

CITY OF FREDERICKSBURG, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2006

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CITY OF FREDERICKSBURG, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2006

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**Phillip L. Rodenberg**  
City Manager



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

**Beverly R. Cameron**  
Assistant City Manager

October 31, 2006

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, 2006.

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, 2006, 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, 2006, 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 within a 500-mile radius of nearly one-half the nation's population and manufacturing activity. The City currently has a land area of 10.4 square miles and serves a population of 20,732.

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 annual budget serves as the foundation for the City's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of the fiscal year. After a required public hearing on the budget is held, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable. City Council must approve all budget revisions once the appropriation ordinance has been adopted. The annual budgets are prepared for all governmental funds, except for the Central Park Special Tax District Fund, the Fall Hill Special Tax District Fund and the Celebrate Virginia 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 12. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in Exhibit 23.

## **Economic Condition and Outlook**

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

The City's nationally recognized 40-block Historic District continues to be a major component of the local economy. The Historic "Old Town" District, with its 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.

The City's strong economy continues to make it possible for the City to fund numerous capital improvement projects in the areas of education, recreation, public safety, and infrastructure. A number of the projects have already been initiated while several others are in various stages of planning and development.

The new James Monroe High School was nearing completion at June 30, 2006. The new high school will feature classroom accommodations for 1,000 students and core facilities for 1,200 students. The total projected cost of this project is \$36,929,000.

Work continued on the Dixon Street Athletic Complex during fiscal year 2006. The first phase of the project, involving the construction of athletic fields, a concession stand/comfort station, pathways, parking lots, a maintenance and operations facility and a preserved wetlands area, was completed in July 2005 at a cost of \$4,750,000. The second phase of the recreation complex, a public outdoor leisure pool, was nearing completion at June 30, 2006. The architectural features of this project include a 7,000 square foot pool, including water play features and an adventure slide, a 5,000 square foot concession area, a 1,200 square foot mechanical building, and a parking lot and walkways. The total cost of the pool is projected to be \$3,730,000. Phase three of the athletic complex will be the construction of a community center, which will also serve as a replacement facility for the existing Dorothy Hart Community Center. The timing for the construction of the community center has not yet been determined.

The Kenmore Watershed Drainage Improvements project was completed during the 2006 fiscal year. This project involved increasing the capacity of lateral pipes along Kenmore Avenue, reducing flow restrictions of the flumes under Kenmore Avenue, and diverting overflow of Gayles pond to the Rappahannock Canal. These improvements were necessary to reduce the potential for future flooding in the Kenmore Watershed. This project was completed at a total cost of \$1,200,000.

The new Sophia Street Parking Garage was completed and operational in November 2005. The total cost of the garage was \$6,100,000. This 296-space garage, the first parking garage project in Virginia constructed utilizing the Public-Private Education Facilities and Infrastructure Act, will

## **Economic Condition and Outlook: (Continued)**

support the City's parking needs by providing parking space to tourists, retail shoppers, workers and citizens. The garage will also function as a catalyst for future planned enhancements for Downtown Fredericksburg.

Construction on a new police headquarters began during fiscal year 2006. This 35,000 square foot facility, located on Cowan Boulevard, will provide ample space and permit necessary staff growth for all department functions to include patrol, investigation, administrative support services, animal control, and communications. Completion of this project is expected in May 2007 at a total projected cost of \$11,000,000.

A strong local economy has obviously fueled the significant growth in capital project activity that the City has experienced in the last few fiscal years. However, the City adopted a Financial Management Policy that has helped the City formulate a plan of action aimed at providing City residents with increased services while attempting to minimize the cost of borrowing.

The Financial Management Policy identifies the unreserved, undesignated 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 unreserved, undesignated 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.

A major component of the policy that has had a favorable impact on much of the City's recent capital projects activity is the section addressing the disposition of unreserved, undesignated general fund balances when they exceed the 12 percent target. The City may consider appropriating unreserved, undesignated general fund balances for "pay as you go" capital outlay expenditures, other non-recurring expenditures, or supplemental reserves as deemed necessary by the governing body.

## **Cash Management Policies and Practices**

The City and Component Unit School Board cash and cash equivalents consist of pooled cash and investments. The Component Unit Economic Development Authority maintains its own accounts that are separate from the City's pooled funds. Cash temporarily idled during the year was invested in the Commonwealth Cash Reserve Fund and the Arbitrage and Investment Management Fund. The yield on investments during the year ranged from 3.02 percent to 5.17 percent. 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.

## **Cash Management Policies and Practices: (Continued)**

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

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

## **Risk Management**

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

## **Pension and Other Post-Employment Benefits**

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

The City also provides post-retirement health care insurance and group life insurance for employees who are eligible for retirement benefits. Currently, 93 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 43 entitled "Financial Reporting for Post-employment Benefit Plans" in April 2004. The purpose of this statement is to require the accrual of liabilities for the actuarially determined health insurance premiums the City will be paying for retirees. The City is required to implement GASB Statement No. 43 in its June 30, 2008 CAFR.

Additional information on the City's and Component Unit School Board's pension arrangements and post-employment benefits can be found in Notes 11 and 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, 2005. This was the sixteenth 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.

**Awards and Acknowledgements: (Continued)**

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.

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

Sincerely,



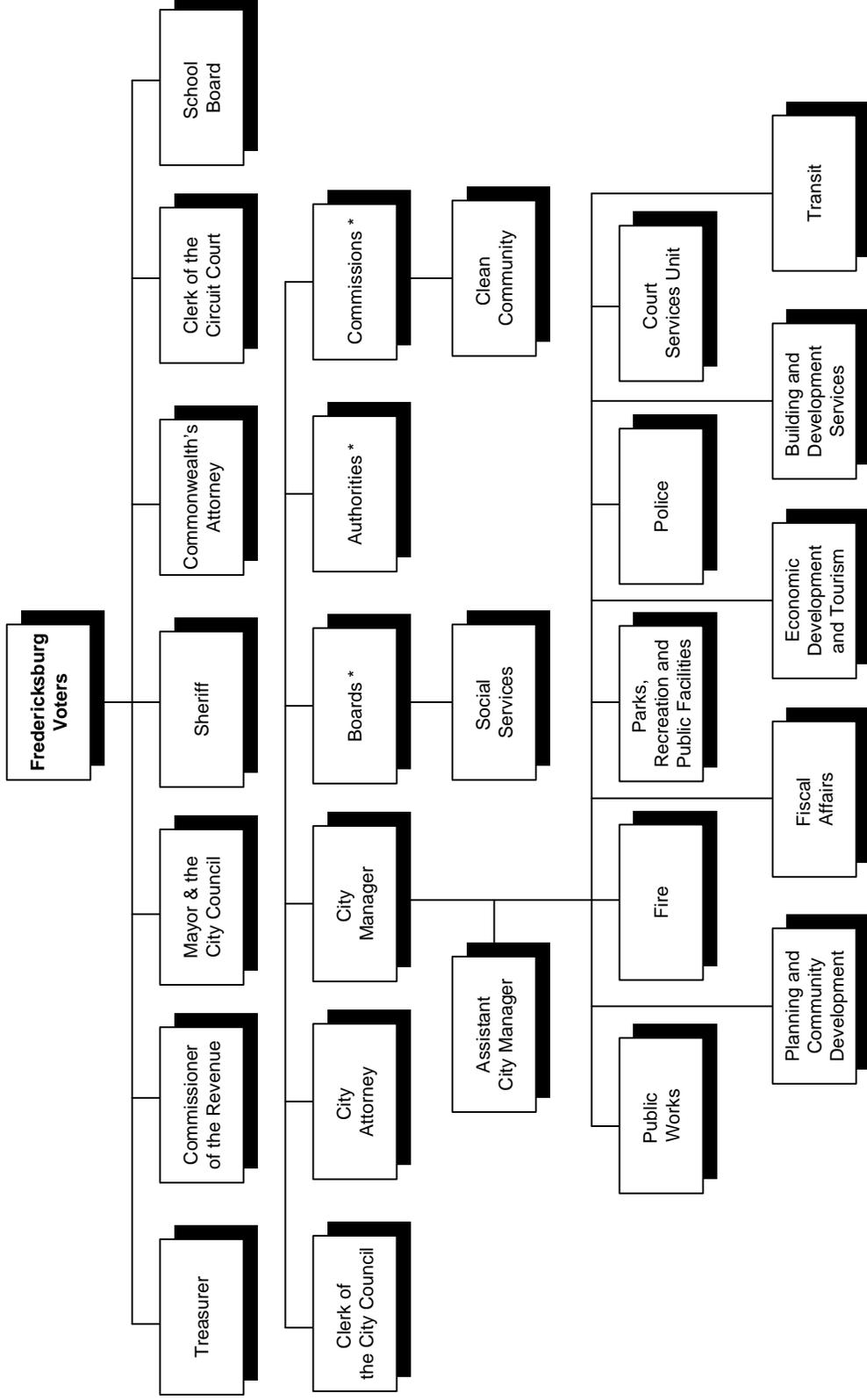
Phillip L. Rodenberg  
City Manager



Clarence A. Robinson  
Director of Fiscal Affairs

# 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, 2006

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CITY OF FREDERICKSBURG, VIRGINIA  
PRINCIPAL OFFICIALS  
June 30, 2006

CITY COUNCIL

Thomas J. Tomzak, M.D. .... Mayor - At Large  
William C. Withers, Jr. .... Vice Mayor - Ward 2  
Kerry P. Devine..... At Large  
Deborah L. Girvan ..... At Large  
Thomas P. Fortune, M.D. .... Ward 1  
Matthew J. Kelly ..... Ward 3  
Hashmel C. Turner, Jr. .... Ward 4

CONSTITUTIONAL OFFICERS

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

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

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

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dale E. Sander ..... 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, 2005

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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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Robinson, Tammen, Cox Associates*

Charlottesville, Virginia  
October 31, 2006

## 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, 2006. 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 \$111,428,683 at the end of fiscal year 2006. This figure is based on assets totaling \$194,704,060 and liabilities of \$83,275,377. Of the total net asset amount, \$18,348,491 (*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 \$44,733,485 at the end of fiscal year 2006. The largest portion of this total is related to the water and sewer enterprise operations, valued at \$38,395,644.
- Total net assets for the primary government totaled \$156,162,168. Current assets were \$76,163,272 as compared to total current liabilities of \$18,341,059. The resulting net working capital of \$57,822,213 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 \$10,009,483. Of this total, \$8,833,795 represents investment in capital assets, net of related debt.
- At the end of the fiscal year, the City's unreserved, undesignated fund balance for the General Fund was \$12,946,819, or 24.1 percent of total General Fund expenditures which totaled \$53,705,165.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unreserved, undesignated General Fund balance of 12.0 percent of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2006 unreserved, undesignated General Fund was 20.9 percent of the fiscal year 2005 General Fund revenue total of \$61,890,599.
- General Fund revenues increased approximately 6.0 percent as compared to the preceding fiscal year. The greatest increase was attributable to increased local tax revenues due to continued commercial growth in the City.
- General Fund expenditures increased 12.3 percent as compared to the preceding fiscal year. Excluding the school allocation, the increase in these expenditures was 9.0 percent, \$1,892,859 below the final amended budget.
- Governmental activities long-term debt increased by \$3,481,755. The balance at the end of the fiscal year was \$70,032,833. This increase is attributed to \$6,500,000 general obligation bonds issued to help finance a new outdoor leisure pool and a new police headquarters building.

### Overview of the Financial Statements

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

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

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

## Overview of the Financial Statements: (Continued)

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

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

## Overview of the Financial Statements: (Continued)

The basic governmental fund financial statements can be found on pages 24-27 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 28-30 of this report.

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

The basic fiduciary fund financial statements can be found on page 31 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-69 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 \$156,162,168 at the close of fiscal year 2006.

A large portion of the City's net assets, \$95,704,179 or 61.3 percent, 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 \$35,898,661 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)

The following table presents the condensed Statement of Net Assets:

**TABLE 1**  
**Summary of Net Assets**  
**As of June 30, 2006**  
**(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 06	FY 05	FY 06	FY 05	FY 06	FY 05	FY 06	FY 05
<b>Assets:</b>								
Current and other assets	\$ 56.10	\$ 72.44	\$ 20.01	\$ 17.47	\$ 76.11	\$ 89.91	\$ 5.58	\$ 5.71
Capital assets	138.60	93.72	42.15	40.68	180.75	134.40	8.88	8.11
<b>Total assets</b>	<b>\$ 194.70</b>	<b>\$ 166.16</b>	<b>\$ 62.16</b>	<b>\$ 58.15</b>	<b>\$ 256.86</b>	<b>\$ 224.31</b>	<b>\$ 14.46</b>	<b>\$ 13.82</b>
<b>Liabilities:</b>								
Current and other liabilities	\$ 14.60	\$ 14.64	\$ 3.73	\$ 7.51	\$ 18.33	\$ 22.15	\$ 3.39	\$ 3.52
Long-term liabilities	68.68	65.33	13.70	10.75	82.38	76.08	0.34	0.34
<b>Total Liabilities</b>	<b>\$ 83.28</b>	<b>\$ 79.97</b>	<b>\$ 17.43</b>	<b>\$ 18.26</b>	<b>\$ 100.71</b>	<b>\$ 98.23</b>	<b>\$ 3.73</b>	<b>\$ 3.86</b>
<b>Net assets:</b>								
Invested in capital assets, net of related debt (2)	\$ 68.52	\$ 27.17	\$ 27.18	\$ 28.76	\$ 95.70	\$ 55.93	\$ 8.88	\$ 8.11
Restricted	24.56	38.13	-	-	24.56	38.13	1.02	1.06
Unrestricted	18.35	20.89	17.55	11.13	35.90	32.02	0.84	0.79
<b>Total net assets</b>	<b>\$ 111.43</b>	<b>\$ 86.19</b>	<b>\$ 44.73</b>	<b>\$ 39.89</b>	<b>\$ 156.16</b>	<b>\$ 126.08</b>	<b>\$ 10.74</b>	<b>\$ 9.96</b>

(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 increased \$25,235,816, resulting in a total net assets position of \$111,428,683. Much of this growth occurred within general revenues as the City recognized a significant revenue amount for donated land and infrastructure assets totaling \$17,924,818. Continued favorable growth with general property taxes and other local taxes, indicative of the City's continued economic vitality, also contributed to the City's healthy net asset position.

**Business-type Activities**

The net assets of the business-type activities were \$44,733,485. This represents an increase of \$4,847,101 as compared to fiscal year 2005. Much of this increase is a result of the City financing several capital projects on a "pay as you go" basis through the use of net income generated in the water and sewer funds.

Government-wide Financial Analysis: (Continued)

Component Units

The net assets of the School Board were \$10,009,483. 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, 2006**  
**(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 06	FY 05	FY 06	FY 05	FY 06	FY 05	FY 06	FY 05
<b>Revenues:</b>								
<b>Program Revenues:</b>								
Charges for services	\$ 2.92	\$ 2.70	\$ 5.21	\$ 5.09	\$ 8.13	\$ 7.79	\$ 0.71	\$ 0.70
Operating grants and contributions	8.63	8.11	5.89	4.35	14.52	12.46	30.68	27.42
Capital grants and contributions	-	-	0.74	2.33	0.74	2.33	-	-
<b>General Revenues:</b>								
Property taxes	24.82	22.55	-	-	24.82	22.55	-	-
Other local taxes	32.00	29.45	-	-	32.00	29.45	-	-
Grants not restricted	2.14	1.99	-	-	2.14	1.99	-	-
Use of property	0.16	0.23	-	-	0.16	0.23	0.02	0.04
Investment earnings	1.85	1.95	0.32	0.03	2.17	1.98	0.01	0.01
Miscellaneous	18.21	0.43	0.24	0.17	18.45	0.60	0.01	(0.07)
Transfers	(0.33)	-	0.33	0.02	0.00	0.02	-	-
<b>Total Revenues</b>	<b>\$ 90.40</b>	<b>\$ 67.41</b>	<b>\$ 12.73</b>	<b>\$ 11.99</b>	<b>\$ 103.13</b>	<b>\$ 79.40</b>	<b>\$ 31.43</b>	<b>\$ 28.10</b>
<b>Expenses:</b>								
General government	\$ 3.69	\$ 4.11	\$ -	\$ -	\$ 3.69	\$ 4.11	\$ -	\$ -
Judicial administration	2.85	2.43	-	-	2.85	2.43	-	-
Public safety	15.92	14.42	-	-	15.92	14.42	-	-
Public works	8.28	6.69	-	-	8.28	6.69	-	-
Health and Welfare	6.13	5.36	-	-	6.13	5.36	-	-
Education	18.96	15.94	-	-	18.96	15.94	30.97	28.90
Parks, recreation, and cultural	4.03	3.65	-	-	4.03	3.65	-	-
Community development	2.19	1.97	-	-	2.19	1.97	0.15	0.05
Interest	3.11	2.95	-	-	3.11	2.95	-	-
Water	-	-	2.38	2.56	2.38	2.56	-	-
Sewer	-	-	3.08	2.71	3.08	2.71	-	-
Transit	-	-	2.12	1.46	2.12	1.46	-	-
Parking	-	-	0.30	0.02	0.30	0.02	-	-
<b>Total Expenses</b>	<b>\$ 65.16</b>	<b>\$ 57.52</b>	<b>\$ 7.88</b>	<b>\$ 6.75</b>	<b>\$ 73.04</b>	<b>\$ 64.27</b>	<b>\$ 31.12</b>	<b>\$ 28.95</b>
<b>Change in net assets</b>	<b>\$ 25.24</b>	<b>\$ 9.89</b>	<b>\$ 4.85</b>	<b>\$ 5.24</b>	<b>\$ 30.09</b>	<b>\$ 15.13</b>	<b>\$ 0.31</b>	<b>\$ (0.85)</b>

## Financial Analysis of the City's Governmental Funds

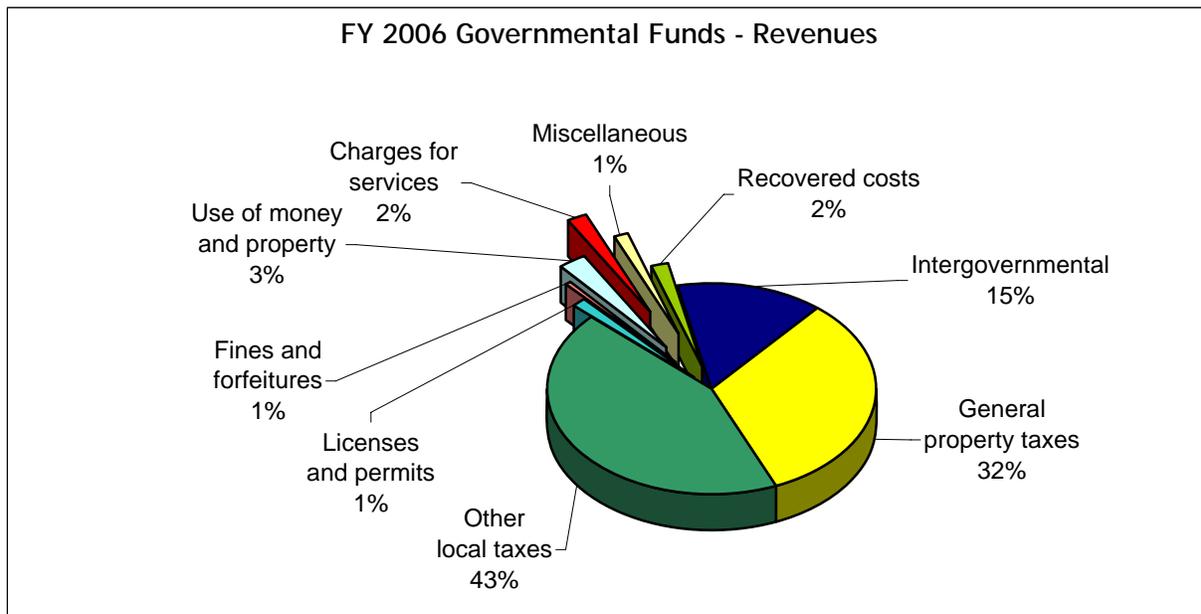
The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

### Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2006 and 2005 is presented below:

**TABLE 3**  
**Governmental Funds - Revenues**

	FY 2006	FY 2005	Percentage of Total Revenues FY 2006	Increase (Decrease) from FY 2005
General property taxes	\$ 24,052,400	\$ 22,575,809	32.52%	\$ 1,476,591
Other local taxes	31,997,175	29,447,827	43.26%	2,549,348
Licenses and permits	1,117,018	988,302	1.51%	128,716
Fines and forfeitures	339,338	450,000	0.46%	(110,662)
Use of money and property	2,005,694	2,180,879	2.71%	(175,185)
Charges for services	1,470,494	1,264,830	1.99%	205,664
Miscellaneous	1,026,316	468,884	1.39%	557,432
Recovered costs	1,180,093	1,425,432	1.60%	(245,339)
Intergovernmental	10,770,478	10,103,461	14.56%	667,017
<b>Totals</b>	<b>\$ 73,959,006</b>	<b>\$ 68,905,424</b>	<b>100.00%</b>	<b>\$ 5,053,582</b>



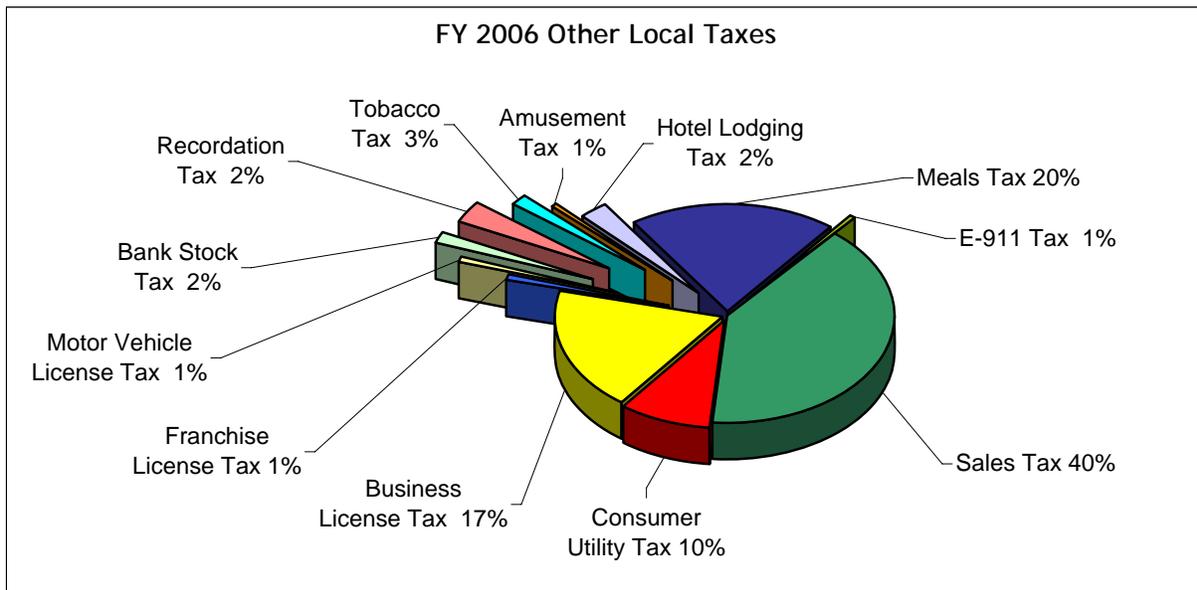
The City's total revenues from governmental activities were \$73,959,006 in fiscal year 2006, an increase of 7.3% over fiscal year 2005. This increase in revenue is primarily attributable to general property taxes and other local taxes increasing 6.5% and 8.7%, respectively, over fiscal year 2005. These revenue increases, principally accounted for in the General Fund, is associated with the City's growing commercial development.

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

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 2006 and 2005:

**TABLE 4**  
**Other Local Taxes**

	FY 2006	FY 2005	Increase (Decrease) from FY 2005
Sales Tax	\$ 12,856,512	\$ 11,994,065	\$ 862,447
Consumer Utility Tax	2,910,053	2,882,555	27,498
Business License Tax	5,893,564	4,974,756	918,808
Franchise License Tax	291,380	230,367	61,013
Motor Vehicle License Tax	298,240	165,647	132,593
Bank Stock Tax	546,953	501,213	45,740
Recordation Tax	985,477	708,156	277,321
Tobacco Tax	613,471	898,413	(284,942)
Amusement Tax	175,635	163,734	11,901
Hotel Lodging Tax	808,010	718,473	89,537
Meals Tax	6,402,076	5,987,400	414,676
E-911 Tax	215,804	223,048	(7,244)
<b>Totals</b>	<b>\$ 31,997,175</b>	<b>\$ 29,447,827</b>	<b>\$ 2,549,348</b>



The most notable increase in local taxes occurred with sales tax, business license tax, and meals tax, which combined comprise 86.1% of the total local tax increase. The City's strong commercial development base as well as the City's location within one of the nation's fastest growing regions have provided for these favorable tax revenue increases.

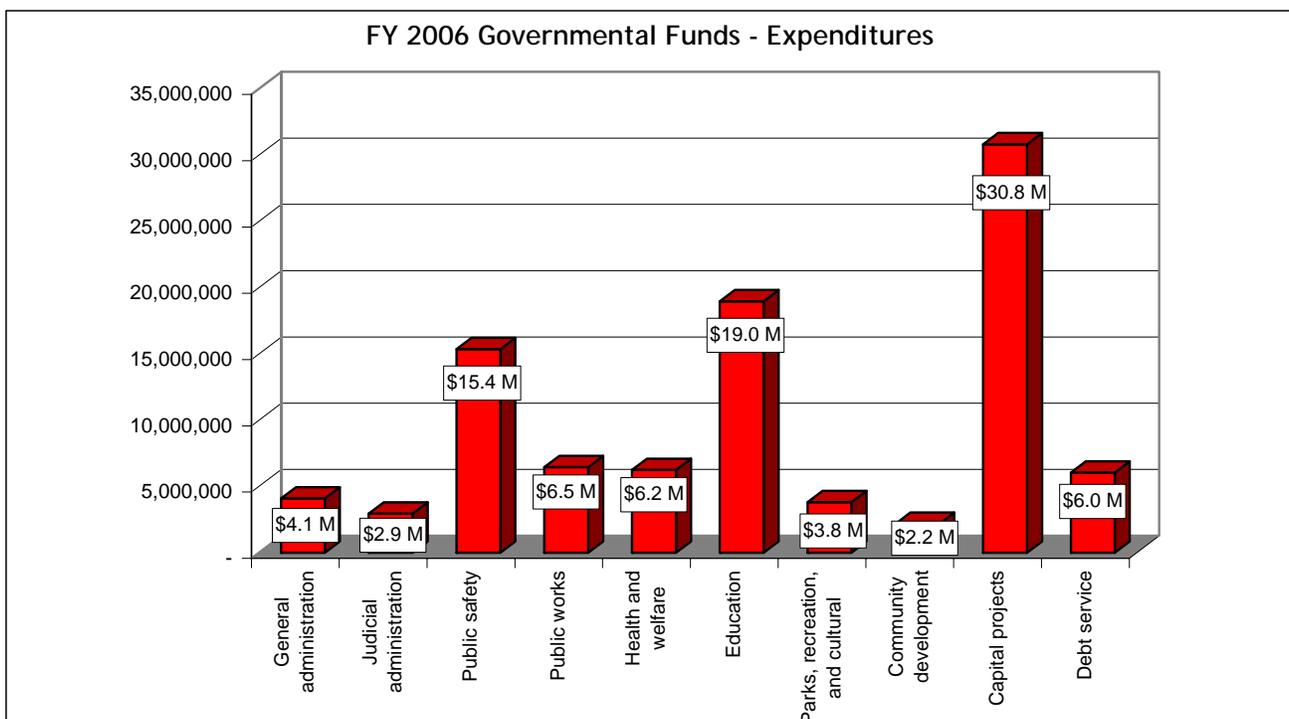
## Financial Analysis of the City's Governmental Funds: (Continued)

### Expenditures:

Expenditures for governmental funds in fiscal year 2006 totaled \$96,902,180, an increase of \$11,184,591 or 13.0% when compared to fiscal year 2005 activity. The most notable change occurred in the Capital Projects and Education areas where an additional \$2,843,957 and \$3,019,552, respectively, were invested in fiscal year 2006 over fiscal year 2005. Capital project expenditures remained vigorous with construction performed on a new upper elementary school, a new high school, an outdoor leisure pool, and a new police headquarters facility. Combined total expenditures of approximately \$26,700,000 were incurred during the current fiscal year for the construction of those projects. Education expenditures increased as additional appropriations to the School Board were required to meet increased school operating costs.

**TABLE 5**  
**Governmental Funds - Expenditures**

	FY 2006	FY 2005	Percentage of Total Expenditures FY 2006	Increase (Decrease) from FY 2005
General administration	\$ 4,094,919	\$ 3,956,701	4.23%	\$ 138,218
Judicial administration	2,946,064	2,494,022	3.04%	452,042
Public safety	15,361,207	14,051,770	15.85%	1,309,437
Public works	6,452,638	5,767,195	6.66%	685,443
Health and welfare	6,245,485	5,814,011	6.45%	431,474
Education	18,961,723	15,942,171	19.57%	3,019,552
Parks, recreation, and cultural	3,811,195	3,432,702	3.93%	378,493
Community development	2,174,694	2,030,189	2.24%	144,505
Capital projects	30,809,180	27,965,223	31.79%	2,843,957
Debt service	6,045,075	4,263,605	6.24%	1,781,470
<b>Totals</b>	<b>\$ 96,902,180</b>	<b>\$ 85,717,589</b>	<b>100.00%</b>	<b>\$ 11,184,591</b>



## General Fund Budgetary Highlights

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

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

Actual General Fund expenditures were \$53,705,165 versus the final budgeted expenditures totaling \$55,598,024. This resulted in a favorable variance of \$1,892,859.

Actual General Fund revenues were \$65,615,040 compared to final budgeted revenues totaling \$62,011,679. This resulted in a positive variance of \$3,603,361. The majority of the variance occurred among various revenue sources, with real estate tax, business license tax, recordation tax, and permits and other licenses experiencing the most significant favorable variance of \$756,698, \$871,564, \$585,477, and \$589,046, respectively. The City's sound commercial base is the primary factor resulting in the favorable variance in these General Fund revenues.

## Capital Asset and Debt Administration

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

**TABLE 6**  
**Change in Capital Assets**  
**City Governmental Funds**

	<u>Balance June 30, 2005</u>	<u>Net Additions/ Deletions</u>	<u>Balance June 30, 2006</u>
<b>Capital assets not being depreciated:</b>			
Land	\$ 8,218,444	\$ 5,031,542	\$ 13,249,986
Construction in progress	38,181,132	3,079,608	41,260,740
<b>Other capital assets:</b>			
Land improvements	1,175,303	3,559,293	4,734,596
Buildings and building improvements	15,325,987	700,457	16,026,444
Joint tenancy assets	-	14,000,000	14,000,000
Machinery, equipment, and vehicles	9,337,284	1,579,611	10,916,895
Infrastructure	46,190,033	19,919,911	66,109,944
Accumulated depreciation	(24,709,971)	(3,034,937)	(27,744,908)
<b>Totals</b>	<u>\$ 93,718,212</u>	<u>\$ 44,835,485</u>	<u>\$ 138,553,697</u>

The net increase in capital assets during the current fiscal year was \$44,835,485. Much of this increase is related to infrastructure, land, land improvements, and buildings. Infrastructure assets experienced the largest increase as the City accepted into its urban road maintenance system the Cowan Boulevard and Carl D. Silver extension projects. The contributed capital value recognized for these two streets was \$17,924,818. The City also recognized contributed capital totaling \$5,031,542 for donated land received during the current fiscal year.

**Capital Asset and Debt Administration: (Continued)**

Construction of the Dixon Street outdoor leisure pool began during the fiscal year with the City investing \$3,500,000 towards its completion. The total cost of this project is estimated to be \$3,730,000.

Construction on two new City schools continued during the fiscal year. A new upper elementary school was completed and operational as of September 2005 at a total cost of \$14,335,000. Work continued on a new high school as the City invested an additional \$19,916,855 during the current fiscal year towards its completion. This project is scheduled to be completed at a total cost of \$36,830,000.

Work commenced on a new police headquarters facility during the fiscal year. As of June 30, 2006, the city spent a total of \$2,567,000 on this project. The completion date of this project has been set for May 2007 with a projected total cost of \$11,000,000.

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

**Long-term Debt**

The City is authorized to issue general obligation bonds to finance general capital improvement projects. These bonds are secured by a pledge of the City's full faith and credit. The City is currently rated AA by Fitch Investors Services, Aa3 by Moody's Investors Services and AA- by Standard and Poor's Investor Services. During fiscal year 2006 the City issued \$10,750,000 in general obligation debt. Of this amount, \$4,250,000 was used to repay the VML/VACo commercial paper loan, with the remaining \$6,500,000 earmarked for the completion of the Dixon Street outdoor leisure pool and the new police headquarters facility.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2006 the City's outstanding long-term indebtedness amount totaled \$84,996,976. After adjustments to reflect the revenue bonded debt of 7,293,180, the remaining total bonded debt of \$77,703,796 is far below the legal debt limit of \$124,498,301.

The table below shows a summary of all bonded debt activity during the 2006 fiscal year and the total City debt outstanding:

**TABLE 7**  
**Long Term Debt**  
**As of June 30, 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>
Bonds Payable:						
General obligation bonds	\$ 21,209,184	\$ 16,631,646	\$ 7,670,963	\$ 3,778,501	\$ 28,880,147	\$ 20,410,147
General obligation school bonds	47,120,000	48,095,000	-	-	47,120,000	48,095,000
Unamortized bond premium	1,703,649	1,824,432	-	-	1,703,649	1,824,432
Commercial paper	-	-	-	4,035,000	-	4,035,000
Revenue bonds	-	-	7,293,180	8,133,591	7,293,180	8,133,591
Total long-term debt	<u>\$ 70,032,833</u>	<u>\$ 66,551,078</u>	<u>\$ 14,964,143</u>	<u>\$ 15,947,092</u>	<u>\$ 84,996,976</u>	<u>\$ 82,498,170</u>

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

## **Economic Factors**

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

The City's nationally recognized 40-block Historic District continues to be a major component of the local economy. The Historic "Old Town" District, 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.

The positive outlook for the City's economy has provided a number of opportunities for improvements in the areas of education, recreation, cultural development, and infrastructure. A number of projects have already been initiated while several others are in various stages of planning and development.

## **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](http://www.fredericksburgva.gov).

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**BASIC FINANCIAL STATEMENTS**

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## **Government-wide Financial Statements**

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Statement of Net Assets  
At June 30, 2006

ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Economic Development Authority
<b>Assets:</b>					
Cash and cash equivalents	\$ 49,314,443	\$ 16,058,963	\$ 65,373,406	\$ 3,313,393	\$ 679,401
Receivables, net	3,585,067	1,969,264	5,554,331	-	-
Due from other governments	3,185,787	1,254,090	4,439,877	1,589,824	-
Inventory, at cost	54,067	235,329	289,396	-	-
Prepaid expenses	10,999	15,800	26,799	-	-
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	479,463	479,463	-	-
Capital assets:					
Land, construction in progress and other	54,510,726	3,575,674	58,086,400	531,555	47,386
Other capital assets, net of accumulated depreciation	84,042,971	38,571,784	122,614,755	8,302,240	-
Capital assets, net	\$ 138,553,697	\$ 42,147,458	\$ 180,701,155	\$ 8,833,795	\$ 47,386
Total assets	\$ 194,704,060	\$ 62,160,367	\$ 256,864,427	\$ 13,737,012	\$ 726,787
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 3,337,455	\$ 1,597,051	\$ 4,934,506	\$ 431,959	\$ -
Accrued liabilities	3,534,807	179,376	3,714,183	2,544,366	-
Unearned revenue	1,287,157	61,879	1,349,036	52,427	-
Amounts held for others	1,892,347	-	1,892,347	-	-
Liabilities payable from restricted assets	-	479,463	479,463	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,396,851	102,245	1,499,096	363,364	-
Revenue bonds payable	-	869,228	869,228	-	-
General obligation bonds and loans payable	3,159,125	444,075	3,603,200	-	-
Due in more than one year:					
Compensated absences	856,135	42,725	898,860	335,413	-
Revenue bonds payable	-	6,423,952	6,423,952	-	-
Bonds and loans payable	66,873,708	7,226,888	74,100,596	-	-
Accrued landfill post-closure costs	937,792	-	937,792	-	-
Total liabilities	\$ 83,275,377	\$ 17,426,882	\$ 100,702,259	\$ 3,727,529	\$ -
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	\$ 68,520,864	\$ 27,183,315	\$ 95,704,179	\$ 8,833,795	\$ 47,386
Restricted:					
Capital projects	24,559,328	-	24,559,328	1,021,357	-
Unrestricted	18,348,491	17,550,170	35,898,661	154,331	679,401
Total net assets	\$ 111,428,683	\$ 44,733,485	\$ 156,162,168	\$ 10,009,483	\$ 726,787

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, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental activities</b>				
General government	\$ 3,688,618	\$ 41,889	\$ 290,104	\$ -
Judicial administration	2,853,064	230,864	714,650	-
Public safety	15,922,143	363,782	1,696,085	-
Public works	8,278,001	1,695,616	2,003,430	-
Health and welfare	6,130,391	-	3,678,987	-
Education	18,961,723	-	-	-
Parks, recreation and cultural	4,029,638	579,514	5,000	-
Community development	2,186,347	15,185	236,858	-
Interest on long-term debt	3,110,420	-	-	-
Total governmental activities	\$ 65,160,345	\$ 2,926,850	\$ 8,625,114	\$ -
<b>Business-type activities</b>				
Water	\$ 2,381,713	\$ 2,056,764	\$ 2,023,752	\$ -
Sewer	3,077,612	3,073,788	1,973,097	-
Transit	2,124,171	50,416	1,890,832	-
Parking	297,067	28,563	-	739,857
Total business-type activities	\$ 7,880,563	\$ 5,209,531	\$ 5,887,681	\$ 739,857
<b>Total Primary Government</b>	<b>\$ 73,040,908</b>	<b>\$ 8,136,381</b>	<b>\$ 14,512,795</b>	<b>\$ 739,857</b>
<b>Component Units</b>				
Fredericksburg City Public Schools	\$ 30,965,520	\$ 594,184	\$ 11,752,856	\$ -
Fredericksburg Economic Development Authority	153,457	112,267	-	-
<b>Total Component Units</b>	<b>\$ 31,118,977</b>	<b>\$ 706,451</b>	<b>\$ 11,752,856</b>	<b>\$ -</b>

**General Revenues**

Taxes:

General property taxes, real and personal

Other

Payment from City of Fredericksburg:

Education

Grants and contributions not restricted to specific programs

Use of property

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.

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
\$ (3,356,625)	\$ -	\$ (3,356,625)	\$ -	-
(1,907,550)	-	(1,907,550)	-	-
(13,862,276)	-	(13,862,276)	-	-
(4,578,955)	-	(4,578,955)	-	-
(2,451,404)	-	(2,451,404)	-	-
(18,961,723)	-	(18,961,723)	-	-
(3,445,124)	-	(3,445,124)	-	-
(1,934,304)	-	(1,934,304)	-	-
(3,110,420)	-	(3,110,420)	-	-
<u>\$ (53,608,381)</u>	<u>\$ -</u>	<u>\$ (53,608,381)</u>	<u>\$ -</u>	<u>-</u>
\$ -	\$ 1,698,803	\$ 1,698,803	\$ -	-
-	1,969,273	1,969,273	-	-
-	(182,923)	(182,923)	-	-
-	471,353	471,353	-	-
<u>\$ -</u>	<u>\$ 3,956,506</u>	<u>\$ 3,956,506</u>	<u>\$ -</u>	<u>-</u>
<u>\$ (53,608,381)</u>	<u>\$ 3,956,506</u>	<u>\$ (49,651,875)</u>	<u>\$ -</u>	<u>-</u>
			\$ (18,618,480)	
			(41,190)	
			<u>\$ (18,659,670)</u>	
\$ 24,818,965	\$ -	\$ 24,818,965	\$ -	-
31,997,175	-	31,997,175	-	-
-	-	-	18,929,613	-
2,145,364	-	2,145,364	-	-
159,452	-	159,452	15,126	-
1,846,242	315,856	2,162,098	13,451	-
18,207,446	244,292	18,451,738	8,847	-
(330,447)	330,447	-	-	-
<u>\$ 78,844,197</u>	<u>\$ 890,595</u>	<u>\$ 79,734,792</u>	<u>\$ 18,967,037</u>	<u>-</u>
\$ 25,235,816	\$ 4,847,101	\$ 30,082,917	\$ 307,367	-
86,192,867	39,886,384	126,079,251	10,428,903	-
<u>\$ 111,428,683</u>	<u>\$ 44,733,485</u>	<u>\$ 156,162,168</u>	<u>\$ 10,736,270</u>	<u>-</u>

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## **Fund Financial Statements**

Balance Sheet  
 Governmental Funds  
 At June 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Public Safety Construction Fund</u>	<u>New High School Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 24,068,415	\$ 11,248,591	\$ 3,906,464	\$ 10,090,973	\$ 49,314,443
Receivables (net of allowances for uncollectibles):					
Property taxes	1,871,606	-	-	1,547	1,873,153
Accounts	170,020	-	-	14,066	184,086
Accrued revenue	426,733	319,055	-	782,040	1,527,828
Inventory, at cost	54,067	-	-	-	54,067
Prepays	10,999	-	-	-	10,999
Due from other governments	2,718,596	-	-	467,191	3,185,787
<b>Total assets</b>	<b>\$ 29,320,436</b>	<b>\$ 11,567,646</b>	<b>\$ 3,906,464</b>	<b>\$ 11,355,817</b>	<b>\$ 56,150,363</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenditures	\$ 1,382,490	\$ 690,626	\$ 943,935	\$ 320,404	\$ 3,337,455
Accrued liabilities	388,706	124,168	920,909	666,535	2,100,318
Amounts held for others	1,892,347	-	-	-	1,892,347
Deferred revenue	2,175,477	50,000	-	16,458	2,241,935
<b>Total liabilities</b>	<b>\$ 5,839,020</b>	<b>\$ 864,794</b>	<b>\$ 1,864,844</b>	<b>\$ 1,003,397</b>	<b>\$ 9,572,055</b>
<b>Equity:</b>					
<b>Fund balances:</b>					
<b>Reserved:</b>					
Encumbrances	\$ 237,574	\$ 7,966	\$ -	\$ 414,013	\$ 659,553
Prepays	10,999	-	-	-	10,999
<b>Unreserved:</b>					
Designated for capital projects	5,519,281	10,694,886	2,041,620	6,303,541	24,559,328
Designated for regional security center	2,000,000	-	-	-	2,000,000
Health insurance claims	950,000	-	-	-	950,000
Designated for E-911	2,004	-	-	-	2,004
Designated for courthouse maintenance	129,739	-	-	-	129,739
Designated for education debt service	1,685,000	-	-	-	1,685,000
<b>Subsequent year's expenditures:</b>					
Special Revenue Funds	-	-	-	796,352	796,352
<b>Unreserved, undesignated:</b>					
General fund	12,946,819	-	-	-	12,946,819
Special Revenue Funds	-	-	-	2,838,514	2,838,514
<b>Total equity</b>	<b>\$ 23,481,416</b>	<b>\$ 10,702,852</b>	<b>\$ 2,041,620</b>	<b>\$ 10,352,420</b>	<b>\$ 46,578,308</b>
<b>Total liabilities and equity</b>	<b>\$ 29,320,436</b>	<b>\$ 11,567,646</b>	<b>\$ 3,906,464</b>	<b>\$ 11,355,817</b>	<b>\$ 56,150,363</b>

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, 2006

Total fund balances for governmental funds (Exhibit 3) \$ 46,578,308

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	\$	13,249,986	
Construction in progress		41,260,740	
Land improvements, net of accumulated depreciation		4,571,218	
Buildings and improvements, net of accumulated depreciation		23,628,299	
Infrastructure, net of accumulated depreciation		50,873,194	
Equipment, net of accumulated depreciation		<u>4,970,260</u>	
 Total capital assets			 138,553,697

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 954,778

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	\$	(1,434,489)	
Bonds and notes payable		(68,329,184)	
Premium on long-term debt, net of accumulated amortization		(1,703,649)	
Landfill post-closure cost liability		<u>(937,792)</u>	(72,405,114)
 Compensated absences not reported as fund liabilities			 <u>(2,252,986)</u>

Total net assets of governmental activities (Exhibits 1 and 2) \$ 111,428,683

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, 2006

	General Fund	Public Safety Construction Fund	New High School Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 23,097,938	\$ -	\$ -	\$ 954,462	\$ 24,052,400
Other local taxes	31,997,175	-	-	-	31,997,175
Permits, privilege fees and regulatory licenses	1,117,018	-	-	-	1,117,018
Fines and forfeitures	339,338	-	-	-	339,338
Use of money and property	461,153	301,081	224,382	1,019,078	2,005,694
Charges for services	1,470,494	-	-	-	1,470,494
Miscellaneous	124,986	-	-	901,330	1,026,316
Recovered costs	741,649	-	-	438,444	1,180,093
Intergovernmental:					
Revenue from the Commonwealth	6,195,456	173,481	-	1,772,834	8,141,771
Revenue from the Federal Government	69,833	-	-	2,558,874	2,628,707
<b>Total revenues</b>	<b>\$ 65,615,040</b>	<b>\$ 474,562</b>	<b>\$ 224,382</b>	<b>\$ 7,645,022</b>	<b>\$ 73,959,006</b>
<b>Expenditures</b>					
Current:					
General government administration	\$ 4,094,919	\$ -	\$ -	\$ -	\$ 4,094,919
Judicial administration	2,749,871	-	-	196,193	2,946,064
Public safety	14,864,928	-	-	496,279	15,361,207
Public works	6,452,638	-	-	-	6,452,638
Health and welfare	1,232,277	-	-	5,013,208	6,245,485
Education - local community college and other	32,110	-	-	-	32,110
Education - public school system	18,929,613	-	-	-	18,929,613
Parks, recreation and cultural	3,720,863	-	-	90,332	3,811,195
Community development	1,627,946	-	-	546,748	2,174,694
Capital projects	-	3,082,205	19,925,035	7,801,940	30,809,180
Debt service:					
Principal payments	-	-	-	2,897,462	2,897,462
Interest and fiscal charges	-	-	-	3,147,613	3,147,613
<b>Total expenditures</b>	<b>\$ 53,705,165</b>	<b>\$ 3,082,205</b>	<b>\$ 19,925,035</b>	<b>\$ 20,189,775</b>	<b>\$ 96,902,180</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 11,909,875</b>	<b>\$ (2,607,643)</b>	<b>\$ (19,700,653)</b>	<b>\$ (12,544,753)</b>	<b>\$ (22,943,174)</b>
<b>Other financing sources (uses)</b>					
Long-term debt issued	\$ -	\$ 4,417,076	\$ -	\$ 2,092,203	\$ 6,509,279
Transfers in	457,592	4,036,014	-	12,206,783	16,700,389
Transfers out	(16,155,990)	-	-	(874,846)	(17,030,836)
<b>Total other financing sources (uses)</b>	<b>\$ (15,698,398)</b>	<b>\$ 8,453,090</b>	<b>\$ -</b>	<b>\$ 13,424,140</b>	<b>\$ 6,178,832</b>
<b>Net change in fund balance</b>	<b>\$ (3,788,523)</b>	<b>\$ 5,845,447</b>	<b>\$ (19,700,653)</b>	<b>\$ 879,387</b>	<b>\$ (16,764,342)</b>
<b>Fund balance, beginning of year</b>	<b>27,269,939</b>	<b>4,857,405</b>	<b>21,742,273</b>	<b>9,473,033</b>	<b>63,342,650</b>
<b>Fund balance, end of year</b>	<b>\$ 23,481,416</b>	<b>\$ 10,702,852</b>	<b>\$ 2,041,620</b>	<b>\$ 10,352,420</b>	<b>\$ 46,578,308</b>

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, 2006

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Net change in fund balances - total governmental funds (Exhibit 5) \$ (16,764,342)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 26,910,667

Donations of capital assets received during the current period 17,924,818

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. 887,348

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

Debt issued:			
General obligation bonds	\$	(6,500,000)	
Repayments of long-term debt:			
General obligation bonds		<u>2,897,462</u>	(3,602,538)

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	\$	(72,053)	
Accrued interest on bonds and loans		(83,590)	
Accrued landfill post-closure costs		<u>35,506</u>	
Net adjustment			<u>(120,137)</u>

Change in net assets of governmental activities (Exhibit 2) \$ 25,235,816

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

Statement of Net Assets  
 Proprietary Funds  
 At June 30, 2006

	Business -Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
<b>ASSETS</b>					
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 8,927,517	\$ 6,661,944	\$ 469,502	\$ -	\$ 16,058,963
Accounts receivable - net	430,823	677,299	105,370	739,857	1,953,349
Accrued revenue	300	12,450	-	3,165	15,915
Inventory, at cost	201,153	34,176	-	-	235,329
Prepaid expenses	35	35	15,730	-	15,800
Due from other governments	-	-	1,254,090	-	1,254,090
<b>Restricted assets:</b>					
<b>Temporarily restricted:</b>					
Cash and cash equivalents	479,463	-	-	-	479,463
<b>Total current assets</b>	<b>\$ 10,039,291</b>	<b>\$ 7,385,904</b>	<b>\$ 1,844,692</b>	<b>\$ 743,022</b>	<b>\$ 20,012,909</b>
<b>Capital Assets:</b>					
Land	\$ 701,345	\$ 71,680	\$ 283,770	\$ 782,125	\$ 1,838,920
Construction in progress	320,646	376,954	375,618	-	1,073,218
Dams and reservoirs	663,536	-	-	-	663,536
Buildings and systems	17,807,633	25,085,285	-	6,511,322	49,404,240
Furniture, machinery and equipment	285,810	1,306,644	1,475,729	208,330	3,276,513
<b>Total property, plant and equipment</b>	<b>\$ 19,778,970</b>	<b>\$ 26,840,563</b>	<b>\$ 2,135,117</b>	<b>\$ 7,501,777</b>	<b>\$ 56,256,427</b>
Less: Accumulated depreciation	(4,876,858)	(8,441,255)	(790,856)	-	(14,108,969)
<b>Net capital assets</b>	<b>\$ 14,902,112</b>	<b>\$ 18,399,308</b>	<b>\$ 1,344,261</b>	<b>\$ 7,501,777</b>	<b>\$ 42,147,458</b>
<b>Total assets</b>	<b>\$ 24,941,403</b>	<b>\$ 25,785,212</b>	<b>\$ 3,188,953</b>	<b>\$ 8,244,799</b>	<b>\$ 62,160,367</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	\$ 424,980	\$ 391,571	\$ 143,148	\$ 637,352	\$ 1,597,051
Accrued liabilities	13,350	23,381	39,325	-	76,056
Interest payable	-	103,320	-	-	103,320
Compensated absences, current portion	25,216	66,141	10,888	-	102,245
Deferred revenue	61,879	-	-	-	61,879
Revenue bonds payable, current portion	-	869,228	-	-	869,228
General obligation bonds payable, current portion	269,821	85,300	-	88,954	444,075
<b>Current liabilities payable from restricted assets:</b>					
Customer deposits	479,463	-	-	-	479,463
<b>Total current liabilities</b>	<b>\$ 1,274,709</b>	<b>\$ 1,538,941</b>	<b>\$ 193,361</b>	<b>\$ 726,306</b>	<b>\$ 3,733,317</b>
<b>Noncurrent liabilities:</b>					
Compensated absences, noncurrent portion	\$ 15,534	\$ 11,993	\$ 15,198	\$ -	\$ 42,725
Revenue bonds payable, noncurrent portion	-	6,423,952	-	-	6,423,952
General obligation bonds payable, noncurrent portion	2,560,392	505,450	-	4,161,046	7,226,888
<b>Total noncurrent liabilities</b>	<b>\$ 2,575,926</b>	<b>\$ 6,941,395</b>	<b>\$ 15,198</b>	<b>\$ 4,161,046</b>	<b>\$ 13,693,565</b>
<b>Total liabilities</b>	<b>\$ 3,850,635</b>	<b>\$ 8,480,336</b>	<b>\$ 208,559</b>	<b>\$ 4,887,352</b>	<b>\$ 17,426,882</b>
<b>Net assets:</b>					
Invested in capital assets net of related debt	\$ 12,071,899	\$ 10,515,378	\$ 1,344,261	\$ 3,251,777	\$ 27,183,315
Unrestricted	9,018,869	6,789,498	1,636,133	105,670	17,550,170
<b>Total net assets</b>	<b>\$ 21,090,768</b>	<b>\$ 17,304,876</b>	<b>\$ 2,980,394</b>	<b>\$ 3,357,447</b>	<b>\$ 44,733,485</b>

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, 2006

	Business - Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Operating revenues:					
Charges for services	\$ 2,056,764	\$ 3,073,788	\$ 50,416	\$ 28,563	\$ 5,209,531
Operating expenses:					
Personal services	\$ 342,465	\$ 629,785	\$ 939,263	\$ 38,024	\$ 1,949,537
Fringe benefits	158,998	225,132	165,574	3,563	553,267
Contractual services	996,465	718,868	275,091	57,696	2,048,120
Other operating expenses	352,765	625,990	542,510	22,932	1,544,197
Depreciation expense	402,808	595,818	201,733	-	1,200,359
Total operating expenses	\$ 2,253,501	\$ 2,795,593	\$ 2,124,171	\$ 122,215	\$ 7,295,480
Total operating income (loss)	\$ (196,737)	\$ 278,195	\$ (2,073,755)	\$ (93,652)	\$ (2,085,949)
Nonoperating revenues (expenses):					
Interest income	\$ 100,000	\$ 100,000	\$ 90,000	\$ 25,856	\$ 315,856
Availability/connection fees	2,023,752	1,973,097	-	-	3,996,849
Miscellaneous	19,066	-	225,226	-	244,292
State and local grant funds	-	-	1,094,317	-	1,094,317
Federal grant funds	-	-	796,515	-	796,515
Interest expense	(128,212)	(282,019)	-	(174,852)	(585,083)
Total nonoperating revenues (expenses)	\$ 2,014,606	\$ 1,791,078	\$ 2,206,058	\$ (148,996)	\$ 5,862,746
Income (loss) before contributions and transfers	\$ 1,817,869	\$ 2,069,273	\$ 132,303	\$ (242,648)	\$ 3,776,797
Capital grants and contributions	\$ -	\$ -	\$ -	\$ 739,857	\$ 739,857
Transfers:					
Transfers in	\$ -	\$ -	\$ -	\$ 473,255	\$ 473,255
Transfers out	(71,472)	(71,336)	-	-	(142,808)
Net operating transfers	(71,472)	(71,336)	-	473,255	330,447
Change in net assets	\$ 1,746,397	\$ 1,997,937	\$ 132,303	\$ 970,464	\$ 4,847,101
Net assets, July 1, 2005	19,344,371	15,306,939	2,848,091	2,386,983	39,886,384
Net assets, June 30, 2006	\$ 21,090,768	\$ 17,304,876	\$ 2,980,394	\$ 3,357,447	\$ 44,733,485

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

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended June 30, 2006

	Business - Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Cash flows from operating activities:					
Receipts from customers	\$ 2,140,967	\$ 3,029,677	\$ 154,743	\$ 27,412	\$ 5,352,799
Other miscellaneous receipts	19,066	-	225,226	-	244,292
Payments to suppliers	(1,714,441)	(1,130,790)	(781,027)	(80,252)	(3,706,510)
Payments to and for employees	(486,151)	(850,306)	(1,096,204)	(41,587)	(2,474,248)
Net cash provided by (used in) operating activities	\$ (40,559)	\$ 1,048,581	\$ (1,497,262)	\$ (94,427)	\$ (583,667)
Cash flows from noncapital financing activities:					
Availability and connection fees	\$ 2,023,752	\$ 1,973,097	\$ -	\$ -	\$ 3,996,849
State, federal and local grant funds	-	-	1,582,147	-	1,582,147
Transfers	(71,472)	(71,336)	-	473,255	330,447
Net cash provided by (used in) noncapital financing activities	\$ 1,952,280	\$ 1,901,761	\$ 1,582,147	\$ 473,255	\$ 5,909,443
Cash flows from investing activities:					
Interest income	\$ 100,000	\$ 100,000	\$ 90,000	\$ 25,856	\$ 315,856
Cash flows from capital and related financing activities:					
Purchase of capital assets	\$ (557,711)	\$ (249,792)	\$ (301,521)	\$ (1,588,335)	\$ (2,697,359)
Disposal of capital assets	-	-	24,806	-	24,806
Proceeds from issuance of debt	-	-	-	4,250,000	4,250,000
Principal payment on debt	(269,258)	(928,691)	-	(4,035,000)	(5,232,949)
Interest paid on debt	(128,212)	(293,925)	-	(174,852)	(596,989)
Net cash provided by (used in) capital and related financing activities	\$ (955,181)	\$ (1,472,408)	\$ (276,715)	\$ (1,548,187)	\$ (4,252,491)
Increase (decrease) in cash and cash equivalents for the year	\$ 1,056,540	\$ 1,577,934	\$ (101,830)	\$ (1,143,503)	\$ 1,389,141
Cash and cash equivalents, July 1, 2005	8,350,440	5,084,010	571,332	1,143,503	15,149,285
Cash and cash equivalents, June 30, 2006	\$ 9,406,980	\$ 6,661,944	\$ 469,502	\$ -	\$ 16,538,426
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (196,737)	\$ 278,195	\$ (2,073,755)	\$ (93,652)	\$ (2,085,949)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	402,808	595,818	201,733	-	1,200,359
Other miscellaneous receipts	19,066	-	225,226	-	244,292
Changes in assets and liabilities:					
Accounts receivable	(24,085)	(36,831)	104,327	2,014	45,425
Inventory	(142,891)	(4,017)	-	-	(146,908)
Accrued revenue	23,497	(7,280)	-	(3,165)	13,052
Prepaid expenses	(35)	(35)	(15,730)	-	(15,800)
Accounts payable and accrued expenses	(222,285)	218,120	52,304	198,589	246,728
Accrued liabilities	4,853	3,328	7,494	-	15,675
Retainage payable	-	-	-	(198,213)	(198,213)
Deferred revenue	37,486	-	-	-	37,486
Compensated absences	10,459	1,283	1,139	-	12,881
Deposits payable from restricted assets	47,305	-	-	-	47,305
Net cash provided by (used in) operating activities	\$ (40,559)	\$ 1,048,581	\$ (1,497,262)	\$ (94,427)	\$ (583,667)

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, 2006

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 352,208
Accounts receivable	89,668
Prepaid items	<u>6,681</u>
Total assets	<u>\$ 448,557</u>
<b>Liabilities:</b>	
Accounts payable	\$ 53,900
Amounts held for others	<u>394,657</u>
Total liabilities	<u>\$ 448,557</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities  
 Component Units  
 Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>School Board</b>				
Education	\$ 30,441,302	\$ 594,184	\$ 11,752,856	\$ -
Depreciation	524,218	-	-	-
Total School Board	\$ 30,965,520	\$ 594,184	\$ 11,752,856	\$ -
<b>Economic Development Authority</b>				
Community development	153,457	112,267	-	-
<b>Total component units</b>	<u>\$ 31,118,977</u>	<u>\$ 706,451</u>	<u>\$ 11,752,856</u>	<u>\$ -</u>

General revenues

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

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 11

Net (Expense) Revenue and Changes in Net Assets		
School Board	Economic Development Authority	Totals
\$ (18,094,262)	\$ -	\$ (18,094,262)
<u>(524,218)</u>	<u>-</u>	<u>(524,218)</u>
\$ (18,618,480)	\$ -	\$ (18,618,480)
<u>-</u>	<u>(41,190)</u>	<u>(41,190)</u>
\$ <u>(18,618,480)</u>	\$ <u>(41,190)</u>	\$ <u>(18,659,670)</u>
\$ 18,929,613	\$ -	\$ 18,929,613
15,126	-	15,126
-	13,451	13,451
<u>237,955</u>	<u>(229,108)</u>	<u>8,847</u>
\$ <u>19,182,694</u>	\$ <u>(215,657)</u>	\$ <u>18,967,037</u>
\$ 564,214	\$ (256,847)	\$ 307,367
<u>9,445,269</u>	<u>983,634</u>	<u>10,428,903</u>
\$ <u><u>10,009,483</u></u>	\$ <u><u>726,787</u></u>	\$ <u><u>10,736,270</u></u>

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# CITY OF FREDERICKSBURG, VIRGINIA

## Notes to Financial Statements As of June 30, 2006

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### Note 1—Summary of Significant Accounting Policies:

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#### 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**

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

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

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

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

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**A. Financial Reporting Entity: (Continued)**

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

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

**Inclusions in the Reporting Entity:**

1. Component Units:

a. Fredericksburg City School Board:

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

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

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**A. Financial Reporting Entity: (Continued)**

**Inclusions in the Reporting Entity: (Continued)**

**1. Component Units: (Continued)**

**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.

**Exclusions from the Reporting Entity:**

**1. Jointly Governed Organizations:**

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

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

**a. Rappahannock Security Center**

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and to expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$2,102,129 in operating and other funds to the Center in 2006.

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

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A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and to expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1,120,719 in operating funds to the Library in 2006.

c. Rappahannock Regional Solid Waste Management Board

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

d. Rappahannock Area Community Services Board

The Board was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides Mental Health, Mental Retardation and Substance Abuse Services to residents of the participant localities. The City provided operating grants of \$213,736 to the Board in 2006.

e. Rappahannock Area Agency on Aging

The Agency was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$9,813 in operating grants to the Agency in 2006.

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

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A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

f. Rappahannock Area Development Commission

The Commission was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$17,772 in operating grants to the Commission in 2006.

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 \$266,943 to the Center in 2006.

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

The Home was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$71,715 in operating funds to the Home in 2006.

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 \$28,572 in operating funds to the Commission in 2006.

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

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**A. Financial Reporting Entity: (Continued)**

**Exclusions from the Reporting Entity: (Continued)**

**1. Jointly Governed Organizations: (Continued)**

**Obtaining of Financial Statements for Jointly Governed Organizations**

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

**B. Government-Wide and Fund Financial Statements**

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

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

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2006.

**1. Governmental Funds:**

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

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

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

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

1. Governmental Funds: (Continued)

- b. Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds include the following funds:

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

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

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

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

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

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

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

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

1. Governmental Funds: (Continued)

- d. Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. Capital Projects Funds include the following funds:

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

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

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

New Upper Elementary School Construction Fund - This fund accounts for resources and expenditures for a new elementary school. Primary funding sources are school bond proceeds and investment earnings.

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

2. Proprietary Funds:

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

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

Enterprise 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.

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

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

2. Proprietary Funds: (Continued)

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 Fund (Trust and Agency Funds):

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The funds include Private Purpose Trust and Agency Funds. Private purpose trust funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation. Agency funds also utilize the accrual basis of accounting. The City does not have private purpose trust funds. Agency Funds consist of the following:

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

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

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

4. Component Units: (Continued)

a. Fredericksburg City School Board: (Continued)

Governmental Funds:

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

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.

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.

**C. Basis of Accounting**

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

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

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

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

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**C. Basis of Accounting: (Continued)**

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

**D. Budgets and Budgetary Accounting**

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

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

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2006. 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, 2006.

**E. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed on a monthly basis by the City because it is, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control. Open encumbrances as of June 30, 2006, have been reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

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

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**F. Cash and Cash Equivalents**

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

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

Investments are stated at fair value.

**G. Allowance for Uncollectible Accounts**

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2006, the allowance totaled \$562,334 with \$358,321 in the General Fund and \$204,013 in the Enterprise Funds.

**H. Inventory**

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

**I. Prepaid Expenses**

Prepaid expenses are reported on the consumption method.

**J. Capital Assets**

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

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

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

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**J. Capital Assets: (Continued)**

All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The City and School Board do not capitalize historical treasures or works of art.

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

Interest on cost of construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2006.

**K. Compensated Absences**

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

**L. 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.

**M. Retirement Plan**

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The City's policy is to fund pension cost as it accrues.

**N. 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.

**O. 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, 2006 was \$120,783.

**P. Long-term Obligations**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

**Note 2—Deposits and Investments:**

Deposits - All cash of the primary government and its discretely presented component unit is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

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, 2006 were held by the City or in the City's name by the City's custodial banks; except \$35,404,664 of U.S. Agency investments, and \$4,489,181 of Corporate Debt investments, and \$9,667,091 of Commercial Paper where the underlying securities were uninsured and held by an investment broker.

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2006 were rated by Standard and Poor 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+	A-1
U.S. Agencies	\$ 31,688,758	\$ -	\$ -	\$ 3,715,906	\$ -
Corporate Debt	1,487,297	-	1,009,421	1,992,463	-
Virginia State Non-Arbitrage Program	-	4,687,371	-	-	-
Money Market Mutual Fund	-	8,670,531	-	-	-
Commercial Paper	-	-	-	7,572,954	2,094,137
<b>Total</b>	<b>\$ 33,176,055</b>	<b>\$ 13,357,902</b>	<b>\$ 1,009,421</b>	<b>\$ 13,281,323</b>	<b>\$ 2,094,137</b>

The City does not have an investment policy relating to the credit risk of investments.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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Note 2—Deposits and Investments: (Continued)

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Interest Rate Risk

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>
U.S. Agencies	\$ 35,404,664	\$ 10,864,267	\$ 24,540,397
Commercial Paper	9,667,091	9,667,091	-
Corporate Debt	4,489,181	3,479,760	1,009,421
Total	\$ <u>49,560,936</u>	\$ <u>24,011,118</u>	\$ <u>25,549,818</u>

The City does not have an investment policy relating to the interest rate risk of investments.

External Investment Pools

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) are the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury.

Note 3—Real and Personal Property Tax Data:

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

**Note 4—Receivables and Accrued Revenue:**

Receivables and accrued revenue at June 30, 2006 consist of the following:

**Primary Government:**

	Governmental Activities				Business- Type Activities
	General	Special Revenue	Capital Projects	Total	
Property taxes	\$ 2,229,927	\$ 1,547	\$ -	\$ 2,231,474	\$ -
Utility taxes	279,847	-	-	279,847	-
Water charges	-	-	-	-	526,983
Wastewater charges	-	-	-	-	785,152
Refuse disposal fees	80,564	-	-	80,564	-
E-911 fees	22,529	-	-	22,529	-
Transit fees	-	-	-	-	105,370
Investment earnings	-	-	423,576	423,576	-
Other	213,813	14,066	677,519	905,398	755,772
Total	\$ 2,826,680	\$ 15,613	\$ 1,101,095	\$ 3,943,388	\$ 2,173,277
Allowance for uncollectibles	(358,321)	-	-	(358,321)	(204,013)
Net receivables	\$ 2,468,359	\$ 15,613	\$ 1,101,095	\$ 3,585,067	\$ 1,969,264

**Component Units and Fiduciary Activities:**

	School Board	Economic Development Authority	Fiduciary Activities
Property taxes	\$ -	\$ -	\$ -
Utility taxes	-	-	-
Water charges	-	-	-
Wastewater charges	-	-	-
Refuse disposal fees	-	-	-
E-911 fees	-	-	-
Transit fees	-	-	-
Investment earnings	-	-	-
Other	-	-	89,668
Total	\$ -	\$ -	\$ 89,668
Allowance for uncollectibles	-	-	-
Net receivables	\$ -	\$ -	\$ 89,668

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 5—Due From Other Governmental Units:

Primary Government:

	Governmental Activities				Business- Type Activities
	General	Special Revenue	Capital Projects	Total	
Commonwealth of Virginia:					
Local sales taxes	\$ 2,302,987	\$ -	\$ -	\$ 2,302,987	-
State sales taxes	-	-	-	-	-
Comprehensive Services Act	-	100,086	-	100,086	-
Shared expenses and grants	268,065	74,294	-	342,359	-
Virginia Department of Rail and Public Transportation	-	-	-	-	94,551
Recordation taxes	32,052	-	-	32,052	-
Street maintenance	-	-	-	-	-
Rental taxes	9,900	-	-	9,900	-
Excess Clerk's fees	-	-	-	-	-
Noncategorical aid	48,561	-	-	48,561	-
Social services grants	-	231,615	-	231,615	-
Federal government:					
Community Development Block Grant	-	61,196	-	61,196	-
Transit grants	-	-	-	-	661,988
Head Start	-	-	-	-	-
Others:					
Potomac and Rappahannock Transportation Commission	-	-	-	-	41,762
Local government reimbursements:					
County of Spotsylvania	24,328	-	-	24,328	265,450
County of Stafford	9,125	-	-	9,125	138,800
County of King George	11,789	-	-	11,789	-
County of Caroline	11,789	-	-	11,789	51,539
Total	\$ 2,718,596	\$ 467,191	\$ -	\$ 3,185,787	\$ 1,254,090

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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

Component Units and Fiduciary Activities:

	<u>Component Units</u>		
	<u>School Board</u>	<u>Economic Development Authority</u>	<u>Fiduciary Activities</u>
Commonwealth of Virginia:			
Local sales taxes	\$ -	\$ -	\$ -
State sales taxes	417,284	-	-
Comprehensive Services Act	-	-	-
Shared expenses and grants	-	-	-
State school funds	-	-	-
Virginia Department of Rail and Public Transportation	-	-	-
Federal pass-through:			
School funds	848,552	-	-
Recordation taxes	-	-	-
Street maintenance	-	-	-
Rental taxes	-	-	-
Excess Clerk's fees	-	-	-
Noncategorical aid	-	-	-
Social services grants	-	-	-
Federal government:			
Community Development Block Grant	-	-	-
Transit grants	-	-	-
Head Start	280,731	-	-
Others:			
Local government reimbursements:			
County of Spotsylvania	-	-	-
County of Stafford	41,157	-	-
County of King George	2,100	-	-
County of Caroline	-	-	-
Total	<u>\$ 1,589,824</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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**Note 6—Interfund Balances and Activity:**

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**Primary Government:**

Balances due to/from other funds at June 30, 2006:

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	\$ 500,000
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	134,501
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	531,566
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	2,550,435
Transfers to the School Debt Service Fund to pay school debt service and related costs	3,365,582
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	1,212,012
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	3,912,687
Transfers to the Public Safety Construction Fund to fund police, fire and rescue capital costs	4,036,014
Transfers to the General Fund for various programs	<u>457,592</u>
Total transfers	<u>\$ 16,700,389</u>
Reconciliation of transfers:	
Transfers in from governmental funds	\$ 17,030,836
Transfers from governmental funds to enterprise funds	(473,255)
Transfers from enterprise funds to governmental funds	<u>142,808</u>
Total transfers	<u>\$ 16,700,389</u>

**Component Unit School Board:**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

**Note 7—Capital Assets:**

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

Primary Government:

	<u>Balance July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 8,218,444	\$ 5,031,542	\$ -	\$ 13,249,986
Construction in progress:				
Infrastructure	\$ 4,493,730	\$ 13,690,908	\$ 18,100,557	\$ 84,081
Land improvements	4,158,659	3,846,837	4,250,193	3,755,303
Buildings	29,528,743	2,817,905	29,020,292	3,326,356
Joint tenancy construction in progress	-	48,430,023	14,335,023	34,095,000
Total construction in progress	<u>\$ 38,181,132</u>	<u>\$ 68,785,673</u>	<u>\$ 65,706,065</u>	<u>\$ 41,260,740</u>
Total capital assets not being depreciated	<u>\$ 46,399,576</u>	<u>\$ 73,817,215</u>	<u>\$ 65,706,065</u>	<u>\$ 54,510,726</u>
Other capital assets:				
Land improvements	\$ 1,175,303	\$ 3,559,293	\$ -	\$ 4,734,596
Buildings	15,325,987	700,457	-	16,026,444
Joint tenancy assets	-	14,000,000	-	14,000,000
Infrastructure	46,190,033	19,919,911	-	66,109,944
Machinery, equipment and vehicles	<u>9,337,284</u>	<u>1,699,499</u>	<u>119,888</u>	<u>10,916,895</u>
Total other capital assets	<u>\$ 72,028,607</u>	<u>\$ 39,879,160</u>	<u>\$ 119,888</u>	<u>\$ 111,787,879</u>
Accumulated depreciation:				
Land improvements	\$ 119,269	\$ 44,109	\$ -	\$ 163,378
Buildings	5,909,160	488,985	-	6,398,145
Infrastructure	13,384,309	1,852,441	-	15,236,750
Machinery, equipment and vehicles	<u>5,297,233</u>	<u>769,290</u>	<u>119,888</u>	<u>5,946,635</u>
Total accumulated depreciation	<u>\$ 24,709,971</u>	<u>\$ 3,154,825</u>	<u>\$ 119,888</u>	<u>\$ 27,744,908</u>
Other capital assets, net	<u>\$ 47,318,636</u>	<u>\$ 36,724,335</u>	<u>\$ -</u>	<u>\$ 84,042,971</u>
Net capital assets	<u><u>\$ 93,718,212</u></u>	<u><u>\$ 110,541,550</u></u>	<u><u>\$ 65,706,065</u></u>	<u><u>\$ 138,553,697</u></u>
Depreciation is allocated to:				
General government administration		\$ 148,022		
Judicial administration		87,928		
Public safety		543,610		
Health and welfare		67,801		
Public works		2,084,759		
Parks and recreation		212,368		
Community development		10,337		
Total		<u><u>\$ 3,154,825</u></u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Capital assets not being depreciated:				
Land	\$ 531,555	\$ -	\$ -	\$ 531,555
Construction in progress:				
Buildings	<u>          -</u>	<u>1,107,476</u>	<u>          -</u>	<u>1,107,476</u>
Total capital assets not not being depreciated	<u>\$ 531,555</u>	<u>\$ 1,107,476</u>	<u>\$ -</u>	<u>\$ 1,639,031</u>
Other capital assets:				
Land improvements	\$ 102,913	\$ 12,690	\$ -	\$ 115,603
Buildings	17,489,718	335,023	12,690	17,812,051
Machinery, equipment and vehicles	<u>1,899,130</u>	<u>182,166</u>	<u>          -</u>	<u>2,081,296</u>
Total other capital assets	<u>\$ 19,491,761</u>	<u>\$ 529,879</u>	<u>\$ 12,690</u>	<u>\$ 20,008,950</u>
Accumulated depreciation:				
Land improvements	\$ 18,784	\$ 6,415	\$ -	\$ 25,199
Buildings	11,110,520	346,011	1,270	11,455,261
Machinery, equipment and vehicles	<u>1,161,934</u>	<u>171,792</u>	<u>          -</u>	<u>1,333,726</u>
Total accumulated depreciation	<u>\$ 12,291,238</u>	<u>\$ 524,218</u>	<u>\$ 1,270</u>	<u>\$ 12,814,186</u>
Other capital assets, net	<u>\$ 7,200,523</u>	<u>\$ 5,661</u>	<u>\$ 11,420</u>	<u>\$ 7,194,764</u>
Net capital assets	<u>\$ 7,732,078</u>	<u>\$ 1,113,137</u>	<u>\$ 11,420</u>	<u>\$ 8,833,795</u>
Depreciation allocated to education		<u>\$ 524,218</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 7—Capital Assets: (Continued)

Business-Type Activities:

	<u>Balance July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 1,819,261	\$ 19,659	\$ -	\$ 1,838,920
Construction in progress	<u>5,540,722</u>	<u>2,420,277</u>	<u>6,887,781</u>	<u>1,073,218</u>
 Total capital assets not being depreciated	 <u>\$ 7,359,983</u>	 <u>\$ 2,439,936</u>	 <u>\$ 6,887,781</u>	 <u>\$ 2,912,138</u>
Other capital assets:				
Buildings and systems	\$ 42,535,914	\$ 6,887,781	\$ 19,455	\$ 49,404,240
Dams and reservoirs	663,536	-	-	663,536
Furniture, machinery and equipment	<u>3,421,202</u>	<u>257,425</u>	<u>402,114</u>	<u>3,276,513</u>
 Total other capital assets	 <u>\$ 46,620,652</u>	 <u>\$ 7,145,206</u>	 <u>\$ 421,569</u>	 <u>\$ 53,344,289</u>
Accumulated depreciation:				
Buildings and systems	\$ 11,633,714	\$ 890,070	\$ 19,455	\$ 12,504,329
Dams and reservoirs	23,422	13,270	-	36,692
Furniture, machinery and equipment	<u>1,648,235</u>	<u>297,019</u>	<u>377,306</u>	<u>1,567,948</u>
 Total accumulated depreciation	 <u>\$ 13,305,371</u>	 <u>\$ 1,200,359</u>	 <u>\$ 396,761</u>	 <u>\$ 14,108,969</u>
 Other capital assets, net	 <u>\$ 33,315,281</u>	 <u>\$ 5,944,847</u>	 <u>\$ 24,808</u>	 <u>\$ 39,235,320</u>
 Net capital assets	 <u>\$ 40,675,264</u>	 <u>\$ 8,384,783</u>	 <u>\$ 6,912,589</u>	 <u>\$ 42,147,458</u>
Depreciation is allocated to:				
Water operations		\$ 402,808		
Wastewater operations		595,818		
Transit operations		<u>201,733</u>		
 Total		 <u>\$ 1,200,359</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

**Note 8—Deferred Revenue:**

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

	<u>Government-wide Statements</u>	<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Governmental Funds</u>
<b>Primary Government:</b>		
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.	\$ -	\$ 954,778
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	1,181,272	1,181,272
Other	<u>105,885</u>	<u>105,885</u>
Total deferred revenue	<u>\$ 1,287,157</u>	<u>\$ 2,241,935</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 9—Long-term Debt:

Primary Government:

A summary of long-term obligation transactions of the City for the year ended June 30, 2006 is as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Current</u> <u>Portion</u>
General long-term debt payable from governmental activities:					
General obligation bonds	\$ 16,631,646	\$ 6,500,000	\$ 1,922,462	\$ 21,209,184	\$ 2,010,925
General obligation school bonds	48,095,000	-	975,000	47,120,000	1,030,000
Add: Unamortized bond premium	<u>1,824,432</u>	<u>-</u>	<u>120,783</u>	<u>1,703,649</u>	<u>118,200</u>
Total	<u>\$ 66,551,078</u>	<u>\$ 6,500,000</u>	<u>\$ 3,018,245</u>	<u>\$ 70,032,833</u>	<u>\$ 3,159,125</u>
Long-term debt payable from business activities:					
General obligation bonds	\$ 3,778,501	\$ 4,250,000	\$ 357,538	\$ 7,670,963	\$ 444,075
Commercial Paper	4,035,000	215,000	4,250,000	-	-
Virginia Resources Authority revenue bonds	<u>8,133,591</u>	<u>-</u>	<u>840,411</u>	<u>7,293,180</u>	<u>869,228</u>
Total	<u>\$ 15,947,092</u>	<u>\$ 4,465,000</u>	<u>\$ 5,447,949</u>	<u>\$ 14,964,143</u>	<u>\$ 1,313,303</u>
Total long-term debt	<u><u>\$ 82,498,170</u></u>	<u><u>\$ 10,965,000</u></u>	<u><u>\$ 8,466,194</u></u>	<u><u>\$ 84,996,976</u></u>	<u><u>\$ 4,472,428</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

The schedule below shows principal and interest requirements through maturity for all outstanding debt at June 30, 2006:

Year Ending June 30	General Obligation Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 3,485,000	\$ 3,551,163	\$ 869,228	240,642
2008	3,820,000	3,322,568	899,033	210,837
2009	3,580,000	3,170,600	929,860	180,010
2010	3,405,000	3,023,591	961,744	148,126
2011	3,515,000	2,874,801	994,721	115,149
2012	3,210,000	2,727,143	1,028,829	81,041
2013	3,030,000	2,586,026	1,064,107	45,763
2014	3,095,000	2,445,371	545,658	9,276
2015	3,195,000	2,300,842	-	-
2016	2,820,000	2,160,564	-	-
2017	2,955,000	2,024,194	-	-
2018	3,090,000	1,880,853	-	-
2019	2,695,000	1,730,010	-	-
2020	2,815,000	1,595,724	-	-
2021	2,950,000	1,454,876	-	-
2022	3,085,000	1,306,937	-	-
2023	3,015,000	1,156,792	-	-
2024	3,170,000	1,004,185	-	-
2025	3,325,000	843,423	-	-
2026	3,495,000	677,506	-	-
2027	2,845,000	525,134	-	-
2028	2,985,000	383,756	-	-
2029	3,130,000	235,468	-	-
2030	3,290,147	79,783	-	-
	<u>\$ 76,000,147</u>	<u>\$ 43,061,310</u>	<u>\$ 7,293,180</u>	<u>\$ 1,030,844</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

At June 30, 2006, the City's long-term debt consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
General obligation bonds:					
1998A General Obligation Refunding Bonds	1998	2018	4.5-6.0%	\$ 5,250,000	\$ 370,000
2001A General Obligation Refunding Bonds	2001	2022	4.5-6.5%	12,880,147	1,860,000
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	47,120,000	1,030,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	<u>10,750,000</u>	<u>225,000</u>
Total general obligation bonds				\$ 76,000,147	\$ 3,485,000
Revenue bonds:					
Virginia Resources Authority Wastewater bonds	1992	2014	5.75%	<u>7,293,180</u>	<u>869,228</u>
Total long-term debt				<u>\$ 83,293,327</u>	<u>\$ 4,354,228</u>

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

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

**Conduit debt.** There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Total outstanding obligations at June 30, 2006 totaled approximately \$119,300,000. The City has no responsibility for the repayment of these debt obligations.

**Federal Arbitrage Regulations:**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

**Note 10—Compensated Absences:**

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

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

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

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>	<u>Current</u> <u>Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 2,180,933	\$ 1,366,631	\$ 1,294,578	\$ 2,252,986	\$ 1,396,851
Business-type activities	<u>132,089</u>	<u>107,092</u>	<u>94,212</u>	<u>144,969</u>	<u>102,245</u>
Total primary government	\$ 2,313,022	\$ 1,473,723	\$ 1,388,790	\$ 2,397,955	\$ 1,499,096
Component Unit School Board	<u>702,397</u>	<u>361,626</u>	<u>365,246</u>	<u>698,777</u>	<u>363,364</u>
Total	<u>\$ 3,015,419</u>	<u>\$ 1,835,349</u>	<u>\$ 1,754,036</u>	<u>\$ 3,096,732</u>	<u>\$ 1,862,460</u>

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

## CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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### Note 11—Defined Benefit Pension Plan:

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

#### Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature. Actuarial valuations are performed on an annual basis.

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

#### Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be and has been assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employee contribution rates for the fiscal year ended 2006 were 8.50% and 1.50% of annual covered payroll, respectively.

The School Board's contribution rate for the VRS statewide cost sharing pool for its professional employees was 6.62%. The total School Board contribution for fiscal year 2006 was \$1,888,712 (employer—\$1,076,013 and employee—\$812,699).

#### Annual Pension Cost

For fiscal year 2006, the City's annual pension cost of \$1,427,778 (does not include the employee share assumed by the City which was \$839,869) was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

In fiscal year 2006, the City of Fredericksburg School Board’s annual pension cost for the Board’s non-professional employees was \$13,792 (does not include the employee share assumed by the Board which was \$45,974) which was equal to the Board’s required and actual contributions. The required contribution was determined as a part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions used to determine the FY2006 contributions are as follows:

	<u>City</u>	<u>Non-Professional School Board</u>
Valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	19 Years	14 Years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return <sup>1</sup>	8.00%	8.00%
Projected salary increases: <sup>1</sup>		
Non-LEO Employees	4.25% to 6.10%	4.25% to 6.10%
LEO Employees	4.50% to 5.75%	4.50% to 5.75%
Cost-of-living adjustment	3.0%	3.0%

<sup>1</sup> Includes inflation at 3%

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2006	\$ 1,427,778	100%	\$ -
June 30, 2005	1,345,206	100%	-
June 30, 2004	151,199	100%	-
School Board Non-Professional:			
June 30, 2006	\$ 13,792	100%	\$ -
June 30, 2005	12,464	100%	-
June 30, 2004	8,056	100%	-

(1) Employer portion only

Note 12—Deferred Compensation Plan:

The City and School offers its 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. This plan was converted to a trustee plan during fiscal year 1998.

Note 13—Commitments and Contingencies:

State and Federal Programs

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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**Note 13—Commitments and Contingencies: (Continued)**

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**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, 2006 the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$8,100,000 at June 30, 2006.

The School Board had no significant construction or related commitments outstanding at June 30, 2006.

**Note 14—Litigation:**

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

**Note 15—Landfill Postclosure Costs:**

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The City closed the Cool Springs Landfill in 1988 and is subject to postclosure monitoring. The estimated postclosure care cost for the next twenty-one years is \$937,792 and has been recorded as long-term liability at June 30, 2006. These amounts are based on what it would cost to perform all postclosure care based on 2006 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, 2005	\$	973,298
Decrease in estimate		(35,506)
Balance at June 30, 2006	\$	<u>937,792</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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**Note 16—Surety Bonds:**

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	<u>Amount</u>
Commonwealth of Virginia, Division of Risk Management:	
Public Officials and Law Enforcement, Excess General Liability/Legal Liability	\$ 1,000,000
City Employees - Blanket Bond	300,000
G.M. Haney, Treasurer - Blanket Bond Cash and Securities	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:**

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

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

**Employee Health Insurance**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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

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

City General Fund

Estimated claims incurred but not reported	\$ 252,780
Estimated maximum stop-loss liability based on premium cost and experience rate	<u>697,220</u>
 Total funds reserved	 <u><u>\$ 950,000</u></u>

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

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Payments</u>	<u>End of Fiscal Year Liability</u>
2004	\$ 241,245	\$ 1,433,125	\$ 1,468,296	\$ 206,074
2005	206,074	2,010,625	1,995,869	220,830
2006	220,830	2,355,587	2,323,637	252,780

**Unemployment Insurance**

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

**Property and Casualty Insurance**

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

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**Note 18—Other Post-Employment Benefits:**

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In addition to the pension benefit described in Note 11, the City provides post-retirement health care insurance and group life insurance for employees who are eligible for retirement benefits. Currently, 93 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. During the year, approximately \$303,100 was expended for post-retirement health care and group life insurance by the City.

**Note 19—Prior Period Adjustment:**

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During the year ended June 30, 2006, the School Board discovered that amounts due from other governments related to fiscal year June 30, 2005 were understated. Accordingly, beginning fund balance and net assets for the school board have been restated as follows:

	<u>School Fund Fund Balance</u>	<u>School Board Net Assets</u>
Balance, June 30, 2005, as reported	\$ 489,464	\$ 8,975,549
Adjustment for understatement	<u>469,720</u>	<u>469,720</u>
Balance, July 1, 2005, as restated	<u><u>\$ 959,184</u></u>	<u><u>\$ 9,445,269</u></u>

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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, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 17,287,838	\$ 17,515,153	\$ 18,271,851	\$ 756,698
Public service corporations	697,500	697,500	310,461	(387,039)
Personal property	3,873,400	3,873,400	4,223,733	350,333
Mobile homes	2,450	2,450	1,671	(779)
Machinery and tools	117,250	117,250	98,055	(19,195)
Penalties	125,000	125,000	160,975	35,975
Interest	35,000	35,000	31,192	(3,808)
Total general property taxes	<u>\$ 22,138,438</u>	<u>\$ 22,365,753</u>	<u>\$ 23,097,938</u>	<u>\$ 732,185</u>
Other local taxes:				
Local sales and use taxes	\$ 12,750,000	\$ 12,750,000	\$ 12,856,512	\$ 106,512
Utility taxes	2,816,000	2,816,000	2,910,053	94,053
Business licenses and rental tax	5,022,000	5,022,000	5,893,564	871,564
Franchise license taxes	260,000	260,000	291,380	31,380
Motor vehicle licenses	347,100	347,100	298,240	(48,860)
Bank stock taxes	500,000	500,000	546,953	46,953
Recordation taxes	400,000	400,000	985,477	585,477
Tobacco tax	725,000	725,000	613,471	(111,529)
Amusement tax	175,000	175,000	175,635	635
Hotel/lodging taxes	800,000	800,000	808,010	8,010
Meals taxes	6,300,000	6,300,000	6,402,076	102,076
E-911 taxes	220,000	220,000	215,804	(4,196)
Total other local taxes	<u>\$ 30,315,100</u>	<u>\$ 30,315,100</u>	<u>\$ 31,997,175</u>	<u>\$ 1,682,075</u>
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 520,500	\$ 520,500	\$ 1,109,546	\$ 589,046
Animal licenses	3,500	3,500	7,472	3,972
Total permits, privilege fees and licenses	<u>\$ 524,000</u>	<u>\$ 524,000</u>	<u>\$ 1,117,018</u>	<u>\$ 593,018</u>
Fines and forfeitures	<u>\$ 485,000</u>	<u>\$ 485,000</u>	<u>\$ 339,338</u>	<u>\$ (145,662)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 350,000	\$ 350,000	\$ 349,997	\$ (3)
Revenue from use of property	42,500	42,500	111,156	68,656
Total revenue from use of money and property	<u>\$ 392,500</u>	<u>\$ 392,500</u>	<u>\$ 461,153</u>	<u>\$ 68,653</u>
Charges for services:				
Court costs	\$ 56,800	\$ 56,800	\$ 228,232	\$ 171,432
Commonwealth's attorney	1,500	1,500	2,632	1,132
Sanitation and waste removal	601,000	601,000	604,667	3,667
Parks and recreation	554,500	588,600	579,514	(9,086)
Planning and community development	800	800	2,560	1,760
Courthouse maintenance	-	-	11,000	11,000
Administrative charges	40,000	40,000	41,889	1,889
Total charges for services	<u>\$ 1,254,600</u>	<u>\$ 1,288,700</u>	<u>\$ 1,470,494</u>	<u>\$ 181,794</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 20,000	\$ 20,000	\$ 662	\$ (19,338)
Souvenir sales	70,000	70,000	15,803	(54,197)
Other	29,400	31,275	108,521	77,246
Total miscellaneous revenue	<u>\$ 119,400</u>	<u>\$ 121,275</u>	<u>\$ 124,986</u>	<u>\$ 3,711</u>
Recovered costs:				
Accounting/EDP charges	\$ 83,000	\$ 83,000	-	\$ (83,000)
Circuit court secretaries	152,500	152,500	208,741	56,241
Health department	225,000	225,000	162,075	(62,925)
Social services	117,500	117,500	89,651	(27,849)
Other	16,150	32,150	281,182	249,032
Total recovered costs	<u>\$ 594,150</u>	<u>\$ 610,150</u>	<u>\$ 741,649</u>	<u>\$ 131,499</u>
Total revenue from local sources	<u>\$ 55,823,188</u>	<u>\$ 56,102,478</u>	<u>\$ 59,349,751</u>	<u>\$ 3,247,273</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 11,302	\$ 11,302	\$ 11,302	-
Wine taxes	11,847	11,847	11,847	-
Grantors tax	96,976	96,976	161,477	64,501
Motor vehicle rental tax	80,000	80,000	115,551	35,551
Personal property relief	1,638,200	1,638,200	1,832,752	194,552
Other	9,500	9,500	12,435	2,935
Total noncategorical aid	<u>\$ 1,847,825</u>	<u>\$ 1,847,825</u>	<u>\$ 2,145,364</u>	<u>\$ 297,539</u>
Categorical aid - shared expenses:				
Commonwealth's attorney	\$ 415,147	\$ 415,147	\$ 436,278	\$ 21,131
Sheriff	371,580	371,580	354,365	(17,215)
Commissioner of revenue	139,067	139,067	139,010	(57)
Treasurer	104,305	104,305	105,391	1,086
Medical examiner	400	400	540	140
Registrar	41,200	41,200	45,703	4,503
Clerk of the circuit court	243,843	243,843	278,372	34,529
Total categorical aid - shared expenses	<u>\$ 1,315,542</u>	<u>\$ 1,315,542</u>	<u>\$ 1,359,659</u>	<u>\$ 44,117</u>
Categorical aid - other:				
Street and highway maintenance	\$ 1,800,000	\$ 1,800,000	\$ 1,823,381	\$ 23,381
Law enforcement assistance	813,914	813,914	813,916	2
Other	36,500	100,920	53,136	(47,784)
Total categorical aid - other	<u>\$ 2,650,414</u>	<u>\$ 2,714,834</u>	<u>\$ 2,690,433</u>	<u>\$ (24,401)</u>
Total revenue from the Commonwealth	<u>\$ 5,813,781</u>	<u>\$ 5,878,201</u>	<u>\$ 6,195,456</u>	<u>\$ 317,255</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Revenue from the Federal Government:				
Categorical aid:				
Payment in-lieu of taxes	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Emergency services	-	-	20,177	20,177
Public assistance - cost allocation	30,000	30,000	49,656	19,656
Total revenue from the Federal Government	\$ 31,000	\$ 31,000	\$ 69,833	\$ 38,833
Total revenues	\$ 61,667,969	\$ 62,011,679	\$ 65,615,040	\$ 3,603,361
<b>Expenditures</b>				
General government administration:				
Legislative:				
City council	\$ 223,730	\$ 223,730	\$ 188,735	\$ 34,995
Clerk of council	85,707	88,776	88,763	13
Total legislative	\$ 309,437	\$ 312,506	\$ 277,498	\$ 35,008
General and financial administration:				
City manager	\$ 646,877	\$ 646,877	\$ 606,060	\$ 40,817
Insurance program	426,922	426,922	303,280	123,642
Personnel	180,219	201,479	187,904	13,575
Independent auditor	60,910	60,910	51,215	9,695
Commissioner of the revenue	774,625	774,625	730,676	43,949
Board of real estate assessors	1,000	1,000	1,000	-
Treasurer	637,853	646,173	643,453	2,720
Fiscal affairs	493,657	495,667	486,515	9,152
Information systems	398,812	398,812	256,968	141,844
Copying and postage	26,000	26,000	22,675	3,325
Legal services	336,489	338,974	332,054	6,920
Total general and financial administration	\$ 3,983,364	\$ 4,017,439	\$ 3,621,800	\$ 395,639
Board of elections:				
Registrar and electoral board	\$ 216,133	\$ 216,133	\$ 195,621	\$ 20,512
Total general government administration	\$ 4,508,934	\$ 4,546,078	\$ 4,094,919	\$ 451,159
Judicial administration:				
Courts:				
Circuit court	\$ 304,537	\$ 314,227	\$ 313,270	\$ 957
General district court	28,600	32,100	31,324	776
Special magistrates	22,990	22,990	4,694	18,296
Juvenile and domestic relations court	19,971	21,187	20,452	735
Clerk of the circuit court	622,904	622,904	561,849	61,055
Sheriff	851,379	912,285	905,151	7,134
JDR services	31,328	31,328	31,327	1
Juries	35,000	35,000	29,220	5,780
Court appointed attorney	25,000	25,000	12,035	12,965
Total courts	\$ 1,941,709	\$ 2,017,021	\$ 1,909,322	\$ 107,699

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Judicial administration: (continued)				
Commonwealth attorney:				
Commonwealth attorney	\$ 878,241	\$ 878,241	\$ 840,549	\$ 37,692
Total judicial administration	\$ 2,819,950	\$ 2,895,262	\$ 2,749,871	\$ 145,391
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 6,246,899	\$ 6,344,668	\$ 6,225,489	\$ 119,179
Auxiliary police	27,500	25,684	5,677	20,007
Narcotics taskforce	12,000	-	-	-
Total law enforcement and traffic control	\$ 6,286,399	\$ 6,370,352	\$ 6,231,166	\$ 139,186
Fire and rescue:				
Fire department	\$ 3,640,166	\$ 3,748,029	\$ 3,737,875	\$ 10,154
Volunteer fire department	21,000	21,000	21,000	-
Rescue services	205,799	222,177	222,177	-
Emergency medical services	625,975	627,975	575,772	52,203
Hazardous materials	21,730	21,730	20,561	1,169
E-911 communications	901,016	884,582	881,613	2,969
Total fire and rescue	\$ 5,415,686	\$ 5,525,493	\$ 5,458,998	\$ 66,495
Correction and detention:				
Juvenile detention center	\$ 343,142	\$ 343,142	\$ 266,943	\$ 76,199
Rappahannock security center	2,102,129	2,102,129	2,102,129	-
Total correction and detention	\$ 2,445,271	\$ 2,445,271	\$ 2,369,072	\$ 76,199
Inspections:				
Code compliance	\$ 743,055	\$ 753,055	\$ 700,785	\$ 52,270
Other protection:				
Animal control	\$ 116,443	\$ 111,703	\$ 104,107	\$ 7,596
Medical examiner	1,200	1,200	800	400
Total other protection	\$ 117,643	\$ 112,903	\$ 104,907	\$ 7,996
Total public safety	\$ 15,008,054	\$ 15,207,074	\$ 14,864,928	\$ 342,146
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 628,635	\$ 628,635	\$ 564,921	\$ 63,714
Street maintenance	1,004,785	1,133,056	947,382	185,674
Drainage	335,277	335,277	333,744	1,533
Street lights	297,775	297,775	233,000	64,775
Industrial park rail spur	15,000	30,000	29,942	58
Traffic engineering	249,889	253,129	246,932	6,197
Shop and garage	1,034,467	1,066,732	1,066,665	67
Graphics	74,710	129,140	127,031	2,109
Total maintenance of streets, highways, bridges and sidewalks	\$ 3,640,538	\$ 3,873,744	\$ 3,549,617	\$ 324,127

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 625,444	\$ 624,357	\$ 543,808	\$ 80,549
Refuse collection	695,849	761,799	724,435	37,364
Refuse disposal	89,970	103,080	103,071	9
Recycling collection	104,156	106,868	99,835	7,033
Total sanitation and waste removal	<u>\$ 1,515,419</u>	<u>\$ 1,596,104</u>	<u>\$ 1,471,149</u>	<u>\$ 124,955</u>
Maintenance of buildings and grounds:				
General properties	\$ 1,203,385	\$ 1,254,384	\$ 1,197,880	\$ 56,504
Environmental management system	24,133	24,133	15,808	8,325
Buildings and grounds - special	203,789	232,530	218,184	14,346
Total maintenance of buildings and grounds	<u>\$ 1,431,307</u>	<u>\$ 1,511,047</u>	<u>\$ 1,431,872</u>	<u>\$ 79,175</u>
Total public works	<u>\$ 6,587,264</u>	<u>\$ 6,980,895</u>	<u>\$ 6,452,638</u>	<u>\$ 528,257</u>
Health and welfare:				
Health:				
Supplement to local health department	\$ 407,866	\$ 407,866	\$ 407,866	\$ -
Mental health and mental retardation:				
Chapter X board	\$ 213,736	\$ 213,736	\$ 213,736	\$ -
Social services:				
Other contributions	\$ 499,035	\$ 646,035	\$ 610,675	\$ 35,360
Total health and welfare	<u>\$ 1,120,637</u>	<u>\$ 1,267,637</u>	<u>\$ 1,232,277</u>	<u>\$ 35,360</u>
Education:				
Community colleges	\$ 5,510	\$ 5,510	\$ 5,510	\$ -
UMW alumni center	26,600	26,600	26,600	-
Appropriations to public school system	19,015,022	19,015,022	18,929,613	85,409
Total education	<u>\$ 19,047,132</u>	<u>\$ 19,047,132</u>	<u>\$ 18,961,723</u>	<u>\$ 85,409</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 699,598	\$ 723,548	\$ 723,525	\$ 23
Supervision	723,017	789,387	771,492	17,895
Maintenance	906,891	930,389	915,275	15,114
Dixon Park swimming pool	-	111,125	44,852	66,273
Total parks and recreation	<u>\$ 2,329,506</u>	<u>\$ 2,554,449</u>	<u>\$ 2,455,144</u>	<u>\$ 99,305</u>
Library:				
Regional library	\$ 1,120,719	\$ 1,120,719	\$ 1,120,719	\$ -
Cultural:				
Museums	\$ 135,000	\$ 135,000	\$ 135,000	\$ -
Other cultural	10,000	10,000	10,000	-
Total cultural	<u>\$ 145,000</u>	<u>\$ 145,000</u>	<u>\$ 145,000</u>	<u>\$ -</u>
Total parks, recreation and cultural	<u>\$ 3,595,225</u>	<u>\$ 3,820,168</u>	<u>\$ 3,720,863</u>	<u>\$ 99,305</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Community Development:				
Planning and community development:				
Planning	\$ 457,427	\$ 514,327	\$ 401,544	\$ 112,783
Building appeals board	600	600	370	230
Community development	114,494	114,494	104,494	10,000
Architectural review board	3,500	3,500	2,248	1,252
Clean community commission	-	3,306	3,306	-
Economic development/tourism	1,108,565	1,187,051	1,105,484	81,567
Total planning and community development	<u>\$ 1,684,586</u>	<u>\$ 1,823,278</u>	<u>\$ 1,617,446</u>	<u>\$ 205,832</u>
Environmental management:				
Soil and water conservation district	\$ 10,500	\$ 10,500	\$ 10,500	-
Total community development	<u>\$ 1,695,086</u>	<u>\$ 1,833,778</u>	<u>\$ 1,627,946</u>	<u>\$ 205,832</u>
Total expenditures	<u>\$ 54,382,282</u>	<u>\$ 55,598,024</u>	<u>\$ 53,705,165</u>	<u>\$ 1,892,859</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ 7,285,687</u>	<u>\$ 6,413,655</u>	<u>\$ 11,909,875</u>	<u>\$ 5,496,220</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 918,000	\$ 9,920,032	\$ 457,592	\$ (9,462,440)
Transfers out	<u>(8,203,687)</u>	<u>(16,333,687)</u>	<u>(16,155,990)</u>	<u>177,697</u>
Total other financing sources (uses)	<u>\$ (7,285,687)</u>	<u>\$ (6,413,655)</u>	<u>\$ (15,698,398)</u>	<u>\$ (9,284,743)</u>
Net change in fund balance	\$ -	\$ -	\$ (3,788,523)	\$ (3,788,523)
<b>Fund balance, beginning of year</b>	<u>-</u>	<u>-</u>	<u>27,269,939</u>	<u>27,269,939</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,481,416</u></u>	<u><u>\$ 23,481,416</u></u>

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

Virginia Retirement System  
 Public Employees Retirement System  
 Schedule of Funding Progress

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## 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, 2005	\$ 53,369,162	\$ 62,366,870	\$ 8,997,708	85.57%	\$ 15,954,784	56.40%
June 30, 2004	50,810,723	57,279,778	6,469,055	88.71%	15,278,332	42.34%
June 30, 2003	49,826,857	52,118,615	2,291,758	95.60%	14,497,127	15.81%

## 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, 2005	\$ 1,808,405	\$ 1,931,573	\$ 123,168	93.62%	\$ 842,429	14.62%
June 30, 2004	1,708,902	1,563,232	(145,670)	109.32%	806,294	-18.07%
June 30, 2003	1,629,800	1,369,234	(260,566)	119.03%	653,459	-39.87%

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**OTHER SUPPLEMENTARY INFORMATION**

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Combining Balance Sheet  
 Nonmajor Governmental Funds  
 At June 30, 2006

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,538,846	\$ 6,552,127	\$ 10,090,973
Receivables:			
Property taxes	1,547	-	1,547
Accounts	14,066	-	14,066
Accrued revenue	-	782,040	782,040
Due from other governments	467,191	-	467,191
Total assets	<u>\$ 4,021,650</u>	<u>\$ 7,334,167</u>	<u>\$ 11,355,817</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 152,855	\$ 167,549	\$ 320,404
Accrued liabilities	141,699	524,836	666,535
Deferred revenue	1,458	15,000	16,458
Total liabilities	<u>\$ 296,012</u>	<u>\$ 707,385</u>	<u>\$ 1,003,397</u>
<b>Equity:</b>			
Fund Balance:			
Reserved:			
Encumbrances	\$ 90,772	\$ 323,241	\$ 414,013
Designated:			
Subsequent year's expenditures	796,352	-	796,352
Capital projects	-	6,303,541	6,303,541
Unreserved/undesignated	2,838,514	-	2,838,514
Total equity	<u>\$ 3,725,638</u>	<u>\$ 6,626,782</u>	<u>\$ 10,352,420</u>
Total liabilities and equity	<u>\$ 4,021,650</u>	<u>\$ 7,334,167</u>	<u>\$ 11,355,817</u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 Year Ended June 30, 2006

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
<b>Revenues</b>				
General property taxes	\$ 954,462	\$ -	\$ -	\$ 954,462
Use of money and property	8,158	1,010,920	-	1,019,078
Miscellaneous	399,730	501,600	-	901,330
Recovered costs	211,632	226,812	-	438,444
Intergovernmental:				
Revenue from the Commonwealth	1,772,834	-	-	1,772,834
Revenue from the Federal Government	2,558,874	-	-	2,558,874
Total revenues	<u>\$ 5,905,690</u>	<u>\$ 1,739,332</u>	<u>\$ -</u>	<u>\$ 7,645,022</u>
<b>Expenditures</b>				
Current:				
Judicial administration	\$ 196,193	\$ -	\$ -	\$ 196,193
Public safety	496,279	-	-	496,279
Health and welfare	5,013,208	-	-	5,013,208
Parks, recreation and cultural	90,332	-	-	90,332
Community development	546,748	-	-	546,748
Capital projects	-	7,801,940	-	7,801,940
Debt service:				
Principal	-	-	2,897,462	2,897,462
Interest	-	-	3,147,613	3,147,613
Total expenditures	<u>\$ 6,342,760</u>	<u>\$ 7,801,940</u>	<u>\$ 6,045,075</u>	<u>\$ 20,189,775</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (437,070)</u>	<u>\$ (6,062,608)</u>	<u>\$ (6,045,075)</u>	<u>\$ (12,544,753)</u>
<b>Other financing sources (uses)</b>				
Bond proceeds	-	1,963,145	129,058	2,092,203
Transfers in	\$ 1,166,067	\$ 5,124,699	\$ 5,916,017	\$ 12,206,783
Transfers out	<u>(401,591)</u>	<u>(473,255)</u>	<u>-</u>	<u>(874,846)</u>
Total other financing sources (uses)	<u>\$ 764,476</u>	<u>\$ 6,614,589</u>	<u>\$ 6,045,075</u>	<u>\$ 13,424,140</u>
Net change in fund balance	\$ 327,406	\$ 551,981	\$ -	\$ 879,387
Fund balance, beginning of year	<u>3,398,232</u>	<u>6,074,801</u>	<u>-</u>	<u>9,473,033</u>
Fund balance, end of year	<u>\$ 3,725,638</u>	<u>\$ 6,626,782</u>	<u>\$ -</u>	<u>\$ 10,352,420</u>

CITY OF FREDERICKSBURG, VIRGINIA

Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 At June 30, 2006

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Regional Transportation Fund	Compre- hensive Services Act Fund
<b>ASSETS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ -	\$ 581,700	\$ 65,677	\$ 53,044
Receivables:				
Taxes	-	-	-	-
Accounts	9,386	-	4,680	-
Due from other governments	231,615	135,490	-	100,086
Total assets	<u>\$ 241,001</u>	<u>\$ 717,190</u>	<u>\$ 70,357</u>	<u>\$ 153,130</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 15,669	\$ 37,868	\$ 2,839	\$ 96,479
Accrued liabilities	133,129	7,214	-	1,356
Deferred revenue	-	-	-	-
Total liabilities	<u>\$ 148,798</u>	<u>\$ 45,082</u>	<u>\$ 2,839</u>	<u>\$ 97,835</u>
<b>Equity:</b>				
<b>Fund Balance:</b>				
<b>Reserved:</b>				
Encumbrances	\$ -	\$ 90,772	\$ -	\$ -
<b>Designated:</b>				
Subsequent year's expenditures	92,203	581,336	67,518	55,295
Unreserved/undesignated	-	-	-	-
Total equity	<u>\$ 92,203</u>	<u>\$ 672,108</u>	<u>\$ 67,518</u>	<u>\$ 55,295</u>
Total liabilities and equity	<u>\$ 241,001</u>	<u>\$ 717,190</u>	<u>\$ 70,357</u>	<u>\$ 153,130</u>

Exhibit 16

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 1,471,352	\$ 718,994	\$ 648,079	\$ 3,538,846
1,031	516	-	1,547
-	-	-	14,066
-	-	-	467,191
<u>\$ 1,472,383</u>	<u>\$ 719,510</u>	<u>\$ 648,079</u>	<u>\$ 4,021,650</u>
\$ -	\$ -	\$ -	\$ 152,855
-	-	-	141,699
<u>972</u>	<u>486</u>	<u>-</u>	<u>1,458</u>
<u>\$ 972</u>	<u>\$ 486</u>	<u>\$ -</u>	<u>\$ 296,012</u>
\$ -	\$ -	\$ -	\$ 90,772
-	-	-	796,352
<u>1,471,411</u>	<u>719,024</u>	<u>648,079</u>	<u>2,838,514</u>
<u>\$ 1,471,411</u>	<u>\$ 719,024</u>	<u>\$ 648,079</u>	<u>\$ 3,725,638</u>
<u>\$ 1,472,383</u>	<u>\$ 719,510</u>	<u>\$ 648,079</u>	<u>\$ 4,021,650</u>

CITY OF FREDERICKSBURG, VIRGINIA

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

Nonmajor Special Revenue Funds

Year Ended June 30, 2006

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Regional Transportation Fund	Compre- hensive Services Act Fund
<b>Revenues</b>				
General property taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	3,662	4,496	-
Miscellaneous	576	399,154	-	-
Recovered costs	103,830	101,562	6,240	-
Intergovernmental:				
Revenue from the Commonwealth	1,027,482	166,297	-	579,055
Revenue from the Federal Government	2,022,794	536,080	-	-
<b>Total revenues</b>	<b>\$ 3,154,682</b>	<b>\$ 1,206,755</b>	<b>\$ 10,736</b>	<b>\$ 579,055</b>
<b>Expenditures</b>				
Current:				
Judicial administration	\$ -	\$ 196,193	\$ -	\$ -
Public safety	-	496,279	-	-
Health and welfare	3,802,586	-	-	1,210,622
Parks, recreation and cultural	-	90,332	-	-
Community Development	-	518,874	27,874	-
<b>Total expenditures</b>	<b>\$ 3,802,586</b>	<b>\$ 1,301,678</b>	<b>\$ 27,874</b>	<b>\$ 1,210,622</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (647,904)</b>	<b>\$ (94,923)</b>	<b>\$ (17,138)</b>	<b>\$ (631,567)</b>
<b>Other financing sources (uses)</b>				
Transfers in	\$ 500,000	\$ 134,501	\$ -	\$ 531,566
Transfers out	-	(37,000)	-	-
<b>Total other financing sources (uses)</b>	<b>\$ 500,000</b>	<b>\$ 97,501</b>	<b>\$ -</b>	<b>\$ 531,566</b>
<b>Net change in fund balance</b>	<b>\$ (147,904)</b>	<b>\$ 2,578</b>	<b>\$ (17,138)</b>	<b>\$ (100,001)</b>
<b>Fund balance, beginning of year</b>	<b>240,107</b>	<b>669,530</b>	<b>84,656</b>	<b>155,296</b>
<b>Fund balance, end of year</b>	<b>\$ 92,203</b>	<b>\$ 672,108</b>	<b>\$ 67,518</b>	<b>\$ 55,295</b>

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 396,568	\$ 201,801	\$ 356,093	\$ 954,462
-	-	-	8,158
-	-	-	399,730
-	-	-	211,632
-	-	-	1,772,834
-	-	-	2,558,874
<u>\$ 396,568</u>	<u>\$ 201,801</u>	<u>\$ 356,093</u>	<u>\$ 5,905,690</u>
\$ -	\$ -	\$ -	\$ 196,193
-	-	-	496,279
-	-	-	5,013,208
-	-	-	90,332
-	-	-	546,748
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,342,760</u>
<u>\$ 396,568</u>	<u>\$ 201,801</u>	<u>\$ 356,093</u>	<u>\$ (437,070)</u>
\$ -	\$ -	\$ -	\$ 1,166,067
<u>(364,591)</u>	<u>-</u>	<u>-</u>	<u>(401,591)</u>
<u>\$ (364,591)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 764,476</u>
\$ 31,977	\$ 201,801	\$ 356,093	\$ 327,406
<u>1,439,434</u>	<u>517,223</u>	<u>291,986</u>	<u>3,398,232</u>
<u><u>\$ 1,471,411</u></u>	<u><u>\$ 719,024</u></u>	<u><u>\$ 648,079</u></u>	<u><u>\$ 3,725,638</u></u>

Combining Balance Sheet  
 Nonmajor Capital Projects Funds  
 At June 30, 2006

	Public Works Construction Fund	Public Facilities Construction Fund	New Elementary School Construction Fund	Total
<b>ASSETS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,235,474	\$ 3,958,444	\$ 358,209	\$ 6,552,127
Accrued revenue	634,132	147,908	-	782,040
Total assets	<u>\$ 2,869,606</u>	<u>\$ 4,106,352</u>	<u>\$ 358,209</u>	<u>\$ 7,334,167</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 92,826	\$ 74,723	\$ -	\$ 167,549
Accrued liabilities	-	166,627	358,209	524,836
Deferred revenue	-	15,000	-	15,000
Total liabilities	<u>\$ 92,826</u>	<u>\$ 256,350</u>	<u>\$ 358,209</u>	<u>\$ 707,385</u>
<b>Equity:</b>				
<b>Fund Balance:</b>				
<b>Reserved:</b>				
Encumbrances	\$ 323,241	\$ -	\$ -	\$ 323,241
<b>Designated:</b>				
Capital projects	2,453,539	3,850,002	-	6,303,541
Total equity	<u>\$ 2,776,780</u>	<u>\$ 3,850,002</u>	<u>\$ -</u>	<u>\$ 6,626,782</u>
Total liabilities and equity	<u>\$ 2,869,606</u>	<u>\$ 4,106,352</u>	<u>\$ 358,209</u>	<u>\$ 7,334,167</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Capital Projects Funds  
 Year Ended June 30, 2006

	Public Works Construction Fund	Public Facilities Construction Fund	New Elementary School Construction Fund	Total
<b>Revenues</b>				
Use of money and property	\$ 310,000	\$ 365,897	\$ 335,023	\$ 1,010,920
Miscellaneous	500,000	1,600	-	501,600
Recovered costs	10,837	215,975	-	226,812
<b>Total revenues</b>	<b>\$ 820,837</b>	<b>\$ 583,472</b>	<b>\$ 335,023</b>	<b>\$ 1,739,332</b>
<b>Expenditures</b>				
Capital projects	\$ 2,774,671	\$ 4,301,090	\$ 726,179	\$ 7,801,940
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (1,953,834)</b>	<b>\$ (3,717,618)</b>	<b>\$ (391,156)</b>	<b>\$ (6,062,608)</b>
<b>Other financing sources (uses)</b>				
Bond proceeds	\$ -	\$ 1,963,145	\$ -	\$ 1,963,145
Transfers in	1,212,012	3,912,687	-	5,124,699
Transfers out	(73,255)	(400,000)	-	(473,255)
<b>Total other financing sources (uses)</b>	<b>\$ 1,138,757</b>	<b>\$ 5,475,832</b>	<b>\$ -</b>	<b>\$ 6,614,589</b>
<b>Net change in fund balance</b>	<b>\$ (815,077)</b>	<b>\$ 1,758,214</b>	<b>\$ (391,156)</b>	<b>\$ 551,981</b>
<b>Fund balance, beginning of year</b>	<b>3,591,857</b>	<b>2,091,788</b>	<b>391,156</b>	<b>6,074,801</b>
<b>Fund balance, end of year</b>	<b>\$ 2,776,780</b>	<b>\$ 3,850,002</b>	<b>\$ -</b>	<b>\$ 6,626,782</b>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Debt Service Funds  
 Year Ended June 30, 2006

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
<b>Expenditures</b>			
Debt service:			
Principal	\$ 1,922,462	\$ 975,000	\$ 2,897,462
Interest and fiscal charges	757,031	2,390,582	3,147,613
Total expenditures	\$ 2,679,493	\$ 3,365,582	\$ 6,045,075
Excess (deficiency) of revenues over expenditures	\$ (2,679,493)	\$ (3,365,582)	\$ (6,045,075)
<b>Other financing sources (uses)</b>			
Bond proceeds	\$ 129,058	\$ -	\$ 129,058
Transfers in	\$ 2,550,435	\$ 3,365,582	\$ 5,916,017
Total other financing sources (uses)	\$ 2,679,493	\$ 3,365,582	\$ 6,045,075
Net change in fund balance	\$ -	\$ -	\$ -
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -

Combining Statement of Fiduciary Net Assets  
At June 30, 2006

	Criminal Justice Academy	Special Welfare	Court Service Unit	CASA Program	RADCO Agency	Rappahannock Area Youth Commission	Revenue Maximization Fund	Forfeited Asset Sharing Program Fund	Total
<b>ASSETS</b>									
<b>Assets:</b>									
Cash and cash equivalents	\$ 7,726	\$ 18,089	\$ 154,508	\$ 64,299	\$ -	\$ 46,476	\$ 20,451	\$ 40,659	\$ 352,208
Accounts receivable	-	41	1,582	4,710	27,960	50,986	-	4,389	89,668
Prepaid items	-	-	5,238	1,443	-	-	-	-	6,681
Total assets	<u>\$ 7,726</u>	<u>\$ 18,130</u>	<u>\$ 161,328</u>	<u>\$ 70,452</u>	<u>\$ 27,960</u>	<u>\$ 97,462</u>	<u>\$ 20,451</u>	<u>\$ 45,048</u>	<u>\$ 448,557</u>
<b>LIABILITIES AND NET ASSETS</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 7,726	\$ -	\$ 14,108	\$ 79	\$ 27,960	\$ 4,027	\$ -	\$ -	\$ 53,900
Amounts held for others	-	18,130	147,220	70,373	-	93,435	20,451	45,048	394,657
Total liabilities	<u>\$ 7,726</u>	<u>\$ 18,130</u>	<u>\$ 161,328</u>	<u>\$ 70,452</u>	<u>\$ 27,960</u>	<u>\$ 97,462</u>	<u>\$ 20,451</u>	<u>\$ 45,048</u>	<u>\$ 448,557</u>
Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

## AGENCY FUNDS

## Statement of Changes in Assets and Liabilities

Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>CRIMINAL JUSTICE ACADEMY</b>				
Assets:				
Cash and cash equivalents	\$ 5,815	\$ 739,492	\$ 737,581	\$ 7,726
Liabilities:				
Accounts payable	\$ 5,815	\$ 739,492	\$ 737,581	\$ 7,726
<b>SPECIAL WELFARE</b>				
Assets:				
Cash and cash equivalents	\$ 28,336	\$ 6,917	\$ 17,164	\$ 18,089
Accounts receivable	-	41	-	41
Total assets	\$ 28,336	\$ 6,958	\$ 17,164	\$ 18,130
Liabilities:				
Amounts held for others	\$ 28,336	\$ 6,958	\$ 17,164	\$ 18,130
<b>COURT SERVICE UNIT</b>				
Assets:				
Cash and cash equivalents	\$ 146,204	\$ 207,475	\$ 199,171	\$ 154,508
Accounts receivable	17,215	1,582	17,215	1,582
Prepaid items	-	5,238	-	5,238
Total assets	\$ 163,419	\$ 214,295	\$ 216,386	\$ 161,328
Liabilities:				
Accounts payable	\$ 31,358	\$ 14,108	\$ 31,358	\$ 14,108
Amounts held for others	132,061	200,187	185,028	147,220
Total liabilities	\$ 163,419	\$ 214,295	\$ 216,386	\$ 161,328
<b>CASA PROGRAM</b>				
Assets:				
Cash and cash equivalents	\$ 63,066	\$ 140,558	\$ 139,325	\$ 64,299
Accounts receivable	-	4,710	-	4,710
Prepaid items	-	1,443	-	1,443
Total assets	\$ 63,066	\$ 146,711	\$ 139,325	\$ 70,452
Liabilities:				
Accounts payable	\$ 2,815	\$ 79	\$ 2,815	\$ 79
Amounts held for others	60,251	146,632	136,510	70,373
Total liabilities	\$ 63,066	\$ 146,711	\$ 139,325	\$ 70,452
<b>RADCO AGENCY</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 27,223	\$ 27,223	\$ -
Accounts receivable	26,511	27,960	26,511	27,960
Total assets	\$ 26,511	\$ 55,183	\$ 53,734	\$ 27,960
Liabilities:				
Accounts payable	\$ 26,511	\$ 27,960	\$ 26,511	\$ 27,960
Amounts held for others	-	27,223	27,223	-
Total liabilities	\$ 26,511	\$ 55,183	\$ 53,734	\$ 27,960

AGENCY FUNDS  
Statement of Changes in Assets and Liabilities  
Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>RAPPAHANNOCK AREA YOUTH COMMISSION</b>				
Assets:				
Cash and cash equivalents	\$ 22,978	\$ 368,512	\$ 345,014	\$ 46,476
Accounts receivable	62,693	50,986	62,693	50,986
Total assets	<u>\$ 85,671</u>	<u>\$ 419,498</u>	<u>\$ 407,707</u>	<u>\$ 97,462</u>
Liabilities:				
Accounts payable	\$ 8,906	\$ 4,027	\$ 8,906	\$ 4,027
Amounts held for others	76,765	415,471	398,801	93,435
Total liabilities	<u>\$ 85,671</u>	<u>\$ 419,498</u>	<u>\$ 407,707</u>	<u>\$ 97,462</u>
<b>REVENUE MAXIMIZATION FUND</b>				
Assets:				
Cash and cash equivalents	\$ 30,451	\$ -	\$ 10,000	\$ 20,451
Liabilities:				
Amounts held for others	\$ 30,451	\$ -	\$ 10,000	\$ 20,451
<b>FORFEITED ASSET SHARING PROGRAM FUND</b>				
Assets:				
Cash and cash equivalents	\$ 16,641	\$ 41,625	\$ 17,607	\$ 40,659
Accounts receivable	5,720	4,389	5,720	4,389
Total assets	<u>\$ 22,361</u>	<u>\$ 46,014</u>	<u>\$ 23,327</u>	<u>\$ 45,048</u>
Liabilities:				
Accounts payable	\$ 974	\$ -	\$ 974	\$ -
Amounts held for others	21,387	46,014	22,353	45,048
Total liabilities	<u>\$ 22,361</u>	<u>\$ 46,014</u>	<u>\$ 23,327</u>	<u>\$ 45,048</u>
<b>TOTALS -- ALL AGENCY FUNDS</b>				
Assets:				
Cash and cash equivalents	\$ 313,491	\$ 1,531,802	\$ 1,493,085	\$ 352,208
Accounts receivable	112,139	89,668	112,139	89,668
Prepaid items	-	6,681	-	6,681
Total assets	<u>\$ 425,630</u>	<u>\$ 1,628,151</u>	<u>\$ 1,605,224</u>	<u>\$ 448,557</u>
Liabilities:				
Accounts payable	\$ 76,379	\$ 785,666	\$ 808,145	\$ 53,900
Amounts held for others	349,251	842,485	797,079	394,657
Total liabilities	<u>\$ 425,630</u>	<u>\$ 1,628,151</u>	<u>\$ 1,605,224</u>	<u>\$ 448,557</u>

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

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds With Legally Adopted Budgets  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Special Revenue Funds</b>				
<b>Virginia Public Assistance Fund</b>				
<b>Revenues</b>				
Miscellaneous	\$ -	\$ -	\$ 576	\$ 576
Recovered costs	100,000	100,000	103,830	3,830
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	624,444	1,042,444	1,027,482	(14,962)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	2,038,377	2,038,377	2,022,794	(15,583)
<b>Total revenues</b>	<b>\$ 2,762,821</b>	<b>\$ 3,180,821</b>	<b>\$ 3,154,682</b>	<b>\$ (26,139)</b>
<b>Expenditures</b>				
Health and welfare	\$ 3,372,821	\$ 3,815,438	\$ 3,802,586	\$ 12,852
<b>State, Federal and Local Grants Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 3,662	\$ 3,662
Miscellaneous	\$ 215,000	\$ 376,545	\$ 399,154	\$ 22,609
Recovered costs:				
Stafford and Spotsylvania Counties	\$ 100,000	\$ 100,000	\$ 101,562	\$ 1,562
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Litter control	\$ -	\$ -	\$ 6,568	\$ 6,568
Arts grant	5,000	5,000	5,000	-
Hazardous materials grant	30,000	30,000	41,984	11,984
Victim-witness program	12,100	12,100	11,937	(163)
Fire services program	27,840	37,967	43,678	5,711
Other	37,000	83,693	57,130	(26,563)
<b>Total revenue from the Commonwealth</b>	<b>\$ 111,940</b>	<b>\$ 168,760</b>	<b>\$ 166,297</b>	<b>\$ (2,463)</b>
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 174,986	\$ 310,484	\$ 299,222	\$ (11,262)
Community Development Block Grant	264,462	264,462	236,858	(27,604)
<b>Total revenue from the Federal Government</b>	<b>\$ 439,448</b>	<b>\$ 574,946</b>	<b>\$ 536,080</b>	<b>\$ (38,866)</b>
<b>Total revenues</b>	<b>\$ 866,388</b>	<b>\$ 1,220,251</b>	<b>\$ 1,206,755</b>	<b>\$ (13,496)</b>
<b>Expenditures</b>				
Judicial administration:				
Victim-witness	\$ 78,246	\$ 124,939	\$ 106,252	\$ 18,687
Byrne memorial grant program	-	91,890	89,941	1,949
<b>Total judicial administration</b>	<b>\$ 78,246</b>	<b>\$ 216,829</b>	<b>\$ 196,193</b>	<b>\$ 20,636</b>

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds With Legally Adopted Budgets  
Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Special Revenue Funds: (continued)</b>				
<b>State, Federal and Local Grants Fund: (continued)</b>				
<b>Expenditures: (continued)</b>				
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 32,782	\$ 30,187	\$ 2,595
Fire services program	27,840	59,431	66,770	(7,339)
Emergency response team	-	9,821	16,518	(6,697)
Police officers	94,798	170,598	151,915	18,683
State homeland security grant	37,192	175,353	134,858	40,495
Federal homeland security grant	-	83,333	82,304	1,029
Justice assistance grant	-	-	13,727	(13,727)
<b>Total public safety</b>	<b>\$ 189,830</b>	<b>\$ 531,318</b>	<b>\$ 496,279</b>	<b>\$ 35,039</b>
Parks, recreation and cultural:				
Soap Box Derby	\$ 25,000	\$ 25,000	\$ 14,763	\$ 10,237
Fine Arts Commission	5,000	5,000	5,000	-
War memorial	-	146,000	4,595	141,405
Other	130,000	130,000	65,974	64,026
<b>Total parks, recreation and cultural</b>	<b>\$ 160,000</b>	<b>\$ 306,000</b>	<b>\$ 90,332</b>	<b>\$ 215,668</b>
Community development:				
PEG access	\$ 30,000	\$ 30,000	\$ 28,051	\$ 1,949
Community Development Block Grant	282,217	293,217	259,490	33,727
First Night Celebration	45,000	71,865	55,057	16,808
Regional group tourism	150,000	216,793	172,251	44,542
Other	-	24,000	4,025	19,975
<b>Total Community development</b>	<b>\$ 507,217</b>	<b>\$ 635,875</b>	<b>\$ 518,874</b>	<b>\$ 117,001</b>
<b>Total expenditures</b>	<b>\$ 935,293</b>	<b>\$ 1,690,022</b>	<b>\$ 1,301,678</b>	<b>\$ 388,344</b>
<b>Regional Transportation Fund</b>				
<b>Revenues</b>				
Other local taxes:				
Gasoline taxes	\$ 100,000	\$ 100,000	\$ -	\$ (100,000)
Revenue from use of money and property:				
Use of property	-	-	4,496	4,496
Recovered costs	-	-	6,240	6,240
<b>Total revenues</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 10,736</b>	<b>\$ (89,264)</b>
<b>Expenditures</b>				
Community development:				
Commuter rail	\$ 100,000	\$ 100,000	\$ 27,874	\$ 72,126
<b>Comprehensive Services Act Fund</b>				
<b>Revenues</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	\$ 700,000	\$ 700,000	\$ 579,055	\$ (120,945)
<b>Expenditures</b>				
Health and Welfare:				
Comprehensive Services Act program	\$ 1,100,000	\$ 1,331,566	\$ 1,210,622	\$ 120,944

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds With Legally Adopted Budgets  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Special Revenue Funds: (continued)</b>				
<b>Capital Projects Funds</b>				
<b>Public Works Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ 200,000	\$ 200,000	\$ 310,000	\$ 110,000
Miscellaneous	100,000	844,920	500,000	(344,920)
Recovered costs	-	-	10,837	10,837
Total revenues	<u>\$ 300,000</u>	<u>\$ 1,044,920</u>	<u>\$ 820,837</u>	<u>\$ (224,083)</u>
<b>Expenditures</b>				
<b>Capital projects:</b>				
Drainage improvements	\$ -	\$ 50,000	\$ 7,306	\$ 42,694
Concrete rehabilitation	261,088	261,088	160,016	101,072
Annual pavement rehabilitation	978,000	978,000	1,526,420	(548,420)
Industrial park/streets and drainage	100,000	167,427	-	167,427
Cowan Boulevard extension	900,825	900,825	3,005	897,820
George Street pedestrian walk	200,000	304,786	4,473	300,313
Riverfront walk	118,875	118,875	14,940	103,935
Kenmore Valley drainage improvements	-	336,768	367,396	(30,628)
Alum Springs bridge replacement	417,198	-	-	-
Market Square	-	-	3,286	(3,286)
Rocky Lane wall	180,000	180,000	186,808	(6,808)
Cowan Boulevard signalization	20,000	420,941	437,590	(16,649)
Ornamental street lights replacement	50,000	50,000	-	50,000
Pedestrian bridge repairs	90,000	90,000	-	90,000
Confederate cemetery wall repair	-	35,697	10,840	24,857
Blue-Gray parkway bridge	85,000	85,000	-	85,000
Cowan Boulevard streetlights	100,000	100,000	-	100,000
Fall Hill Avenue/Wicklow Drive	-	200,000	14,415	185,585
Stafford Avenue traffic	-	-	38,176	(38,176)
Route 1 reconstruction	-	886,800	-	886,800
Route 3 traffic signals	-	600,000	-	600,000
Fall Hill Avenue engineering	-	3,040	-	3,040
Total capital projects	<u>\$ 3,500,986</u>	<u>\$ 5,769,247</u>	<u>\$ 2,774,671</u>	<u>\$ 2,994,576</u>
<b>Public Facilities Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ 160,000	\$ 160,000	\$ 302,000	\$ 142,000
Use of property	50,000	50,000	63,897	13,897
Total revenue from use of money and property	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ 365,897</u>	<u>\$ 155,897</u>
Recovered costs	\$ 100,000	\$ 114,460	\$ 217,575	\$ 103,115
Total revenues	<u>\$ 310,000</u>	<u>\$ 324,460</u>	<u>\$ 583,472</u>	<u>\$ 259,012</u>
<b>Expenditures</b>				
<b>Capital projects:</b>				
Regional library	\$ 200,000	\$ 200,000	\$ 84,714	\$ 115,286
Maury School renovation	174,385	174,385	49,554	124,831
Health/Social Services building	75,000	75,000	22,675	52,325
Dixon Street recreation site	120,000	417,564	308,769	108,795
Downtown parking garage	494,000	494,720	-	494,720
Canal path improvements	150,000	150,000	-	150,000

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds With Legally Adopted Budgets  
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Public Facilities Construction Fund: (continued)</b>				
<b>Expenditures: (continued)</b>				
Capital projects: (continued)				
Public facilities general improvements	-	26,920	117,511	(90,591)
Fire station #2 roof replacement	41,314	41,314	-	41,314
Dixon Park pool	3,300,000	3,516,180	3,497,621	18,559
Fire station #2 foundation repairs	50,000	50,000	522	49,478
Other	625,000	722,500	219,724	502,776
Total capital projects	<u>\$ 5,229,699</u>	<u>\$ 5,868,583</u>	<u>\$ 4,301,090</u>	<u>\$ 1,567,493</u>
<b>Public Safety Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ 160,000	\$ 160,000	\$ 301,081	\$ 141,081
Intergovernmental:				
Revenue from the Commonwealth:				
E-911 wireless grant	260,000	260,000	173,481	(86,519)
Total revenues	<u>\$ 420,000</u>	<u>\$ 420,000</u>	<u>\$ 474,562</u>	<u>\$ 54,562</u>
<b>Expenditures</b>				
Capital projects:				
Fire training center	\$ -	\$ 250,000	\$ -	\$ 250,000
Fire equipment	-	227,740	225,972	1,768
Communications equipment	150,000	450,828	289,221	161,607
Police headquarters	11,000,000	11,019,667	2,567,012	8,452,655
Total capital projects	<u>\$ 11,150,000</u>	<u>\$ 11,948,235</u>	<u>\$ 3,082,205</u>	<u>\$ 8,866,030</u>
<b>New Upper Elementary School Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ 335,024	\$ 335,023	\$ (1)
<b>Expenditures</b>				
Capital projects:				
New upper elementary school	\$ -	\$ 726,179	\$ 726,179	\$ -
<b>New High School Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ 224,382	\$ 224,382	\$ -
<b>Expenditures</b>				
Capital projects:				
New high school	\$ 17,000,000	\$ 19,925,036	\$ 19,925,035	\$ 1
<b>Debt Service Funds</b>				
<b>General Obligation Debt Service Fund</b>				
<b>Expenditures</b>				
Principal and interest	\$ 3,060,650	\$ 3,060,650	\$ 2,679,493	\$ 381,157
<b>Education Debt Service Fund</b>				
<b>Expenditures</b>				
Principal and interest	\$ 3,365,583	\$ 3,365,583	\$ 3,365,582	\$ 1

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

Component Unit School Board  
 Combining Balance Sheet  
 At June 30, 2006

	School Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,147,757	\$ -	\$ 1,165,636	\$ 3,313,393
Accounts receivable	-	-	-	-
Due from other governments	547,171	1,042,653	-	1,589,824
Prepaid expenses	-	-	-	-
Total assets	<u>\$ 2,694,928</u>	<u>\$ 1,042,653</u>	<u>\$ 1,165,636</u>	<u>\$ 4,903,217</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 117,040	\$ 223,067	\$ 91,852	\$ 431,959
Accrued liabilities	2,121,955	422,411	-	2,544,366
Deferred revenue	-	-	52,427	52,427
Total liabilities	<u>\$ 2,238,995</u>	<u>\$ 645,478</u>	<u>\$ 144,279</u>	<u>\$ 3,028,752</u>
<b>Equity:</b>				
<b>Fund Balance:</b>				
<b>Designated:</b>				
Subsequent year's expenditures	\$ -	\$ 397,175	\$ -	\$ 397,175
Capital projects	184,937	-	1,021,357	1,206,294
Unreserved/undesignated	270,996	-	-	270,996
Total equity	<u>\$ 455,933</u>	<u>\$ 397,175</u>	<u>\$ 1,021,357</u>	<u>\$ 1,874,465</u>
Total liabilities and equity	<u>\$ 2,694,928</u>	<u>\$ 1,042,653</u>	<u>\$ 1,165,636</u>	<u>\$ 4,903,217</u>

Component Unit School Board  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
 At June 30, 2006

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Total fund balances for governmental funds (Exhibit 24) \$ 1,874,465

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

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

Land	\$ 531,555	
Construction in progress	1,107,476	
Land improvements, net of accumulated depreciation	90,404	
Buildings and improvements, net of accumulated depreciation	6,356,790	
Equipment, net of accumulated depreciation	<u>747,570</u>	
Total capital assets		8,833,795
Compensated absences not reported as fund liabilities		<u>(698,777)</u>
Total net assets of governmental activities (Exhibits 1 and 11)		<u>\$ 10,009,483</u>

Component Unit School Board  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006

	School Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>				
Use of money and property	\$ 15,126	\$ -	\$ -	\$ 15,126
Charges for services	256,969	337,215	-	594,184
Miscellaneous	109,686	128,269	-	237,955
Recovered costs	-	61,311	-	61,311
Intergovernmental:				
Appropriation from primary government	18,590,323	-	339,290	18,929,613
Revenue from the Commonwealth	6,527,924	581,138	203,398	7,312,460
Revenue from the Federal Government	553,853	3,886,543	-	4,440,396
<b>Total revenues</b>	<b>\$ 26,053,881</b>	<b>\$ 4,994,476</b>	<b>\$ 542,688</b>	<b>\$ 31,591,045</b>
<b>Expenditures</b>				
Current:				
Education:				
Instruction	\$ 16,158,965	\$ 4,003,185	\$ -	\$ 20,162,150
Administration, attendance and health	6,434,448	-	-	6,434,448
Transportation	922,636	-	-	922,636
Facilities operations	3,041,083	-	-	3,041,083
School food services	-	986,275	-	986,275
Capital projects	-	-	585,576	585,576
<b>Total expenditures</b>	<b>\$ 26,557,132</b>	<b>\$ 4,989,460</b>	<b>\$ 585,576</b>	<b>\$ 32,132,168</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (503,251)</b>	<b>\$ 5,016</b>	<b>\$ (42,888)</b>	<b>\$ (541,123)</b>
<b>Net change in fund balance</b>	<b>\$ (503,251)</b>	<b>\$ 5,016</b>	<b>\$ (42,888)</b>	<b>\$ (541,123)</b>
<b>Fund balance, beginning of year</b>	<b>959,184</b>	<b>392,159</b>	<b>1,064,245</b>	<b>2,415,588</b>
<b>Fund balance, end of year</b>	<b>\$ 455,933</b>	<b>\$ 397,175</b>	<b>\$ 1,021,357</b>	<b>\$ 1,874,465</b>

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, 2006

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Net change in fund balances - total governmental funds (Exhibit 26) \$ (541,123)

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 were exceeded by depreciation in the current period. 1,101,717

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

Compensated absences	<u>3,620</u>
Change in net assets of governmental activities (Exhibit 11)	\$ <u><u>564,214</u></u>

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

Component Unit School Board  
 School Fund  
 Revenues and Expenditures Budgetary Comparison Schedule  
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>School Fund</b>				
<b>Revenues</b>				
Use of money and property:				
Use of property	\$ 5,000	\$ 5,000	\$ 15,126	\$ 10,126
Charges for services:				
Charges for education	\$ 213,500	\$ 213,500	\$ 256,969	\$ 43,469
Miscellaneous	\$ 23,500	\$ 23,500	\$ 109,686	\$ 86,186
Intergovernmental:				
Appropriation from primary government	\$ 18,675,732	\$ 18,675,732	\$ 18,590,323	\$ (85,409)
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 2,195,520	\$ 2,195,520	\$ 2,276,776	\$ 81,256
Basic aid	2,756,744	2,756,744	2,689,286	(67,458)
Other	1,568,661	1,568,661	1,561,862	(6,799)
Total revenue from the Commonwealth	\$ 6,520,925	\$ 6,520,925	\$ 6,527,924	\$ 6,999
Revenue from the Federal Government:				
Categorical aid:				
Special education	\$ 435,431	\$ 933,184	\$ 497,753	\$ (435,431)
Other	57,000	57,000	56,100	(900)
Total revenue from the Federal Government	\$ 492,431	\$ 990,184	\$ 553,853	\$ (436,331)
Total revenues	\$ 25,931,088	\$ 26,428,841	\$ 26,053,881	\$ (374,960)
<b>Expenditures</b>				
Current:				
Education:				
Instruction	\$ 15,900,091	\$ 16,609,645	\$ 16,158,965	\$ 450,680
Administration, attendance and health	6,027,814	6,184,261	6,434,448	(250,187)
Transportation	923,802	1,012,802	922,636	90,166
Facilities operations	3,036,724	3,041,724	3,041,083	641
Total expenditures	\$ 25,888,431	\$ 26,848,432	\$ 26,557,132	\$ 291,300
Excess (deficiency) of revenues over expenditures	\$ 42,657	\$ (419,591)	\$ (503,251)	\$ (83,660)
<b>Other financing sources (uses)</b>				
Transfers in	\$ 225,000	\$ 505,000	\$ -	\$ (505,000)
Transfers out	(267,657)	(85,409)	-	85,409
Total other financing sources (uses)	\$ (42,657)	\$ 419,591	\$ -	\$ (419,591)
Net change in fund balance	\$ -	\$ -	\$ (503,251)	\$ (503,251)
Fund balance, beginning of year, as adjusted	-	-	959,184	959,184
Fund balance, end of year	\$ -	\$ -	\$ 455,933	\$ 455,933

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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Special School Fund</b>				
<b>Revenues</b>				
Charges for services:				
Cafeteria sales	\$ 362,500	\$ 362,500	\$ 337,215	\$ (25,285)
Miscellaneous	\$ 750	\$ 750	\$ 128,269	\$ 127,519
Recovered costs:				
Education	\$ 21,750	\$ 21,750	\$ 61,311	\$ 39,561
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 14,632	\$ 14,632	\$ 15,177	\$ 545
VPSA technology grant	154,000	308,000	282,000	(26,000)
Other	313,377	463,377	283,961	(179,416)
Total revenue from the Commonwealth	\$ 482,009	\$ 786,009	\$ 581,138	\$ (204,871)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 606,899	\$ 606,899	\$ 670,226	\$ 63,327
School food	507,077	507,077	563,155	56,078
Head Start	1,822,378	1,822,378	1,813,317	(9,061)
Enhancing education via technology	509,495	907,837	474,504	(433,333)
Other	443,123	443,123	365,341	(77,782)
Total revenue from the Federal Government	\$ 3,888,972	\$ 4,287,314	\$ 3,886,543	\$ (400,771)
Total revenues	\$ 4,755,981	\$ 5,458,323	\$ 4,994,476	\$ (463,847)
<b>Expenditures</b>				
Current:				
Instruction	\$ 3,836,773	\$ 4,539,115	\$ 4,003,185	\$ 535,930
School food service operations	919,208	919,208	986,275	(67,067)
Total expenditures	\$ 4,755,981	\$ 5,458,323	\$ 4,989,460	\$ 468,863
<b>Excess (deficiency) of revenues over expenditures</b>	\$ -	\$ -	\$ 5,016	\$ 5,016
<b>Fund balance, beginning of year</b>	-	-	392,159	392,159
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 397,175	\$ 397,175

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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>School Capital Projects Fund</b>				
<b>Revenues</b>				
Intergovernmental:				
Appropriation from primary government	\$ 339,290	\$ 339,290	\$ 339,290	\$ -
Revenue from the Commonwealth:				
Lottery funds	\$ 88,580	\$ 88,580	\$ 88,277	\$ (303)
School construction funds	115,000	115,000	115,121	121
Total Revenue from the Commonwealth	\$ 203,580	\$ 203,580	\$ 203,398	\$ (182)
Total revenues	\$ 542,870	\$ 542,870	\$ 542,688	\$ (182)
<b>Expenditures</b>				
Capital projects:				
School buses	\$ 120,000	\$ 128,000	\$ 127,643	\$ 357
School computer technology	350,000	350,000	347,455	2,545
School improvements	133,822	118,669	80,822	37,847
Maintenance equipment	20,000	23,000	22,225	775
Other	-	7,897	7,431	466
Total capital projects	\$ 623,822	\$ 627,566	\$ 585,576	\$ 41,990
Excess (deficiency) of revenues over expenditures	\$ (80,952)	\$ (84,696)	\$ (42,888)	\$ 41,808
<b>Other financing sources (uses)</b>				
Transfers in	\$ 80,952	\$ 84,696	\$ -	\$ (84,696)
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 80,952	\$ 84,696	\$ -	\$ (84,696)
Net change in fund balance	\$ -	\$ -	\$ (42,888)	\$ (42,888)
Fund balance, beginning of year	-	-	1,064,245	1,064,245
Fund balance, end of year	\$ -	\$ -	\$ 1,021,357	\$ 1,021,357

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.

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#### 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.

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#### 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.

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#### Operating Information

These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relate to the services the City provides and the activities it performs.

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#### 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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Net Assets by Component Last Four Fiscal Years (accrual basis of accounting)	Fiscal Year			
	2003	2004	2005	2006
<b>Governmental activities:</b>				
Invested in capital assets, net of related debt	\$ 4,880,522	\$ 18,210,496	\$ 27,167,134	\$ 68,520,864
Restricted	11,077,618	9,221,333	38,135,505	24,559,328
Unrestricted	17,248,775	20,545,434	20,890,228	18,348,491
<b>Total governmental activities net assets</b>	<b>\$ 33,206,915</b>	<b>\$ 47,977,263</b>	<b>\$ 86,192,867</b>	<b>\$ 111,428,683</b>
<b>Business-type activities:</b>				
Invested in capital assets, net of related debt	\$ 21,806,563	\$ 21,954,260	\$ 28,763,172	\$ 27,183,315
Restricted	-	-	-	-
Unrestricted	13,149,428	12,692,077	11,123,212	17,550,170
<b>Total business-type activities net assets</b>	<b>\$ 34,955,991</b>	<b>\$ 34,646,337</b>	<b>\$ 39,886,384</b>	<b>\$ 44,733,485</b>
<b>Primary government:</b>				
Invested in capital assets, net of related debt	\$ 26,687,085	\$ 40,164,756	\$ 55,930,306	\$ 95,704,179
Restricted	11,077,618	9,221,333	38,135,505	24,559,328
Unrestricted	30,398,203	33,237,511	32,013,440	35,898,661
<b>Total primary government net assets</b>	<b>\$ 68,162,906</b>	<b>\$ 82,623,600</b>	<b>\$ 126,079,251</b>	<b>\$ 156,162,168</b>

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.

Changes in Net Assets Last Four Fiscal Years (accrual basis of accounting)	Fiscal Year			
	2003	2004	2005	2006
<b>Expenses</b>				
Governmental activities:				
General government	\$ 3,667,325	\$ 3,836,089	\$ 4,105,737	\$ 3,688,618
Judicial administration	2,084,990	2,155,331	2,434,259	2,853,064
Public safety	12,950,555	13,448,595	14,424,379	15,922,143
Public works	5,280,143	5,342,332	6,689,270	8,278,001
Health and welfare	4,228,980	5,098,576	5,357,236	6,130,391
Education	15,556,786	14,232,858	15,942,171	18,961,723
Parks, recreation and cultural	3,007,944	3,302,359	3,648,639	4,029,638
Community development	2,022,708	1,914,617	1,972,940	2,186,347
Interest on long-term debt	817,031	1,180,917	2,951,161	3,110,420
Total governmental activities expenses	\$ 49,616,462	\$ 50,511,674	\$ 57,525,792	\$ 65,160,345
Business-type activities:				
Water	\$ 1,691,936	\$ 1,691,301	\$ 2,561,096	\$ 2,381,713
Sewer	2,610,054	2,566,538	2,708,274	3,077,612
Transit	1,085,071	1,156,280	1,464,268	2,124,171
Parking	-	-	19,575	297,067
Total business-type activities expenses	\$ 5,387,061	\$ 5,414,119	\$ 6,753,213	\$ 7,880,563
Total primary government expenses	\$ 55,003,523	\$ 55,925,793	\$ 64,279,005	\$ 73,040,908

	Fiscal Year			
	2003	2004	2005	2006
Changes in Net Assets Last Four Fiscal Years (accrual basis of accounting)				
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$ 44,352	\$ 35,159	\$ 36,160	\$ 41,889
Judicial administration	77,388	65,162	66,795	230,864
Public safety	880,080	1,001,944	1,438,302	363,782
Public works	555,898	598,371	598,081	1,695,616
Parks, recreation and cultural	564,243	592,019	562,119	579,514
Community development	766	2,478	1,675	15,185
Operating grants and contributions	7,013,544	8,034,289	8,113,818	8,625,114
Capital grants and contributions	647,763	229,535	-	-
Total governmental activities program revenues	\$ 9,784,034	\$ 10,558,957	\$ 10,816,950	\$ 11,551,964
Business-type activities:				
Charges for services:				
Water	\$ 1,753,862	\$ 1,870,329	\$ 1,938,886	\$ 2,056,764
Sewer	2,926,124	3,101,699	3,103,723	3,073,788
Transit	28,604	32,157	45,830	50,416
Parking	-	-	-	28,563
Operating grants and contributions	2,605,140	2,695,011	4,350,268	5,887,681
Capital grants and contributions	-	22,289	2,328,265	739,857
Total business-type activities program revenues	\$ 7,313,730	\$ 7,721,485	\$ 11,766,972	\$ 11,837,069
Total primary government program revenues	\$ 17,097,764	\$ 18,280,442	\$ 22,583,922	\$ 23,389,033
Net (expense) / revenue				
Governmental activities	\$ (39,832,428)	\$ (39,952,717)	\$ (46,708,842)	\$ (53,608,381)
Business-type activities	1,926,669	2,307,366	5,013,759	3,956,506
Total primary government net expense	\$ (37,905,759)	\$ (37,645,351)	\$ (41,695,083)	\$ (49,651,875)

	Fiscal Year			
	2003	2004	2005	2006
Changes in Net Assets Last Four Fiscal Years (accrual basis of accounting)				
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes:				
Property taxes	\$ 19,529,042	\$ 21,998,946	\$ 22,552,006	\$ 24,818,965
Local sales and use taxes	9,966,988	11,537,324	11,994,065	12,856,512
Taxes on recordation and wills	334,216	277,548	708,156	985,477
Motor vehicle licenses taxes	159,618	160,089	165,647	298,240
Consumer utility taxes	2,497,143	2,780,470	2,882,555	2,910,053
Business licenses taxes	3,761,772	4,536,150	4,974,756	5,893,564
Other local taxes	6,266,207	7,754,622	8,722,648	9,053,329
Unrestricted grants and contributions	1,925,405	1,799,222	1,989,643	2,145,364
Unrestricted revenues from use of money and property	1,449,961	575,451	2,180,879	2,005,694
Miscellaneous	277,862	434,025	431,637	18,207,446
Transfers	-	-	-	(330,447)
<b>Total governmental activities</b>	<b>\$ 46,168,214</b>	<b>\$ 51,853,847</b>	<b>\$ 56,601,992</b>	<b>\$ 78,844,197</b>
Business-type activities:				
Unrestricted revenues from use of money and property	\$ -	\$ 20,731	\$ 31,997	\$ 315,856
Miscellaneous	185,861	231,467	169,744	244,292
Transfers	-	-	24,547	330,447
<b>Total business-type activities</b>	<b>\$ 185,861</b>	<b>\$ 252,198</b>	<b>\$ 226,288</b>	<b>\$ 890,595</b>
<b>Total primary government</b>	<b>\$ 46,354,075</b>	<b>\$ 52,106,045</b>	<b>\$ 56,828,280</b>	<b>\$ 79,734,792</b>
<b>Change in Net Assets</b>				
Governmental activities	\$ 6,335,786	\$ 11,901,130	\$ 9,893,150	\$ 25,235,816
Business-type activities	2,112,530	2,559,564	5,240,047	4,847,101
<b>Total primary government</b>	<b>\$ 8,448,316</b>	<b>\$ 14,460,694</b>	<b>\$ 15,133,197</b>	<b>\$ 30,082,917</b>

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

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 386,481	\$ 614,116	\$ 668,645	\$ 851,741	\$ 909,480	\$ 477,061	\$ 326,832	\$ 506,004	\$ 422,747	\$ 248,573
Unreserved	9,241,955	13,297,670	12,831,336	14,756,765	16,824,296	18,152,895	17,343,550	22,354,035	26,847,192	23,232,843
Total general fund	\$ 9,628,436	\$ 13,911,786	13,499,981	15,608,506	17,733,776	18,629,956	17,670,382	22,860,039	27,269,939	23,481,416
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 5,156	\$ 4,066,022	\$ 917,284	\$ 283,399	\$ 2,551,352	\$ 421,979
Unreserved, reported in:										
Special revenue funds	1,377,688	1,093,657	1,314,584	1,465,873	1,781,006	1,943,344	2,565,757	3,186,317	3,392,644	3,634,866
Capital projects funds	2,911,678	750,143	4,011,963	3,530,801	6,192,242	6,938,287	10,196,613	53,849,607	30,128,715	19,040,047
Debt service funds	-	-	-	-	-	-	-	-	-	-
Permanent funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 4,289,366	\$ 1,843,800	\$ 5,326,547	\$ 4,996,674	\$ 7,978,404	\$ 12,947,653	\$ 13,679,654	\$ 57,319,323	\$ 36,072,711	\$ 23,096,892

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues</b>										
General property taxes	\$ 16,630,154	\$ 17,561,608	\$ 18,433,324	\$ 18,538,569	\$ 18,692,583	\$ 18,817,668	\$ 19,658,874	\$ 22,038,643	\$ 22,575,809	\$ 24,052,400
Other local taxes	13,432,795	14,903,631	15,632,074	17,335,501	18,649,664	20,308,612	22,985,944	27,046,203	29,447,827	31,997,175
Permits, privilege fees and regulatory licenses	292,801	327,203	264,346	356,612	312,088	411,268	413,773	499,110	988,302	1,117,018
Fines and forfeitures	324,751	308,623	303,542	324,606	320,803	363,912	466,307	502,834	450,000	339,338
Revenue from use of money and property	691,489	793,766	1,038,191	1,471,274	2,185,150	1,655,617	1,449,961	575,451	2,180,879	2,005,694
Charges for services	869,156	828,858	885,521	966,349	960,168	1,196,574	1,242,647	1,293,189	1,264,830	1,470,494
Miscellaneous	605,174	469,727	526,431	797,511	1,094,851	1,120,525	277,862	434,025	468,884	1,026,316
Recovered costs	678,154	786,087	851,735	1,493,536	810,357	1,173,621	729,646	1,589,560	1,425,432	1,180,093
Intergovernmental:										
Commonwealth	3,902,115	3,845,934	4,042,677	5,719,255	6,262,769	6,964,179	7,276,493	7,204,137	7,615,919	8,141,771
Federal	1,160,706	1,523,429	1,678,756	2,088,434	1,868,574	1,993,890	2,310,219	2,858,909	2,487,542	2,628,707
<b>Total revenues</b>	<b>\$ 38,587,295</b>	<b>\$ 41,348,866</b>	<b>\$ 43,656,597</b>	<b>\$ 49,091,647</b>	<b>\$ 51,157,007</b>	<b>\$ 54,005,866</b>	<b>\$ 56,811,726</b>	<b>\$ 64,042,061</b>	<b>\$ 68,905,424</b>	<b>\$ 73,959,006</b>
<b>Expenditures</b>										
General government administration	\$ 2,295,427	\$ 2,497,297	\$ 2,674,119	\$ 2,791,511	\$ 2,895,024	\$ 3,136,650	\$ 3,544,021	\$ 3,620,386	\$ 3,956,701	\$ 4,094,919
Judicial administration	1,323,184	1,398,369	1,538,214	1,730,031	1,936,309	2,023,991	2,173,551	2,260,530	2,494,022	2,946,064
Public safety	7,377,016	7,871,946	8,371,978	9,175,608	10,540,624	11,466,442	12,653,369	13,210,581	14,051,770	15,361,207
Public works	4,374,928	4,307,373	4,653,178	4,741,736	4,990,191	5,021,480	5,067,820	5,655,233	5,767,195	6,452,638
Health and welfare	2,711,247	3,008,403	3,489,727	4,405,362	4,178,371	4,381,046	4,602,554	5,491,600	5,814,011	6,245,485
Education	4,341	4,925	5,108	4,846	4,617	47,864	76,074	31,848	31,848	32,110
Parks, recreation and cultural	1,861,780	1,941,187	2,185,243	2,521,250	2,651,247	2,854,800	2,879,319	3,108,829	3,432,702	3,811,195
Community development	2,005,885	1,790,493	1,570,662	1,654,686	1,808,255	2,596,914	2,460,671	2,026,074	2,030,189	2,174,694
Capital projects	5,597,845	2,882,272	1,983,716	5,730,552	2,035,012	7,513,543	4,811,374	15,286,264	27,965,223	30,809,180
Debt service										
Principal	1,793,614	1,905,820	4,660,902	2,103,930	1,782,022	1,776,054	2,520,546	1,804,469	1,933,645	2,897,462
Interest and other fiscal charges	1,231,003	1,227,354	1,344,694	988,103	895,382	1,028,277	941,679	779,714	2,329,960	3,147,613
<b>Total expenditures</b>	<b>\$ 30,576,270</b>	<b>\$ 28,835,439</b>	<b>\$ 32,477,541</b>	<b>\$ 35,847,615</b>	<b>\$ 33,717,054</b>	<b>\$ 41,847,061</b>	<b>\$ 41,730,978</b>	<b>\$ 53,275,528</b>	<b>\$ 69,807,266</b>	<b>\$ 77,972,567</b>

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Excess of revenues over (under) expenditures	\$ 8,011,025	\$ 12,513,427	\$ 11,179,056	\$ 13,244,032	\$ 17,439,953	\$ 12,158,805	\$ 15,080,748	\$ 10,766,533	\$ (901,842)	\$ (4,013,561)
Other financing sources (uses)										
Transfers in	\$ 363,340	\$ 320,683	\$ 577,947	\$ 326,751	\$ 250,435	\$ 221,303	\$ 257,800	\$ 2,954,627	\$ 210,862	\$ 228,217
Transfers out	(9,361,822)	(10,646,779)	(12,540,260)	(11,792,131)	(12,583,388)	(13,339,139)	(15,566,121)	(14,893,303)	(16,145,732)	(19,488,277)
Refunding bonds issued	-	-	4,550,000	-	-	9,675,841	-	-	-	-
Bonds issued	2,572,500	-	4,257,000	-	-	6,824,460	-	48,095,000	-	6,509,279
Premium on bonds issued	-	-	-	-	-	-	-	1,906,469	-	-
Discount on bonds issued	-	-	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	(4,550,000)	-	-	(9,675,841)	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ (6,425,982)	\$ (10,326,096)	\$ (7,705,313)	\$ (11,465,380)	\$ (12,332,953)	\$ (6,293,376)	\$ (15,308,321)	\$ 38,062,793	\$ (15,934,870)	\$ (12,750,781)
Net change in fund balances	\$ 1,585,043	\$ 2,187,331	\$ 3,473,743	\$ 1,778,652	\$ 5,107,000	\$ 5,865,429	\$ (227,573)	\$ 48,829,326	\$ (16,836,712)	\$ (16,764,342)
Debt service as a percentage of noncapital expenditures	13.78%	13.73%	24.52%	11.44%	9.23%	8.89%	10.35%	7.30%	11.35%	14.70%

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			Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
					Vehicle License Tax	Bank Stock Tax	Record-ation and Wills Tax					
1997	\$ 16,630,154	\$ 5,265,864	\$ 1,768,711	\$ 2,224,078	\$ 266,767	\$ 215,223	\$ 175,123	\$ 120,926	\$ 401,652	\$ 2,553,521	\$ 29,622,019	
1998	17,561,608	6,093,040	1,808,190	2,515,020	273,145	199,555	118,715	123,628	406,760	2,894,097	31,993,758	
1999	18,433,324	6,365,366	1,798,646	2,703,738	139,099	198,047	133,996	127,266	419,687	3,266,774	33,585,943	
2000	18,538,569	7,386,944	2,071,496	2,891,387	145,503	216,606	146,804	135,722	416,766	3,511,566	35,461,363	
2001	18,692,583	7,799,457	2,223,651	3,135,701	146,534	238,888	135,923	138,819	501,884	3,871,611	36,885,051	
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	

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service	Service Charges	Total Taxable Assessed Value	Estimated Actual Taxable Value		Assessed Value as a Percentage of Actual Value
1997	\$ 1,054,657,972	\$ 120,106,150	\$ 12,471,750	\$ 56,850,459	\$ 1,448,800	\$ 1,245,535,131	\$ 1,245,535,131	100.00%	
1998	1,122,316,366	120,736,634	19,392,950	59,212,312	1,691,500	1,323,349,762	1,323,349,762	100.00%	
1999	1,147,247,536	147,258,857	21,853,937	61,267,689	1,691,500	1,379,319,519	1,379,319,519	100.00%	
2000	1,205,127,728	152,446,465	19,735,538	66,469,329	1,451,400	1,445,230,460	1,445,230,460	100.00%	
2001	1,230,424,387	164,606,380	19,747,480	77,319,484	1,436,700	1,493,534,431	1,493,534,431	100.00%	
2002	1,269,438,700	158,352,705	14,888,368	80,502,860	1,436,700	1,524,619,333	1,524,619,333	100.00%	
2003	1,303,778,900	168,645,633	14,726,044	83,318,479	1,436,700	1,571,905,756	1,571,905,756	100.00%	
2004	1,902,889,000	171,794,008	13,794,812	78,948,771	1,856,400	2,169,282,991	2,169,282,991	100.00%	
2005	1,931,966,200	204,140,325	12,538,835	81,650,555	1,856,400	2,232,152,315	2,232,152,315	100.00%	
2006	2,074,818,500	234,903,200	11,710,055	49,453,104	1,856,400	2,372,741,259	2,372,741,259	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	
	\$	\$	\$	\$	\$	\$	\$	\$
1997	1.16	1.16	2.99	2.99	1.16	1.16	0.80	0.80
1998	1.16	1.16	2.99	2.99	1.16	1.16	0.80	0.80
1999	1.16	1.16	2.99	2.99	1.16	1.16	0.80	0.80
2000	1.13	1.13	2.99	2.99	1.13	1.13	0.80	0.80
2001	1.13	1.13	2.99	2.99	1.13	1.13	0.80	0.80
2002	1.13	1.13	2.99	2.99	1.13	1.13	0.80	0.80
2003	1.13	1.13	2.99	2.99	1.13	1.13	0.80	0.80
2004	0.89	0.89	2.99	2.99	0.89	0.89	0.80	0.80
2005	0.89	0.89	2.99	2.99	0.89	0.89	0.80	0.80
2006	0.89	0.89	2.99	2.99	0.89	0.89	0.80	0.80

(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 2006			Fiscal Year 1997		
		2005-2006 Assessed Valuation	Rank	% of Total Assessed Valuation	1996-1997 Assessed Valuation	Rank	% of Total Assessed Valuation
Fredericksburg 35 LLC	Central Park property	\$ 86,643,200	1	4.18 %	\$ -	-	- %
Medicorp Properties, Inc.	Office buildings, surgical center	45,063,600	2	2.17	21,552,000	4	2.04
Fall Hill - Central Park LP	Restaurants, ice park, office building	25,308,500	3	1.22	-	-	-
Celebrate VirginiaSouth LLC	Office buildings, retail	23,286,300	4	1.12	-	-	-
Wal-Mart Real Estate Business	Retail	18,171,900	5	0.88	-	-	-
Verizon - Virginia, Inc.	Public utility - telecommunications	18,091,269	6	0.87	22,772,061	2	2.16
Riverside Manor LP	Apartment complex	17,288,600	7	0.83	-	-	-
Stellar Belmont LLC	Apartment complex	17,134,000	8	0.83	-	-	-
Virginia Electric & Power Co.	Public utility - electric	16,612,429	9	0.80	22,162,034	3	2.10
2801 Plank Road Hotel Co.	Motel	15,002,700	10	0.72	-	-	-
Carl D. Silver	Central Park property	-	-	-	34,307,000	1	3.25
Summit Properties Partnership LP	Apartment complex	-	-	-	10,359,200	5	0.98
Lowes Home Center	Retail	-	-	-	10,347,300	6	0.98
Fredericksburg Park & Shop LP	Shopping center	-	-	-	10,151,600	7	0.96
Greenbrier Center Associates	Shopping center	-	-	-	9,420,700	8	0.89
Greenbrier Apartment Associates, Inc.	Apartment complex	-	-	-	9,383,500	9	0.89
Free Lance-Star Publishing Co.	Newspaper, office building, parking	-	-	-	8,300,700	10	0.79
<b>Total</b>		<b>\$ 282,602,498</b>		<b>13.62 %</b>	<b>\$ 158,756,095</b>		<b>15.05 %</b>

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 16,459,853	\$ 16,360,894	99.40	\$ 85,737	\$ 16,446,631	99.92
1998	17,550,940	17,469,835	99.54	70,010	17,539,845	99.94
1999	18,510,245	18,229,682	98.48	257,526	18,487,208	99.88
2000	19,050,569	18,840,945	98.90	168,365	19,009,310	99.78
2001	19,832,960	19,581,072	98.73	182,208	19,763,280	99.65
2002	20,299,165	20,021,483	98.63	198,751	20,220,234	99.61
2003	21,078,696	20,898,738	99.15	121,165	21,019,903	99.72
2004	23,173,114	22,971,933	99.13	60,200	23,032,133	99.39
2005	24,116,517	23,928,589	99.22	35,245	23,963,834	99.37
2006	26,308,977	25,676,915	97.60	-	25,676,915	97.60

Source: Commissioner of Revenue, City Treasurer's office.

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Years	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Literary Fund Loans	Other Notes/ Bonds	Capital Leases	General Obligation Bonds	Other Notes/ Bonds					
1997	\$ 23,124,091	\$ 350,000	\$ 2,572,500	\$ 127,217	\$ 2,705,904	\$ -	\$ -	28,879,712	6.62%	1,388	
1998	20,929,175	300,000	2,572,500	36,037	2,645,816	-	-	26,483,528	5.73%	1,286	
1999	22,717,773	250,000	-	-	5,976,227	-	-	28,944,000	5.67%	1,335	
2000	20,233,845	200,000	-	-	5,771,158	-	-	26,205,003	4.55%	1,208	
2001	18,071,823	150,000	-	-	5,278,182	-	-	23,500,005	4.36%	1,219	
2002	22,790,306	100,000	-	-	4,929,773	-	-	27,820,079	4.95%	1,405	
2003	20,319,760	50,000	-	-	4,530,240	-	-	24,900,000	4.13%	1,240	
2004	68,566,760	-	-	-	4,134,709	-	-	72,701,469	11.96%	3,601	
2005	66,551,078	-	-	-	3,778,501	4,035,000	-	74,364,579	11.92%	3,635	
2006	70,032,833	-	-	-	7,670,963	-	-	77,703,796	11.73%	3,748	

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		Net Bonded Debt per Capita (3)
				Debt to Assessed Value (2)	Debt to Assessed Value (2)	
1997	\$ 26,046,591	\$ -	26,046,591	2.09%		1,252
1998	23,801,675	-	23,801,675	1.80%		1,155
1999	22,967,773	-	22,967,773	1.67%		1,059
2000	20,433,845	-	20,433,845	1.41%		942
2001	18,221,823	-	18,221,823	1.22%		945
2002	22,890,306	-	22,890,306	1.50%		1,156
2003	20,369,760	-	20,369,760	1.30%		1,015
2004	68,566,760	-	68,566,760	3.16%		3,396
2005	66,551,078	-	66,551,078	2.98%		3,253
2006	70,032,833	-	70,032,833	2.95%		3,378

(1) Excludes revenue bonds, capital leases, compensated absences, and landfill post-closure costs.

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

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

Legal Debt Margin Information  
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 67,698,213	\$ 71,179,919	\$ 72,804,750	\$ 76,240,764	\$ 78,161,461	\$ 80,602,006	\$ 82,545,570	\$ 115,844,874	\$ 119,047,390	\$ 124,498,301
Total net debt applicable to limit	<u>28,752,495</u>	<u>26,447,491</u>	<u>28,944,000</u>	<u>26,205,003</u>	<u>23,500,005</u>	<u>27,820,079</u>	<u>24,900,000</u>	<u>72,701,469</u>	<u>74,364,579</u>	<u>77,703,796</u>
Legal debt margin	<u>\$ 38,945,718</u>	<u>\$ 44,732,428</u>	<u>\$ 43,860,750</u>	<u>\$ 50,035,761</u>	<u>\$ 54,661,456</u>	<u>\$ 52,781,927</u>	<u>\$ 57,645,570</u>	<u>\$ 43,143,405</u>	<u>\$ 44,682,811</u>	<u>\$ 46,794,505</u>
Total net debt applicable to the limit as a percentage of debt limit	42.47%	37.16%	39.76%	34.37%	30.07%	34.52%	30.17%	62.76%	62.47%	62.41%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 2,124,271,604
Add back: exempt real property	<u>469,443,000</u>
Total assessed value	<u>\$ 2,593,714,604</u>
Debt limit (4.8% of total assessed value)	\$ 124,498,301
Net debt applicable to limit	<u>77,703,796</u>
Legal debt margin	<u>\$ 46,794,505</u>

CITY OF FREDERICKSBURG, VIRGINIA

Table 13

Pledged-Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Bonds						
	Water & Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest		
1997	\$ 6,320,660	\$ 3,415,242	\$ 2,905,418	\$ 563,259	\$ 923,704	\$	1.95
1998	6,342,680	3,279,846	3,062,834	562,927	894,049		2.10
1999	7,727,967	4,019,140	3,708,827	701,756	924,050		2.28
2000	6,831,357	3,675,828	3,155,529	811,834	876,894		1.87
2001	5,466,477	3,691,122	1,775,355	1,128,908	812,354		0.91
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

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics  
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita		Median Age	School Enrollment	Unemployment Rate
			Personal Income	Personal Income			
1997	20,800	\$ 436,321,600	\$ 20,977		28.9	2,077	3.8%
1998	20,600	462,058,000	22,430		28.9	2,140	3.5%
1999	21,686	510,553,498	23,543		28.9	2,088	3.3%
2000	21,686	575,871,730	26,555		28.9	2,143	2.3%
2001	19,279	538,751,655	27,945		30.3	2,170	3.7%
2002	19,800	561,508,200	28,359		30.3	2,278	4.0%
2003	20,076	602,179,620	29,995		30.3	2,278	5.8%
2004	20,189	607,668,711	30,099		30.3	2,387	6.0%
2005	20,458	623,825,794	30,493		30.3	2,418	5.0%
2006	20,732	662,387,400	31,950		30.3	2,447	4.2%

Source: Weldon Cooper Center, Annual school report - prepared by the county, [www.fedstats.gov](http://www.fedstats.gov)

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers  
Current Year and Nine Years Ago

Employer	Fiscal Year 2006		Fiscal Year 1997	
	Number of Employees	Rank	Number of Employees	Rank
Mary Washington Hospital	1000 and over	1	1000 and over	1
University of Mary Washington	500 to 999	2	500 to 999	3
Wal-Mart	500 to 999	3	-	-
City of Fredericksburg	500 to 999	4	250 to 499	4
Free Lance Star Publishing, Inc.	250 to 499	5	250 to 499	7
Virginia Department of Transportation	250 to 499	6	250 to 499	5
Snowden Services, Inc.	250 to 499	7	-	-
Outback Steakhouse	250 to 499	8	-	-
Medicorp Health System	250 to 499	9	-	-
Rappahannock Area Community Services Board	250 to 499	10	250 to 499	8
ABC Temps, Inc.	-	-	1000 and over	2
Pratt Medical Center, Ltd.	-	-	250 to 499	6
Bookcrafters, Inc.	-	-	250 to 499	9
MSI Construction	-	-	250 to 499	10

Source: Virginia Employment Commission

## Full-time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	33	30	30	34	35	34	37	37	37	37
Judicial administration	27	27	27	30	31	31	31	31	30	35
Public safety	154	154	160	161	164	171	175	176	176	183
Public works	73	74	73	74	72	70	73	70	73	69
Health and welfare	30	31	32	33	34	35	36	38	37	40
Parks and recreation	13	12	12	11	12	13	13	13	13	16
Community development:	12	12	10	11	11	11	9	12	12	12
Water	15	14	14	4	4	4	4	4	4	7
Wastewater	16	16	15	16	16	16	16	16	16	16
Transit	2	2	3	3	3	5	5	5	5	6
Totals	375	372	376	377	382	390	399	402	403	421

Source: Fiscal Affairs department.

Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety:										
Police department:										
Physical arrests (1)	-	-	-	-	-	3,131	3,407	3,281	3,656	3,805
Traffic violations (1)	-	-	-	-	-	8,827	10,935	12,496	10,644	9,500
Parking violations (1)	-	-	-	-	-	-	6,999	11,791	10,431	10,449
Sheriffs department:										
Civil papers (1)	17,904	20,039	23,110	23,263	26,421	35,168	37,272	39,771	40,314	40,502
Fire and rescue:										
Number of calls answered (1)	-	-	-	-	-	-	3,971	4,794	5,159	5,450
Inspections (1)	-	-	-	-	-	-	-	1,432	1,434	1,542
Building inspections:										
Permits issued	1,376	1,775	1,707	2,417	1,905	1,817	2,100	2,192	3,528	3,820
Animal control:										
Number of calls answered (1)	-	-	-	-	899	893	897	899	901	992
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	820	656	323	365	618	440	370	315	518	483
Waste removal:										
Refuse collected	-	-	23.5	24.6	26.2	25.7	26.9	29.4	30.3	28.8
(thousands of pounds/day)										
Recycling collected:										
Leaves (cubic yards)	5,235	5,620	6,900	6,012	4,433	5,709	4,939	4,972	5,049	5,577
General services:										
Buildings maintained	-	-	-	-	-	236.0	208.0	375.5	375.5	486.6
(thousands of square feet)										
Culture and recreation:										
Parks and recreation:										
Number of programs	-	-	-	-	-	198	214	250	370	385
Number of participants	-	-	-	-	-	10,020	10,830	12,650	14,260	15,300

Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Community development:										
Planning:										
Zoning permits issued (2)	373	266	272	298	272	330	337	391	327	309
Water:										
Number of connections	5,535	5,710	5,779	5,941	6,119	6,126	6,293	6,435	6,696	7,062
Average daily consumption (thousands of gallons)	2,494	2,245	2,429	2,407	2,294	2,396	2,269	2,362	2,394	2,718
Wastewater:										
Average daily sewage treatment (thousands of gallons)	2,841	3,277	2,079	1,766	2,248	2,167	2,829	2,739	2,389	2,181
Transit:										
Ridership per service area: (3)										
City of Fredericksburg	47,432	96,334	124,004	140,435	148,049	155,586	161,329	181,743	185,663	177,833
Spotsylvania County	-	-	16,158	29,462	34,525	36,751	36,764	39,059	40,514	40,730
South Stafford County	-	-	-	-	-	6,878	19,181	21,678	25,043	30,900
Caroline County	-	-	-	-	-	834	3,834	5,924	5,701	5,647
North Stafford County	-	-	-	-	-	-	-	-	9,908	44,445
King George County	-	-	-	-	-	-	-	-	1,020	7,803
Component Unit - School Board:										
Education:										
Number of students	2,077	2,140	2,088	2,143	2,170	2,278	2,278	2,384	2,418	2,447
Number of teachers	163	164	163	178	195	196	230	239	238	248
Cost per pupil	\$ 7,713	\$ 8,296	\$ 9,207	\$ 9,580	\$ 10,546	\$ 9,581	\$ 10,507	\$ 11,429	\$ 11,867	\$ 13,131

Source: Individual city departments

(1) Information presented on a calendar year basis.

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

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

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year																																																																																																																																																																																																																																																																																																																		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006																																																																																																																																																																																																																																																																																																									
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	Fire department:											Stations	2	2	2	2	2	2	2	2	2	2	Fire/Rescue vehicles	-	-	-	-	-	-	6	6	6	6	Sheriffs department:											Patrol units	-	-	-	-	-	-	12	13	15	16	Building inspections:											Vehicles	-	-	-	-	-	-	4	4	4	5	Animal control:											Vehicles	-	-	-	-	-	-	1	1	1	1	Public works:											Street maintenance											Trucks/vehicles	-	-	-	-	-	-	21	21	22	22	Streets (moving lane miles)	155	168	170	170	172	172	172	172	174	183	Traffic signals	46	46	46	46	46	46	50	52	52	57	Waste removal:											Trucks/vehicles	-	-	-	-	-	-	7	7	7	7	Building maintenance:											Trucks/vehicles	-	-	-	-	-	-	6	6	6	6	Health and welfare:											Department of Social Services:											Vehicles	-	-	-	-	-	-	5	5	6	6
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	Fire department:											Stations	2	2	2	2	2	2	2	2	2	2	Fire/Rescue vehicles	-	-	-	-	-	-	6	6	6	6	Sheriffs department:											Patrol units	-	-	-	-	-	-	12	13	15	16	Building inspections:											Vehicles	-	-	-	-	-	-	4	4	4	5	Animal control:											Vehicles	-	-	-	-	-	-	1	1	1	1	Public works:											Street maintenance											Trucks/vehicles	-	-	-	-	-	-	21	21	22	22	Streets (moving lane miles)	155	168	170	170	172	172	172	172	174	183	Traffic signals	46	46	46	46	46	46	50	52	52	57	Waste removal:											Trucks/vehicles	-	-	-	-	-	-	7	7	7	7	Building maintenance:											Trucks/vehicles	-	-	-	-	-	-	6	6	6	6	Health and welfare:											Department of Social Services:											Vehicles	-	-	-	-	-	-	5	5	6	6											
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	Fire department:											Stations	2	2	2	2	2	2	2	2	2	2	Fire/Rescue vehicles	-	-	-	-	-	-	6	6	6	6	Sheriffs department:											Patrol units	-	-	-	-	-	-	12	13	15	16	Building inspections:											Vehicles	-	-	-	-	-	-	4	4	4	5	Animal control:											Vehicles	-	-	-	-	-	-	1	1	1	1	Public works:											Street maintenance											Trucks/vehicles	-	-	-	-	-	-	21	21	22	22	Streets (moving lane miles)	155	168	170	170	172	172	172	172	174	183	Traffic signals	46	46	46	46	46	46	50	52	52	57	Waste removal:											Trucks/vehicles	-	-	-	-	-	-	7	7	7	7	Building maintenance:											Trucks/vehicles	-	-	-	-	-	-	6	6	6	6	Health and welfare:											Department of Social Services:											Vehicles	-	-	-	-	-	-	5	5	6	6																						
Public safety:											Police department:											Stations	1	1	1	1	1	1	1	1	1	1	Patrol units	-	-	-	-	-	-	22	22	22	25	Fire department:											Stations	2	2	2	2	2	2	2	2	2	2	Fire/Rescue vehicles	-	-	-	-	-	-	6	6	6	6	Sheriffs department:											Patrol units	-	-	-	-	-	-	12	13	15	16	Building inspections:											Vehicles	-	-	-	-	-	-	4	4	4	5	Animal control:											Vehicles	-	-	-	-	-	-	1	1	1	1	Public works:											Street maintenance											Trucks/vehicles	-	-	-	-	-	-	21	21	22	22	Streets (moving lane miles)	155	168	170	170	172	172	172	172	174	183	Traffic signals	46	46	46	46	46	46	50	52	52	57	Waste removal:											Trucks/vehicles	-	-	-	-	-	-	7	7	7	7	Building maintenance:											Trucks/vehicles	-	-	-	-	-	-	6	6	6	6	Health and welfare:											Department of Social Services:											Vehicles	-	-	-	-	-	-	5	5	6	6																																	
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Health and welfare:											Department of Social Services:											Vehicles	-	-	-	-	-	-	5	5	6	6																																																																																																																																																																																																																																																																																			
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Vehicles	-	-	-	-	-	-	5	5	6	6																																																																																																																																																																																																																																																																																																									

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	-	-	-	-	-	-	15	14	17	17
Parks	8	8	8	8	8	9	10	10	12	12
Park acreage	929	929	929	929	929	932	946	946	1,000	1,000
Water:										
Water mains (miles)	65	65	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	6	6	6	6	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	65	65	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	3	3	3	3	3	3	3	3	3	4
School buses	-	-	-	-	-	-	41	35	35	33

Source: Individual city departments

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

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

However we noted certain matters that we reported to management of the City of Fredericksburg, Virginia in a separate letter dated October 31, 2006.

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

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
October 31, 2006

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

### Compliance

We have audited the compliance of the City of Fredericksburg, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 on the City of Fredericksburg, Virginia's compliance with those requirements.

As described in Finding 2006-1 in the accompanying schedule of findings and questioned costs, the City of Fredericksburg, Virginia did not comply with the requirements regarding maintenance of supporting documentation for program costs that are applicable to its Title VI-B - Special Education for Handicapped program CFDA No. 84.027. Compliance with such requirements is necessary, in our opinion, for the City of Fredericksburg, Virginia to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Fredericksburg, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Fredericksburg, Virginia's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and question costs as Finding 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

In addition, we noted certain matters that we reported to management of the City of Fredericksburg, Virginia in a separate letter dated October 31, 2006.

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

*Robinson, Tamara, Cox Associates*

Charlottesville, Virginia  
October 31, 2006

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit  
Year Ended June 30, 2006

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
<b>Primary Government:</b>		
Department of Agriculture:		
Pass-through Payments:		
Department of Social Services:		
Food Stamp Administration	10.561	\$ <u>200,656</u>
Department of Housing and Urban Development:		
Direct Payments:		
Community Development Block Grant - Entitlement	14.218	\$ <u>236,858</u>
Department of Justice:		
Pass-through Payments:		
Crime Victim Assistance	16.575	\$ 47,747
Anti-Gang Initiative	16.744	<u>85,500</u>
Total Department of Justice		\$ <u>133,247</u>
Department of Transportation:		
Pass-through Payments:		
Virginia Department of Rail and Public Transportation:		
Federal Transit - Formula Grants	20.507	\$ <u>796,515</u>
Department of Health and Human Services:		
Pass-through Payments:		
Department of Social Services:		
Family Preservation and Support	93.556	\$ 8,914
Temporary Assistance to Needy Families	93.558	267,955
Refugee Assistance and Resettlement	93.566	241
Low-Income Energy Assistance	93.568	12,474
Child Care Assistance	93.575	427,718
Child Care and Development Block Grant	93.596	310,093
Foster Care - Title IV-E	93.658	306,078
Adoption Assistance	93.659	109,741
Social Services Block Grant	93.667	183,908
Independent Living	93.674	32,415
Medical Assistance Program	93.778	200,835
Other Assistance	N/A	<u>11,422</u>
Total Department of Health and Human Services		\$ <u>1,871,794</u>
Department of Homeland Security		
Pass-through Payments:		
Department of Emergency Services:		
Homeland Security Grant	97.067	\$ 8,360
Emergency Management Preparedness Grant	97.042	70,177
State Homeland Security Grant Program	97.004	<u>107,615</u>
Total Department of Homeland Security		\$ <u>186,152</u>
Total Expenditures of Federal Awards - Primary Government		\$ <u><u>3,425,222</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit  
 Year Ended June 30, 2006 (Continued)

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
<b>Component Unit - School Board:</b>		
State Department of Agriculture:		
Pass-through Payments:		
School Breakfast Program	10.553	\$ 129,526
National School Lunch Program (SL-4) (SL-11)	10.555	<u>473,452</u>
Total Department of Agriculture		\$ <u>602,978</u>
Department of Health and Human Services:		
Direct Payments:		
Head Start	93.600	\$ <u>1,813,317</u>
Department of Education:		
Pass-through Payments:		
Education Consolidation and Improvement Act of 1981:		
Title I:		
Educationally Deprived Children - LEA	84.010	\$ 670,226
Title V Part A - Innovative Programs	84.298	12,683
Vocational Education:		
Basic Grants to States	84.048	52,505
Title VI-B Special Education for the Handicapped	84.027	537,832
Advanced Placement Program	84.330	624
Handicapped-Preschool Incentive Grants	84.173	35,217
Drug Free Schools and Communities	84.186	7,871
Title II - Economic Security	84.281	157,059
Goals 2000	84.276	14,893
Technology Challenge Grant	84.318	487,383
Emergency Immigrant Assistance	84.162	20,022
Grants for State Assessments and Related Activities	84.369	2,971
Comprehensive School Reform Demonstration	84.332	<u>24,815</u>
Total Department of Education		\$ <u>2,024,101</u>
Total Expenditures of Federal Awards - Component Unit School Board		\$ <u><u>4,440,396</u></u>
Total Expenditures of Federal Awards - Reporting Entity		\$ <u><u>7,865,618</u></u>

Loans and loan guarantees not included in the above as federal assistance:

Environmental Protection Agency:		
Pass-through Payments:		
State Water Control Board:		
Capitalization Grants for State Revolving Fund - balance of loan as of June 30, 2006	66.458	\$ <u><u>7,293,180</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2006

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Note 1 - General

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

Note 2 - Basis of Accounting

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

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$	69,833
Special Revenue Funds:		
Virginia Public Assistance Fund		2,022,794
City Grants Fund		536,080
Proprietary Funds:		
Transit Fund		796,515
Total primary government	\$	<u>3,425,222</u>

Component Unit School Board:

School Operating Fund	\$	553,853
School Grants Fund		3,886,543
Total component unit School Board	\$	<u>4,440,396</u>

Total federal expenditures per the Schedule of Expenditures  
of Federal Awards

\$ 7,865,618

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

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Section I - Summary of Auditor's Results

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	Yes

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.027	Title VI-B Special Education for the Handicapped

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

**Department of Education**

**Finding 2006-1**

Title VI-B Special Education for the Handicapped - CFDA No. 84.027; Grant No. H027A050107; Grant period - Year ended June 30, 2006.

*Reportable Condition:* The Fredericksburg City School Board does not have adequate controls in place to provide supporting documentation for the costs charged to the Title VI-B program. As a result, the costs charged to the Title VI-B program relating to payroll and other costs could not be verified.

*Criteria:* Internal controls should be in place to provide supporting documentation for all costs charged to the Title VI-B program.

*Effect of Condition:* The cost of the assistance may be disallowed.

*Questioned Costs* \$537,832

*Recommendation:* Procedures should be implemented to ensure that there is appropriate supporting documentation available to substantiate all costs charged to the federal program.

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs  
Year Ended June 30, 2006

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

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