182,776
Moss free clinic	-	42,000	42,000	-
Executive Plaza building	-	363,979	221,946	142,033
Hart Center renovations	-	50,000	-	50,000
Total capital projects	$ -	$ 5,207,654	$ 1,325,557	$ 3,882,097
Total expenditures	$ -	$ 5,407,654	$ 1,525,557	$ 3,882,097
New High School Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 6	$ 6
Public Safety Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	$ -	$ -	$ 64,820	$ 64,820
Expenditures				
Capital projects:				
Fleet replacements	$ -	$ 170,000	$ 158,962	$ 11,038
Replacement fire station #1	-	750,000	-	750,000
Emergency medical vehicles	-	-	2,284	(2,284)
Special magistrate new facility	-	75,000	-	75,000
Total capital projects	$ -	$ 995,000	$ 161,246	$ 833,754
New Court Construction Fund				
Revenues				
Charges for services:				
Courthouse construction fees	$ -	$ -	$ 58,230	$ (58,230)
Expenditures				
Capital projects:				
New court construction	$ -	$ 1,150,000	$ 55,426	$ 1,094,574
Debt Service Funds				
General Obligation Debt Service Fund				
Expenditures				
Principal and interest	$ 2,287,215	$ 2,287,215	$ 2,289,965	$ (2,750)
Education Debt Service Fund				
Expenditures				
Principal and interest	$ 3,500,684	$ 3,500,684	$ 3,548,657	$ (47,973)

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, 2011

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	$ 5,843,185	$ 408,668	$ 6,196	$ 6,258,049
Accrued revenue	1,200	14,350	-	15,550
Due from other governments	602,858	724,698	73,937	1,401,493
Prepaids	165,139	-	-	165,139
Total assets	$ 6,612,382	$ 1,147,716	$ 80,133	$ 7,840,231
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	$ 481,854	$ 214,123	$ 11,818	$ 707,795
Accrued liabilities	2,714,247	338,531	-	3,052,778
Total liabilities	$ 3,196,101	$ 552,654	$ 11,818	$ 3,760,573
Equity:				
Fund Balance:				
Nonspendable:				
Prepaids	$ 165,139	$ -	$ -	$ 165,139
Committed:				
Grant related expenditures	-	595,062	-	595,062
Capital projects	184,937	-	16,191	201,128
Assigned:				
Capital projects	-	-	52,124	52,124
Unassigned	3,066,205	-	-	3,066,205
Total equity	$ 3,416,281	$ 595,062	$ 68,315	$ 4,079,658
Total liabilities and equity	$ 6,612,382	$ 1,147,716	$ 80,133	$ 7,840,231

Component Unit School Board
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2011

Total fund balances for governmental funds (Exhibit 25)		$ 4,079,658
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	$ 472,679	
Construction in progress	25,000	
Land improvements, net of accumulated depreciation	68,006	
Buildings and improvements, net of accumulated depreciation	13,836,777	
Machinery, equipment, and vehicles, net of accumulated depreciation	1,211,728	
Total capital assets		15,614,190
Net OPEB obligation not reported as fund liabilities		(900,835)
Compensated absences not reported as fund liabilities		(1,018,715)
Total net assets of governmental activities (Exhibits 1 and 12)		$ 17,774,298

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Other local taxes	$ -	$ -	$ 73,937	$ 73,937
Charges for services	262,968	463,203	-	726,171
Miscellaneous	81,672	-	-	81,672
Recovered costs	-	120,044	-	120,044
Intergovernmental:				
Appropriation from primary government	23,942,591	195,500	200,000	24,338,091
Revenue from the Commonwealth	7,113,908	383,958	-	7,497,866
Revenue from the Federal Government	1,091,748	3,666,851	-	4,758,599
Total revenues	$ 32,492,887	$ 4,829,556	$ 273,937	$ 37,596,380
Expenditures				
Current:				
Education:				
Instruction	$ 22,584,945	$ 3,460,389	$ -	$ 26,045,334
Administration, attendance and health	3,234,131	-	-	3,234,131
Transportation	1,335,894	-	-	1,335,894
Facilities operations	3,666,301	-	-	3,666,301
School food service operations	124,089	1,384,444	-	1,508,533
Capital projects	-	-	296,715	296,715
Total expenditures	$ 30,945,360	$ 4,844,833	$ 296,715	$ 36,086,908
Excess (deficiency) of revenues over expenditures	$ 1,547,527	$ (15,277)	$ (22,778)	$ 1,509,472
Net change in fund balance	$ 1,547,527	$ (15,277)	$ (22,778)	$ 1,509,472
Fund balance, beginning of year	1,868,754	610,339	91,093	2,570,186
Fund balance, end of year	$ 3,416,281	$ 595,062	$ 68,315	$ 4,079,658

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, 2011

Net change in fund balances - total governmental funds (Exhibit 27)	$	1,509,472
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		(518,958)
Transfer of joint tenancy assets from Primary Government to the Component Unit School Board		1,004,171
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 payable		(198,835)
Compensated absences		(59,265)
Change in net assets of governmental activities (Exhibit 12)	$	1,736,585

Component Unit School Board
School Operating Fund
Revenues and Expenditures Budgetary Comparison Schedule
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	$ 3,600	$ 3,600	$ -	$ (3,600)
Charges for services:				
Charges for education	$ 225,160	$ 225,160	$ 262,968	$ 37,808
Miscellaneous	$ 36,240	$ 36,240	$ 81,672	$ 45,432
Intergovernmental:				
Appropriation from primary government	$ 23,942,591	$ 23,942,591	$ 23,942,591	$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	$ 2,440,287	$ 2,440,287	$ 2,540,044	$ 99,757
Basic aid	2,816,185	2,816,185	2,992,827	176,642
Other	1,417,231	1,417,231	1,581,037	163,806
Total revenue from the Commonwealth	$ 6,673,703	$ 6,673,703	$ 7,113,908	$ 440,205
Revenue from the Federal Government:				
Categorical aid:				
Special education	$ 495,000	$ 495,000	$ 571,853	$ 76,853
Education jobs fund	-	337,755	337,755	-
Other	55,000	55,000	182,140	127,140
Total revenue from the Federal Government	$ 550,000	$ 887,755	$ 1,091,748	$ 203,993
Total revenues	$ 31,431,294	$ 31,769,049	$ 32,492,887	$ 723,838
Expenditures				
Current:				
Education:				
Instruction	$ 23,185,976	$ 23,761,586	$ 22,584,945	$ 1,176,641
Administration, attendance and health	3,270,328	3,470,028	3,234,131	235,897
Transportation	1,286,622	1,386,622	1,335,894	50,728
School food service operations	125,000	125,000	124,089	911
Facilities operations	3,813,368	3,912,037	3,666,301	245,736
Total expenditures	$ 31,681,294	$ 32,655,273	$ 30,945,360	$ 1,709,913
Excess (deficiency) of revenues over expenditures	$ (250,000)	$ (886,224)	$ 1,547,527	$ 2,433,751
Net change in fund balance	$ (250,000)	$ (886,224)	$ 1,547,527	$ 2,433,751
Fund balance, beginning of year	250,000	886,224	1,868,754	982,530
Fund balance, end of year	$ -	$ -	$ 3,416,281	$ 3,416,281

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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special School Fund				
Revenues				
Charges for services:				
Cafeteria sales	$ 339,000	$ 339,000	$ 463,203	$ 124,203
Miscellaneous	$ 250	$ 250	$ -	$ (250)
Recovered costs:				
Education	$ 153,434	$ 153,434	$ 120,044	$ (33,390)
Intergovernmental:				
Appropriation from primary government	$ 195,500	$ 195,500	$ 195,500	$ -
Revenue from the Commonwealth:				
Categorical aid:				
School food	$ 15,250	$ 15,250	$ 21,817	$ 6,567
VPSA technology grant	154,000	154,000	80,352	(73,648)
Project graduation	225,000	225,000	68,690	(156,310)
Preschool initiative grant	201,000	201,000	108,000	(93,000)
Other	99,500	99,500	105,099	5,599
Total revenue from the Commonwealth	$ 694,750	$ 694,750	$ 383,958	$ (310,792)
Revenue from the Federal Government:				
Categorical aid:				
Title I	$ 1,000,000	$ 1,335,935	$ 821,577	$ (514,358)
School food	800,000	800,000	963,770	163,770
Head Start	891,943	891,943	1,008,634	116,691
ARRA special education IDEA	-	-	232,873	232,873
Other	780,000	961,045	639,997	(321,048)
Total revenue from the Federal Government	$ 3,471,943	$ 3,988,923	$ 3,666,851	$ (322,072)
Total revenues	$ 4,854,877	$ 5,371,857	$ 4,829,556	$ (542,301)
Expenditures				
Current:				
Education:				
Instruction	$ 3,658,627	$ 4,375,607	$ 3,460,389	$ 915,218
School food service operations	1,196,250	1,196,250	1,384,444	(188,194)
Total expenditures	$ 4,854,877	$ 5,571,857	$ 4,844,833	$ 727,024
Excess (deficiency) of revenues over expenditures	$ -	$ (200,000)	$ (15,277)	$ 184,723
Net change in fund balance	$ -	$ (200,000)	$ (15,277)	$ 184,723
Fund balance, beginning of year	-	200,000	610,339	410,339
Fund balance, end of year	$ -	$ -	$ 595,062	$ 595,062

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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Capital Projects Fund				
Revenues				
Other local taxes:				
Gasoline taxes	$ -	$ 80,000	$ 73,937	$ (6,063)
Intergovernmental:				
Appropriation from primary government	$ -	$ 200,000	$ 200,000	$ -
Total revenues	$ -	$ 280,000	$ 273,937	$ (6,063)
Expenditures				
Capital projects:				
School buses	$ -	$ 80,000	$ 73,937	$ 6,063
School computer technology	-	140,000	138,627	1,373
Maintenance equipment	-	40,000	35,969	4,031
Other	-	90,000	48,182	41,818
Total capital projects	$ -	$ 350,000	$ 296,715	$ 53,285
Excess (deficiency) of revenues over expenditures	$ -	$ (70,000)	$ (22,778)	$ 47,222
Net change in fund balance	$ -	$ (70,000)	$ (22,778)	$ 47,222
Fund balance, beginning of year	-	70,000	91,093	21,093
Fund balance, end of year	$ -	$ -	$ 68,315	$ 68,315

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 - 13
Demographic and Economic Information	
These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	14, 15
Operating Information	
These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	16 - 18

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

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CITY OF FREDERICKSBURG, VIRGINIA **Table 1**

Net Assets by Component
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Governmental activities:									
Invested in capital assets, net of related debt	$ 4,880,522	$ 18,210,496	$ 27,167,134	$ 68,520,864	$ 80,789,888	$ 81,234,288	$ 80,177,661	$ 81,665,145	$ 80,513,796
Unrestricted	28,326,393	29,766,767	59,025,733	42,907,819	31,075,783	28,429,225	24,379,848	22,042,434	23,055,185
Total governmental activities net assets	$ 33,206,915	$ 47,977,263	$ 86,192,867	$ 111,428,683	$ 111,865,671	$ 109,663,513	$ 104,557,509	$ 103,707,579	$ 103,568,981
Business-type activities:									
Invested in capital assets, net of related debt	$ 21,806,563	$ 21,954,260	$ 28,763,172	$ 27,183,315	$ 32,215,508	$ 29,319,742	$ 38,744,975	$ 39,780,366	$ 39,550,414
Unrestricted	13,149,428	12,692,077	11,123,212	17,550,170	15,618,080	21,584,625	12,503,966	13,022,965	16,473,376
Total business-type activities net assets	$ 34,955,991	$ 34,646,337	$ 39,886,384	$ 44,733,485	$ 47,833,588	$ 50,904,367	$ 51,248,941	$ 52,803,331	$ 56,023,790
Primary government:									
Invested in capital assets, net of related debt	$ 26,687,085	$ 40,164,756	$ 55,930,306	$ 95,704,179	$ 113,005,396	$ 110,554,030	$ 118,922,636	$ 121,445,511	$ 120,064,210
Unrestricted	41,475,821	42,458,844	70,148,945	60,457,989	46,693,863	50,013,850	36,883,814	35,065,399	39,528,561
Total primary government net assets	$ 68,162,906	$ 82,623,600	$ 126,079,251	$ 156,162,168	$ 159,699,259	$ 160,567,880	$ 155,806,450	$ 156,510,910	$ 159,592,771

Note: Accrual-basis financial information is available back to fiscal year 2003 when the City implemented GASB 34. The City did not record its infrastructure capital assets acquired prior to July 1, 2003, until fiscal year 2005.

CITY OF FREDERICKSBURG, VIRGINIA

Table 2

Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Expenses									
Governmental activities:									
General government	$ 3,667,325	$ 3,836,089	$ 4,105,737	$ 3,688,618	$ 5,546,499	$ 5,254,913	$ 5,760,023	$ 5,171,028	$ 5,407,587
Judicial administration	2,084,990	2,155,331	2,434,259	2,853,064	3,131,169	3,559,936	3,701,857	3,854,380	3,609,180
Public safety	12,950,555	13,448,595	14,424,379	15,922,143	18,155,708	19,073,783	20,056,605	20,200,427	19,937,181
Public works	5,280,143	5,342,332	6,689,270	8,278,001	9,099,097	9,882,486	10,194,381	10,964,359	10,707,212
Health and welfare	4,228,980	5,098,576	5,357,236	6,130,391	6,745,573	6,465,395	6,661,643	6,721,050	6,797,908
Education	15,556,786	14,232,858	15,942,171	18,961,723	24,108,406	28,328,165	27,341,339	26,228,250	26,383,137
Parks, recreation and cultural	3,007,944	3,302,359	3,648,639	4,029,638	4,485,451	4,588,059	4,400,464	3,936,068	4,031,435
Community development	2,022,708	1,914,617	1,972,940	2,186,347	2,619,455	2,344,557	1,965,407	1,819,607	1,930,369
Interest on long-term debt	817,031	1,180,917	2,951,161	3,110,420	2,991,013	2,948,621	2,859,774	2,674,176	2,542,424
Total governmental activities expenses	$ 49,616,462	$ 50,511,674	$ 57,525,792	$ 65,160,345	$ 76,882,371	$ 82,445,915	$ 82,941,493	$ 81,569,345	$ 81,346,433
Business-type activities:									
Water	$ 1,691,936	$ 1,691,301	$ 2,561,096	$ 2,381,713	$ 2,873,240	$ 3,148,696	$ 2,748,400	$ 2,882,295	$ 2,523,517
Sewer	2,610,054	2,566,538	2,708,274	3,077,612	3,538,756	4,172,099	4,476,638	4,156,245	4,975,289
Transit	1,085,071	1,156,280	1,464,268	2,124,171	2,491,330	3,345,639	3,893,458	3,600,428	3,887,158
Parking	-	-	19,575	297,067	441,343	495,917	493,920	528,819	460,950
Total business-type activities expenses	$ 5,387,061	$ 5,414,119	$ 6,753,213	$ 7,880,563	$ 9,344,669	$ 11,162,351	$ 11,612,416	$ 11,167,787	$ 11,846,914
Total primary government expenses	$ 55,003,523	$ 55,925,793	$ 64,279,005	$ 73,040,908	$ 86,227,040	$ 93,608,266	$ 94,553,909	$ 92,737,132	$ 93,193,347

Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Program Revenues									
Governmental activities:									
Charges for services:									
General government	$ 44,352	$ 35,159	$ 36,160	$ 41,889	$ 49,059	$ 50,515	$ 93,045	$ 79,215	$ 85,191
Judicial administration	77,388	65,162	66,795	230,864	122,520	112,162	106,210	196,474	219,127
Public safety	880,080	1,001,944	1,438,302	363,782	1,036,746	1,361,978	1,834,819	1,848,719	2,111,221
Public works	555,898	598,371	598,081	1,695,616	698,875	689,151	727,253	725,710	733,070
Parks, recreation and cultural	564,243	592,019	562,119	579,514	637,446	550,465	518,630	469,802	487,368
Community development	766	2,478	1,675	15,185	2,795	2,470	1,685	691	476
Operating grants and contributions	7,013,544	8,034,289	8,113,818	8,625,114	9,343,428	10,656,874	10,522,749	10,073,459	10,159,077
Capital grants and contributions	647,763	229,535	-	-	766,972	453,402	202,849	1,750,758	841,870
Total governmental activities program revenues	$ 9,784,034	$ 10,558,957	$ 10,816,950	$ 11,551,964	$ 12,657,841	$ 13,877,017	$ 14,007,240	$ 15,144,828	$ 14,637,400
Business-type activities:									
Charges for services:									
Water	$ 1,753,862	$ 1,870,329	$ 1,938,886	$ 2,056,764	$ 2,067,579	$ 2,150,126	$ 2,180,347	$ 2,261,200	$ 2,344,438
Sewer	2,926,124	3,101,699	3,103,723	3,073,788	3,168,327	3,264,915	3,457,792	3,742,221	3,821,281
Transit	28,604	32,157	45,830	50,416	54,952	116,661	159,741	271,610	274,395
Parking	-	-	-	28,563	83,520	106,916	130,281	192,461	238,240
Operating grants and contributions	2,605,140	2,695,011	4,350,268	5,887,681	4,427,535	4,560,490	4,342,760	5,270,270	6,621,263
Capital grants and contributions	-	22,289	2,328,265	739,857	2,391,013	2,301,859	566,957	931,897	870,726
Total business-type activities program revenues	$ 7,313,730	$ 7,721,485	$ 11,766,972	$ 11,837,069	$ 12,192,926	$ 12,500,967	$ 10,837,878	$ 12,669,659	$ 14,170,343
Total primary government program revenues	$ 17,097,764	$ 18,280,442	$ 22,583,922	$ 23,389,033	$ 24,850,767	$ 26,377,984	$ 24,845,118	$ 27,814,487	$ 28,807,743
Net (expense) / revenue									
Governmental activities	$ (39,832,428)	$ (39,952,717)	$ (46,708,842)	$ (53,608,381)	$ (64,224,530)	$ (68,568,898)	$ (68,934,253)	$ (66,424,517)	$ (66,709,033)
Business-type activities	1,926,669	2,307,366	5,013,759	3,956,506	2,848,257	1,338,616	(774,538)	1,501,872	2,323,429
Total primary government net expense	$ (37,905,759)	$ (37,645,351)	$ (41,695,083)	$ (49,651,875)	$ (61,376,273)	$ (67,230,282)	$ (69,708,791)	$ (64,922,645)	$ (64,385,604)

Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes:									
Property taxes	$ 19,529,042	$ 21,998,946	$ 22,552,006	$ 24,818,965	$ 27,037,526	$ 27,791,803	$ 29,632,428	$ 29,951,918	$ 31,254,682
Local sales and use taxes	9,966,988	11,537,324	11,994,065	12,856,512	12,892,369	12,746,040	11,929,648	10,043,091	10,191,895
Taxes on recordation and wills	334,216	277,548	708,156	985,477	818,353	715,884	460,085	406,123	468,241
Motor vehicle licenses taxes	159,618	160,089	165,647	298,240	310,039	300,786	377,547	375,553	429,626
Consumer utility taxes	2,497,143	2,780,470	2,882,555	2,910,053	2,036,988	1,527,028	1,517,109	1,677,699	1,644,628
Business licenses taxes	3,761,772	4,536,150	4,974,756	5,893,564	5,777,346	5,436,366	5,847,174	5,893,072	5,538,312
Meals taxes	4,562,821	5,395,346	5,987,400	6,402,076	6,418,546	7,042,409	7,080,021	8,132,542	8,842,347
Other local taxes	1,703,386	2,359,276	2,735,248	2,651,253	3,140,776	3,308,838	2,920,063	3,450,445	3,169,975
Unrestricted grants and contributions	1,925,405	1,799,222	1,989,643	2,145,364	1,992,420	2,027,309	1,967,696	3,810,995	3,909,817
Unrestricted revenues from use of money and property	1,449,961	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779
Gain / (loss) on disposal of assets	-	-	-	-	298,472	1,073,425	(846,807)	-	-
Miscellaneous	277,862	434,025	431,637	18,207,446	683,108	1,837,386	733,896	391,890	294,113
Transfers	-	-	-	-	764,695	834,798	856,580	904,224	385,020
Total governmental activities	$ 46,168,214	$ 51,853,847	$ 56,601,992	$ 79,174,644	$ 64,661,518	$ 66,366,740	$ 63,828,249	$ 65,574,587	$ 66,570,435
Business-type activities:									
Taxes:									
Other local taxes	$ -	$ -	$ -	$ -	$ 393,707	$ 536,846	$ 1,355,225	$ 321,058	$ 765,756
Unrestricted revenues from use of money and property	-	20,731	31,997	315,856	418,168	448,499	275,621	123,522	71,152
Miscellaneous	185,861	231,467	169,744	244,292	204,666	1,581,616	344,846	512,162	445,142
Transfers	-	-	24,547	-	(764,695)	(834,798)	(856,580)	(904,224)	(385,020)
Total business-type activities	$ 185,861	$ 252,198	$ 226,288	$ 560,148	$ 251,846	$ 1,732,163	$ 1,119,112	$ 52,518	$ 897,030
Total primary government	$ 46,354,075	$ 52,106,045	$ 56,828,280	$ 79,734,792	$ 64,913,364	$ 68,098,903	$ 64,947,361	$ 65,627,105	$ 67,467,465
Change in Net Assets									
Governmental activities	$ 6,335,786	$ 11,901,130	$ 9,893,150	$ 25,566,263	$ 436,988	$ (2,202,158)	$ (5,106,004)	$ (849,930)	$ (138,598)
Business-type activities	2,112,530	2,559,564	5,240,047	4,516,654	3,100,103	3,070,779	344,574	1,554,390	3,220,459
Total primary government	$ 8,448,316	$ 14,460,694	$ 15,133,197	$ 30,082,917	$ 3,537,091	$ 868,621	$ (4,761,430)	$ 704,460	$ 3,081,861

Note: Accrual-basis financial information is available back to fiscal year 2003 when the City implemented GASB 34.

CITY OF FREDERICKSBURG, VIRGINIA **Table 3**

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

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
General fund										
Reserved	$ 477,061	$ 326,832	$ 506,004	$ 422,747	$ 248,573	$ 747,450	$ 225,153	$ 189,721	$ 445,308	$ -
Unreserved	18,152,895	17,343,550	22,354,035	26,847,192	23,232,843	20,924,343	17,975,842	15,924,951	17,272,991	-
Nonspendable	-	-	-	-	-	-	-	-	-	44,611
Committed	-	-	-	-	-	-	-	-	-	5,257,805
Assigned	-	-	-	-	-	-	-	-	-	373,829
Unassigned	-	-	-	-	-	-	-	-	-	13,662,911
Total general fund	$ 18,629,956	$ 17,670,382	$ 22,860,039	$ 27,269,939	$ 23,481,416	$ 21,671,793	$ 18,200,995	$ 16,114,672	$ 17,718,299	$ 19,339,156
All other governmental funds										
Reserved	$ 4,066,022	$ 917,284	$ 283,399	$ 2,551,352	$ 421,979	$ 500,819	$ 870,711	$ 1,232,229	$ 250,474	$ -
Unreserved, reported in:										
Special revenue funds	1,943,344	2,565,757	3,186,317	3,392,644	3,634,866	3,606,488	2,730,594	3,255,921	3,346,494	-
Capital projects funds	6,938,287	10,196,613	53,849,607	30,128,715	19,040,047	9,716,246	11,504,973	9,629,901	7,938,299	-
Restricted, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	-	193,070
Committed, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	-	2,480,555
Capital projects funds	-	-	-	-	-	-	-	-	-	1,981,075
Assigned, reported in:										
Capital projects funds	-	-	-	-	-	-	-	-	-	7,653,041
Total all other governmental funds	$ 12,947,653	$ 13,679,654	$ 57,319,323	$ 36,072,711	$ 23,096,892	$ 13,823,553	$ 15,106,278	$ 14,118,051	$ 11,535,267	$ 12,307,741

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

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
General property taxes	$ 18,817,668	$ 19,658,874	$ 22,038,643	$ 22,575,809	$ 24,052,400	$ 27,608,258	$ 27,840,128	$ 29,410,334	$ 29,903,318	$ 31,240,415
Other local taxes	20,308,612	22,985,944	27,046,203	29,447,827	31,997,175	31,394,417	31,077,351	30,131,647	29,978,525	30,285,024
Permits, privilege fees and regulatory licenses	411,268	413,773	499,110	988,302	1,117,018	753,661	653,453	717,349	822,476	945,035
Fines and forfeitures	363,912	466,307	502,834	450,000	339,338	283,035	408,580	466,213	344,897	586,421
Revenue from use of money and property	1,655,617	1,449,961	575,451	2,180,879	2,005,694	2,490,880	1,724,668	1,352,809	537,035	441,779
Charges for services	1,196,574	1,242,647	1,293,189	1,264,830	1,470,494	1,510,745	1,704,708	2,098,080	2,153,238	2,104,997
Miscellaneous	1,120,525	277,862	434,025	468,884	1,026,316	683,108	563,376	392,910	391,890	257,448
Recovered costs	1,173,621	729,646	1,589,560	1,425,432	1,180,093	1,917,637	1,694,312	1,364,758	1,256,605	1,004,106
Intergovernmental:										
Commonwealth	6,964,179	7,276,493	7,204,137	7,615,919	8,141,771	8,703,743	10,169,012	9,936,350	11,239,010	11,490,604
Federal	1,993,890	2,310,219	2,858,909	2,487,542	2,628,707	2,949,077	2,968,573	2,756,944	3,337,402	3,221,610
Total revenues	$ 54,005,866	$ 56,811,726	$ 64,042,061	$ 68,905,424	$ 73,959,006	$ 78,294,561	$ 78,804,161	$ 78,627,394	$ 79,964,396	$ 81,577,439
Expenditures										
General government administration	$ 3,136,650	$ 3,544,021	$ 3,620,386	$ 3,956,701	$ 4,094,919	$ 4,720,227	$ 5,047,982	$ 5,402,264	$ 4,785,487	$ 5,034,113
Judicial administration	2,023,991	2,173,551	2,260,530	2,494,022	2,946,064	3,233,832	3,575,964	3,324,483	3,326,241	3,347,017
Public safety	11,466,442	12,653,369	13,210,581	14,051,770	15,361,207	17,375,049	18,603,995	18,220,229	18,666,202	18,154,890
Public works	5,021,480	5,067,820	5,655,233	5,767,195	6,452,638	6,785,769	7,273,319	7,206,095	7,648,942	7,430,631
Health and welfare	4,381,046	4,602,554	5,491,600	5,814,011	6,245,485	7,119,818	6,859,859	6,976,070	7,004,337	7,136,173
Education	47,864	15,556,786	14,839,742	15,942,171	18,961,723	21,631,305	24,441,360	25,202,840	24,143,850	24,343,841
Parks, recreation and cultural	2,854,800	2,879,319	3,108,829	3,432,702	3,811,195	3,928,293	4,053,007	4,090,417	3,441,368	3,389,943
Community development	2,596,914	2,460,671	2,026,074	2,030,189	2,174,694	2,975,019	2,732,018	2,380,204	2,168,755	2,255,173
Capital projects	7,513,543	4,811,374	15,286,264	27,965,223	30,809,180	16,439,420	6,735,321	3,456,377	4,792,112	2,675,390
Debt service										
Principal	1,776,054	2,520,546	1,804,469	1,933,645	2,897,462	3,040,925	3,296,107	3,126,779	3,026,695	3,127,831
Interest and other fiscal charges	1,028,277	941,679	779,714	2,329,960	3,147,613	3,191,033	3,064,543	3,046,535	2,843,788	2,710,791
Total expenditures	$ 41,847,061	$ 57,211,690	$ 68,083,422	$ 85,717,589	$ 96,902,180	$ 90,440,690	$ 85,683,475	$ 82,432,293	$ 81,847,777	$ 79,605,793
Excess (deficiency) of revenues over expenditures	$ 12,158,805	$ (399,964)	$ (4,041,361)	$ (16,812,165)	$ (22,943,174)	$ (12,146,129)	$ (6,879,314)	$ (3,804,899)	$ (1,883,381)	$ 1,971,646
Other financing sources (uses)										
Transfers in	$ 221,303	$ 172,391	$ 2,869,218	$ 210,862	$ 228,217	$ 764,695	$ 834,798	$ 10,133,320	$ 9,732,457	$ 11,913,628
Transfers out	(13,339,139)	-	-	(235,409)	(558,664)	-	-	(9,276,740)	(8,828,233)	(11,528,608)
Refunding bonds issued	9,675,841	-	-	-	-	-	-	2,672,836	-	-
Bonds issued	6,824,460	-	48,095,000	-	6,509,279	-	2,462,150	-	-	-
Premium on bonds issued	-	-	1,906,469	-	-	-	64,015	-	-	-
Payments to refunded bond escrow agent	(9,675,841)	-	-	-	-	-	-	(2,650,207)	-	-
Sale of capital assets	-	-	-	-	-	298,472	1,105,125	76,293	-	36,665
Total other financing sources (uses)	$ (6,293,376)	$ 172,391	$ 52,870,687	$ (24,547)	$ 6,178,832	$ 1,063,167	$ 4,466,088	$ 955,502	$ 904,224	$ 421,685
Net change in fund balances	$ 5,865,429	$ (227,573)	$ 48,829,326	$ (16,836,712)	$ (16,764,342)	$ (11,082,962)	$ (2,413,226)	$ (2,849,397)	$ (979,157)	$ 2,393,331
Debt service as a percentage of noncapital expenditures	8.17%	6.69%	4.96%	7.44%	9.04%	8.19%	8.03%	7.84%	7.59%	7.53%

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
2002	$ 18,817,668	$ 8,196,684	$ 2,517,378	$ 3,432,061	$ 167,346	$ 489,445	$ 199,467	$ 147,844	$ 509,259	$ 4,162,786	$ 38,639,938
2003	19,658,874	9,966,988	2,497,143	3,761,772	159,618	425,193	334,216	147,270	527,818	4,562,821	42,041,713
2004	22,038,643	11,537,324	2,780,470	4,536,150	160,089	519,107	277,548	195,098	605,936	5,395,346	48,045,711
2005	22,575,809	11,994,065	2,882,555	4,974,756	165,647	501,213	708,156	898,413	718,473	5,987,400	51,406,487
2006	24,052,400	12,856,512	2,910,053	5,893,564	298,240	546,953	985,477	613,471	808,010	6,402,076	55,366,756
2007	27,608,258	12,892,369	2,036,988	5,777,346	310,039	567,273	818,353	612,462	860,935	6,418,546	57,902,569
2008	27,840,128	12,746,040	1,527,028	5,436,366	300,786	459,020	715,884	593,940	918,952	7,042,409	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	58,778,067
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

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
2002	$ 1,269,438,700	$ 1.13	$ 161,827,429	$ 2.99	$ 17,377,105	$ 0.80	$ 80,502,860	$ 1,436,700	$ 1,530,582,794	$ 1.33	$ 1,530,582,794	100.00%
2003	1,303,778,900	1.13	166,499,597	2.99	14,883,250	0.80	83,318,479	1,436,700	1,569,916,926	1.34	1,569,916,926	100.00%
2004	1,902,889,000	0.89	170,590,770	2.99	14,184,964	0.80	78,948,771	1,856,400	2,168,469,905	1.06	2,168,469,905	100.00%
2005	1,931,966,200	0.89	182,889,067	2.99	12,921,115	0.80	81,650,555	1,856,400	2,211,283,337	1.07	2,211,283,337	100.00%
2006	2,074,818,500	0.89	219,561,613	2.99	11,754,265	0.80	49,453,104	1,856,400	2,357,443,882	1.09	2,357,443,882	100.00%
2007	2,241,072,600	0.89	238,522,432	2.99	10,016,867	0.80	41,254,287	1,856,400	2,532,722,586	1.09	2,532,722,586	100.00%
2008	4,045,740,800	0.53	247,570,187	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%

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
2002	$ 1.13	$ 2.99	$ 1.13	$ 0.80	$ 1.33
2003	1.13	2.99	1.13	0.80	1.34
2004	0.89	2.99	0.89	0.80	1.06
2005	0.89	2.99	0.89	0.80	1.07
2006	0.89	2.99	0.89	0.80	1.09
2007	0.89	2.99	0.89	0.80	1.09
2008	0.53	2.99	0.53	0.80	0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86

(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 2011 2010-2011 Assessed Valuation	Rank	% of Total Assessed Valuation (1)	Fiscal Year 2002 2001-2002 Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Fredericksburg 35 LLC	Central Park property	$ 105,476,300	1	2.89 %	$ -		- %
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	49,410,200	2	1.35	22,120,100	3	1.64
Celebrate Virginia South LLC	Office buildings, retail	43,188,500	3	1.18	-		-
Virginia Electric & Power Co.	Public utility	39,740,474	4	1.09	24,681,498	2	1.83
Verizon Virginia, Inc.	Public utility	39,093,293	5	1.07	29,432,894	1	2.18
Central Park Marketplace Holdings LLC	Central Park property	38,280,700	6	1.05	-		-
2520 Belmont Terrace Holdings	Apartment complex	30,913,400	7	0.85	-		-
Wal-Mart Real Estate Business	Retail	25,048,100	8	0.68	-		-
Hylton Venture LLC	Land development	24,545,200	9	0.67	-		-
Carl D. Silver Holdings, Co.	Various commercial	23,332,300	10	0.64	-		-
Town Center - Central Park	Restaurants, ice park, office building	-		-	15,743,600	4	1.16
Riverside Manor	Apartment complex	-		-	13,545,000	5	1.00
Lowes Home Center, Inc.	Retail	-		-	11,029,800	6	0.82
Fredericksburg Park & Shop LP	Shopping center	-		-	10,820,300	7	0.80
Summit/Belmont, LP	Apartment complex	-		-	10,600,900	8	0.78
Carl D. Silver, Co.	Hotels	-		-	10,391,200	9	0.77
NHC Partnership 4 LP	Apartment complex	-		-	9,805,100	10	0.72
Total		$ 419,028,467		11.47 %	$ 158,170,392		11.70 %

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)
2002	$ 20,299,165	$ 20,021,483	98.63%	$ 205,870	$ 20,227,353	99.65%
2003	21,078,696	20,898,738	99.15%	130,315	21,029,053	99.76%
2004	23,173,114	22,971,933	99.13%	161,110	23,133,043	99.83%
2005	24,116,517	23,928,589	99.22%	147,597	24,076,186	99.83%
2006	26,936,577	26,561,519	98.61%	303,259	26,864,778	99.73%
2007	28,552,323	28,097,519	98.41%	391,488	28,489,007	99.78%
2008	29,330,707	28,961,391	98.74%	293,265	29,254,656	99.74%
2009	30,902,557	30,222,352	97.80%	514,909	30,737,261	99.47%
2010	32,129,525	31,050,501	96.64%	507,403	31,557,904	98.22%
2011	33,269,826	32,103,892	96.50%	-	32,103,892	96.50%

(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	Literary Fund Loans	General Obligation Bonds	Other Notes/ Bonds	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
2002	$ 22,790,306	$ 100,000	$ 4,929,773	$ -	$ 27,820,079	4.53%	$ 1,365
2003	20,319,760	50,000	4,530,240	-	24,900,000	3.91%	1,206
2004	66,660,291	-	4,134,709	-	70,795,000	10.26%	3,317
2005	64,726,646	-	3,778,501	4,035,000	72,540,147	9.68%	3,339
2006	68,329,184	-	7,670,963	-	76,000,147	9.46%	3,448
2007	65,288,259	-	7,226,888	-	72,515,147	8.34%	3,201
2008	64,454,302	-	14,945,845	-	79,400,147	8.78%	3,467
2009	61,350,152	-	14,246,995	-	75,597,147	8.24%	3,237
2010	58,323,457	-	19,700,689	-	78,024,146	8.18%	3,213
2011	55,195,626	-	18,696,521	-	73,892,147	7.75%	3,043

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

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

CITY OF FREDERICKSBURG, VIRGINIA **Table 11**

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

Fiscal Year	Gross Bonded Debt	Less: Amounts Reserved for Debt Service	Net Bonded Debt (1)	Ratio of Net General Obligation Debt to Assessed Value (2)	Net Bonded Debt per Capita (3)
2002	$ 27,820,079	$ -	$ 27,820,079	1.82%	$ 1,365
2003	24,900,000	-	24,900,000	1.59%	1,206
2004	70,795,000	-	70,795,000	3.26%	3,317
2005	72,540,147	-	72,540,147	3.28%	3,339
2006	76,000,147	-	76,000,147	3.22%	3,448
2007	72,515,147	-	72,515,147	2.86%	3,201
2008	79,400,147	-	79,400,147	1.82%	3,467
2009	75,597,147	-	75,597,147	1.70%	3,237
2010	78,024,146	-	78,024,146	2.02%	3,213
2011	73,892,147	-	73,892,147	1.88%	3,043

(1) Excludes revenue bonds, capital leases, compensated absences, landfill postclosure costs, net OPEB obligation payable, and unamortized bond premium.
(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 6.
(3) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 14.

CITY OF FREDERICKSBURG, VIRGINIA **Table 12**

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Debt limit	$ 80,602,006	$ 82,545,570	$ 115,844,874	$ 119,047,390	$ 124,498,301	$ 132,869,049	$ 231,895,610	$ 237,514,942	$ 207,207,276	$ 211,856,637
Total net debt applicable to limit	27,820,079	24,900,000	70,795,000	72,540,147	76,000,147	72,515,147	79,400,147	75,597,147	78,024,146	73,892,147
Legal debt margin	$ 52,781,927	$ 57,645,570	$ 45,049,874	$ 46,507,243	$ 48,498,154	$ 60,353,902	$ 152,495,463	$ 161,917,795	$ 129,183,130	$ 137,964,490
Total net debt applicable to the limit as a percentage of debt limit	34.52%	30.17%	61.11%	60.93%	61.05%	54.58%	34.24%	31.83%	37.66%	34.88%

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed value	$ 3,648,610,943
Add back: exempt real property	765,069,000
Total assessed value	$ 4,413,679,943
Debt limit (4.8% of total assessed value)	$ 211,856,637
Net debt applicable to limit	73,892,147
Legal debt margin	$ 137,964,490

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
2002	$ 6,294,872	$ 3,698,729	$ 2,596,143	$ 1,014,900	$ 795,509	$ 1.43
2003	6,164,964	3,547,818	2,617,146	1,098,061	767,997	1.40
2004	6,233,777	3,717,094	2,516,683	1,153,404	606,067	1.43
2005	7,885,646	5,102,334	2,783,312	1,168,757	167,036	2.08
2006	9,346,467	5,049,094	4,297,373	1,197,949	410,231	2.67
2007	7,517,175	6,045,570	1,471,605	1,224,349	366,426	0.93
2008	7,142,159	6,799,902	342,257	1,272,693	520,893	0.19
2009	7,361,317	6,559,626	801,691	1,514,393	665,412	0.37
2010	7,693,179	6,388,224	1,304,955	1,583,149	650,316	0.58
2011	10,049,028	6,710,195	3,338,833	1,860,357	788,611	1.26

CITY OF FREDERICKSBURG, VIRGINIA **Table 14**

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)
2002	20,381	$ 614,222,197	$ 30,137	2,278	5.9%
2003	20,641	636,568,440	30,840	2,278	5.4%
2004	21,342	690,264,306	32,343	2,384	5.1%
2005	21,724	749,630,068	34,507	2,418	4.8%
2006	22,044	802,996,788	36,427	2,447	4.0%
2007	22,651	869,209,474	38,374	2,511	4.1%
2008	22,899	904,258,611	39,489	2,540	5.7%
2009	23,353	916,885,486	39,262	2,655	9.2%
2010	24,286 *	953,516,932	39,262	2,793	9.6%
2011	24,286 *	953,516,932	39,262	3,037	10.3%

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

CITY OF FREDERICKSBURG, VIRGINIA **Table 15**

Principal Employers
Current Year and the Period Nine Years Prior

	Fiscal Year 2011			Fiscal Year 2002	
Employer	**Number of Employees (1)**	**Rank**	**Percentage of Total Employment**	**Number of Employees (2)**	**Rank**
Mary Washington Hospital	4,251	1	34.68%	1000 and Over	1
University of Mary Washington	824	2	6.72%	500 to 999	2
City of Fredericksburg School Board	658	3	5.37%	250 to 499	4
City of Fredericksburg	624	4	5.09%	500 to 999	3
Wal-Mart	508	5	4.14%	250 to 499	5
Wegmans	502	6	4.10%	-	-
Free Lance Star Publishing, Inc.	393	7	3.21%	250 to 499	6
Rappahannock Goodwill Industries	199	8	1.62%	100 to 249	7
OS Restaurant Services	191	9	1.56%	-	-
Target	177	10	1.44%	100 to 249	9
Lowe's Home Centers, Inc.	-	-	-	100 to 249	8
Home Depot USA, Inc.	-	-	-	100 to 249	10

(1) Source: Department of Economic Development and Tourism.
(2) For fiscal year 2002 only ranges were available from the Virginia Employment Commission.

CITY OF FREDERICKSBURG, VIRGINIA **Table 16**

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

	Fiscal Year									
Function	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
General government	34	37	37	37	37	41	43	40	38	41
Judicial administration	31	31	31	30	35	42	41	39	38	39
Public safety	158	162	163	162	169	166	162	162	164	162
Public works	70	73	70	73	69	87	86	81	75	73
Health and welfare	31	31	33	32	34	33	35	35	35	34
Parks and recreation	13	13	13	13	16	16	19	17	17	17
Community development	10	8	11	11	11	12	13	12	12	12
Water	3	4	4	4	7	9	9	10.5	10.5	10
Wastewater	16	16	15	16	16	18	21	18.5	16.5	19
Transit	5	5	5	5	6	11	12	13	13	13
Parking garage	-	-	-	-	-	1	1	1	1	1
Totals	371	380	382	383	400	436	442	429	420	421

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Public safety:										
Police department:										
Physical arrests	3,131	3,407	3,281	3,656	3,805	2,839	2,850	3,168	3,477	3,772
Traffic violations	8,827	10,935	12,496	10,644	9,500	6,167	7,290	7,335	6,546	7,937
Parking violations	-	6,999	11,791	10,431	10,449	10,055	10,671	8,397	7,467	7,223
Sheriffs department:										
Civil papers	35,168	37,272	39,771	40,314	40,502	42,279	44,088	41,379	48,074	48,918
Fire and rescue:										
Number of calls answered	-	3,971	4,794	5,159	5,450	5,728	6,145	5,885	5,882	5,825
Inspections	-	-	1,432	1,434	1,542	2,531	3,111	2,265	2,489	2,446
Building inspections:										
Permits issued	1,817	2,100	2,192	3,528	3,820	2,395	1,781	1,541	1,486	1,633
Animal control:										
Number of calls answered	893	897	899	901	992	1,163	1,010	811	1,015	897
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	440	370	315	518	483	483	311	277	327	517
Waste removal:										
Refuse collected (thousands of pounds/day)	25.7	26.9	29.4	30.3	28.8	24.3	24.7	20.6	21.4	20.7
Recycling collected:										
Leaves (cubic yards)	5,709	4,939	4,972	5,049	5,577	5,379	6,292	5,604	5,604	5,038
General services:										
Buildings maintained (thousands of square feet)	236.0	208.0	375.5	375.5	418.6	494.1	473.2	471.7	471.7	475.1
Culture and recreation:										
Parks and recreation:										
Number of programs	198	214	250	370	385	403	518	510	464	471
Number of participants	10,020	10,830	12,650	14,260	15,300	17,055	20,964	18,563	16,193	19,082
Community development:										
Planning:										
Zoning permits issued (1) (2)	330	337	391	327	309	289	237	291	260	283

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Water:										
Number of connections	6,126	6,293	6,435	6,696	7,062	7,245	7,274	7,351	7,453	7,614
Average daily consumption (thousands of gallons)	2,396	2,269	2,362	2,394	2,718	2,529	2,639	2,492	2,334	2,557
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,167	2,829	2,739	2,389	2,181	2,454	2,700	2,794	3,210	2,700
Transit:										
Ridership per service area: (3)										
City of Fredericksburg	155,586	161,329	181,743	185,663	177,833	184,670	208,410	273,685	261,238	274,540
UMW - Eagle Express	14,140	14,530	17,697	18,667	15,996	17,723	16,444	15,014	12,030	15,323
Spotsylvania County	36,751	36,764	39,059	40,514	40,730	44,659	81,315	113,669	97,343	96,248
South Stafford County	6,878	19,181	21,678	25,043	30,900	34,808	32,112	39,234	40,830	45,288
North Stafford County	-	-	-	9,908	44,445	53,957	62,895	77,303	74,369	70,397
Caroline County	834	3,834	5,924	5,701	5,647	5,855	6,189	8,160	7,155	5,882
King George County	-	-	-	1,020	7,803	10,727	15,867	21,550	16,792	16,993
Component Unit - School Board:										
Education:										
Number of students	2,278	2,278	2,384	2,418	2,447	2,511	2,540	2,655	2,793	3,037
Number of teachers	196	230	239	238	248	251	256	257	256	258
Cost per pupil	$ 9,581	$ 10,507	$ 11,429	$ 11,867	$ 13,131	$ 13,403	$ 14,416	$ 13,911	$ 13,276	$ 11,882

Source: Individual city departments.

(1) Includes home occupation permits, certificates of zoning use, zoning variances, and certificates of appropriateness.

(2) Data presented on a calendar year basis (FY2002 - FY2008).

(3) Transit indicators are presented from the first year of operation for each service area.

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	-	22	22	22	25	30	35	33	31	31
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	-	6	6	6	7	7	7	8	8	8
Sheriffs department:										
Patrol units	-	12	13	15	16	18	14	15	15	15
Building inspections:										
Vehicles	-	4	4	4	5	7	7	7	7	7
Animal control:										
Vehicles	-	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	-	21	21	22	22	22	22	22	21	20
Streets (moving lane miles)	172	172	172	174	183	189	189	189	189	189
Traffic signals	46	50	52	52	57	61	61	61	61	61
Waste removal:										
Trucks/vehicles	-	7	7	7	7	7	7	7	8	10
Building maintenance:										
Trucks/vehicles	-	6	7	8	10	9	10	8	10	10
Health and welfare:										
Department of Social Services:										
Vehicles	-	5	5	6	6	6	6	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
Function	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	-	15	14	13	13	14	13	15	13	13
Parks	9	10	10	12	12	13	13	13	17	18
Park acreage	935	949	949	1,003	1,003	1,009	1,015	1,015	1,051	1,055
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	4	4	4	4	5	5	5	5	5	5
School buses	-	41	35	35	33	36	36	36	37	38

Source: Individual city departments.

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 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, 2011, which collectively comprise the City of Fredericksburg, Virginia's basic financial statements and have issued our report thereon dated October 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fredericksburg, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fredericksburg, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fredericksburg, Virginia's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Fredericksburg, Virginia in a separate letter dated October 10, 2011.

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
October 10, 2011

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fredericksburg, Virginia's management. Our responsibility is to express an opinion on the City of Fredericksburg, Virginia's compliance based on our audit.

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

In our opinion, the City of Fredericksburg, Virginia complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The management of the City of Fredericksburg, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fredericksburg, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Internal Control Over Compliance: (Continued)

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
October 10, 2011

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government:			
Department of Agriculture:			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010110/001011	$ 347,604
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0040110/0040111	12,489
Total Department of Agriculture			$ 360,093
Department of Housing and Urban Development:			
Direct Payments:			
CDBG - Entitlement Grants Cluster:			
ARRA - Community Development Block Grant - ARRA Entitlement Grants (CDBG-R)	14.253	N/A	$ 20,198
Community Development Block Grant - Entitlement Grants	14.218	N/A	180,935
Total Department of Housing and Urban Development			$ 201,133
Department of Justice:			
Pass-through Payments:			
Department of Criminal Justice Services:			
JAG Program Cluster			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government	16.804	2009-SU-B9-0033	$ 1,067
Edward Byrne Memorial Justice Assistance Grant Program	16.738	39001-41000/61000	100,634
Total JAG Program Cluster			$ 101,701
Crime Victim Assistance	16.575	39001-45000/86000	$ 45,124
ARRA - State Victim Assistance Formula Grant Program	16.801	39001-62300	16,847
Total Department of Justice			$ 163,672
Department of Transportation:			
Direct Payments:			
Highway Planning and Construction	20.205	N/A	$ 232,712
Pass-through Payments:			
Virginia Department of Rail and Public Transportation:			
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500	VA-95-X042-00/ VA-95-X021-00/ VA-90-X299-00/ VA-90-X268-00	726,523
Federal Transit - Formula Grants	20.507	60901-42009/42010	1,339,725
Total Federal Transit Cluster			$ 2,298,960
Virginia Department of Motor Vehicles:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	60507-50257/51355	15,032
Total Department of Transportation			$ 2,313,992

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2011 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Primary Government: (continued)			
Department of Health and Human Services:			
Pass-through Payments:			
Department of Social Services:			
CCDF Cluster:			
Child Care and Development Block Grant	93.575	0770110/0770111	$ 356,536
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760110/0760111	386,378
ARRA - Child Care and Development Block Grant	93.713	740109	24,031
Total CCDF Cluster			$ 766,945
Foster Care - Title IV-E	93.658	1100110/1100111	$ 290,913
ARRA - Foster Care - Title IV-E	93.658	1100110/1100111	11,970
Total 93.658			$ 302,883
Adoption Assistance	93.659	1120110/1120111	$ 193,570
ARRA - Adoption Assistance	93.659	1120110/1120111	12,327
Total 93.659			$ 205,897
Promoting Safe and Stable Families	93.556	0950110/0950111	9,677
Temporary Assistance for Needy Families	93.558	0400110/0400111	288,225
Refugee and Entrant Assistance State Administered Programs	93.566	0500110/0500111	6,127
Low-Income Home Energy Assistance	93.568	0600410/0600411	18,198
Chafee Education & Training Vouchers Program	93.599	9160110	2,813
Child Welfare Services - State Grants	93.645	0900110/0900111	1,351
Social Services Block Grant	93.667	1000110/1000111	194,258
Chafee Foster Care Independence Program	93.674	9150110/9150111	5,569
Children's Health Insurance Program	93.767	0540110/0540111	10,801
Medical Assistance Program	93.778	1200110/1200111	209,711
Total Department of Health and Human Services			$ 2,022,455
Department of Homeland Security:			
Direct Payments:			
Emergency Food and Shelter National Board Program	97.024	N/A	$ 21,436
Pass-through Payments:			
Department of Emergency Services:			
Disaster Grants - Public Assistance	97.036	77602-00146/00148	147,495
State Homeland Security Program	97.073	77501-52708/52709	46,900
Emergency Management Performance Grant	97.042	77501-52740	10,680
Total Department of Homeland Security			$ 226,511
Total Expenditures of Federal Awards - Primary Government			$ 5,287,856
Component Unit - School Board:			
Department of Agriculture:			
Pass-through Payments:			
Virginia Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program (SL-4) (SL-11)	10.555	10.555/2010/2011	$ 723,611
Food Distribution Service	10.555	10.555/2010/2011	86,930
Total 10.555			$ 810,541
School Breakfast Program	10.553	10.553/2010/2011	$ 240,159
Total Department of Agriculture			$ 1,050,700

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
Year Ended June 30, 2011 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Component Unit - School Board: (continued)			
Department of Health and Human Services:			
Direct Payments:			
Head Start	93.600	N/A	$ 1,008,634
Total Department of Health and Human Services			$ 1,008,634
Department of Education:			
Pass-through Payments:			
Virginia Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A100046/ S010A090046	$ 821,577
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	S389A090046	134,855
Total Title I, Part A Cluster			$ 956,432
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A100107	$ 571,853
ARRA - Special Education - Grants to States, Recovery Act	84.391	H391A090107	217,470
Special Education - Preschool Grants	84.173	H173A090112 H173A100112	18,796
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	H392A090112	15,403
Total Special Education Cluster (IDEA)			$ 823,522
Educational Technology State Grants Cluster:			
Education Technology State Grants	84.318	S318X080046 S318X090046	$ 122,937
ARRA - Education Technology State Grants, Recovery Act	84.386	S386A090046	8,288
Total Educational Technology State Grants Cluster			$ 131,225
School Improvement Grants	84.377	S377A080047	76,476
Safe and Drug Free Schools and Communities	84.186	Q186A090048	4,289
English Language Acquisition Grants	84.365	S365A090046 T365A080046	24,006
Career and Technical Education - Basic Grants to States	84.048	V048A100046 V048A090046	66,516
ARRA - State Fiscal Stabilization Funds - Education State Grants, Recovery Act	84.394	S394A090047	117,724
ARRA - Education Jobs Fund	84.410	S410A100047	337,755
Improving Teacher Quality State Grants	84.367	S367A090044 S367A100044	161,320
Total Department of Education			$ 2,699,265
Total Expenditures of Federal Awards - Component Unit School Board			$ 4,758,599
Total Expenditures of Federal Awards - Reporting Entity			$ 10,046,455
Loans and loan guarantees not included in the above as federal assistance:			
Environmental Protection Agency:			
Pass-through Payments:			
State Water Control Board:			
Capitalization Grants for Clean Water State Revolving Fund - balance of loan as of June 30, 2011	66.458	51503-90301	$ 2,638,594

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, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note 3 - Amounts Passed-Through to Subrecipients

Grant proceeds in the amount of $53,712 were were received on behalf of subrecipients for the CDBG - Entitlement Grants Cluster for the year ended June 30, 2011.

Note 4 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:		
Primary Government:		
General Fund	$	49,000
Special Revenue Funds:		
Virginia Public Assistance Fund		2,365,665
City Grants Fund		430,321
Capital Projects Funds:		
Public Works Construction Fund		340,259
Public Facilities Construction Fund		36,365
Proprietary Funds:		
Transit Fund		2,066,246
Wastewater Fund		61,661
Total Primary Government	$	5,349,517
Component Unit School Board:		
School Operating Fund	$	1,091,748
School Grants Fund		3,666,851
Total Component Unit School Board	$	4,758,599
Less: Build America Bonds Interest Subsidy	$	(61,661)
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	$	10,046,455

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
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 auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
14.253/14.218	CDBG - Entitlement Grants Cluster
93.659	Adoption Assistance
93.659	ARRA - Adoption Assistance
93.658	Foster Care - Title IV-E
93.658	ARRA - Foster Care - Title IV-E
84.410	ARRA - Education Jobs Fund
84.394	ARRA - State Fiscal Stabilization Funds - Education State Grants, Recovery Act
84.027/84.173/84.391/84.392	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	$301,394
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.

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2011

There were no prior year findings or questioned costs.