

FREDERICKSBURG, VIRGINIA

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*Comprehensive  
Annual  
Financial  
Report . . .*



*. . . for fiscal  
year ended \_\_\_\_\_*

**JUNE 30, 2016**



**CITY OF FREDERICKSBURG, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2016**

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**Prepared By:**

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



CITY OF FREDERICKSBURG, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2016

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CITY OF FREDERICKSBURG, VIRGINIA  
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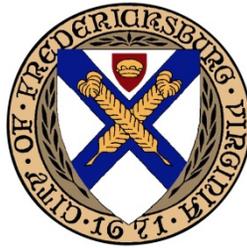
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**Timothy J. Baroody**  
City Manager

**D. Mark Whitley**  
Assistant City Manager



City of Fredericksburg  
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November 22, 2016

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

The City of Fredericksburg, Virginia (the “City”) hereby issues the Comprehensive Annual Financial Report (the “CAFR”) for the fiscal year ended June 30, 2016. This report complies with Generally Accepted Accounting Principles (“GAAP”), and has been audited in accordance with generally accepted auditing standards by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. This report also complies with state law requirements that general-purpose governments, such as the City, publish within six months of the close of the fiscal year a complete set of financial statements that comply with GAAP.

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2016, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for an unmodified opinion that the City’s financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP.

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

## **Sections of the CAFR**

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

### *Introductory Section*

The Introductory Section consists of this transmittal letter, an organizational chart, and a listing of principal officials of the City. Also included is the City's Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the CAFR for the fiscal year ended June 30, 2015.

### *Financial Section*

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

### *Basic Financial Statements*

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

### *Notes to the Basic Financial Statements*

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

### *Required Supplementary Information*

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

### *Other Supplementary Information*

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

### *Statistical Section*

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

### *Compliance Section*

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

## **City of Fredericksburg Profile**

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is approximately an hour's drive from the nation's and state's capitals and serves as the commercial hub of a rapidly growing region in northern central Virginia. The City currently has a land area of 10.4 square miles and serves a population of 28,118.

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

## **Economic Condition and Outlook**

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

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

The City's economy also benefits from the presence of a major higher-education institution, the University of Mary Washington (UMW). Founded in 1908, UMW is a state-supported, co-educational university with an enrollment of approximately 4,000 undergraduate students. The university offers over 60 different majors and programs of study as well as several different master's degree programs. Over the past few years, the University has made significant investments in new, modern educational facilities, to include \$39.4 million for an information technology center and \$56 million for a campus center. Numerous renovations to dormitories and academic buildings have also been completed.

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

The University of Mary Washington Foundation, a non-profit corporation chartered by the Commonwealth of Virginia, continues to develop Eagle Village, a 1960's-era shopping center that has been revitalized into a high-quality residential and commercial development. The first two phases of the project have been completed and include apartment-style student residences, a pedestrian bridge spanning U.S. 1 adjacent to UMW's main campus, a parking garage, and commercial space for retail, office and restaurants. Also completed is an upscale five-story Hyatt Place Hotel, which serves the university and Mary Washington Hospital.

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

While tourism has been a mainstay of the City's economy, visionary downtown revitalization efforts in the form of various mixed-use developments continue to reflect economic potential for the City. Several projects that combine housing, retail and office uses have been recently completed or are in various stages of development. Some of the most notable projects include Amelia Square, Park View, and Liberty Place. These projects include multiple luxury townhomes and condominiums combined with several thousand square feet of retail, office and restaurant space. The expanding mixed-use development activity in and around the downtown area has the potential to produce significant growth in property tax as well as local tax revenue, particularly meals tax and sales tax, and will help to grow and solidify the City's stable economic base.

## **Major Capital Initiatives**

During fiscal year 2016, the City continued to maintain its capacity to provide a high level of service to its residents. The following narrative highlights the City's major capital initiatives during fiscal year 2016.

The primary roadway project in the City involves Fall Hill Avenue, a primary feeder road for the City's two main commercial areas, Central Park and Celebrate Virginia. The two major components of the project will be widening Fall Hill Avenue from two lanes to four between Carl D. Silver Parkway to an area just west of the newly constructed bridge over the Rappahannock Canal and the replacement of the Fall Hill Avenue bridge over Interstate 95. This project will also involve extending Mary Washington Boulevard to intersect with a roundabout, which will provide a new connection point between U.S. 1 and Fall Hill Avenue. An additional feature of the project will be a sidewalk and path that will run along Fall Hill Avenue from Central Park to the canal bridge. The path will link to the City's trail system at the Rappahannock Heritage Trail, thus providing a safe transportation alternative for residents who wish to walk or bicycle to restaurants and stores. The Department of Transportation will construct this project, which is scheduled for completion in January 2017 at a total estimated cost of \$44.4 million.

Several major capital initiatives designed to enhance the utility infrastructure within the City were completed during the fiscal year. Sanitary sewer line replacement work on Charles and William streets and the Normandy Village area of the City was completed at a cost of \$2,513,410. Also completed were the replacement of aging water lines and pipe cleaning throughout the College Heights neighborhood. These improvements, which were designed to provide adequate water supply and pressure to the neighborhood and the University of Mary Washington, were finished at a cost of \$2,129,069.

## **Major Capital Initiatives (Continued)**

A major water line replacement on Caroline Street, from Amelia Street to the southern end of Caroline Street, was started during the current fiscal year. This project is scheduled to be completed during fiscal year 2017 at a projected cost of \$2.4 million.

The renovation of the Original Walker-Grant School began during the fiscal year. This project consists of the complete renovation of the building to include upgrades to the building envelope, a new roof, new windows and doors, and masonry repairs. Mechanical, electrical, and plumbing systems will also be replaced. Exterior site work includes parking upgrades, storm-water management, sidewalk improvements, and upgraded playground areas. These improvements will create an updated and modern environment for various special education programs while providing new and expanded office space for the School Board administrative offices. The project is scheduled to be completed during fiscal year 2018 at an estimated cost of \$12.5 million.

The City began the process of replacing its public safety radio system by joining Stafford County's newer 700 MHz system. The old public safety radio system was outdated and had coverage gaps that created risks for first responders. During the fiscal year, the City invested \$1,454,224 for equipment and an overall system assessment and analysis. The work on the new system was completed in September 2016 and has improved system coverage and communications with other public agencies in the region.

The City completed another phase of the ongoing Annual Pavement Rehabilitation Program expending an additional \$1,622,400 during the fiscal year. For fiscal years 2011 - 2016, the City's total expenditures related to the paving effort totals \$6,944,144.

Significant infrastructure improvements were also completed in the Twin Lakes subdivision with the installation of a sidewalk, curb and gutter, and a storm sewer. The sidewalk runs from Lafayette Boulevard to U.S. 1 and provides a safe alternative for pedestrian traffic. The total cost of the project was \$566,104.

The City's ongoing need to provide additional parking downtown was addressed during the fiscal year. The City and the Economic Development Authority partnered to purchase three lots along Charles Street and Prince Edward Street. The City's share of the land purchase was \$525,000. The City invested \$179,360 toward the design and development of a parking lot on the portion of the purchased land owned by the City. An additional 46 parking spaces were made available to the public which will relieve parking demands in downtown neighborhoods impacted by increased restaurant activity on nearby William Street.

## **Key Financial Policies**

### *Budgetary Control*

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

## **Key Financial Policies (Continued)**

The annual budgets are prepared by fund and department. All appropriations lapse at year end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the Original Walker-Grant School Capital Fund this comparison is presented in Exhibit 13 and Exhibit 19, respectively. For all other governmental funds with appropriated annual budgets, this comparison is presented in Exhibit 30.

### *Fund Balance Policy*

The City's adopted Financial Management Policy establishes guidelines aimed at maintaining the financial health of the City. The Financial Management Policy identifies the Unassigned General Fund balance as a source that will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The policy establishes a goal of maintaining a 12 percent Unassigned General Fund balance, but not less than 7 percent, of the actual General Fund revenues for the preceding fiscal year. The current level of Unassigned Fund Balance exceeds the 12 percent target, at 23.0% of the fiscal year 2015 General Fund revenue total.

### *Long-Term Financial Planning*

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

### *Cash Management Policies and Practices*

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

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

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

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

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

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

The City also provides post-employment health care insurance for employees who are eligible for retirement benefits. During fiscal year 2016, the City Council established an Other Post-Employment Benefits (OPEB) Trust and funded \$1.0 million towards the City's liability for OPEB. A description of the City's post-employment benefits program and the financial impact of the OPEB Trust can be found in Note 19 in the Notes to Basic Financial Statements section of this report.

## **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the twenty-sixth consecutive year that the City has received this prestigious award. This report satisfied both GAAP and applicable legal requirements.

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

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

Sincerely,



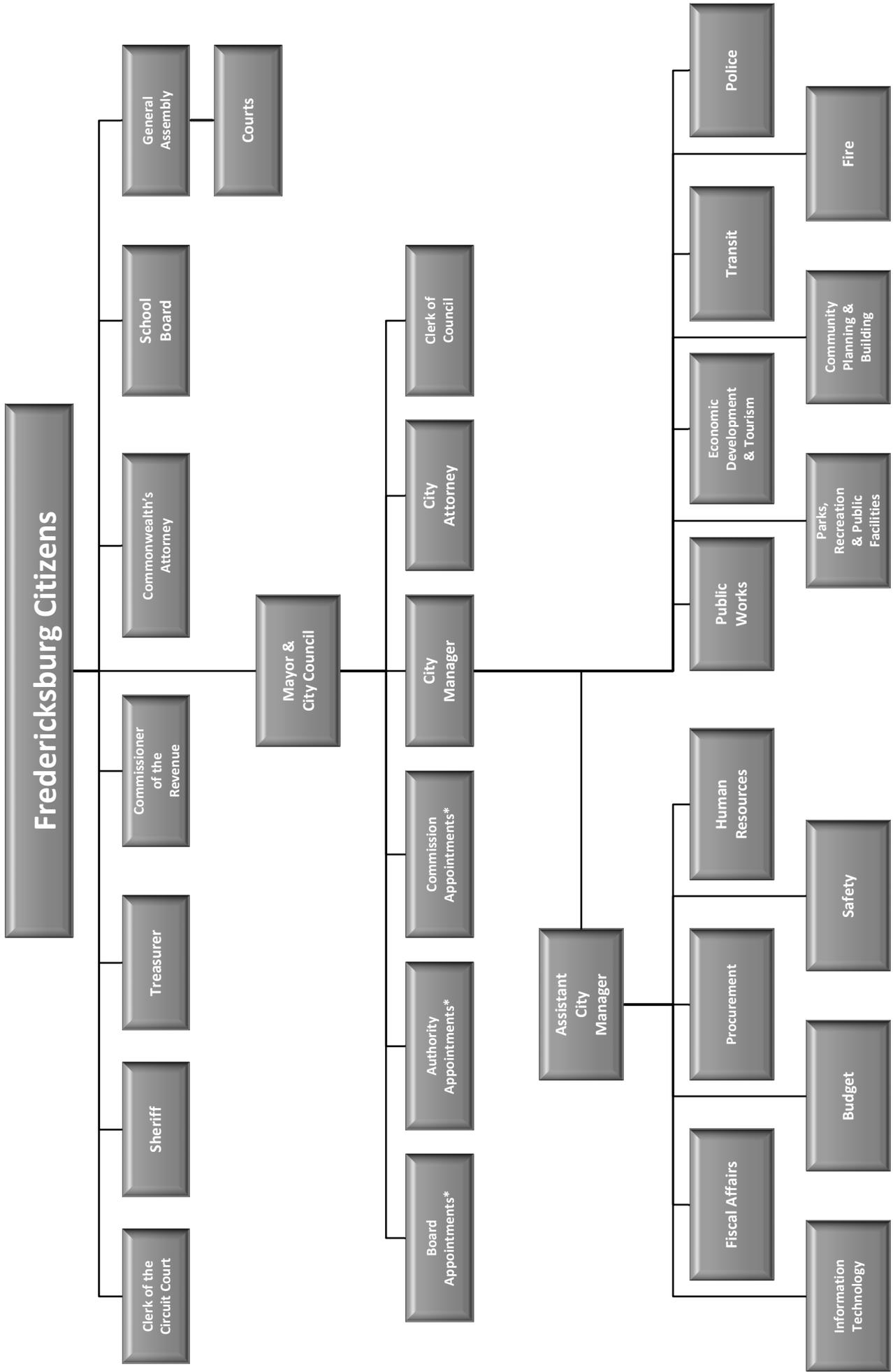
Timothy J. Baroody  
City Manager



Clarence A. Robinson  
Director of Fiscal Affairs

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# City of Fredericksburg, Virginia Organizational Chart



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

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**CITY OF FREDERICKSBURG, VIRGINIA**  
**PRINCIPAL OFFICIALS**  
**JUNE 30, 2016**

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**CITY COUNCIL**

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

**CONSTITUTIONAL OFFICERS**

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

**CITY ADMINISTRATIVE OFFICERS**

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

\*City Manager effective June 27, 2016

**SCHOOL BOARD**

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

**SCHOOL BOARD ADMINISTRATIVE OFFICER**

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

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Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Fredericksburg  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Change in Accounting Principle*

As described in Note 1 to the financial statements, in 2016, the City adopted new accounting guidance, GASB Statement Nos. 72 *Fair Value Measurement and Application*, 79 *Certain External Investment Pools and Pool Participants*, 82 *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-18, 111-116, and 117-121 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

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

*Other Information (continued)*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia

November 22, 2016

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## Management's Discussion and Analysis

As management of the City of Fredericksburg, Virginia (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. 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-vii of this report.

### Financial Highlights

- Total net position for governmental activities was \$94,777,691 at the end of fiscal year 2016. This figure is based on assets and deferred outflows of resources totaling \$230,650,175 and liabilities and deferred inflows of resources of \$135,872,484. Of the total net position amount, \$9,448,661 (*unrestricted net position*) related to the governmental activities may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for business-type activities was \$66,243,657 at the end of fiscal year 2016. The largest portion of this total is related to the water, sewer, and transit enterprise operations valued at \$22,411,310, \$19,011,301, and \$20,388,372, respectively.
- Total net position for the primary government totaled \$161,021,348. Current assets were \$87,847,295 as compared to total current liabilities of \$20,179,199. The resulting net working capital of \$67,668,096 represents a favorable liquidity position for the City.
- At the end of the fiscal year, the City's unassigned fund balance for the General Fund was \$19,335,778, or 24.7% of total General Fund expenditures amount of \$78,360,222.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2016 unassigned General Fund balance was 23.0% of the fiscal year 2015 General Fund revenue total of \$84,045,364.
- General Fund revenues increased \$2,978,550 as revenue from general property taxes increased \$1,510,371 or 4.0% compared to the preceding fiscal year.
- General Fund expenditures increased \$5,289,476 or 7.2% compared to fiscal year 2015. The largest increases occurred in the areas of public works and education.
- Governmental activities general obligation bond debt had an overall increase of \$8,998,655. The balance at the end of the fiscal year was \$89,282,847. During the fiscal year the City issued \$12,965,000 of general obligation debt to finance a school renovation and upgrades to the public safety radio system. Of the total general obligation debt outstanding, \$45,260,000 is related to school facilities and \$31,280,000 is associated with the construction and renovation of court facilities.
- Business-type activities general obligation debt decreased \$1,940,655 to a total outstanding balance of \$25,550,153.

### Overview of the Financial Statements

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

## Overview of the Financial Statements: (Continued)

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

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

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

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

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

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

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

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

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

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

The City maintains 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 and the Original Walker-Grant Construction Fund, which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

## Overview of the Financial Statements: (Continued)

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-108 of this report.

## Government-wide Financial Analysis

### Statement of Net Position:

Under GASB 34, governmental entities are required to report on their net position. The Statement of Net Position presents the value of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$161,021,348 at the close of fiscal year 2016.

A large portion of the City's net position, \$129,609,961 or 80.5%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The \$31,411,387 balance of *unrestricted net position* is a combination of both governmental activities and business-type activities and may be used to meet the City's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis: (Continued)

Statement of Net Position: (Continued)

The following table presents the condensed Statement of Net Position:

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 16	FY 15	FY 16	FY 15	FY 16	FY 15	FY 16	FY 15
<b>Assets:</b>								
Current and other assets	\$ 60.45	\$ 52.21	\$ 31.55	\$ 32.08	\$ 92.00	\$ 84.29	\$ 10.39	\$ 9.26
Capital assets	166.60	164.86	66.33	66.49	232.93	231.35	24.30	24.34
<b>Total assets</b>	<b>\$ 227.05</b>	<b>\$ 217.07</b>	<b>\$ 97.88</b>	<b>\$ 98.57</b>	<b>\$ 324.93</b>	<b>\$ 315.64</b>	<b>\$ 34.69</b>	<b>\$ 33.60</b>
<b>Deferred Outflow of Resources:</b>								
Pension contributions subsequent to the measurement date	\$ 3.23	\$ 3.48	\$ 0.32	\$ 0.34	\$ 3.55	\$ 3.82	\$ 3.19	\$ 3.61
Items related to the measurement of the net pension liability	-	-	0.03	-	0.03	-	-	-
Change in proportionate share of net pension liability	0.08	-	-	0.19	0.08	0.19	2.14	0.52
Deferred charge on refunding	0.28	0.31	0.58	0.63	0.86	0.94	-	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 3.59</b>	<b>\$ 3.79</b>	<b>\$ 0.93</b>	<b>\$ 1.16</b>	<b>\$ 4.52</b>	<b>\$ 4.95</b>	<b>\$ 5.33</b>	<b>\$ 4.13</b>
<b>Liabilities:</b>								
Current and other liabilities	\$ 14.13	\$ 14.00	\$ 6.05	\$ 6.63	\$ 20.18	\$ 20.63	\$ 5.48	\$ 5.03
Long-term liabilities	116.38	106.67	26.09	28.36	142.47	135.03	41.97	38.51
<b>Total Liabilities</b>	<b>\$ 130.51</b>	<b>\$ 120.67</b>	<b>\$ 32.14</b>	<b>\$ 34.99</b>	<b>\$ 162.65</b>	<b>\$ 155.66</b>	<b>\$ 47.45</b>	<b>\$ 43.54</b>
<b>Deferred Inflows of Resources:</b>								
Unavailable revenue - property taxes	\$ 0.58	\$ 0.63	\$ -	\$ -	\$ 0.58	\$ 0.63	\$ -	\$ -
Change in proportionate share of net pension liability	-	0.16	0.04	0.02	0.04	0.18	-	-
Items related to the measurement of the net pension liability	4.77	5.02	0.39	0.52	5.16	5.54	2.94	5.15
<b>Total Deferred Inflows of Resources</b>	<b>\$ 5.35</b>	<b>\$ 5.81</b>	<b>\$ 0.43</b>	<b>\$ 0.54</b>	<b>\$ 5.78</b>	<b>\$ 6.35</b>	<b>\$ 2.94</b>	<b>\$ 5.15</b>
<b>Net assets:</b>								
Net invested in capital assets	\$ 85.33	\$ 88.18	\$ 44.28	\$ 47.15	\$ 129.61	\$ 135.33	\$ 21.10	\$ 20.92
Unrestricted	9.45	6.20	21.96	17.05	31.41	23.25	(31.47)	(31.88)
<b>Total net position</b>	<b>\$ 94.78</b>	<b>\$ 94.38</b>	<b>\$ 66.24</b>	<b>\$ 64.20</b>	<b>\$ 161.02</b>	<b>\$ 158.58</b>	<b>\$ (10.37)</b>	<b>\$ (10.96)</b>

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

**Changes in Net Position:**

**Governmental Activities**

Generally, net position changes are the result of the difference between revenues and expenses. During fiscal year 2016 the net position of the governmental activities increased \$393,049 as total revenues of \$95,220,465 outpaced the total expense amount of \$94,827,416. Revenues from governmental activities increased \$1,168,146 over fiscal year 2015. Much of the increase occurred as revenues from general property taxes rose \$1,416,529 or 3.8%, primarily due to a real estate tax rate increase. Revenues from local tax sources exhibited a more moderate increase of \$707,740 or 2.1%, with sales tax and meals tax making up most of the increase.

## Government-wide Financial Analysis: (Continued)

### Changes in Net Position: (Continued)

#### Governmental Activities: (Continued)

Revenue from grants and contributions decreased \$802,280 during the fiscal year due to the City recognizing \$780,746 less in grant revenue under the Virginia Department of Transportation Revenue Sharing Program. This reduction can be attributed to the fact that a substantial portion of a major section of the Virginia Central Railway Trail (VCR Trail), which was mostly funded with Revenue Sharing Program support, was completed during the prior fiscal year.

Expenses from governmental activities increased \$3,537,385 or 3.9% over fiscal year 2015. Education continues to be the City's largest program, with education expenses representing 31.5% of the total expenses for governmental activities in fiscal year 2016. The appropriation for school operational needs increased \$1,039,710 for fiscal year 2016 as the City's school system continues to grow in response to City's expanding population and the relative increase in student enrollment.

The areas of public safety and judicial administration also experienced large increases to expenses during the fiscal year. Part of the \$984,772 increase to public safety relates to the addition of two paramedic positions as well as additional funding to the Juvenile Detention Center and the Rappahannock Security Center, which was \$159,950 and \$175,840, respectively.

Another significant increase to expenses was the depreciation recognized on capitalized assets. In recent years the City has completed several major capital projects involving court facilities. Fiscal year 2016 was the first year depreciation was recognized on several of those capital additions with depreciation expense related to judicial administration increasing \$709,524. Depreciation expense for governmental activities increased \$1,025,033 during fiscal year 2016.

Favorable impacts to the expenses of governmental activities relate to Other Post-employment Benefits (OPEB) and the Virginia Retirement System pension plan. During fiscal year 2016 an irrevocable OPEB trust was established in the amount of \$1,000,000. The contribution, funded primarily from the resources of governmental activities, had the effect of reducing OPEB expenses from \$408,697 in fiscal year 2015 to \$312,503 in fiscal year 2016. The net OPEB obligation had an overall decrease of \$656,076 for fiscal year 2016. Pension expense decreased \$682,424 as the City's Virginia Retirement System pension plan benefited from favorable differences in the actual versus expected experience of the plan and the projected versus actual earnings of the plan's assets. The net pension liability decreased \$1,940,839 for fiscal year 2016.

Another positive impact on governmental activities net position was the financial performance of the Rappahannock Regional Solid Waste Management Board (R-Board). The R-Board is a joint venture of the City of Fredericksburg and Stafford County for the disposal of waste (see Notes to the Financial Statements, Note 1). The City and Stafford County equally share the operating income or losses of the R-Board. Due to sub-par financial performance of the R-Board in recent years, an increase to commercial tipping fees and residential user fees was implemented. The increase to these fees resulted in the net position of the R-Board growing \$3,814,941 during fiscal year 2016, of which half or \$1,907,471 has been reflected in the City's government-wide financial statements as an increase to net position.

#### Business-type Activities

The positive growth in the net position in the Water Fund of \$765,841 and Sewer Fund of \$907,262 represent the most notable changes to the City's enterprise operations. These increases continue the reversal of a trend of sub-par operating results and a corresponding erosion of net position experienced in past years. A primary factor in reversing the trend was the implementation of a series of rate increases in recent years. The improved financial stability of these two funds in recent years has afforded the City the opportunity to more effectively meet operational costs and to fund needed improvements to an aged infrastructure system.

In direct correlation with the rate increases, charges for services in the Water Fund and Sewer Fund have shown a steady increase the past several years. Since fiscal year 2012, service fee revenue has increased 34.2% in the Water Fund and 34.8% in the Sewer Fund. During fiscal year 2016, revenue from service fees in the Water Fund and Sewer Fund increased 8.2% and 5.1%, respectively, resulting in operating revenues outpacing operating expenses by \$527,294 in the Water Fund and \$871,918 in the Sewer Fund.

Government-wide Financial Analysis: (Continued)

Changes in Net Position: (Continued)

Business-type Activities: (Continued)

Availability and connection fees also increased in both the Water Fund and Sewer Fund during the fiscal year. The increase in these fees, \$217,432 in the Water Fund and \$346,173 in the Sewer Fund, relates to the construction of residential housing units as well as mixed-use development activity within the downtown area of the City. The increased revenue from these fees, coupled with the net income from operations, were primary contributors to the positive change in net position.

Component Units

During the fiscal year the School Board's net position increased \$74,668. The overall deficit net position of \$11,992,028 is related to the School Board's net pension liability totaling \$36,284,000.

The net position of the Economic Development Authority increased \$519,571 as the sale of investment property resulted in a gain of \$393,626.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 16	FY 15	FY 16	FY 15	FY 16	FY 15	FY 16	FY 15
<b>Revenues:</b>								
Program Revenues:								
Charges for services	\$ 3.69	\$ 3.92	\$ 9.45	\$ 8.94	\$ 13.14	\$ 12.86	\$ 1.21	\$ 0.75
Operating grants and contributions	10.64	10.90	4.34	3.51	14.98	14.41	18.20	17.24
Capital grants and contributions	1.46	2.01	0.41	0.14	1.87	2.15	-	-
General Revenues:								
Property taxes	38.98	37.57	-	-	38.98	37.57	-	-
Other local taxes	35.13	34.43	0.69	0.74	35.82	35.17	-	-
Grants and contributions not restricted	3.81	3.82	-	-	3.81	3.82	29.15	27.93
Use of property	0.09	0.12	-	-	0.09	0.12	-	-
Investment earnings	0.47	0.28	0.10	0.07	0.57	0.35	0.02	0.03
Miscellaneous	0.33	0.40	0.59	0.66	0.92	1.06	0.32	0.30
<b>Total Revenues</b>	<b>\$ 94.60</b>	<b>\$ 93.45</b>	<b>\$ 15.58</b>	<b>\$ 14.06</b>	<b>\$ 110.18</b>	<b>\$ 107.51</b>	<b>\$ 48.90</b>	<b>\$ 46.25</b>
<b>Expenses:</b>								
General government	\$ 6.87	\$ 6.29	\$ -	\$ -	\$ 6.87	\$ 6.29	\$ -	\$ -
Judicial administration	5.57	4.48	-	-	5.57	4.48	-	-
Public safety	21.63	20.65	-	-	21.63	20.65	-	-
Public works	12.84	13.16	-	-	12.84	13.16	-	-
Health and welfare	7.01	7.28	-	-	7.01	7.28	-	-
Education	29.86	28.80	-	-	29.86	28.80	47.85	44.82
Parks, recreation, and cultural	4.75	4.79	-	-	4.75	4.79	-	-
Community development	2.88	2.69	-	-	2.88	2.69	0.46	0.28
Interest	3.42	3.15	-	-	3.42	3.15	-	-
Water	-	-	2.97	2.93	2.97	2.93	-	-
Sewer	-	-	5.10	4.80	5.10	4.80	-	-
Transit	-	-	4.41	4.27	4.41	4.27	-	-
Parking	-	-	0.44	0.45	0.44	0.45	-	-
<b>Total Expenses</b>	<b>\$ 94.83</b>	<b>\$ 91.29</b>	<b>\$ 12.92</b>	<b>\$ 12.45</b>	<b>\$ 107.75</b>	<b>\$ 103.74</b>	<b>\$ 48.31</b>	<b>\$ 45.10</b>
<b>Excess (deficiency) of revenues over expenses before transfers</b>	<b>\$ (0.23)</b>	<b>\$ 2.16</b>	<b>\$ 2.66</b>	<b>\$ 1.61</b>	<b>\$ 2.43</b>	<b>\$ 3.77</b>	<b>\$ 0.59</b>	<b>\$ 1.15</b>
Transfers	0.62	0.60	(0.62)	(0.60)	-	-	-	-
<b>Change in net position</b>	<b>\$ 0.39</b>	<b>\$ 2.76</b>	<b>\$ 2.04</b>	<b>\$ 1.01</b>	<b>\$ 2.43</b>	<b>\$ 3.77</b>	<b>\$ 0.59</b>	<b>\$ 1.15</b>

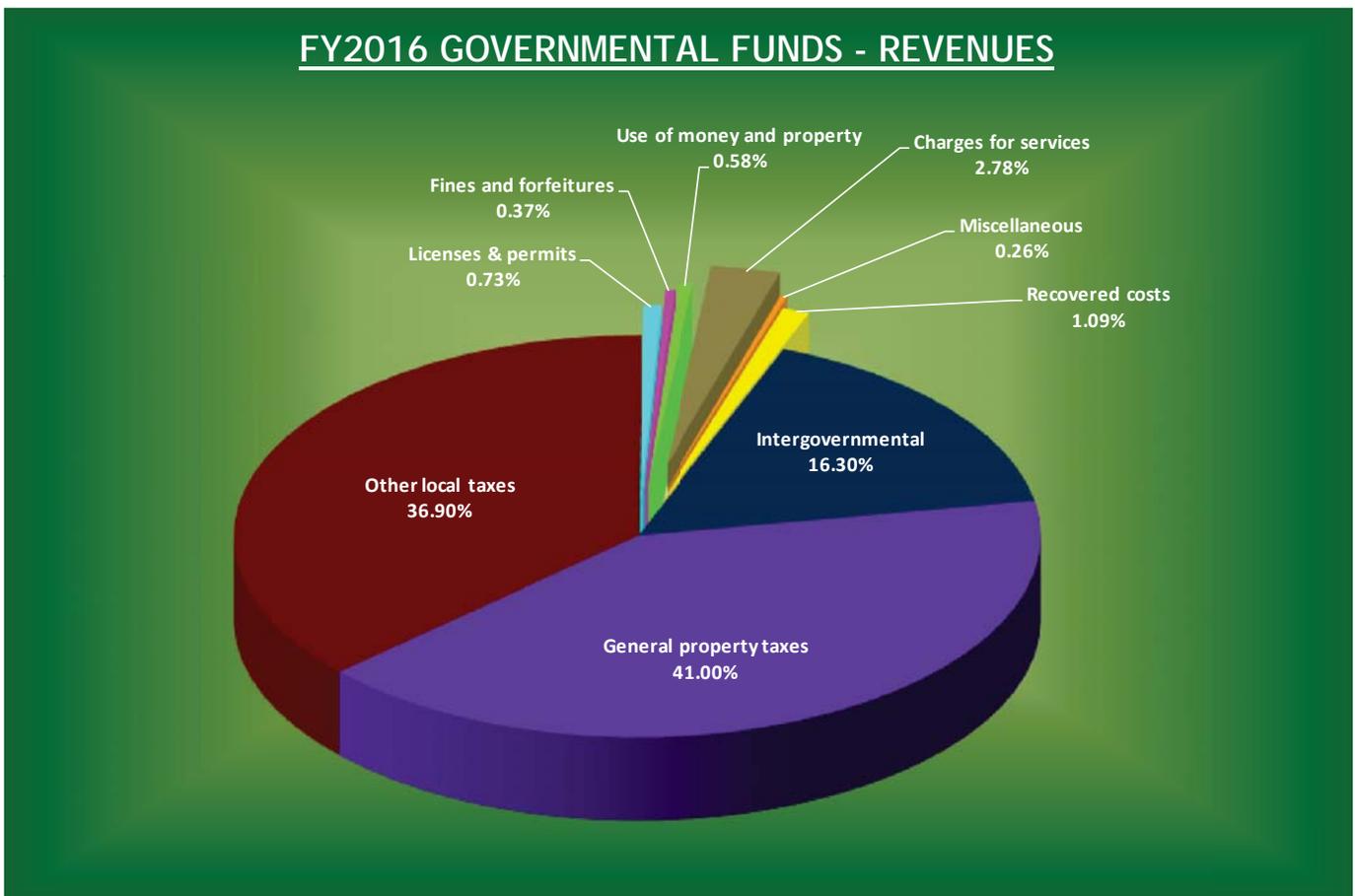
## Financial Analysis of the City's Governmental Funds

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 2016 and 2015 is presented below:

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Percentage of Total Revenues FY 2016</u>	<u>Increase (Decrease) from FY 2015</u>
General property taxes	\$ 39,027,174	\$ 37,516,803	41.00%	\$ 1,510,371
Other local taxes	35,126,109	34,418,369	36.90%	707,740
Licenses and permits	691,636	726,685	0.73%	(35,049)
Fines and forfeitures	350,564	523,547	0.37%	(172,983)
Use of money and property	554,699	405,457	0.58%	149,242
Charges for services	2,644,355	2,675,263	2.78%	(30,908)
Miscellaneous	248,557	273,284	0.26%	(24,727)
Recovered costs	1,038,569	1,143,810	1.09%	(105,241)
Intergovernmental	15,512,711	16,591,303	16.30%	(1,078,592)
<b>Totals</b>	<b>\$ 95,194,374</b>	<b>\$ 94,274,521</b>	<b>100.00%</b>	<b>\$ 919,853</b>



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

### Revenues: (Continued)

The City's total revenues from governmental activities were \$95,194,374 in fiscal year 2016, an increase of \$919,583 as compared to fiscal year 2015. Much of the increase can be attributed to general property taxes, which grew \$1,510,371 during the fiscal year. The City's real estate tax, the largest source of revenue in the General Fund, rose from \$27,910,877 to \$29,174,263, largely due to the impact of a real estate rate increase from \$0.79 to \$0.82 per \$100 of assessed valuation.

Another significant increase in the revenue occurred with other local taxes, which grew \$707,740 as compared to the previous fiscal year. Other local tax revenue in the General Fund increased \$1,433,541. Two of the primary drivers of other local tax revenue, sales tax and meals tax, experienced increases of 3.7% and 5.7%, respectively, which is indicative of the City's diverse and well established retail centers and restaurants.

Other local tax revenue decreased \$725,801 in the Capital Projects Funds. The Public Works Capital Fund reflects a local source tax decrease of \$1,204,650 as less gas tax revenue was needed to fund transportation related projects in fiscal year 2016. Gas tax revenue increased \$456,590 in the Public Facilities Capital Fund to help fund the construction of a major section of the VCR Trail.

Other notable increases to local tax revenue were \$157,757 for business license tax, \$254,780 for recordation tax, and \$102,648 for hotel lodging tax.

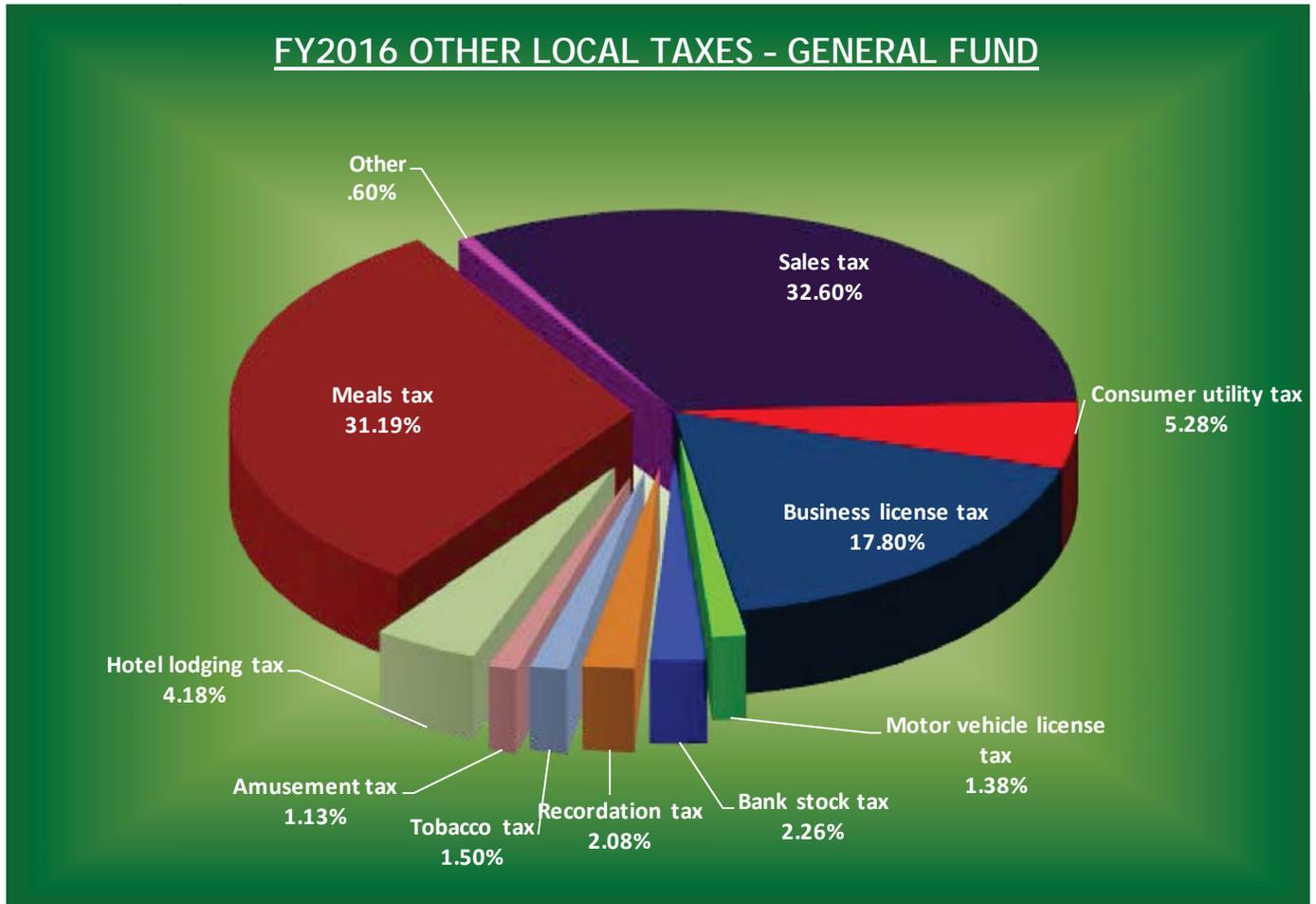
The \$1,078,592 decrease in intergovernmental revenue primarily occurred in the Public Facilities Capital Fund. Federal grant revenue received through the Virginia Department of Transportation Revenue Sharing Program decreased \$866,204 as substantial portion of the VCR Trail, partially funded with Revenue Sharing Program funds, was completed during the prior fiscal year.

The following table reflects other local tax revenue for the General Fund for fiscal years 2016 and 2015:

	FY 2016	FY 2015	Percentage of Total Revenues FY 2016	Increase (Decrease) from FY 2015
Sales and use tax	\$ 11,176,401	\$ 10,780,677	32.60%	\$ 395,724
Consumer utility tax	1,810,911	1,856,992	5.28%	(46,081)
Business license tax	6,101,499	5,943,742	17.80%	157,757
Motor vehicle license tax	472,014	471,438	1.38%	576
Bank stock tax	775,230	792,451	2.26%	(17,221)
Recordation tax	711,445	456,665	2.08%	254,780
Tobacco tax	513,669	525,413	1.50%	(11,744)
Amusement tax	387,529	432,380	1.13%	(44,851)
Hotel lodging tax	1,432,190	1,329,542	4.18%	102,648
Meals tax	10,693,375	10,115,765	31.19%	577,610
Other	207,756	143,413	0.60%	64,343
<b>Totals</b>	<b>\$ 34,282,019</b>	<b>\$ 32,848,478</b>	<b>100.00%</b>	<b>\$ 1,433,541</b>

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

### Revenues: (Continued)



### Expenditures:

The expenditure of governmental funds in fiscal year 2016 totaled \$105,901,546, an increase of \$3,103,997 from the preceding fiscal year. The majority of the increase occurred for general administration, public works, and education. Expenditures for general administration increased \$628,219 during the fiscal year. A portion of the increase occurred with the addition of two new positions, a Purchasing Agent and a Computer Technician. Funding for the Purchasing Agent, which is approximately \$94,985, comes primarily from the General Fund with the water, sewer, and transit enterprise operations sharing in the total cost. The addition of this position will enhance purchasing procedures and allow the City to more effectively navigate complex rules and regulations associated with government purchasing. The Computer Technician position, an addition to the Information Technology Department, was added at an approximate cost of \$70,085. This position expands the department's ability to better serve City employees by increasing the ability to fulfill requests for assistance with technology.

Another increase to general administration expenditures during the fiscal year was the performance of a general real estate assessment. The assessment was completed at a cost of \$172,529.

During fiscal year 2016, expenditures for public works, primarily accounted for in the General Fund, increased \$1,258,274. Driving the increase was the purchase of several large pieces of equipment at a total cost of \$571,862. The harsh weather experienced during the winter of 2016 was another factor adding to the increased costs. Expenditures for snow removal during the fiscal year was \$135,305 more when compared to the previous fiscal year.

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

### Expenditures: (Continued)

The City's school system is a critical service provided to its citizens. In fiscal year 2016 the City continued to demonstrate a continued commitment to ensuring high quality public education. In response to high growth in pupil enrollment and the related increase to the cost operations, the City's financial commitment has seen a steady growth over the past several years. In fiscal year 2016 total appropriations to the school system for operating, capital, and the Head Start Program totaled \$27,894,210 or 30.8% of the General Fund's total expenditures, to include interfund transfers. This represents a \$1,053,710 increase over the amount transferred to the school system in fiscal year 2015. The primary expenditure increases to the school system are due to salary adjustments, higher benefit costs, and hiring additional teachers.

Other areas experiencing increased expenditures was judicial administration and public safety. General Fund expenditures for judicial administration increased \$288,561 as operational costs have increased with expanded court facilities. Public safety expenditures in the General fund increased \$630,445. Part of the increase relates to the addition of two paramedic positions. The addition of these positions moves the City towards the goal of implementing 24/7 advanced life support while continuing the long-standing partnership for the provision of emergency medical services with the Fredericksburg Rescue Squad. A decrease in public safety expenditures occurred in Special Revenue Funds as grant-related expenditures in the State, Federal, and Local Grants Fund decreased \$155,915 in fiscal year 2016.

Expenditures for health and welfare decreased \$432,997. A large portion of the reduction in expenditures occurred in the Children's Services Act Fund, formerly called the Comprehensive Services Act Fund. The cost of services provided was \$399,231 less than the previous fiscal year as service duration and level of complexity were less for school and residential programs.

The expenditures related to capital project activity remained robust during the fiscal year. Most of the capital activity occurred in the Public Works Capital Fund and included \$1,622,400 for the Pavement Rehabilitation Program, \$705,060 towards the acquisition of land and development costs for the Amelia and Charles street parking lot, \$416,768 for a sidewalk and other infrastructure improvements in the Twin Lakes neighborhood, \$340,000 for the City's share of the Hazel Run Bridge repair, and \$2,055,327 contributed to the Rappahannock Regional Solid Waste Management Board (R-Board) for the City's share of the construction of a new landfill cell. The City issued revenue bonds from the Virginia Resources Authority to fund the contribution, with the understanding that the R-Board will reimburse the City for the debt service paid on the bonds with fees generated at the landfill.

Other capital project investments made during the fiscal year were \$589,948 from the Public Facilities Capital Fund for elevator repairs in various City buildings, \$1,454,224 from the Public Safety Capital Fund for upgrades to the public safety radio system, \$1,846,473 from the Original Walker-Grant Capital Fund for school renovations, and \$1,260,453 for the renovation of the former General District Court building for the relocation of the Juvenile and Domestic Relations Court.

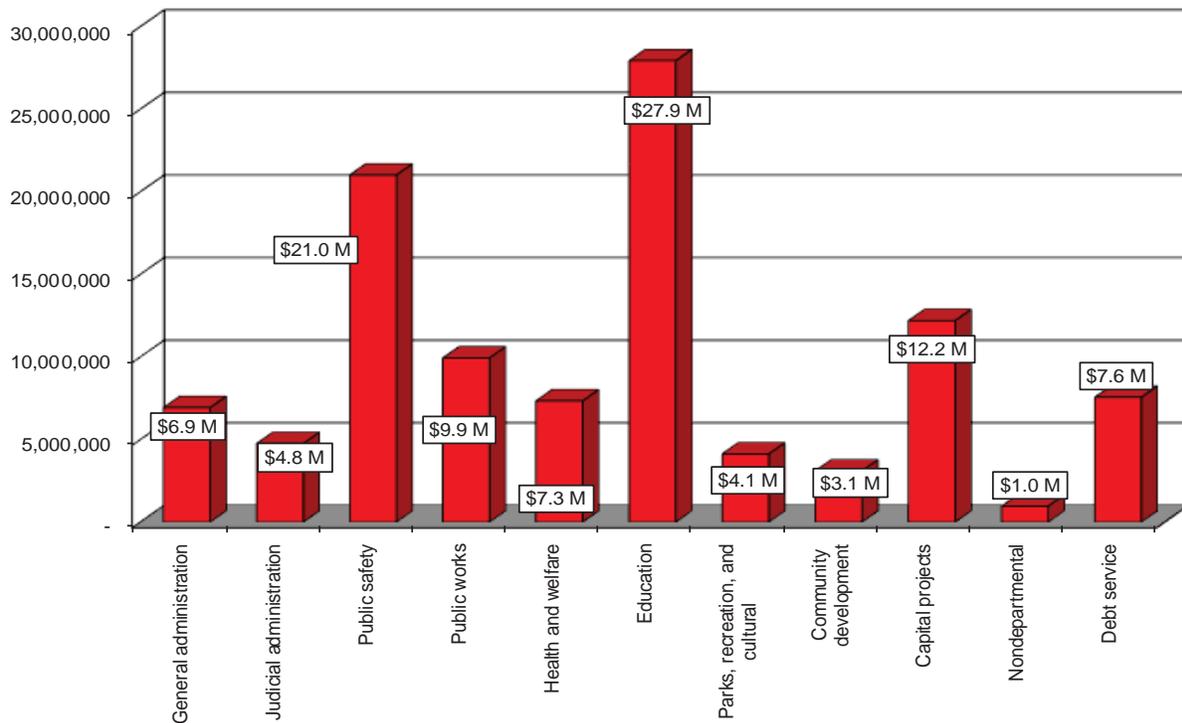
In response to the City's long-term financial commitment related to Other Post-Employment Benefits (OPEB), an irrevocable OPEB Trust was established in the amount of \$1,000,000. A majority of the contribution, \$968,579, was funded with General Fund resources, with the balance coming from the enterprise funds. The City's latest actuarial valuation of OPEB, as of January 1, 2016, shows that the contribution resulted in the long-term liability decreasing \$7,501,000 from the amount that was expected.

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

Expenditures: (Continued)

	FY 2016	FY 2015	Percentage of Total Expenditures FY 2016	Increase (Decrease) from FY 2015
General administration	\$ 6,937,325	\$ 6,309,106	6.55%	\$ 628,219
Judicial administration	4,757,907	4,426,162	4.49%	331,745
Public safety	21,014,424	20,738,813	19.84%	275,611
Public works	9,938,991	8,680,717	9.39%	1,258,274
Health and welfare	7,343,391	7,776,388	6.93%	(432,997)
Education	27,937,535	26,883,825	26.38%	1,053,710
Parks, recreation, and cultural	4,134,366	4,041,718	3.90%	92,648
Community development	3,102,783	2,848,613	2.93%	254,170
Capital projects	12,206,160	13,197,828	11.54%	(991,668)
Nondepartmental	968,579	-	0.91%	968,579
Debt service	7,560,085	7,894,379	7.14%	(334,294)
<b>Totals</b>	<b>\$ 105,901,546</b>	<b>\$ 102,797,549</b>	<b>100.00%</b>	<b>\$ 3,103,997</b>

**FY 2016 GOVERNMENTAL FUNDS - EXPENDITURES**



## General Fund Budgetary Highlights

Over the course of fiscal year 2016, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

For fiscal year 2016 total final General Fund budgeted expenditures increased \$4,615,699 and total final General Fund budgeted revenues increased \$2,198,895.

Actual General Fund expenditures were \$78,360,222 compared to the final budgeted expenditures totaling \$80,219,816. This resulted in a favorable budget variance of \$1,859,594. Public Safety and Public Works experienced the most significant favorable variance of \$523,964 and \$607,252, respectively.

Actual General Fund revenues were \$87,023,914 compared to the final budgeted revenues totaling \$84,908,555. This resulted in a favorable budget variance of \$2,115,359. There were two major categories, general property taxes and other local taxes, which experienced the most significant favorable variances of \$470,274 and \$1,610,139, respectively.

The General Fund budget for fiscal year 2016 included a use of fund balance totaling \$6,889,937. Due to favorable financial results, the City's use of fund balance was \$2,766,554.

## Capital Asset and Debt Administration

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

	<u>Balance</u> <u>June 30, 2015</u>	<u>Net</u> <u>Additions/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Capital assets not being depreciated:</b>			
Land	\$ 21,258,935	\$ 407,716	\$ 21,666,651
Construction in progress	7,317,923	(2,938,765)	4,379,158
<b>Other capital assets:</b>			
Land improvements	15,950,952	292,881	16,243,833
Buildings and building improvements	56,622,256	6,401,319	63,023,575
Joint tenancy assets	35,665,000	(1,630,000)	34,035,000
Machinery, equipment, and vehicles	20,426,794	3,437,096	23,863,890
Infrastructure	80,771,530	778,958	81,550,488
Accumulated depreciation	(73,158,291)	(5,001,852)	(78,160,143)
<b>Totals</b>	<b>\$ 164,855,099</b>	<b>\$ 1,747,353</b>	<b>\$ 166,602,452</b>

## Capital Asset and Debt Administration: (Continued)

The net increase in capital assets during the fiscal year was \$1,747,353. The increase in revenues in the General Fund combined with debt issuances and a strategic use of fund balance has provided the City an opportunity to address a variety of capital needs. Some of the more notable increases in capital assets were \$1,846,473 for renovations to the Original Walker-Grant School, \$901,990 for the renovation of the former General District Court building, \$1,616,480 for street and other infrastructure improvements, \$1,475,280 for the public safety radio system upgrade, and \$2,126,826 for vehicle, equipment, and furniture acquisitions. The largest decrease to capital assets was \$7,277,704 recognized for depreciation expense in fiscal year 2016.

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

### Long-term Debt

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

The fiscal year 2016 increase in long-term debt is attributed to the issuance of \$12,965,000 general obligation bonds, Series 2016A and \$1,855,000 Virginia Resources Authority (VRA) Revenue Bonds, Series 2016A. Of the general obligation bond issuance, \$11,225,000 is for renovation of the Original Walker-Grant School. The remaining bond proceeds amount of \$1,740,000 is for the public safety radio system upgrade. The VRA bonds were issued to fund the contribution to the R-Board for the City's share of the construction costs of a new landfill cell.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2016 the City's outstanding long-term indebtedness amount totaled \$116,688,000. After an adjustment to reflect the reserve of \$2,614,397 for education debt service and \$1,855,000 of revenue bonded debt, the remaining net debt applicable to the debt limit of \$112,218,603 is far below the legal debt limit of \$219,586,863.

The table below reflects a summary of the City's long-term debt outstanding for fiscal years 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
General obligation bonds	\$ 44,022,847	\$ 44,619,192	\$ 25,550,153	\$ 27,490,808	\$ 69,573,000	\$ 72,110,000
General obligation school bonds	45,260,000	35,665,000	-	-	45,260,000	35,665,000
Revenue Bonds	1,855,000	-	-	-	1,855,000	-
<b>Total long-term debt</b>	<b>\$ 91,137,847</b>	<b>\$ 80,284,192</b>	<b>\$ 25,550,153</b>	<b>\$ 27,490,808</b>	<b>\$ 116,688,000</b>	<b>\$ 107,775,000</b>

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

## Economic Factors

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

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

## Requests for Information

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

**BASIC FINANCIAL STATEMENTS**

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## Government-wide Financial Statements

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Statement of Net Position  
At June 30, 2016

	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Economic Development Authority
<b>Assets:</b>					
Cash and cash equivalents	\$ 50,071,082	\$ 26,404,704	\$ 76,475,786	\$ 6,708,825	\$ 1,718,231
Receivables, net of allowance for uncollectibles	1,198,160	1,808,885	3,007,045	72,858	26,495
Due from other governments	5,274,544	2,430,406	7,704,950	1,311,936	-
Inventory, at cost	27,097	259,453	286,550	-	-
Prepaid items	361,179	11,785	372,964	297,992	-
Investment in joint venture	3,516,698	-	3,516,698	-	-
Net pension asset	-	-	-	258,041	-
Restricted:					
Cash and cash equivalents	-	639,810	639,810	-	-
Capital assets:					
Land, construction in progress and other	26,045,809	4,848,991	30,894,800	497,679	-
Other capital assets, net of accumulated depreciation	140,556,643	61,481,059	202,037,702	23,806,681	-
Capital assets, net	\$ 166,602,452	\$ 66,330,050	\$ 232,932,502	\$ 24,304,360	\$ -
<b>Total assets</b>	<b>\$ 227,051,212</b>	<b>\$ 97,885,093</b>	<b>\$ 324,936,305</b>	<b>\$ 32,954,012</b>	<b>\$ 1,744,726</b>
<b>Deferred Outflows of Resources:</b>					
Pension contributions subsequent to the measurement date	\$ 3,231,834	\$ 315,492	\$ 3,547,326	\$ 3,187,087	\$ -
Items related to the measurement of the net pension liability	-	33,831	33,831	-	-
Change in proportionate share of net pension liability	83,653	7,121	90,774	2,137,000	-
Deferred charge on refunding	283,476	580,801	864,277	-	-
<b>Total deferred outflows of resources</b>	<b>\$ 3,598,963</b>	<b>\$ 937,245</b>	<b>\$ 4,536,208</b>	<b>\$ 5,324,087</b>	<b>\$ -</b>
<b>Liabilities:</b>					
Accounts payable	\$ 2,263,037	\$ 1,144,046	\$ 3,407,083	\$ 775,938	\$ 122,120
Accrued liabilities	3,278,764	385,622	3,664,386	3,759,899	-
Unearned revenue	195,264	1,745,765	1,941,029	-	-
Claims payable	395,273	-	395,273	-	-
Amounts held for others	1,100,512	-	1,100,512	-	-
Liabilities payable from restricted assets	-	639,810	639,810	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,922,608	139,930	2,062,538	608,678	-
Revenue bonds	195,000	-	195,000	-	-
General obligation bonds	4,697,565	1,996,003	6,693,568	-	-
Accrued landfill post-closure costs	80,000	-	80,000	-	-
Capital lease	-	-	-	212,000	-
Due in more than one year:					
Compensated absences	1,178,372	77,244	1,255,616	561,857	-
Net OPEB obligation	4,359,091	452,082	4,811,173	2,121,409	-
Revenue bonds	1,660,000	-	1,660,000	-	-
General obligation bonds	88,918,186	23,662,007	112,580,193	-	-
Capital lease	-	-	-	3,005,000	-
Net pension liability	18,816,947	1,902,234	20,719,181	36,284,000	-
Accrued landfill post-closure costs	1,458,675	-	1,458,675	-	-
<b>Total liabilities</b>	<b>\$ 130,519,294</b>	<b>\$ 32,144,743</b>	<b>\$ 162,664,037</b>	<b>\$ 47,328,781</b>	<b>\$ 122,120</b>
<b>Deferred Inflows of Resources:</b>					
Deferred revenue - property taxes	\$ 581,317	\$ -	\$ 581,317	\$ -	\$ -
Change in proportionate share of net pension liability	-	44,497	44,497	-	-
Items related to the measurement of the net pension liability	4,771,873	389,441	5,161,314	2,941,346	-
<b>Total deferred inflows of resources</b>	<b>\$ 5,353,190</b>	<b>\$ 433,938</b>	<b>\$ 5,787,128</b>	<b>\$ 2,941,346</b>	<b>\$ -</b>
<b>Net Position:</b>					
Net investment in capital assets	\$ 85,329,030	\$ 44,280,931	\$ 129,609,961	\$ 21,087,360	\$ -
Unrestricted	9,448,661	21,962,726	31,411,387	(33,079,388)	1,622,606
<b>Total net position</b>	<b>\$ 94,777,691</b>	<b>\$ 66,243,657</b>	<b>\$ 161,021,348</b>	<b>\$ (11,992,028)</b>	<b>\$ 1,622,606</b>

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities  
 Year Ended June 30, 2016

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 administration	\$ 6,866,241	\$ 157,793	\$ 287,008	\$ -
Judicial administration	5,566,392	195,804	957,945	-
Public safety	21,630,457	1,891,374	1,944,884	-
Public works	12,836,598	985,924	2,713,907	1,298,163
Health and welfare	7,014,254	-	4,737,210	-
Education	29,862,457	-	-	-
Parks, recreation and cultural	4,748,604	455,603	5,000	-
Community development	2,882,580	57	-	161,840
Interest on long-term debt	3,419,833	-	-	-
Total governmental activities	\$ 94,827,416	\$ 3,686,555	\$ 10,645,954	\$ 1,460,003
<b>Business-type activities</b>				
Water	\$ 2,972,130	\$ 3,285,584	\$ 457,352	\$ -
Sewer	5,092,925	5,408,049	819,328	-
Transit	4,410,391	470,343	3,060,289	410,573
Parking	443,485	283,741	-	-
Total business-type activities	\$ 12,918,931	\$ 9,447,717	\$ 4,336,969	\$ 410,573
<b>Total Primary Government</b>	<b>\$ 107,746,347</b>	<b>\$ 13,134,272</b>	<b>\$ 14,982,923</b>	<b>\$ 1,870,576</b>
<b>Component Units</b>				
Fredericksburg City Public Schools	\$ 47,846,457	\$ 516,827	\$ 18,119,548	\$ -
Fredericksburg Economic Development Authority	459,083	694,771	80,811	-
<b>Total Component Units</b>	<b>\$ 48,305,540</b>	<b>\$ 1,211,598</b>	<b>\$ 18,200,359</b>	<b>\$ -</b>

**General Revenues**

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumer utility taxes

Business license taxes

Hotel/lodging taxes

Meals taxes

Other local taxes

Payment from City of Fredericksburg:

Education

Grants and contributions not restricted to specific programs

Use of property

Interest and investment earnings

Miscellaneous

**Transfers**

Total general revenues and transfers

Change in net position

**Net position, beginning of year**

**Net position, end of year**

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position				
Primary Government				Component Units
Governmental Activities	Business-type Activities	Total		
\$ (6,421,440)	\$ -	\$ (6,421,440)	\$ -	
(4,412,643)	-	(4,412,643)	-	
(17,794,199)	-	(17,794,199)	-	
(7,838,604)	-	(7,838,604)	-	
(2,277,044)	-	(2,277,044)	-	
(29,862,457)	-	(29,862,457)	-	
(4,288,001)	-	(4,288,001)	-	
(2,720,683)	-	(2,720,683)	-	
(3,419,833)	-	(3,419,833)	-	
<u>\$ (79,034,904)</u>	<u>\$ -</u>	<u>\$ (79,034,904)</u>	<u>\$ -</u>	
\$ -	\$ 770,806	\$ 770,806	\$ -	
-	1,134,452	1,134,452	-	
-	(469,186)	(469,186)	-	
-	(159,744)	(159,744)	-	
<u>\$ -</u>	<u>\$ 1,276,328</u>	<u>\$ 1,276,328</u>	<u>\$ -</u>	
<u>\$ (79,034,904)</u>	<u>\$ 1,276,328</u>	<u>\$ (77,758,576)</u>	<u>\$ -</u>	
			\$ (29,210,082)	
			316,499	
			<u>\$ (28,893,583)</u>	
\$ 38,983,743	\$ -	\$ 38,983,743	\$ -	
11,176,401	-	11,176,401	-	
1,810,911	-	1,810,911	-	
6,101,499	-	6,101,499	-	
1,432,190	-	1,432,190	-	
10,693,375	-	10,693,375	-	
3,911,733	687,620	4,599,353	-	
-	-	-	29,150,965	
3,814,470	-	3,814,470	-	
88,766	-	88,766	-	
465,933	111,862	577,795	18,090	
329,387	587,859	917,246	318,767	
619,545	(619,545)	-	-	
<u>\$ 79,427,953</u>	<u>\$ 767,796</u>	<u>\$ 80,195,749</u>	<u>\$ 29,487,822</u>	
\$ 393,049	\$ 2,044,124	\$ 2,437,173	\$ 594,239	
94,384,642	64,199,533	158,584,175	(10,963,661)	
<u>\$ 94,777,691</u>	<u>\$ 66,243,657</u>	<u>\$ 161,021,348</u>	<u>\$ (10,369,422)</u>	

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## Fund Financial Statements

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Balance Sheet  
 Governmental Funds  
 At June 30, 2016

	General	Original Walker-Grant Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 25,610,346	\$ 10,961,695	\$ 13,259,233	\$ 49,831,274
Receivables (net of allowances for uncollectibles):				
Property taxes	705,090	-	-	705,090
Accounts	104,450	-	-	104,450
Accrued revenue	312,974	-	75,646	388,620
Inventory, at cost	27,097	-	-	27,097
Prepaid items	360,598	-	581	361,179
Due from other governments	2,961,587	-	2,312,957	5,274,544
<b>Total assets</b>	<b>\$ 30,082,142</b>	<b>\$ 10,961,695</b>	<b>\$ 15,648,417</b>	<b>\$ 56,692,254</b>
<b>Liabilities:</b>				
Accounts payable	\$ 809,702	\$ 244,092	\$ 1,150,342	\$ 2,204,136
Accrued liabilities	1,438,076	41,441	263,829	1,743,346
Amounts held for others	1,100,512	-	-	1,100,512
Unearned revenue	29,014	-	166,250	195,264
<b>Total liabilities</b>	<b>\$ 3,377,304</b>	<b>\$ 285,533</b>	<b>\$ 1,580,421</b>	<b>\$ 5,243,258</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue - property taxes	\$ 1,000,383	\$ -	\$ -	\$ 1,000,383
<b>Fund Balances:</b>				
Nonspendable	\$ 387,695	\$ -	\$ 581	\$ 388,276
Restricted	327,422	-	-	327,422
Committed	4,347,210	10,655,001	6,149,362	21,151,573
Assigned	1,306,350	21,161	7,918,053	9,245,564
Unassigned	19,335,778	-	-	19,335,778
<b>Total fund balances</b>	<b>\$ 25,704,455</b>	<b>\$ 10,676,162</b>	<b>\$ 14,067,996</b>	<b>\$ 50,448,613</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 30,082,142</b>	<b>\$ 10,961,695</b>	<b>\$ 15,648,417</b>	<b>\$ 56,692,254</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 Position  
At June 30, 2016

Total fund balances for governmental funds (Exhibit 3)	\$	50,448,613	
Total net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:			
Land	\$	21,666,651	
Construction in progress		4,379,158	
Land improvements, net of accumulated depreciation		12,678,442	
Buildings and improvements, net of accumulated depreciation		48,209,963	
Joint tenancy assets, net of accumulated depreciation		27,566,776	
Infrastructure, net of accumulated depreciation		40,822,412	
Machinery, vehicles, and equipment, net of accumulated depreciation		<u>11,279,050</u>	
Total capital assets			166,602,452
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.			(214,366)
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Investment in joint venture	\$	3,516,698	
Change in proportionate share of net pension liability		83,653	
Items related to measurement of net pension liability		<u>(4,771,873)</u>	(1,171,522)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.			3,231,834
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.			
			419,066
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:			
Accrued interest on debt	\$	(1,535,418)	
Bonds and notes payable		(91,137,847)	
Premium on long-term debt, net of accumulated amortization		(4,332,904)	
Deferred charge on refunding		283,476	
Net pension liability		(18,816,947)	
Landfill post-closure costs		<u>(1,538,675)</u>	(117,078,315)
Compensated absences not reported as fund liabilities			(3,100,980)
Net OPEB obligation not reported as fund liabilities			<u>(4,359,091)</u>
Total net position of governmental activities (Exhibits 1 and 2)	\$		<u>94,777,691</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2016

	General Fund	Original Walker-Grant Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 39,027,174	\$ -	\$ -	\$ 39,027,174
Other local taxes	34,282,019	-	844,090	35,126,109
Permits, privilege fees and regulatory licenses	627,254	-	64,382	691,636
Fines and forfeitures	328,874	-	21,690	350,564
Use of money and property	182,168	7,299	365,232	554,699
Charges for services	2,589,273	-	55,082	2,644,355
Miscellaneous	110,283	-	138,274	248,557
Recovered costs	589,374	-	449,195	1,038,569
Intergovernmental:				
Revenue from the Commonwealth	9,245,940	-	3,663,243	12,909,183
Revenue from the Federal Government	41,555	-	2,561,973	2,603,528
Total revenues	<u>\$ 87,023,914</u>	<u>\$ 7,299</u>	<u>\$ 8,163,161</u>	<u>\$ 95,194,374</u>
<b>Expenditures</b>				
Current:				
General government administration	\$ 6,937,325	\$ -	\$ -	\$ 6,937,325
Judicial administration	4,490,158	-	267,749	4,757,907
Public safety	20,796,265	-	218,159	21,014,424
Public works	9,904,513	-	34,478	9,938,991
Health and welfare	967,327	-	6,376,064	7,343,391
Education - local community college and other	43,325	-	-	43,325
Education - public school system	27,894,210	-	-	27,894,210
Parks, recreation and cultural	4,030,620	-	103,746	4,134,366
Community development	2,327,900	-	774,883	3,102,783
Capital projects	-	1,846,473	10,359,687	12,206,160
Nondepartmental	968,579	-	-	968,579
Debt service:				
Principal payments	-	-	3,966,345	3,966,345
Interest and fiscal charges	-	-	3,341,489	3,341,489
Issuance costs	-	-	252,251	252,251
Total expenditures	<u>\$ 78,360,222</u>	<u>\$ 1,846,473</u>	<u>\$ 25,694,851</u>	<u>\$ 105,901,546</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>\$ 8,663,692</u>	<u>\$ (1,839,174)</u>	<u>\$ (17,531,690)</u>	<u>\$ (10,707,172)</u>
<b>Other financing sources (uses)</b>				
Issuance of bonds	\$ -	\$ 10,617,788	\$ 4,202,212	\$ 14,820,000
Bond premium	-	1,897,548	592,670	2,490,218
Proceeds from the sale of capital assets	62,770	-	18,060	80,830
Transfers in	613,500	-	12,112,561	12,726,061
Transfers out	(12,106,516)	-	-	(12,106,516)
Total other financing sources (uses)	<u>\$ (11,430,246)</u>	<u>\$ 12,515,336</u>	<u>\$ 16,925,503</u>	<u>\$ 18,010,593</u>
Net change in fund balance	<u>\$ (2,766,554)</u>	<u>\$ 10,676,162</u>	<u>\$ (606,187)</u>	<u>\$ 7,303,421</u>
<b>Fund balances, beginning of year, as restated</b>	<u>28,471,009</u>	<u>-</u>	<u>14,674,183</u>	<u>43,145,192</u>
<b>Fund balances, end of year</b>	<u>\$ 25,704,455</u>	<u>\$ 10,676,162</u>	<u>\$ 14,067,996</u>	<u>\$ 50,448,613</u>

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2016

Net change in fund balances - total governmental funds (Exhibit 5) \$ 7,303,421

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 9,966,062	
Depreciation	<u>(7,277,704)</u>	2,688,358

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (1,056,167)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. 115,162

Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net position revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis. (43,431)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in joint venture investment	\$ 1,907,471	
Change in deferred inflows/outflows - change in proportionate share of net pension liability	246,442	
Change in deferred inflows related to the measurement of the net pension liability	<u>249,602</u>	2,403,515

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

Debt issued:		
General obligation bonds	\$ (12,965,000)	
Revenue bonds	(1,855,000)	
Premium on debt issued	(2,490,218)	
Amortization of premium on long-term debt	230,534	
Repayments of long-term debt:		
General obligation bonds	<u>3,966,345</u>	
Net adjustment		(13,113,339)

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	\$ 94,021	
Net OPEB obligation	656,076	
Accrued interest on bonds and loans	(28,095)	
Net pension liability	1,940,839	
Deferred outflows related to pension payments subsequent to the measurement date	(251,339)	
Amortization of deferred charge on refunding	(28,532)	
Accrued landfill post-closure costs	<u>52,901</u>	
Net adjustment		2,435,871

Internal service funds are used by the City to charge the cost of health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities. (340,341)

Change in net position of governmental activities (Exhibit 2) \$ 393,049

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

Statement of Net Position  
 Proprietary Funds  
 At June 30, 2016

	Business-type Activities - Enterprise Funds					Governmental
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 10,439,503	\$ 7,783,504	\$ 7,297,440	\$ 884,257	\$ 26,404,704	\$ 239,808
Accounts receivable, net of allowance for uncollectibles	664,580	1,087,219	-	-	1,751,799	-
Accrued revenue	5,732	5,079	36,061	10,214	57,086	-
Inventory, at cost	143,724	115,729	-	-	259,453	-
Prepaid items	35	256	10,139	1,355	11,785	-
Due from other governments	50,000	145,445	2,234,961	-	2,430,406	-
Restricted assets:						
Cash and cash equivalents	639,810	-	-	-	639,810	-
<b>Total current assets</b>	<b>\$ 11,943,384</b>	<b>\$ 9,137,232</b>	<b>\$ 9,578,601</b>	<b>\$ 895,826</b>	<b>\$ 31,555,043</b>	<b>\$ 239,808</b>
Capital Assets:						
Land	\$ 701,345	\$ 114,880	\$ 550,686	\$ 782,125	\$ 2,149,036	\$ -
Construction in progress	2,374,324	92,130	233,501	-	2,699,955	-
Land improvements	-	-	976,403	-	976,403	-
Dams and reservoirs	663,536	-	-	-	663,536	-
Buildings and systems	18,913,372	42,431,789	9,867,983	6,631,862	77,845,006	-
Furniture, machinery and equipment	445,451	2,817,596	3,927,487	223,789	7,414,323	-
Intangible assets	6,976,115	1,556,496	-	-	8,532,611	-
<b>Total property, plant and equipment</b>	<b>\$ 30,074,143</b>	<b>\$ 47,012,891</b>	<b>\$ 15,556,060</b>	<b>\$ 7,637,776</b>	<b>\$ 100,280,870</b>	<b>\$ -</b>
Accumulated depreciation	(9,387,901)	(19,449,723)	(3,644,845)	(1,468,351)	(33,950,820)	-
<b>Capital assets, net</b>	<b>\$ 20,686,242</b>	<b>\$ 27,563,168</b>	<b>\$ 11,911,215</b>	<b>\$ 6,169,425</b>	<b>\$ 66,330,050</b>	<b>\$ -</b>
<b>Total assets</b>	<b>\$ 32,629,626</b>	<b>\$ 36,700,400</b>	<b>\$ 21,489,816</b>	<b>\$ 7,065,251</b>	<b>\$ 97,885,093</b>	<b>\$ 239,808</b>
<b>Deferred Outflows of Resources:</b>						
Pension contributions subsequent to the measurement date	\$ 66,909	\$ 133,890	\$ 109,656	\$ 5,037	\$ 315,492	\$ -
Change in proportionate share of net pension liability	5,340	-	-	1,781	7,121	-
Items related to the measurement of the net pension liability	33,831	-	-	-	33,831	-
Deferred charge on refunding	25,528	465,901	-	89,372	580,801	-
<b>Total deferred outflows of resources</b>	<b>\$ 131,608</b>	<b>\$ 599,791</b>	<b>\$ 109,656</b>	<b>\$ 96,190</b>	<b>\$ 937,245</b>	<b>\$ -</b>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	\$ 601,740	\$ 435,039	\$ 102,779	\$ 4,488	\$ 1,144,046	\$ 58,901
Accrued liabilities	48,184	45,555	56,826	2,049	152,614	-
Interest payable	49,508	183,500	-	-	233,008	-
Compensated absences, current portion	31,375	75,848	32,008	699	139,930	-
Claims payable	-	-	-	-	-	395,273
Unearned revenue, current portion	18,665	55,912	-	-	74,577	-
General obligation bonds, current portion	629,717	1,125,122	-	241,164	1,996,003	-
Current liabilities payable from restricted assets:						
Customer deposits	639,810	-	-	-	639,810	-
<b>Total current liabilities</b>	<b>\$ 2,018,999</b>	<b>\$ 1,920,976</b>	<b>\$ 191,613</b>	<b>\$ 248,400</b>	<b>\$ 4,379,988</b>	<b>\$ 454,174</b>
Noncurrent liabilities:						
Unearned revenue, noncurrent portion	\$ -	\$ 1,671,188	\$ -	\$ -	\$ 1,671,188	\$ -
Compensated absences, noncurrent portion	19,230	13,384	44,201	429	77,244	-
Net OPEB obligation	113,578	204,105	123,942	10,457	452,082	-
Net pension liability	427,949	781,007	659,042	34,236	1,902,234	-
General obligation bonds, noncurrent portion	7,713,962	13,522,586	-	2,425,459	23,662,007	-
<b>Total noncurrent liabilities</b>	<b>\$ 8,274,719</b>	<b>\$ 16,192,270</b>	<b>\$ 827,185</b>	<b>\$ 2,470,581</b>	<b>\$ 27,764,755</b>	<b>\$ -</b>
<b>Total liabilities</b>	<b>\$ 10,293,718</b>	<b>\$ 18,113,246</b>	<b>\$ 1,018,798</b>	<b>\$ 2,718,981</b>	<b>\$ 32,144,743</b>	<b>\$ 454,174</b>
<b>Deferred Inflows of Resources:</b>						
Change in proportionate share of net pension liability	\$ -	\$ 33,818	\$ 10,679	\$ -	\$ 44,497	\$ -
Items related to the measurement of the net pension liability	56,206	141,826	181,623	9,786	389,441	-
<b>Total deferred inflows of resources</b>	<b>\$ 56,206</b>	<b>\$ 175,644</b>	<b>\$ 192,302</b>	<b>\$ 9,786</b>	<b>\$ 433,938</b>	<b>\$ -</b>
<b>Net Position:</b>						
Net investment in capital assets	\$ 13,889,465	\$ 14,888,077	\$ 11,911,215	\$ 3,592,174	\$ 44,280,931	\$ -
Unrestricted	8,521,845	4,123,224	8,477,157	840,500	21,962,726	(214,366)
<b>Total net position</b>	<b>\$ 22,411,310</b>	<b>\$ 19,011,301</b>	<b>\$ 20,388,372</b>	<b>\$ 4,432,674</b>	<b>\$ 66,243,657</b>	<b>\$ (214,366)</b>

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

Statement of Revenues, Expenses and Changes in Net Position  
 Proprietary Funds  
 Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds					Governmental
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Operating revenues:						
Charges for services	\$ 3,285,584	\$ 5,408,049	\$ 384,305	\$ 283,741	\$ 9,361,679	\$ 5,952,402
Operating expenses:						
Personal services	\$ 448,126	\$ 916,994	\$ 2,082,670	\$ 102,324	\$ 3,550,114	\$ -
Fringe benefits	239,944	390,842	418,615	21,179	1,070,580	5,071,338
Contractual services	1,382,047	1,020,170	359,347	50,883	2,812,447	-
Other operating expenses	173,261	655,391	793,435	38,021	1,660,108	1,221,405
Depreciation expense	514,912	1,552,734	756,324	153,583	2,977,553	-
Total operating expenses	\$ 2,758,290	\$ 4,536,131	\$ 4,410,391	\$ 365,990	\$ 12,070,802	\$ 6,292,743
Total operating income (loss)	\$ 527,294	\$ 871,918	\$ (4,026,086)	\$ (82,249)	\$ (2,709,123)	\$ (340,341)
Nonoperating revenues (expenses):						
Interest income	\$ 36,790	\$ 29,356	\$ 22,858	\$ 22,858	\$ 111,862	\$ -
Gasoline tax receipts	-	-	480,000	207,620	687,620	-
Availability/connection fees	457,352	761,900	-	-	1,219,252	-
Miscellaneous	238,934	82,310	240,389	26,226	587,859	-
Gain (loss) on disposal of capital assets	-	-	86,038	-	86,038	-
State and local grant funds	-	-	1,652,452	-	1,652,452	-
Federal grant funds	-	57,428	1,407,837	-	1,465,265	-
Interest expense	(213,840)	(556,794)	-	(77,495)	(848,129)	-
Total nonoperating revenues (expenses)	\$ 519,236	\$ 374,200	\$ 3,889,574	\$ 179,209	\$ 4,962,219	\$ -
Income (loss) before contributions and transfers	\$ 1,046,530	\$ 1,246,118	\$ (136,512)	\$ 96,960	\$ 2,253,096	\$ (340,341)
Capital grants and contributions:						
Federal grant funds	\$ -	\$ -	\$ 410,573	\$ -	\$ 410,573	\$ -
Transfers:						
Transfers out	\$ (280,689)	\$ (338,856)	\$ -	\$ -	\$ (619,545)	\$ -
Change in net position	\$ 765,841	\$ 907,262	\$ 274,061	\$ 96,960	\$ 2,044,124	\$ (340,341)
Net position, beginning of year	21,645,469	18,104,039	20,114,311	4,335,714	64,199,533	125,975
Net position, end of year	\$ 22,411,310	\$ 19,011,301	\$ 20,388,372	\$ 4,432,674	\$ 66,243,657	\$ (214,366)

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

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers and users	\$ 3,169,325	\$ 5,259,311	\$ (330,369)	\$ 554,075	\$ 8,652,342	\$ 5,952,402
Other miscellaneous receipts	238,934	82,310	720,389	233,846	1,275,479	-
Payments to suppliers	(2,156,052)	(1,658,712)	(1,103,807)	(91,175)	(5,009,746)	(1,164,069)
Payments to and for employees	(713,910)	(1,411,346)	(2,582,904)	(124,862)	(4,833,022)	(5,093,036)
Net cash provided by (used for) operating activities	\$ 538,297	\$ 2,271,563	\$ (3,296,691)	\$ 571,884	\$ 85,053	\$ (304,703)
Cash flows from noncapital financing activities:						
Availability and connection fees	\$ 457,352	\$ 761,900	\$ -	\$ -	\$ 1,219,252	\$ -
State, federal and local grant funds	-	57,428	3,060,289	-	3,117,717	-
Transfers	(280,689)	(338,856)	-	-	(619,545)	-
Net cash provided by (used for) noncapital financing activities	\$ 176,663	\$ 480,472	\$ 3,060,289	\$ -	\$ 3,717,424	\$ -
Cash flows from investing activities:						
Interest income	\$ 36,790	\$ 29,356	\$ 22,858	\$ 22,858	\$ 111,862	\$ -
Cash flows from capital and related financing activities:						
Purchase of capital assets	\$ (2,281,358)	\$ (500,005)	\$ (48,478)	\$ -	\$ (2,829,841)	\$ -
Disposal of capital assets	-	-	101,539	-	101,539	-
State, federal and local grant funds	-	-	410,573	-	410,573	-
Principal payment on debt	(623,562)	(1,083,837)	-	(233,257)	(1,940,656)	-
Interest paid on debt	(204,282)	(533,744)	-	(67,565)	(805,591)	-
Net cash provided by (used for) capital and related financing activities	\$ (3,109,202)	\$ (2,117,586)	\$ 463,634	\$ (300,822)	\$ (5,063,976)	\$ -
Increase (decrease) in cash and cash equivalents for the year	\$ (2,357,452)	\$ 663,805	\$ 250,090	\$ 293,920	\$ (1,149,637)	\$ (304,703)
Cash and cash equivalents (including restricted), beginning of year	13,436,765	7,119,699	7,047,350	590,337	28,194,151	544,511
Cash and cash equivalents (including restricted), end of year	\$ 11,079,313	\$ 7,783,504	\$ 7,297,440	\$ 884,257	\$ 27,044,514	\$ 239,808
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 527,294	\$ 871,918	\$ (4,026,086)	\$ (82,249)	\$ (2,709,123)	\$ (340,341)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	514,912	1,552,734	756,324	153,583	2,977,553	-
Other miscellaneous receipts	238,934	82,310	720,389	233,846	1,275,479	-
Changes in assets and liabilities:						
Accounts receivable	(56,245)	(80,032)	-	-	(136,277)	-
Inventory	(17,216)	36,259	-	-	19,043	-
Accrued revenue	(50,305)	1,900	(30,717)	6,832	(72,290)	-
Prepaid items	17	(204)	907	(1,300)	(580)	-
Due from other governments	-	(14,694)	(683,957)	263,502	(435,149)	-
Deferred outflows of resources - pension contributions subsequent to measurement date	8,899	4,406	9,688	390	23,383	-
Deferred outflows of resources - change in proportionate share of net pension liability	104,716	80,249	-	(1,781)	183,184	-
Deferred outflows of resources - items related to measurement of net pension liability	(33,831)	-	-	-	(33,831)	-
Accounts payable	(559,632)	93,108	35,588	(971)	(431,907)	57,336
Accrued liabilities	(23,913)	(112,314)	12,480	1,383	(122,364)	-
Net OPEB obligation	(7,009)	(11,080)	(3,112)	-	(21,201)	-
Net pension liability	(39,557)	(130,275)	(86,121)	(1,360)	(257,313)	-
Unearned revenue	(4,312)	(55,912)	-	-	(60,224)	-
Claims payable	-	-	-	-	-	(21,698)
Compensated absences	(2,170)	(2,007)	6,521	1,128	3,472	-
Deferred inflows of resources - change in proportionate share of net pension liability	-	33,818	(9,957)	(2,294)	21,567	-
Deferred inflows of resources - items related to measurement of net pension liability	(56,888)	(78,621)	1,362	1,175	(132,972)	-
Deposits payable from restricted assets	(5,397)	-	-	-	(5,397)	-
Net cash provided by (used for) operating activities	\$ 538,297	\$ 2,271,563	\$ (3,296,691)	\$ 571,884	\$ 85,053	\$ (304,703)

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

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

Statement of Fiduciary Net Position - Fiduciary Funds  
 At June 30, 2016

	Agency Funds	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 629,483	\$ -	\$ 1,639,346
Accounts receivable	349,831	52	7,917
Investments at fair value:			
Investment in pooled funds	-	996,500	-
Capital assets:			
Machinery and equipment, net of accumulated depreciation	-	-	24,424
Total assets	<u>\$ 979,314</u>	<u>\$ 996,552</u>	<u>\$ 1,671,687</u>
<b>Deferred Outflows of Resources:</b>			
Pension contributions subsequent to the measurement date	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,389</u>
<b>Liabilities:</b>			
Reconciled overdraft	\$ 103,908	\$ -	\$ -
Accounts payable	52,957	-	1,162
Accrued liabilities	45,617	-	4,623
Net OPEB obligation	-	-	2,282
Net pension liability	-	-	49,214
Amounts held for others	776,832	-	-
Total liabilities	<u>\$ 979,314</u>	<u>\$ -</u>	<u>\$ 57,281</u>
<b>Deferred Inflows of Resources:</b>			
Items related to the measurement of the net pension liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,214</u>
<b>Net Position:</b>			
Held in trust for OPEB benefits and other purposes	<u>\$ -</u>	<u>\$ 996,552</u>	<u>\$ 1,610,581</u>

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

Statement of Changes in Fiduciary Net Position  
 Fiduciary Funds  
 Year Ended June 30, 2016

	Other Post-employment Benefit Plan Fund	Private Purpose Trust Fund
Additions:		
Contributions:		
Contributions	\$ 1,000,000	\$ 76,100
Investment income:		
Interest earned on investments	52	10,070
Miscellaneous	-	1,856
Total additions	<u>\$ 1,000,052</u>	<u>\$ 88,026</u>
Deductions:		
Payments for property management	\$ -	\$ 77,925
Other charges	<u>3,500</u>	<u>-</u>
Net increase (decrease) in plan assets	\$ 996,552	\$ 10,101
Net position held in trust for OPEB benefits and other purposes:		
Balance, beginning of year	<u>-</u>	<u>1,600,480</u>
Balance, end of year	<u>\$ 996,552</u>	<u>\$ 1,610,581</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, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>School Board</b>				
Education	\$ 47,765,055	\$ 516,827	\$ 18,119,548	\$ -
Interest on long-term debt	81,402	-	-	-
<b>Total School Board</b>	<u>\$ 47,846,457</u>	<u>\$ 516,827</u>	<u>\$ 18,119,548</u>	<u>\$ -</u>
<b>Economic Development Authority</b>				
Community development	\$ 459,083	\$ 694,771	\$ 80,811	\$ -
<b>Total Component Units</b>	<u>\$ 48,305,540</u>	<u>\$ 1,211,598</u>	<u>\$ 18,200,359</u>	<u>\$ -</u>

**General revenues**

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

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Position		
School Board	Economic Development Authority	Totals
\$ (29,128,680)	\$ -	\$ (29,128,680)
<u>(81,402)</u>	<u>-</u>	<u>(81,402)</u>
\$ <u>(29,210,082)</u>	\$ <u>-</u>	\$ <u>(29,210,082)</u>
\$ -	\$ 316,499	\$ 316,499
\$ <u>(29,210,082)</u>	\$ <u>316,499</u>	\$ <u>(28,893,583)</u>
\$ 28,950,377	\$ 200,588	\$ 29,150,965
15,606	2,484	18,090
<u>318,767</u>	<u>-</u>	<u>318,767</u>
\$ <u>29,284,750</u>	\$ <u>203,072</u>	\$ <u>29,487,822</u>
\$ 74,668	\$ 519,571	\$ 594,239
<u>(12,066,696)</u>	<u>1,103,035</u>	<u>(10,963,661)</u>
\$ <u><u>(11,992,028)</u></u>	\$ <u><u>1,622,606</u></u>	\$ <u><u>(10,369,422)</u></u>

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# CITY OF FREDERICKSBURG, VIRGINIA

## Notes to Financial Statements As of June 30, 2016

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

#### **A. Financial Reporting Entity**

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

#### Government-wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

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

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

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

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

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

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A. Financial Reporting Entity: (Continued)

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

b. Fredericksburg Economic Development Authority:

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

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

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

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

**Exclusions from the Reporting Entity:**

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$3,917,709 in operating and other funds to the Center in 2016.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1,285,000 in operating funds to the Library in 2016.

c. Rappahannock Regional Solid Waste Management Board

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

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

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

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

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

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

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

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The City's equity interest as of June 30, 2016 was \$3,516,698.

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$9.5 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2016 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One-hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and post-closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

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

**d. Rappahannock Area Community Services Board**

The Board was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of \$215,005 to the Board in 2016.

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)

e. Rappahannock Area Agency on Aging

The Agency was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$7,880 in operating grants to the Agency in 2016.

f. George Washington Regional Commission

The Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$21,740 in operating grants to the Commission in 2016.

g. Rappahannock Juvenile Detention Center

The Center was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$454,215 to the Center in 2016.

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

The Home was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$41,215 in operating funds to the Home in 2016.

**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)**

**i. Stafford Regional Airport Commission**

The Commission was created by City Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$21,430 in operating funds to the Commission in 2016.

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

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

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

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2016.

1. Governmental Funds:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

Original Walker-Grant Construction Fund - This fund accounts for resources and expenditures for school construction. Financing is provided by bond proceeds. The Fund is considered a major fund for financial reporting purposes.

2. Proprietary Funds:

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

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

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

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

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

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Funds (Trust and Agency Funds):

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

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

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

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

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

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

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

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

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

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

b. Economic Development Authority:

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

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

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**C. Basis of Accounting**

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

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

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

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**D. Budgets and Budgetary Accounting: (Continued)**

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2016. 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, 2016.

**E. Cash and Cash Equivalents**

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

**F. Investments**

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

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

**G. Allowance for Uncollectible Accounts**

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2016, the allowance totaled \$2,434,753 with \$1,931,474 in the General Fund and \$503,279 in the Enterprise Funds.

**H. Inventory**

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

**I. Prepaid Items**

Prepaid expenses are reported on the consumption method.

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

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**J. Capital Assets**

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

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

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

Land improvements	20 to 50 years
Buildings	10 to 50 years
Furniture, machinery, and equipment	4 to 10 years
Water and wastewater systems	30 to 50 years
Intangible Assets	30 to 50 years

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

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

The interest cost on construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2016.

**K. Compensated Absences**

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

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

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**L. Deferred Outflows/Inflows of Resources**

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

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

**M. Pensions**

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

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

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**N. Use of Estimates**

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

**O. Unbilled Revenue**

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

**P. Bond Premium**

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Bond premium amortization for fiscal year ended June 30, 2016 was \$230,534 and \$12,671 for the governmental and business-type activities, respectively.

**Q. Long-term Obligations**

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

**R. Net Position**

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

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

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**S. Net Position Flow Assumption**

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

**T. Fund Equity**

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

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

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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

T. Fund Equity: (Continued)

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

	General Fund	Original Walker-Grant Construction Fund	Other Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventory	\$ 27,097	\$ -	\$ -	\$ 27,097
Prepays	360,598	-	581	361,179
<b>Total Nonspendable Fund Balance</b>	<u>\$ 387,695</u>	<u>\$ -</u>	<u>\$ 581</u>	<u>\$ 388,276</u>
<b>Restricted:</b>				
Courthouse maintenance	\$ 327,422	\$ -	\$ -	\$ 327,422
<b>Committed:</b>				
Social services	\$ -	\$ -	\$ 481,258	\$ 481,258
Comprehensive services	-	-	391,007	391,007
Cowan Boulevard debt service	-	-	262,519	262,519
Public safety construction projects	-	-	1,084,572	1,084,572
Public facilities construction projects	-	-	222,222	222,222
Public works construction projects	-	-	68,890	68,890
Blight abatement	-	-	192,162	192,162
Grant related projects	-	-	630,524	630,524
Forfeited asset sharing program	-	-	119,874	119,874
Environmental purposes	-	-	79,937	79,937
Education debt service	-	-	2,614,397	2,614,397
Original Walker-Grant construction project	-	10,655,001	-	10,655,001
Future capital projects	3,717,255	-	-	3,717,255
Health insurance claims	386,962	-	-	386,962
Other purposes	242,993	-	2,000	244,993
<b>Total Committed Fund Balance</b>	<u>\$ 4,347,210</u>	<u>\$ 10,655,001</u>	<u>\$ 6,149,362</u>	<u>\$ 21,151,573</u>
<b>Assigned:</b>				
Public works construction projects	\$ -	\$ -	\$ 3,861,290	\$ 3,861,290
Public facilities construction projects	-	-	1,855,885	1,855,885
Public safety construction projects	-	-	1,087,145	1,087,145
New court construction project	-	-	1,113,733	1,113,733
Detention stabilization	1,250,000	-	-	1,250,000
Other purposes	56,350	21,161	-	77,511
<b>Total Assigned Fund Balance</b>	<u>\$ 1,306,350</u>	<u>\$ 21,161</u>	<u>\$ 7,918,053</u>	<u>\$ 9,245,564</u>
<b>Unassigned</b>	<u>\$ 19,335,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,335,778</u>
<b>Total Fund Balances</b>	<u>\$ 25,704,455</u>	<u>\$ 10,676,162</u>	<u>\$ 14,067,996</u>	<u>\$ 50,448,613</u>

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

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U. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 3.

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*

The City early-implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 2—Deposits and Investments:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 2—Deposits and Investments: (Continued)**

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

Custodial Credit Risk (Investments) - The City's investments at June 30, 2016 were held by the City or in the City's name by the City's custodial banks; except for U.S. Agency investments, U.S. Treasuries, Corporate Debt investments, municipal public bonds, and commercial paper, where the underlying securities were uninsured and held by an investment broker.

**Credit Risk of Debt Securities**

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

The City's rated debt investments as of June 30, 2016 were rated by Standard and Poor's or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

**City's Rated Debt Investments' Values**

Rated Debt Investments	Fair Quality Ratings					
	AAAm	AAA	AA+	AA	AA-	A-1
U.S. Agencies	\$ -	\$ -	\$ 15,241,198	\$ -	\$ -	\$ -
U.S. Treasuries	-	-	6,742,648	-	-	-
Corporate Debt	-	894,934	1,828,755	908,834	3,961,944	-
Commercial Paper	-	-	-	-	-	1,343,174
Virginia State Non-Arbitrage Program	21,745,453	-	-	-	-	-
Money Market Mutual Fund	23,885,933	-	-	-	-	-
<b>Total</b>	<b>\$ 45,631,386</b>	<b>\$ 894,934</b>	<b>\$ 23,812,601</b>	<b>\$ 908,834</b>	<b>\$ 3,961,944</b>	<b>\$ 1,343,174</b>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 2—Deposits and Investments: (Continued)

Interest Rate Risk

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

Investment Maturities (in years)			
<u>Investment Type</u>	<u>Fair Value</u>	<u>Within 1 Year</u>	<u>1-5 Years</u>
U.S. Agencies	\$ 15,241,199	\$ 3,565,965	\$ 11,675,234
U.S. Treasuries	6,742,648	3,357,604	3,385,044
Commercial Paper	1,343,174	1,343,174	-
Virginia State Non-Arbitrage Program	21,745,453	21,745,453	-
Corporate Debt	7,594,467	2,138,687	5,455,780
Total	<u>\$ 52,666,941</u>	<u>\$ 32,150,883</u>	<u>\$ 20,516,058</u>

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 3—Fair Value Measurements:**

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

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

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

The City has the following recurring fair value measurements as of June 30, 2016:

<u>Investment</u>	<u>June 30, 2016</u>	<u>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
U.S. Agencies	\$ 15,241,199	\$ 15,241,199
U.S. Treasuries	6,742,648	6,742,648
Commercial Paper	1,343,174	1,343,174
Corporate Debt	<u>7,594,467</u>	<u>7,594,467</u>
Total	<u>\$ 30,921,488</u>	<u>\$ 30,921,488</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 4—Real and Personal Property Tax Data:**

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

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

**Note 5—Receivables and Accrued Revenue:**

Receivables and accrued revenue at June 30, 2016 consist of the following:

**Primary Government:**

	<u>Governmental Activities</u>				<u>Business- Type Activities</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>	
Property taxes	\$ 2,604,667	\$ -	\$ -	\$ 2,604,667	\$ -
Water charges	-	-	-	-	895,349
Wastewater charges	-	-	-	-	1,359,729
EMS fees	108,557	-	-	108,557	-
Refuse disposal fees	143,866	-	-	143,866	-
Investment earnings	20,315	-	60,945	81,260	20,315
Other	176,583	9,352	5,349	191,284	36,771
Total	\$ 3,053,988	\$ 9,352	\$ 66,294	\$ 3,129,634	\$ 2,312,164
Allowance for uncollectibles	(1,931,474)	-	-	(1,931,474)	(503,279)
Net receivables	<u>\$ 1,122,514</u>	<u>\$ 9,352</u>	<u>\$ 66,294</u>	<u>\$ 1,198,160</u>	<u>\$ 1,808,885</u>

**Component Units and Fiduciary Activities:**

	<u>School Board</u>	<u>Economic Development Authority</u>	<u>Fiduciary Activities</u>
Other	\$ 72,858	\$ 26,495	\$ 357,800
Total	\$ 72,858	\$ 26,495	\$ 357,800
Allowance for uncollectibles	-	-	-
Net receivables	<u>\$ 72,858</u>	<u>\$ 26,495</u>	<u>\$ 357,800</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 6—Due From Other Governmental Units:

	Governmental Activities				Business- Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
<b>Primary Government:</b>						
Commonwealth of Virginia:						
Local sales taxes	\$ 1,885,814	\$ -	\$ -	\$ 1,885,814	\$ -	-
Telecommunication sales tax	142,262	-	-	142,262	-	-
PPTRA	676,647	-	-	676,647	-	-
Children's Services Act	-	391,129	-	391,129	-	-
Shared expenses and grants	146,523	-	-	146,523	-	-
Virginia Department of Rehabilitative Services	-	-	-	-	117	-
Virginia Department of Transportation	-	-	1,355,055	1,355,055	-	-
Virginia Department of Motor Vehicles	-	2,398	-	2,398	-	-
Virginia Department of Emergency Management	2,902	10,680	-	13,582	-	-
Virginia Department of Criminal Justice Services	-	39,426	-	39,426	-	-
Recordation taxes	28,300	-	-	28,300	-	-
Wireless 911	15,216	-	-	15,216	-	-
Noncategorical aid	14,120	-	-	14,120	-	-
Social services grants	-	429,916	-	429,916	-	-
Federal government:						
Community Development Block Grant	-	54,079	-	54,079	-	-
Transit grants	-	-	-	-	2,234,844	-
Criminal justice grants	-	30,274	-	30,274	-	-
Interest subsidy	-	-	-	-	21,550	-
Others:						
Potomac and Rappahannock Transportation Commission	47,412	-	-	47,412	-	-
University of Mary Washington	2,391	-	-	2,391	50,000	-
Local government reimbursements: County of Spotsylvania	-	-	-	-	123,895	-
<b>Component Unit School Board:</b>						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	631,148
Federal pass-through: School funds	-	-	-	-	-	438,784
Federal government: Head Start	-	-	-	-	-	242,004
<b>Total</b>	<b>\$ 2,961,587</b>	<b>\$ 957,902</b>	<b>\$ 1,355,055</b>	<b>\$ 5,274,544</b>	<b>\$ 2,430,406</b>	<b>\$ 1,311,936</b>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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**Note 7—Interfund Balances and Activity:**

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**Primary Government:**

Balances due To/From other funds at June 30, 2016:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	\$ 1,157,365
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	365,500
Transfer to the Children's Services Act Fund for the local share of the program costs	675,275
Transfers to the Environmental Section Fund to pay environmental related costs	77,300
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	3,839,857
Transfers to the Education Debt Service Fund to pay school debt service and related costs	3,274,264
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	995,000
Transfers to the Public Safety Construction Fund to fund infrastructure and related capital projects	489,000
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	<u>1,239,000</u>
Total transfers in - other governmental funds	<u>\$ 12,112,561</u>
Transfers to the General Fund for various programs	<u>\$ 613,500</u>
Total transfers	<u><u>\$ 12,726,061</u></u>
Reconciliation of transfers:	
Transfers out from governmental funds	\$ 12,106,516
Transfers from enterprise funds to governmental funds	<u>619,545</u>
Total transfers	<u><u>\$ 12,726,061</u></u>

**Component Unit School Board:**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 8—Capital Assets:**

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

**Primary Government:**

**Governmental Activities:**

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 21,258,935	\$ 407,716	\$ -	\$ 21,666,651
Construction in progress:				
Infrastructure	\$ 1,862,261	\$ 892,495	\$ 566,104	\$ 2,188,652
Land improvements	-	140,349	-	140,349
Joint tenancy assets	-	1,846,473	-	1,846,473
Buildings	5,455,662	901,989	6,153,967	203,684
Total construction in progress	\$ 7,317,923	\$ 3,781,306	\$ 6,720,071	\$ 4,379,158
Total capital assets not being depreciated	\$ 28,576,858	\$ 4,189,022	\$ 6,720,071	\$ 26,045,809
Other capital assets:				
Land improvements	\$ 15,950,952	\$ 292,881	\$ -	\$ 16,243,833
Buildings and improvements	56,622,256	6,788,235	386,916	63,023,575
Joint tenancy assets	35,665,000	-	1,630,000	34,035,000
Infrastructure	80,771,530	2,137,993	1,359,035	81,550,488
Machinery, equipment and vehicles	20,426,794	3,685,718	248,622	23,863,890
Total other capital assets	\$ 209,436,532	\$ 12,904,827	\$ 3,624,573	\$ 218,716,786
Accumulated depreciation:				
Land improvements	\$ 3,084,433	\$ 480,958	\$ -	\$ 3,565,391
Buildings and improvements	13,514,258	1,602,991	303,637	14,813,612
Joint tenancy assets	6,191,182	850,875	573,833	6,468,224
Infrastructure	38,937,281	2,940,555	1,149,760	40,728,076
Machinery, equipment and vehicles	11,431,137	1,402,325	248,622	12,584,840
Total accumulated depreciation	\$ 73,158,291	\$ 7,277,704	\$ 2,275,852	\$ 78,160,143
Other capital assets, net	\$ 136,278,241	\$ 5,627,123	\$ 1,348,721	\$ 140,556,643
Net capital assets	\$ 164,855,099	\$ 9,816,145	\$ 8,068,792	\$ 166,602,452
Depreciation is allocated to:				
General government administration		\$ 152,771		
Judicial administration		954,928		
Public safety		1,243,027		
Health and welfare		83,057		
Education		868,755		
Public works		3,265,149		
Parks and recreation		698,134		
Community development		11,883		
Total		\$ 7,277,704		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 8—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities:

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 2,149,036	\$ -	\$ -	\$ 2,149,036
Construction in progress	4,804,972	1,630,239	3,735,256	2,699,955
	<u>6,954,008</u>	<u>1,630,239</u>	<u>3,735,256</u>	<u>4,848,991</u>
Total capital assets not being depreciated	\$ 6,954,008	\$ 1,630,239	\$ 3,735,256	\$ 4,848,991
Other capital assets:				
Land improvements	\$ 976,403	\$ -	\$ -	\$ 976,403
Buildings and systems	74,770,509	3,074,497	-	77,845,006
Dams and reservoirs	663,536	-	-	663,536
Intangible assets	6,948,274	1,584,337	-	8,532,611
Furniture, machinery and equipment	7,489,746	276,026	351,449	7,414,323
	<u>90,848,468</u>	<u>4,934,860</u>	<u>351,449</u>	<u>95,431,879</u>
Total other capital assets	\$ 90,848,468	\$ 4,934,860	\$ 351,449	\$ 95,431,879
Accumulated depreciation:				
Land improvements	\$ 35,987	\$ 35,987	\$ -	\$ 71,974
Buildings and systems	25,171,982	2,020,887	-	27,192,869
Dams and reservoirs	156,130	13,271	-	169,401
Intangible assets	1,766,310	189,888	-	1,956,198
Furniture, machinery and equipment	4,178,804	717,520	335,946	4,560,378
	<u>31,309,213</u>	<u>2,977,553</u>	<u>335,946</u>	<u>33,950,820</u>
Total accumulated depreciation	\$ 31,309,213	\$ 2,977,553	\$ 335,946	\$ 33,950,820
Other capital assets, net	<u>59,539,255</u>	<u>1,957,307</u>	<u>15,503</u>	<u>61,481,059</u>
Net capital assets	<u>\$ 66,493,263</u>	<u>\$ 3,587,546</u>	<u>\$ 3,750,759</u>	<u>\$ 66,330,050</u>
Depreciation is allocated to:				
Water operations		\$ 514,912		
Wastewater operations		1,552,734		
Parking garage operations		153,583		
Transit operations		756,324		
Total		<u>\$ 2,977,553</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 8—Capital Assets: (Continued)

Component Unit School Board:

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 472,679	\$ -	\$ -	\$ 472,679
Construction in progress	25,000	-	-	25,000
Total capital assets not being depreciated	<u>\$ 497,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 497,679</u>
Other capital assets:				
Land improvements	\$ 146,133	\$ 29,500	\$ -	\$ 175,633
Buildings and improvements	35,598,279	1,807,127	-	37,405,406
Machinery, equipment and vehicles	<u>5,657,923</u>	<u>244,900</u>	<u>109,546</u>	<u>5,793,277</u>
Total other capital assets	<u>\$ 41,402,335</u>	<u>\$ 2,081,527</u>	<u>\$ 109,546</u>	<u>\$ 43,374,316</u>
Accumulated depreciation:				
Land improvements	\$ 81,042	\$ 7,306	\$ -	\$ 88,348
Buildings and improvements	14,258,624	1,646,019	-	15,904,643
Machinery, equipment and vehicles	<u>3,222,222</u>	<u>461,968</u>	<u>109,546</u>	<u>3,574,644</u>
Total accumulated depreciation	<u>\$ 17,561,888</u>	<u>\$ 2,115,293</u>	<u>\$ 109,546</u>	<u>\$ 19,567,635</u>
Other capital assets, net	<u>\$ 23,840,447</u>	<u>\$ (33,766)</u>	<u>\$ -</u>	<u>\$ 23,806,681</u>
Net capital assets	<u>\$ 24,338,126</u>	<u>\$ (33,766)</u>	<u>\$ -</u>	<u>\$ 24,304,360</u>
Depreciation allocated to education		<u>\$ 2,115,293</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 9—Deferred/Unearned Revenue:**

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

	<u>Unearned Revenue</u>	
	<u>Government-wide</u>	
	<u>Statements</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	\$ -	\$ 1,727,100
Other	195,264	18,665
Total unearned revenue	<u>\$ 195,264</u>	<u>\$ 1,745,765</u>
	<u>Deferred/Unavailable Revenue</u>	
	<u>Balance</u>	<u>Government-wide</u>
	<u>Sheet</u>	<u>Statements</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Funds</u>	<u>Activities</u>
Deferred property tax revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	\$ 581,317	\$ 581,317
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	419,066	-
Total deferred/unavailable revenue	<u>\$ 1,000,383</u>	<u>\$ 581,317</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 10—Long-term Obligations:**

A summary of long-term obligation transactions of the City for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
<b>Primary Government:</b>					
Long-term obligations payable from governmental activities:					
General obligation bonds	\$ 44,619,192	\$ 1,740,000	\$ 2,336,345	\$ 44,022,847	\$ 2,546,280
General obligation school bonds	35,665,000	11,225,000	1,630,000	45,260,000	1,715,000
Revenue bonds	-	1,855,000	-	1,855,000	195,000
Add: Unamortized bond premium	2,073,220	2,490,218	230,534	4,332,904	436,285
Landfill post-closure costs	1,591,576	-	52,901	1,538,675	80,000
Compensated absences	3,195,001	1,886,880	1,980,901	3,100,980	1,922,608
Net pension liability	20,757,786	9,512,418	11,453,257	18,816,947	-
Net OPEB obligation	<u>5,015,167</u>	<u>1,172,808</u>	<u>1,828,884</u>	<u>4,359,091</u>	<u>-</u>
Total	<u>\$ 112,916,942</u>	<u>\$ 29,882,324</u>	<u>\$ 19,512,822</u>	<u>\$ 123,286,444</u>	<u>\$ 6,895,173</u>
Long-term obligations payable from business-type activities:					
General obligation bonds	\$ 27,490,808	-	\$ 1,940,655	\$ 25,550,153	\$ 1,983,720
Add: Unamortized bond premium	120,528	-	12,671	107,857	12,283
Compensated absences	213,702	143,015	139,543	217,174	139,930
Net pension liability	2,159,547	900,516	1,157,829	1,902,234	-
Net OPEB obligation	<u>473,283</u>	<u>37,891</u>	<u>59,092</u>	<u>452,082</u>	<u>-</u>
Total	<u>\$ 30,457,868</u>	<u>\$ 1,081,422</u>	<u>\$ 3,309,790</u>	<u>\$ 28,229,500</u>	<u>\$ 2,135,933</u>
Total primary government	<u>\$ 143,374,810</u>	<u>\$ 30,963,746</u>	<u>\$ 22,822,612</u>	<u>\$ 151,515,944</u>	<u>\$ 9,031,106</u>
<b>Component Unit School Board:</b>					
Long-term obligations payable from component unit School Board activities:					
Capital lease	\$ 3,417,000	-	\$ 200,000	\$ 3,217,000	\$ 212,000
Compensated absences	1,132,311	627,026	588,802	1,170,535	608,678
Net pension liability	32,995,000	10,188,000	6,899,000	36,284,000	-
Net OPEB obligation	<u>1,761,391</u>	<u>561,418</u>	<u>201,400</u>	<u>2,121,409</u>	<u>-</u>
Total component unit School Board	<u>\$ 39,305,702</u>	<u>\$ 11,376,444</u>	<u>\$ 7,889,202</u>	<u>\$ 42,792,944</u>	<u>\$ 820,678</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 10—Long-term Obligations: (Continued)**

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2016:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 6,245,000	\$ 4,426,716	\$ 195,000	\$ 84,922	\$ 212,000	\$ 64,662
2018	6,818,000	4,224,180	205,000	76,622	225,000	60,401
2019	6,560,000	3,964,324	215,000	65,859	238,000	55,878
2020	6,805,000	3,709,280	225,000	54,584	251,000	51,094
2021	6,120,000	3,442,758	235,000	44,397	266,000	46,049
2022	6,365,000	3,186,046	245,000	33,697	272,000	40,703
2023	6,410,000	2,931,908	260,000	20,756	278,000	35,235
2024	6,670,000	2,680,142	275,000	7,047	283,000	29,648
2025	6,925,000	2,412,023	-	-	289,000	23,959
2026	7,200,000	2,135,994	-	-	295,000	18,150
2027	6,485,000	1,864,597	-	-	301,000	12,221
2028	6,745,000	1,596,415	-	-	307,000	6,170
2029	6,195,000	1,328,058	-	-	-	-
2030	6,460,000	1,057,202	-	-	-	-
2031	2,840,000	855,197	-	-	-	-
2032	2,940,000	752,505	-	-	-	-
2033	3,045,000	647,337	-	-	-	-
2034	3,155,000	539,530	-	-	-	-
2035	3,270,000	418,665	-	-	-	-
2036	2,685,000	284,884	-	-	-	-
2037	2,805,000	162,047	-	-	-	-
2038	2,090,000	49,638	-	-	-	-
	<u>\$ 114,833,000</u>	<u>\$ 42,669,446</u>	<u>\$ 1,855,000</u>	<u>\$ 387,884</u>	<u>\$ 3,217,000</u>	<u>\$ 444,170</u>

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 10—Long-term Obligations: (Continued)

At June 30, 2016, the City's long-term obligations consisted of the following:

Details of Long-term Obligations:

	Issued	Due Date	Rate(s)	Amount Outstanding	Current Portion
<b>Primary Government:</b>					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	\$ 34,035,000	\$ 1,715,000
2007E General Obligation Bonds	2008	2019	3.5-5.0%	1,500,000	480,000
2009A General Obligation Refunding Bonds	2009	2018	3.0%	968,000	475,000
2010A General Obligation Bonds	2010	2030	6.07%	970,000	-
2010B General Obligation Bonds	2010	2028	5.6-5.9%	1,735,000	-
2010C General Obligation Bonds	2010	2023	2.0-4.0%	2,085,000	265,000
2011A General Obligation Bonds	2012	2038	3.0-4.75%	32,465,000	1,130,000
2014A General Obligation Refunding Bonds	2015	2026	2.37%	6,745,000	610,000
2014B General Obligation Refunding Bonds	2015	2028	2.55%	6,815,000	105,000
2015A General Obligation Bonds	2015	2035	2.32%	14,550,000	1,325,000
2016A General Obligation Bonds	2016	2037	3.8-5.125%	12,965,000	140,000
Total general obligation bonds				<u>\$ 114,833,000</u>	<u>\$ 6,245,000</u>
Revenue bonds:					
Virginia Resources Authority Revenue Bonds	2016	2024	3.125-5.125%	\$ 1,855,000	\$ 195,000
Unamortized bond premium:					
2004A General Obligation School Bonds				\$ 662,890	\$ 83,600
2010 General Obligation Bonds				107,858	12,283
2011A General Obligation Bonds				1,205,286	110,330
2016A Virginia Resources Authority Revenue Bonds				248,232	54,348
2016A General Obligation Bonds				2,216,495	188,007
Total unamortized bond premium				<u>\$ 4,440,761</u>	<u>\$ 448,568</u>
Net pension liability				\$ 20,719,181	\$ -
Compensated absences				\$ 3,318,154	\$ 2,062,538
Net OPEB obligation				\$ 4,811,173	\$ -
Landfill post-closure costs				\$ 1,538,675	\$ 80,000
Total primary government				<u>\$ 151,515,944</u>	<u>\$ 9,031,106</u>
<b>Component Unit School Board:</b>					
Capital lease	2013	2028	2.0%	\$ 3,217,000	\$ 212,000
Compensated absences				\$ 1,170,535	\$ 608,678
Net pension liability				\$ 36,284,000	\$ -
Net OPEB obligation				\$ 2,121,409	\$ -
Total component unit School Board				<u>\$ 42,792,944</u>	<u>\$ 820,678</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 10—Long-term Obligations: (Continued)**

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

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

**Conduit Debt.** There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2016 totaled approximately \$219,227,721. The City has no responsibility for the repayment of these debt obligations.

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

**Note 11—Compensated Absences:**

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

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

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

	<u>Balance July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 3,195,001	\$ 1,886,880	\$ 1,980,901	\$ 3,100,980	\$ 1,922,608
Business-type activities	213,702	143,015	139,543	217,174	139,930
Total primary government	\$ 3,408,703	\$ 2,029,895	\$ 2,120,444	\$ 3,318,154	\$ 2,062,538
Component Unit School Board	1,132,311	627,026	588,802	1,170,535	608,678
Total	<u>\$ 4,541,014</u>	<u>\$ 2,656,921</u>	<u>\$ 2,709,246</u>	<u>\$ 4,488,689</u>	<u>\$ 2,671,216</u>

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

**Note 12—Pension Plan:**

*Plan Description*

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

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> </ul>

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• School division employees</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul>

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Same as Plan 1.</p>	<p><b>Retirement Contributions</b> A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

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

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting (Cont.)</b> their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting (Cont.)</b> Same as Plan 1.</p>	<p><b>Vesting (Cont.)</b> <u><b>Defined Benefit Component: (Cont.)</b></u> Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u><b>Defined Contributions Component:</b></u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

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

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

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

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

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

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

Note 12—Pension Plan: (Continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> </ul> <p>Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

Note 12—Pension Plan: (Continued)

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*Plan Description (Continued)*

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

*Contributions*

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

The City's contractually required contribution rate for the year ended June 30, 2016 was 15.94% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,547,326 and \$3,486,857 for the years ended June 30, 2016 and June 30, 2015, respectively.

*Net Pension Liability*

At June 30, 2016, the City reported a liability of \$20,719,181 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2016 and 2015 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2016 and 2015, the City's proportion was 96.83% and 96.57%, respectively.

**Note 12—Pension Plan: (Continued)**

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*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the City’s Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**Note 12—Pension Plan: (Continued)**

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*Actuarial Assumptions - General Employees: (Continued)*

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

*Actuarial Assumptions - Public Safety Employees*

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Note 12—Pension Plan: (Continued)

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*Actuarial Assumptions - Public Safety Employees: (Continued)*

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

Largest 10 - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

## Note 12—Pension Plan: (Continued)

*Long-Term Expected Rate of Return*

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

*Discount Rate*

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability (Asset)	\$ 35,149,403	\$ 20,719,181	\$ 8,683,361

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

For the year ended June 30, 2016, the City recognized pension expense of \$810,310. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 124,605	\$ 2,765,709
Net difference between projected and actual earnings on pension plan investments	-	2,440,102
Employer contributions subsequent to the measurement date	3,547,326	-
Total	<u>\$ 3,671,931</u>	<u>\$ 5,205,811</u>

**Note 12—Pension Plan: (Continued)**

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

\$3,547,326 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2017	\$ (1,995,323)
2018	(1,995,323)
2019	(1,527,611)
2020	437,051

**Component Unit School Board (nonprofessional)**

*Plan Description*

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

*Employees Covered by Benefit Terms*

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Component Unit School Board (nonprofessional)</u>
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	4
Non-vested inactive members	6
Inactive members active elsewhere in VRS	2
Total inactive members	21
Active members	31
Total covered employees	<u>52</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

*Contributions*

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 6.94% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$86,747 and \$84,468 for the years ended June 30, 2016 and June 30, 2015, respectively.

*Net Pension Liability*

The Component Unit School Board's (nonprofessional) net pension liability (asset) was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

*Changes in Net Pension Liability (Asset)*

	<u>Component School Board (nonprofessional)</u>		
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a) - (b)</u>
Balances at June 30, 2014	\$ 3,961,871	\$ 4,146,109	\$ (184,238)
Changes for the year:			
Service cost	\$ 130,660	\$ -	\$ 130,660
Interest	273,318	-	273,318
Differences between expected and actual experience	(143,981)	-	(143,981)
Contributions - employer	-	84,468	(84,468)
Contributions - employee	-	60,507	(60,507)
Net investment income	-	191,424	(191,424)
Benefit payments, including refunds of employee contributions	(114,651)	(114,651)	-
Administrative expenses	-	(2,558)	2,558
Other changes	-	(41)	41
Net changes	<u>\$ 145,346</u>	<u>\$ 219,149</u>	<u>\$ (73,803)</u>
Balances at June 30, 2015	<u>\$ 4,107,217</u>	<u>\$ 4,365,258</u>	<u>\$ (258,041)</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

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

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

	Rate		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	\$ 235,715	\$ (258,041)	\$ (676,809)

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

For the year ended June 30, 2016, the Component Unit School Board (nonprofessional) recognized pension expense of (\$23,159). At June 30, 2016, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 109,287
Net difference between projected and actual earnings on pension plan investments	-	110,059
Employer contributions subsequent to the measurement date	<u>86,747</u>	<u>-</u>
Total	<u>\$ 86,747</u>	<u>\$ 219,346</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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Note 12—Pension Plan: (Continued)

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Component Unit School Board (nonprofessional): (Continued)

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

\$86,747 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2017	\$ (78,031)
2018	(78,031)
2019	(78,033)
2020	14,749

Component Unit School Board (professional)

*Plan Description*

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

*Contributions*

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$3,100,340 and \$3,107,898 for the years ended June 30, 2016 and June 30, 2015, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

At June 30, 2016, the school division reported a liability of \$36,284,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was .28828% as compared to .27303% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$3,154,000. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 500,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,137,000	-
Net difference between projected and actual earnings on pension plan investments	-	2,222,000
Employer contributions subsequent to the measurement date	3,100,340	-
Total	\$ 5,237,340	\$ 2,722,000

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

\$3,100,340 reported as deferred outflows of resources related to pensions resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2017	\$ (487,000)
2018	(487,000)
2019	(487,000)
2020	748,000
2021	128,000

*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Mortality rates:

Pre-Retirement:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

*Actuarial Assumptions: (Continued)*

Mortality rates: (Continued)

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS			
Teacher Employee Retirement Plan			
Net Pension Liability (Asset)	\$ 53,098,000	\$ 36,284,000	\$ 22,442,000

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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### **Note 13—Deferred Compensation Plan:**

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

### **Note 14—Commitments and Contingencies:**

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#### **State and Federal Programs**

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

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

#### **Environmental Matters**

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

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

#### **Construction Commitments**

At June 30, 2016, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$12,778,954 at June 30, 2016.

### **Note 15—Litigation:**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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**Note 16—Landfill Post-closure Costs:**

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The City closed the Cool Springs Landfill in 1988 and is subject to post-closure monitoring. The estimated post-closure care cost for the next nine years has been recorded as a liability at June 30, 2016. The \$1,538,675 reported as landfill post-closure liability at June 30, 2016 represents the estimated liability for post-closure monitoring as well as corrective action costs. All post-closure care and monitoring cost amounts are based on what it would cost to perform all post-closure care based on 2016 costs. These may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2015	\$	1,591,576
Decrease in estimate		<u>(52,901)</u>
Balance at June 30, 2016	\$	<u><u>1,538,675</u></u>

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

**Note 17—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
Brenda Wood, Treasurer - Blanket Bond:	
Cash and Securities	750,000
Department of Social Services - Blanket Bond	400,000
Department of Social Services - Public Officials, General Liability	1,000,000
Faithful Performance of Duty Bond:	
Treasurer (Does not include loss of City funds)	500,000
Commissioner of the Revenue	3,000
Clerk of the Circuit Court	3,000,000
Sheriff	30,000
Fredericksburg City School Board:	
Clerk of the School Board	10,000
Deputy Clerk of the School Board	10,000

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

**Note 18—Self Insurance/Risk Management:**

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

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

**Employee Health Insurance**

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

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

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

Internal Service Fund: Liability for estimated claims incurred but not reported	\$ 395,273
City General Fund: Committed Fund Balance for estimated reserves	<u>386,962</u>
Total	<u><u>\$ 782,235</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>
2014	\$ 613,038	\$ 4,522,346	\$ 4,666,582	\$ 468,802
2015	468,802	4,675,217	4,754,417	389,602
2016	389,602	4,743,270	4,737,599	395,273

**Unemployment Insurance**

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

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

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**Property and Casualty Insurance**

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

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

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

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**City:**

**A. Plan Description**

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

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

**B. Funding Policy**

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2016

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

City: (Continued)

**C. Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 1,148,800
Interest on net OPEB obligation	384,359
Adjustment to annual required contribution	<u>(322,460)</u>
Annual OPEB cost (expense)	\$ 1,210,699
Contributions made	<u>(1,887,976)</u>
Increase/(decrease) in net OPEB obligation	\$ <u>(677,277)</u>
Net OPEB obligation-beginning of year	5,488,450
Net OPEB obligation-end of year	<u><u>\$ 4,811,173</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 1,210,699	155.94%	\$ 4,811,173
June 30, 2015	1,430,724	68.63%	5,488,450
June 30, 2014	1,308,422	68.53%	5,039,636

**D. Funded Status and Funding Progress**

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

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

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

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**City: (Continued)**

**E. Actuarial Methods and Assumptions**

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

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

**Cost Method**

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

**Interest Assumptions**

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

	<u>Funded</u>
Discount rate	7.00%
Payroll growth	3.00%

**Note 19—Other Post-employment Benefits—Health Insurance: (Continued)****School Board:****A. Plan Description**

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

**B. Funding Policy**

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

**C. Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$	564,900
Interest on net OPEB obligation		61,649
Adjustment to annual required contribution		(65,131)
Annual OPEB cost (expense)	\$	561,418
Contributions made		(201,400)
Increase in net OPEB obligation	\$	360,018
Net OPEB obligation-beginning of year		1,761,391
Net OPEB obligation-end of year	\$	<u>2,121,409</u>

**Note 19—Other Post-employment Benefits—Health Insurance: (Continued)****School Board: (Continued)****C. Annual OPEB Cost and Net OPEB Obligation: (Continued)**

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 561,418	35.87%	\$ 2,121,409
June 30, 2015	535,856	30.40%	1,761,391
June 30, 2014	369,617	54.62%	1,388,435

**D. Funded Status and Funding Progress**

The funded status of the plan as of January 1, 2014, date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 4,512,700
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	4,512,700
Funded ratio (actuarial value of plan assets / AAL)	-
Covered payroll (active plan members)	23,123,600
UAAL as a percentage of covered payroll	19.52%

**E. Actuarial Methods and Assumptions**

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

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

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

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**School Board: (Continued)**

**E. Actuarial Methods and Assumptions: (Continued)**

Cost Method

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

Interest Assumptions

In the January 1, 2014 most recent actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.50% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.40% initially, reduced by decrements to an ultimate rate of 4.50% after fifty-eight years. Both rates included a 2.50% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2014, was thirty years.

	<u>Unfunded</u>
Discount rate	3.50%
Payroll growth	3.00%

**Note 20—Health Insurance Credit Program-Other Post-employment Benefit:**

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**A. Plan Description**

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

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

**Note 20—Health Insurance Credit Program-Other Post-employment Benefit: (Continued)**

**A. Plan Description: (Continued)**

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

**B. Funding Policy**

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2016, 2015, and 2014 were \$132,391, \$145,879, and \$119,761, respectively, and equaled the required contributions for each year.

**Note 21—Restatement:**

Fund balance at July 1, 2015 was restated as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Beginning fund balance, as previously reported	\$ 28,138,016	\$ 2,096,254
Restatement to reclassify Courthouse Maintenance Fund	<u>332,993</u>	<u>(332,993)</u>
Beginning fund balance, as restated	<u>\$ 28,471,009</u>	<u>\$ 1,763,261</u>

**Note 22—Upcoming GASB Pronouncements:**

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

**Note 22—Upcoming GASB Pronouncements: (Continued)**

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

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

Note to Required Supplementary Information:

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

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Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 29,065,500	\$ 29,065,500	\$ 29,174,263	\$ 108,763
Public service corporations	840,000	840,000	801,487	(38,513)
Personal property	8,035,000	8,035,000	8,501,800	466,800
Mobile homes	900	900	944	44
Machinery and tools	235,500	235,500	137,722	(97,778)
Penalties	240,000	240,000	263,171	23,171
Interest	140,000	140,000	147,787	7,787
Total general property taxes	<u>\$ 38,556,900</u>	<u>\$ 38,556,900</u>	<u>\$ 39,027,174</u>	<u>\$ 470,274</u>
Other local taxes:				
Local sales and use taxes	\$ 11,070,000	\$ 11,070,000	\$ 11,176,401	\$ 106,401
Utility taxes	1,800,000	1,800,000	1,810,911	10,911
Business licenses and rental tax	5,700,000	5,700,000	6,101,499	401,499
Motor vehicle licenses	435,000	435,000	472,014	37,014
Bank stock taxes	650,000	650,000	775,230	125,230
Recordation taxes	450,000	450,000	711,445	261,445
Tobacco tax	575,000	575,000	513,669	(61,331)
Amusement tax	365,000	365,000	387,529	22,529
Hotel/lodging taxes	1,375,000	1,375,000	1,432,190	57,190
Meals taxes	9,950,000	9,950,000	10,693,375	743,375
Gasoline taxes	171,430	171,430	132,410	(39,020)
Other	130,450	130,450	75,346	(55,104)
Total other local taxes	<u>\$ 32,671,880</u>	<u>\$ 32,671,880</u>	<u>\$ 34,282,019</u>	<u>\$ 1,610,139</u>
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 681,825	\$ 681,825	\$ 618,064	\$ (63,761)
Animal licenses	11,500	11,500	9,190	(2,310)
Total permits, privilege fees and licenses	<u>\$ 693,325</u>	<u>\$ 693,325</u>	<u>\$ 627,254</u>	<u>\$ (66,071)</u>
Fines and forfeitures				
	<u>\$ 465,000</u>	<u>\$ 465,000</u>	<u>\$ 328,874</u>	<u>\$ (136,126)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 92,500	\$ 92,500	\$ 166,767	\$ 74,267
Revenue from use of property	40,500	40,500	15,401	(25,099)
Total revenue from use of money and property	<u>\$ 133,000</u>	<u>\$ 133,000</u>	<u>\$ 182,168</u>	<u>\$ 49,168</u>
Charges for services:				
Court costs	\$ 147,500	\$ 147,500	\$ 132,983	\$ (14,517)
Commonwealth's Attorney	8,500	8,500	10,139	1,639
Sanitation and waste removal	981,650	981,650	985,924	4,274
Parks and recreation	455,500	455,500	453,203	(2,297)
Planning and community development	600	600	57	(543)
Fire and rescue services	820,000	820,000	849,174	29,174
Administrative charges	95,000	95,000	157,793	62,793
Total charges for services	<u>\$ 2,508,750</u>	<u>\$ 2,508,750</u>	<u>\$ 2,589,273</u>	<u>\$ 80,523</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Revenue from local sources: (continued)				
Miscellaneous:				
Payments in-lieu of taxes	\$ 25,000	\$ 25,000	\$ 2,309	\$ (22,691)
Souvenir sales	23,000	23,000	24,789	1,789
Donations - parks and recreation	60,000	60,000	49,720	(10,280)
Other	32,500	32,500	33,465	965
Total miscellaneous	<u>\$ 140,500</u>	<u>\$ 140,500</u>	<u>\$ 110,283</u>	<u>\$ (30,217)</u>
Recovered costs:				
Health department	\$ 250,000	\$ 250,000	\$ 106,252	\$ (143,748)
Social services	115,000	115,000	97,074	(17,926)
Transit	109,500	109,500	109,500	-
Other	152,250	179,050	276,548	97,498
Total recovered costs	<u>\$ 626,750</u>	<u>\$ 653,550</u>	<u>\$ 589,374</u>	<u>\$ (64,176)</u>
Total revenue from local sources	<u>\$ 75,796,105</u>	<u>\$ 75,822,905</u>	<u>\$ 77,736,419</u>	<u>\$ 1,913,514</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Grantors tax	\$ 130,000	\$ 130,000	\$ 187,760	\$ 57,760
Motor vehicle rental tax	115,000	115,000	152,180	37,180
Communication sales tax	1,795,000	1,795,000	1,724,961	(70,039)
Personal property relief	1,728,800	1,728,800	1,728,833	33
Other	11,650	11,650	20,736	9,086
Total noncategorical aid	<u>\$ 3,780,450</u>	<u>\$ 3,780,450</u>	<u>\$ 3,814,470</u>	<u>\$ 34,020</u>
Categorical aid - shared expenses:				
Commonwealth's Attorney	\$ 609,000	\$ 609,000	\$ 633,340	\$ 24,340
Sheriff	477,000	477,000	500,734	23,734
Commissioner of Revenue	132,850	132,850	137,162	4,312
Treasurer	95,000	95,000	97,557	2,557
Registrar	39,000	39,000	52,289	13,289
Clerk of the Circuit Court	295,750	295,750	324,605	28,855
Total categorical aid - shared expenses	<u>\$ 1,648,600</u>	<u>\$ 1,648,600</u>	<u>\$ 1,745,687</u>	<u>\$ 97,087</u>
Categorical aid - other:				
Street and highway maintenance	\$ 2,550,000	\$ 2,675,000	\$ 2,710,907	\$ 35,907
Law enforcement assistance	755,000	755,000	778,544	23,544
Wireless E-911 grants	165,000	165,000	183,635	18,635
Other	21,600	21,600	12,697	(8,903)
Total categorical aid - other	<u>\$ 3,491,600</u>	<u>\$ 3,616,600</u>	<u>\$ 3,685,783</u>	<u>\$ 69,183</u>
Total revenue from the Commonwealth	<u>\$ 8,920,650</u>	<u>\$ 9,045,650</u>	<u>\$ 9,245,940</u>	<u>\$ 200,290</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Intergovernmental: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public assistance - cost allocation	\$ 40,000	\$ 40,000	\$ 41,555	\$ 1,555
Total revenue from the Federal Government	\$ 40,000	\$ 40,000	\$ 41,555	\$ 1,555
Total revenues	\$ 84,756,755	\$ 84,908,555	\$ 87,023,914	\$ 2,115,359
<b>Expenditures</b>				
General government administration:				
Legislative:				
City Council	\$ 226,380	\$ 233,380	\$ 232,629	\$ 751
Clerk of Council	113,200	116,200	113,224	2,976
Total legislative	\$ 339,580	\$ 349,580	\$ 345,853	\$ 3,727
General and financial administration:				
City manager	\$ 705,080	\$ 743,843	\$ 742,266	\$ 1,577
Insurance program	901,700	821,700	758,137	63,563
Human resources	366,095	372,095	371,107	988
Independent auditor	71,950	81,950	81,728	222
Commissioner of the revenue	998,065	964,065	939,977	24,088
Board of Real Estate Assessors	7,000	214,000	172,529	41,471
Treasurer	803,680	793,873	792,093	1,780
Fiscal affairs	789,385	749,385	707,077	42,308
Information technology	1,304,860	1,341,817	1,290,109	51,708
Copying and postage	24,600	24,600	18,180	6,420
Safety program	111,005	105,005	100,460	4,545
Legal services	370,555	370,555	364,869	5,686
Total general and financial administration	\$ 6,453,975	\$ 6,582,888	\$ 6,338,532	\$ 244,356
Board of elections:				
Registrar and electoral board	\$ 231,525	\$ 263,245	\$ 252,940	\$ 10,305
Total general government administration	\$ 7,025,080	\$ 7,195,713	\$ 6,937,325	\$ 258,388
Judicial administration:				
Courts:				
Circuit Court	\$ 114,665	\$ 114,665	\$ 102,893	\$ 11,772
General District Court	28,600	29,200	19,829	9,371
Special magistrate	3,000	1,000	-	1,000
Juvenile and Domestic Relations District Court	16,400	16,400	14,708	1,692
Clerk of the Circuit Court	841,025	838,375	714,942	123,433
Sheriff	2,158,830	2,169,917	2,135,099	34,818
JDR services	114,070	149,070	149,070	-
Juries	28,000	39,000	38,563	437
Court appointed attorney	12,000	2,400	1,440	960
Total courts	\$ 3,316,590	\$ 3,360,027	\$ 3,176,544	\$ 183,483

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	\$ 1,239,115	\$ 1,315,635	\$ 1,313,614	\$ 2,021
Total judicial administration	\$ 4,555,705	\$ 4,675,662	\$ 4,490,158	\$ 185,504
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 8,142,280	\$ 7,984,124	\$ 7,765,725	\$ 218,399
Fire and rescue:				
Fire department	\$ 4,812,860	\$ 4,936,160	\$ 4,925,697	\$ 10,463
Rescue services	257,100	257,100	257,100	-
Emergency medical services	1,371,835	1,255,835	1,245,988	9,847
Hazardous materials	41,480	31,480	26,303	5,177
E-911 communications	1,261,795	1,288,351	1,265,431	22,920
Total fire and rescue	\$ 7,745,070	\$ 7,768,926	\$ 7,720,519	\$ 48,407
Correction and detention:				
Juvenile Detention Center	\$ 348,705	\$ 459,219	\$ 454,215	\$ 5,004
Rappahannock Security Center	3,938,720	3,938,720	3,917,709	21,011
Prisoner extradition	-	4,300	4,300	-
Total correction and detention	\$ 4,287,425	\$ 4,402,239	\$ 4,376,224	\$ 26,015
Inspections:				
Building and development services	\$ 917,690	\$ 877,690	\$ 813,297	\$ 64,393
Other protection:				
Animal control	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Public safety radio system	-	166,250	-	166,250
Medical Examiner	1,000	1,000	500	500
Total other protection	\$ 121,000	\$ 287,250	\$ 120,500	\$ 166,750
Total public safety	\$ 21,213,465	\$ 21,320,229	\$ 20,796,265	\$ 523,964
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 851,395	\$ 876,395	\$ 868,165	\$ 8,230
Street maintenance	1,238,070	1,437,726	1,300,803	136,923
Drainage	281,090	424,090	423,278	812
Street lights	400,000	420,000	416,531	3,469
Snow removal	138,385	310,595	309,345	1,250
Industrial park rail spur	15,500	5,500	-	5,500
Traffic engineering	804,835	846,661	748,668	97,993
Shop and garage	1,315,505	1,265,505	1,254,908	10,597
Graphics	48,880	48,880	41,942	6,938
Total maintenance of streets, highways, bridges and sidewalks	\$ 5,093,660	\$ 5,635,352	\$ 5,363,640	\$ 271,712

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 803,315	\$ 1,009,859	\$ 949,787	\$ 60,072
Tree purchase program	85,000	110,000	100,196	9,804
Refuse collection	711,295	1,049,205	905,024	144,181
Refuse disposal	311,350	329,165	305,703	23,462
Recycling collection	130,025	140,025	139,601	424
Total sanitation and waste removal	<u>\$ 2,040,985</u>	<u>\$ 2,638,254</u>	<u>\$ 2,400,311</u>	<u>\$ 237,943</u>
Maintenance of buildings and grounds:				
Public facilities	\$ 2,122,555	\$ 2,214,140	\$ 2,140,562	\$ 73,578
Commuter rail	50,000	50,000	25,981	24,019
Total maintenance of buildings and grounds	<u>\$ 2,172,555</u>	<u>\$ 2,264,140</u>	<u>\$ 2,166,543</u>	<u>\$ 97,597</u>
Total public works	<u>\$ 9,307,200</u>	<u>\$ 10,537,746</u>	<u>\$ 9,930,494</u>	<u>\$ 607,252</u>
Health and welfare:				
Health:				
Supplement to local health department	\$ 414,280	\$ 414,280	\$ 414,280	\$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	\$ 215,005	\$ 215,005	\$ 215,005	\$ -
Social services:				
Other contributions	\$ 337,805	\$ 338,042	\$ 338,042	\$ -
Total health and welfare	<u>\$ 967,090</u>	<u>\$ 967,327</u>	<u>\$ 967,327</u>	<u>\$ -</u>
Education:				
Community colleges	\$ 43,325	\$ 43,325	\$ 43,325	\$ -
Appropriations to public school system	27,894,210	27,894,210	27,894,210	-
Total education	<u>\$ 27,937,535</u>	<u>\$ 27,937,535</u>	<u>\$ 27,937,535</u>	<u>\$ -</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 657,045	\$ 657,045	\$ 634,636	\$ 22,409
Supervision	731,920	731,920	698,088	33,832
Maintenance	1,140,520	1,174,520	1,168,504	6,016
Dixon Park swimming pool	142,420	132,420	127,220	5,200
Total parks and recreation	<u>\$ 2,671,905</u>	<u>\$ 2,695,905</u>	<u>\$ 2,628,448</u>	<u>\$ 67,457</u>
Library:				
Regional library	\$ 1,285,000	\$ 1,285,000	\$ 1,285,000	\$ -
Cultural:				
Museums	\$ 95,975	\$ 245,975	\$ 117,172	\$ 128,803
Total parks, recreation and cultural	<u>\$ 4,052,880</u>	<u>\$ 4,226,880</u>	<u>\$ 4,030,620</u>	<u>\$ 196,260</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Community development:				
Planning and community development:				
Planning	\$ 781,530	\$ 882,699	\$ 852,245	\$ 30,454
Zoning Appeals Board	1,400	1,400	300	1,100
Community development	138,110	138,110	136,870	1,240
Architectural Review Board	2,000	101,843	99,842	2,001
Clean and Green Commission	3,000	4,000	3,932	68
Economic development and tourism	1,151,845	1,228,672	1,206,730	21,942
Total planning and community development	<u>\$ 2,077,885</u>	<u>\$ 2,356,724</u>	<u>\$ 2,299,919</u>	<u>\$ 56,805</u>
Environmental management:				
Soil and water conservation district	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Total community development	<u>\$ 2,079,885</u>	<u>\$ 2,358,724</u>	<u>\$ 2,301,919</u>	<u>\$ 56,805</u>
Nondepartmental:				
OPEB trust contribution	\$ -	\$ 1,000,000	\$ 968,579	\$ 31,421
Total expenditures	<u>\$ 77,138,840</u>	<u>\$ 80,219,816</u>	<u>\$ 78,360,222</u>	<u>\$ 1,859,594</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ 7,617,915</u>	<u>\$ 4,688,739</u>	<u>\$ 8,663,692</u>	<u>\$ 3,974,953</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	\$ 20,000	\$ 20,000	\$ 62,770	\$ 42,770
Transfers in	613,500	613,500	613,500	-
Transfers out	(10,974,530)	(12,212,176)	(12,106,516)	105,660
Total other financing sources (uses)	<u>\$ (10,341,030)</u>	<u>\$ (11,578,676)</u>	<u>\$ (11,430,246)</u>	<u>\$ 148,430</u>
Net change in fund balance	\$ (2,723,115)	\$ (6,889,937)	\$ (2,766,554)	\$ 4,123,383
<b>Fund balance, beginning of year, as restated</b>	<u>2,723,115</u>	<u>6,889,937</u>	<u>28,471,009</u>	<u>21,581,072</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,704,455</u></u>	<u><u>\$ 25,704,455</u></u>

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

Schedule of Employer's Proportionate Share of the Net Pension Liability  
At June 30, 2016

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Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
<b>Primary Government - City Retirement Plan</b>					
2015	96.83% \$	20,719,184 \$	22,248,692	93.13%	82.01%
2014	96.57%	22,917,333	21,687,751	105.67%	79.85%
<b>Component Unit School Board (professional)</b>					
2015	0.2883% \$	36,284,000 \$	21,447,563	169.18%	70.68%
2014	0.2730%	32,995,000	19,966,621	165.25%	70.88%

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

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

Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
 Component Unit School Board (nonprofessional)  
 Year Ended June 30, 2016

	2015	2014
<b>Total pension liability</b>		
Service cost	\$ 130,660	\$ 132,328
Interest	273,318	255,208
Changes of benefit terms	-	-
Differences between expected and actual experience	(143,981)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(114,651)	(142,987)
<b>Net change in total pension liability</b>	<b>\$ 145,346</b>	<b>\$ 244,549</b>
<b>Total pension liability - beginning</b>	<b>3,961,871</b>	<b>3,717,322</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 4,107,217</b>	<b>\$ 3,961,871</b>
 <b>Plan fiduciary net position</b>		
Contributions - employer	\$ 84,468	\$ 76,354
Contributions - employee	60,507	59,538
Net investment income	191,424	567,330
Benefit payments, including refunds of employee contributions	(114,651)	(142,987)
Administrative expense	(2,558)	(3,030)
Other	(41)	30
<b>Net change in plan fiduciary net position</b>	<b>\$ 219,149</b>	<b>\$ 557,235</b>
<b>Plan fiduciary net position - beginning</b>	<b>4,146,109</b>	<b>3,588,874</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 4,365,258</b>	<b>\$ 4,146,109</b>
 School Division's net pension liability(asset) - ending (a) - (b)	\$ (258,041)	\$ (184,238)
 Plan fiduciary net position as a percentage of the total pension liability	106.28%	104.65%
 Covered payroll	\$ 1,200,699	\$ 1,175,037
 School Division's net pension liability as a percentage of covered payroll	21.49%	15.68%

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

Schedule of Employer Contributions  
Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2016	\$ 3,662,544	\$ 3,662,544	\$ -	\$ 22,977,066	15.94%
2015	3,608,107	3,608,107	-	22,635,550	15.94%
2014	3,138,165	3,138,165	-	21,420,920	14.65%
2013	3,070,145	3,070,145	-	20,956,620	14.65%
2012	2,193,209	2,193,209	-	20,307,488	10.80%
2011	2,169,552	2,169,552	-	20,088,443	10.80%
2010	1,902,397	1,902,397	-	20,216,761	9.41%
2009	1,970,440	1,970,440	-	20,939,846	9.41%
2008	1,866,825	1,866,825	-	20,788,700	8.98%
2007	1,698,549	1,698,549	-	18,914,805	8.98%
<b>Component Unit School Board (nonprofessional)</b>					
2016	\$ 86,747	\$ 86,747	\$ -	\$ 1,249,950	6.94%
2015	85,715	85,715	-	1,235,088	6.94%
2014	86,152	86,152	-	1,191,588	7.23%
2013	84,302	84,302	-	1,166,004	7.23%
2012	49,855	49,855	-	1,105,427	4.51%
2011	48,946	48,946	-	1,085,267	4.51%
2010	49,309	49,309	-	1,133,534	4.35%
2009	50,196	50,196	-	1,153,923	4.35%
2008	72,948	72,948	-	1,122,280	6.50%
2007	68,719	68,719	-	1,057,210	6.50%
<b>Component Unit School Board (professional)</b>					
2016	\$ 3,100,340	\$ 3,100,340	\$ -	\$ 22,065,166	14.05%
2015	3,526,396	3,526,396	-	21,447,563	16.44%

Schedule is intended to show information for 10 years. Information for the School Board (professional) plan is only available for two years. However, additional years will be included as they become available.

Notes to Required Supplementary Information  
As of June 30, 2016

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In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll was subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

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

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees:

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

## Schedule of OPEB Funding Progress

## City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2016 (1)	\$ -	\$ 15,971,700	\$ 15,971,700	0.00%	\$ 22,344,600	71.48%
January 1, 2014	-	22,618,400	22,618,400	0.00%	20,837,300	108.55%
January 1, 2012	-	20,305,900	20,305,900	0.00%	20,443,300	99.33%

## School Board:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2014	\$ -	\$ 4,512,700	\$ 4,512,700	0.00%	\$ 23,123,600	19.52%
January 1, 2012	-	3,206,600	3,206,600	0.00%	19,647,600	16.32%
January 1, 2010	-	4,218,700	4,218,700	0.00%	21,140,600	19.96%

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

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**OTHER SUPPLEMENTARY INFORMATION**

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Budgetary Comparison Schedule  
Original Walker-Grant Construction Fund  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 7,299	\$ 7,299
<b>Expenditures</b>				
Capital projects:				
Original Walker-Grant PPEA project	\$ -	\$ 13,000,000	\$ 1,846,473	\$ 11,153,527
Total expenditures	\$ -	\$ 13,000,000	\$ 1,846,473	\$ 11,153,527
<b>Excess (deficiency) of revenues over (under) expenditures</b>	\$ -	\$ (13,000,000)	\$ (1,839,174)	\$ 11,160,826
<b>Other Financing Sources (Uses)</b>				
Issuance of bonds	\$ -	\$ 13,000,000	\$ 10,617,788	\$ (2,382,212)
Bond premium	-	-	1,897,548	1,897,548
Total other financing sources (uses)	\$ -	\$ 13,000,000	\$ 12,515,336	\$ (484,664)
Net change in fund balance	\$ -	\$ -	\$ 10,676,162	\$ 10,676,162
<b>Fund balance, beginning of year</b>	-	-	-	-
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 10,676,162	\$ 10,676,162

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

Combining Balance Sheet  
 Nonmajor Governmental Funds  
 At June 30, 2016

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,583,503	\$ 9,026,325	\$ 2,649,405	\$ 13,259,233
Accrued revenue	9,352	66,294	-	75,646
Prepaid items	581	-	-	581
Due from other governments	957,902	1,355,055	-	2,312,957
Total assets	<u>\$ 2,551,338</u>	<u>\$ 10,447,674</u>	<u>\$ 2,649,405</u>	<u>\$ 15,648,417</u>
<b>Liabilities:</b>				
Accounts payable	\$ 250,554	\$ 864,780	\$ 35,008	\$ 1,150,342
Accrued liabilities	122,922	140,907	-	263,829
Unearned revenue	20,000	146,250	-	166,250
Total liabilities	<u>\$ 393,476</u>	<u>\$ 1,151,937</u>	<u>\$ 35,008</u>	<u>\$ 1,580,421</u>
<b>Fund Balances:</b>				
Nonspendable	\$ 581	\$ -	\$ -	\$ 581
Committed	2,157,281	1,377,684	2,614,397	6,149,362
Assigned	-	7,918,053	-	7,918,053
Total fund balances	<u>\$ 2,157,862</u>	<u>\$ 9,295,737</u>	<u>\$ 2,614,397</u>	<u>\$ 14,067,996</u>
Total liabilities and fund balances	<u>\$ 2,551,338</u>	<u>\$ 10,447,674</u>	<u>\$ 2,649,405</u>	<u>\$ 15,648,417</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 Year Ended June 30, 2016

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
<b>Revenues</b>				
Other local taxes	\$ -	\$ 844,090	\$ -	\$ 844,090
Permits, privilege fees and regulatory licenses	31,882	32,500	-	64,382
Fines and forfeitures	18,840	2,850	-	21,690
Use of money and property	858	364,374	-	365,232
Charges for services	2,400	52,682	-	55,082
Miscellaneous	95,294	3,150	39,830	138,274
Recovered costs	410,137	39,058	-	449,195
Intergovernmental:				
Revenue from the Commonwealth	2,772,796	890,447	-	3,663,243
Revenue from the Federal Government	2,561,973	-	-	2,561,973
Total revenues	<u>\$ 5,894,180</u>	<u>\$ 2,229,151</u>	<u>\$ 39,830</u>	<u>\$ 8,163,161</u>
<b>Expenditures</b>				
Current:				
Judicial administration	\$ 267,749	\$ -	\$ -	\$ 267,749
Public safety	218,159	-	-	218,159
Public works	34,478	-	-	34,478
Health and welfare	6,376,064	-	-	6,376,064
Parks, recreation and cultural	103,746	-	-	103,746
Community development	774,883	-	-	774,883
Capital projects	-	10,359,687	-	10,359,687
Debt service:				
Principal payments	-	-	3,966,345	3,966,345
Interest and fiscal charges	-	-	3,341,489	3,341,489
Issuance costs	-	-	252,251	252,251
Total expenditures	<u>\$ 7,775,079</u>	<u>\$ 10,359,687</u>	<u>\$ 7,560,085</u>	<u>\$ 25,694,851</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,880,899)</u>	<u>\$ (8,130,536)</u>	<u>\$ (7,520,255)</u>	<u>\$ (17,531,690)</u>
<b>Other financing sources (uses)</b>				
Issuance of bonds	\$ -	\$ 3,489,939	\$ 712,273	\$ 4,202,212
Bond premium	-	592,670	-	592,670
Proceeds from the sale of capital assets	60	18,000	-	18,060
Transfers in	2,275,440	2,723,000	7,114,121	12,112,561
Total other financing sources (uses)	<u>\$ 2,275,500</u>	<u>\$ 6,823,609</u>	<u>\$ 7,826,394</u>	<u>\$ 16,925,503</u>
Net change in fund balance	\$ 394,601	\$ (1,306,927)	\$ 306,139	\$ (606,187)
Fund balances, beginning of year, as restated	<u>1,763,261</u>	<u>10,602,664</u>	<u>2,308,258</u>	<u>14,674,183</u>
Fund balances, end of year	<u>\$ 2,157,862</u>	<u>\$ 9,295,737</u>	<u>\$ 2,614,397</u>	<u>\$ 14,067,996</u>

Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 At June 30, 2016

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Environmental Section Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
<b>Assets:</b>								
Cash and cash equivalents	\$ 169,035	\$ 578,625	\$ 158,781	\$ 262,519	\$ 84,252	\$ 137,269	\$ 193,022	\$ 1,583,503
Accrued revenue	5,840	3,512	-	-	-	-	-	9,352
Prepaid items	581	-	-	-	-	-	-	581
Due from other governments	424,445	136,857	396,600	-	-	-	-	957,902
<b>Total assets</b>	<b>\$ 599,901</b>	<b>\$ 718,994</b>	<b>\$ 555,381</b>	<b>\$ 262,519</b>	<b>\$ 84,252</b>	<b>\$ 137,269</b>	<b>\$ 193,022</b>	<b>\$ 2,551,338</b>
<b>Liabilities:</b>								
Accounts payable	\$ 26,316	\$ 61,302	\$ 161,939	\$ -	\$ 137	\$ -	\$ 860	\$ 250,554
Accrued liabilities	91,746	7,168	2,435	-	4,178	17,395	-	122,922
Unearned revenue	-	20,000	-	-	-	-	-	20,000
<b>Total liabilities</b>	<b>\$ 118,062</b>	<b>\$ 88,470</b>	<b>\$ 164,374</b>	<b>\$ -</b>	<b>\$ 4,315</b>	<b>\$ 17,395</b>	<b>\$ 860</b>	<b>\$ 393,476</b>
<b>Fund Balances:</b>								
Nonspendable	\$ 581	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 581
Committed	481,258	630,524	391,007	262,519	79,937	119,874	192,162	2,157,281
<b>Total fund balances</b>	<b>\$ 481,839</b>	<b>\$ 630,524</b>	<b>\$ 391,007</b>	<b>\$ 262,519</b>	<b>\$ 79,937</b>	<b>\$ 119,874</b>	<b>\$ 192,162</b>	<b>\$ 2,157,862</b>
<b>Total liabilities and fund balances</b>	<b>\$ 599,901</b>	<b>\$ 718,994</b>	<b>\$ 555,381</b>	<b>\$ 262,519</b>	<b>\$ 84,252</b>	<b>\$ 137,269</b>	<b>\$ 193,022</b>	<b>\$ 2,551,338</b>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Special Revenue Funds  
 Year Ended June 30, 2016

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Children's Services Act Fund	Central Park Special Tax District Fund	Environmental Section Fund	Forfeited Asset Sharing Program Fund	Blight Abatement Fund	Total
<b>Revenues</b>								
Permits, privilege fees and regulatory licenses	\$ -	\$ 6,842	\$ -	\$ -	\$ 25,040	\$ -	\$ -	\$ 31,882
Fines and forfeitures	-	15,840	-	-	3,000	-	-	18,840
Use of money and property	-	436	-	-	-	422	-	858
Charges for services	-	2,400	-	-	-	-	-	2,400
Miscellaneous	7,001	88,293	-	-	-	-	-	95,294
Recovered costs	56,576	347,029	-	-	-	916	5,616	410,137
Intergovernmental:								
Revenue from the Commonwealth	1,446,130	232,692	961,868	-	-	132,106	-	2,772,796
Revenue from the Federal Government	2,251,823	271,371	35,834	-	-	2,945	-	2,561,973
Total revenues	\$ 3,761,530	\$ 964,903	\$ 997,702	\$ -	\$ 28,040	\$ 136,389	\$ 5,616	\$ 5,894,180
<b>Expenditures</b>								
Judicial administration	\$ -	\$ 267,749	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,749
Public safety	-	185,479	-	-	-	32,680	-	218,159
Public works	-	-	-	-	25,403	-	9,075	34,478
Health and welfare	4,770,803	-	1,605,261	-	-	-	-	6,376,064
Parks, recreation and cultural	-	103,746	-	-	-	-	-	103,746
Community development	-	774,883	-	-	-	-	-	774,883
Total expenditures	\$ 4,770,803	\$ 1,331,857	\$ 1,605,261	\$ -	\$ 25,403	\$ 32,680	\$ 9,075	\$ 7,775,079
Excess (deficiency) of revenues over (under) expenditures	\$ (1,009,273)	\$ (366,954)	\$ (607,559)	\$ -	\$ 2,637	\$ 103,709	\$ (3,459)	\$ (1,880,899)
<b>Other financing sources (uses)</b>								
Transfers in	\$ 1,157,365	\$ 365,500	\$ 675,275	\$ -	\$ 77,300	\$ -	\$ -	\$ 2,275,440
Proceeds from the sale of capital assets	60	-	-	-	-	-	-	60
Total other financing sources (uses)	\$ 1,157,425	\$ 365,500	\$ 675,275	\$ -	\$ 77,300	\$ -	\$ -	\$ 2,275,500
Net change in fund balance	\$ 148,152	\$ (1,454)	\$ 67,716	\$ -	\$ 79,937	\$ 103,709	\$ (3,459)	\$ 394,601
Fund balances, beginning of year	333,687	631,978	323,291	262,519	-	16,165	195,621	1,763,261
Fund balances, end of year	\$ 481,839	\$ 630,524	\$ 391,007	\$ 262,519	\$ 79,937	\$ 119,874	\$ 192,162	\$ 2,157,862

Combining Balance Sheet  
 Nonmajor Capital Projects Funds  
 At June 30, 2016

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	New Court Construction Fund	Total
<b>Assets:</b>					
Cash and cash equivalents	\$ 3,804,566	\$ 1,887,691	\$ 2,151,402	\$ 1,182,666	\$ 9,026,325
Accrued revenue	25,664	20,315	20,315	-	66,294
Due from other governments	989,788	365,267	-	-	1,355,055
<b>Total assets</b>	<b>\$ 4,820,018</b>	<b>\$ 2,273,273</b>	<b>\$ 2,171,717</b>	<b>\$ 1,182,666</b>	<b>\$ 10,447,674</b>
<b>Liabilities:</b>					
Accounts payable	\$ 602,681	\$ 195,166	\$ -	\$ 66,933	\$ 864,780
Accrued liabilities	140,907	-	-	-	140,907
Unearned revenue	146,250	-	-	-	146,250
<b>Total liabilities</b>	<b>\$ 889,838</b>	<b>\$ 195,166</b>	<b>\$ -</b>	<b>\$ 66,933</b>	<b>\$ 1,151,937</b>
<b>Fund Balances:</b>					
Committed	\$ 68,890	\$ 222,222	\$ 1,084,572	\$ 2,000	\$ 1,377,684
Assigned	3,861,290	1,855,885	1,087,145	1,113,733	7,918,053
<b>Total fund balances</b>	<b>\$ 3,930,180</b>	<b>\$ 2,078,107</b>	<b>\$ 2,171,717</b>	<b>\$ 1,115,733</b>	<b>\$ 9,295,737</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,820,018</b>	<b>\$ 2,273,273</b>	<b>\$ 2,171,717</b>	<b>\$ 1,182,666</b>	<b>\$ 10,447,674</b>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Capital Projects Funds  
 Year Ended June 30, 2016

	Public Works Construction Fund	Public Facilities Construction Fund	Public Safety Construction Fund	New Court Construction Fund	Total
<b>Revenues</b>					
Other local taxes	\$ 282,500	\$ 561,590	\$ -	\$ -	\$ 844,090
Permits, privilege fees and regulatory licenses	-	32,500	-	-	32,500
Fines and forfeitures	2,850	-	-	-	2,850
Use of money and property	102,404	164,795	95,006	2,169	364,374
Charges for services	-	-	-	52,682	52,682
Miscellaneous	3,150	-	-	-	3,150
Recovered costs	12,600	2,500	-	23,958	39,058
Intergovernmental:					
Revenue from the Commonwealth	890,447	-	-	-	890,447
<b>Total revenues</b>	<b>\$ 1,293,951</b>	<b>\$ 761,385</b>	<b>\$ 95,006</b>	<b>\$ 78,809</b>	<b>\$ 2,229,151</b>
<b>Expenditures</b>					
Capital projects	\$ 5,691,956	\$ 1,245,254	\$ 1,843,785	\$ 1,578,692	\$ 10,359,687
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ (4,398,005)</b>	<b>\$ (483,869)</b>	<b>\$ (1,748,779)</b>	<b>\$ (1,499,883)</b>	<b>\$ (8,130,536)</b>
<b>Other financing sources (uses)</b>					
Issuance of bonds	\$ 1,778,178	\$ -	\$ 1,711,761	\$ -	\$ 3,489,939
Bond premium	273,723	-	318,947	-	592,670
Proceeds from the sale of capital assets	18,000	-	-	-	18,000
Transfers in	995,000	1,239,000	489,000	-	2,723,000
<b>Total other financing sources (uses)</b>	<b>\$ 3,064,901</b>	<b>\$ 1,239,000</b>	<b>\$ 2,519,708</b>	<b>\$ -</b>	<b>\$ 6,823,609</b>
<b>Net change in fund balance</b>	<b>\$ (1,333,104)</b>	<b>\$ 755,131</b>	<b>\$ 770,929</b>	<b>\$ (1,499,883)</b>	<b>\$ (1,306,927)</b>
<b>Fund balances, beginning of year</b>	<b>5,263,284</b>	<b>1,322,976</b>	<b>1,400,788</b>	<b>2,615,616</b>	<b>10,602,664</b>
<b>Fund balances, end of year</b>	<b>\$ 3,930,180</b>	<b>\$ 2,078,107</b>	<b>\$ 2,171,717</b>	<b>\$ 1,115,733</b>	<b>\$ 9,295,737</b>

Combining Balance Sheet  
 Nonmajor Debt Service Funds  
 At June 30, 2016

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 4,698	\$ 2,644,707	\$ 2,649,405
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities:</b>			
Accounts payable	\$ 4,698	\$ 30,310	\$ 35,008
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Fund Balances:</b>			
Committed	\$ -	\$ 2,614,397	\$ 2,614,397
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	\$ 4,698	\$ 2,644,707	\$ 2,649,405
	<u>          </u>	<u>          </u>	<u>          </u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Debt Service Funds  
 Year Ended June 30, 2016

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
<b>Revenues</b>			
Miscellaneous	\$ 39,830	\$ -	\$ 39,830
<b>Expenditures</b>			
Debt service:			
Principal	\$ 2,286,479	\$ 1,679,866	\$ 3,966,345
Interest and fiscal charges	1,593,207	1,748,282	3,341,489
Issuance costs	105,061	147,190	252,251
Total expenditures	\$ 3,984,747	\$ 3,575,338	\$ 7,560,085
Excess (deficiency) of revenues over (under) expenditures	\$ (3,944,917)	\$ (3,575,338)	\$ (7,520,255)
<b>Other financing sources (uses)</b>			
Issuance of bonds	\$ 105,060	\$ 607,213	\$ 712,273
Transfers in	3,839,857	3,274,264	7,114,121
Total other financing sources (uses)	\$ 3,944,917	\$ 3,881,477	\$ 7,826,394
Net change in fund balance	\$ -	\$ 306,139	\$ 306,139
Fund balances, beginning of year	-	2,308,258	2,308,258
Fund balances, end of year	\$ -	\$ 2,614,397	\$ 2,614,397

Combining Statement of Fiduciary Net Position - Agency Funds  
At June 30, 2016

	Criminal Justice Academy	Special Welfare	Court Service Unit	Rappahannock Area Youth Services	Revenue Maximization	Community Development Authority	Total
<b>Assets:</b>							
Cash and cash equivalents	\$ 158,387	\$ 18,358	\$ 147,567	\$ -	\$ 20,451	\$ 284,720	\$ 629,483
Accounts receivable	19,919	-	-	329,912	-	-	349,831
Total assets	<u>\$ 178,306</u>	<u>\$ 18,358</u>	<u>\$ 147,567</u>	<u>\$ 329,912</u>	<u>\$ 20,451</u>	<u>\$ 284,720</u>	<u>\$ 979,314</u>
<b>Liabilities:</b>							
Reconciled overdraft	\$ -	\$ -	\$ -	\$ 103,908	\$ -	\$ -	\$ 103,908
Accounts payable	9,059	-	18,016	25,882	-	-	52,957
Accrued liabilities	34,464	-	811	10,342	-	-	45,617
Amounts held for others	134,783	18,358	128,740	189,780	20,451	284,720	776,832
Total liabilities	<u>\$ 178,306</u>	<u>\$ 18,358</u>	<u>\$ 147,567</u>	<u>\$ 329,912</u>	<u>\$ 20,451</u>	<u>\$ 284,720</u>	<u>\$ 979,314</u>

Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>CRIMINAL JUSTICE ACADEMY</b>				
Assets:				
Cash and cash equivalents	\$ 81,502	\$ 158,387	\$ 81,502	\$ 158,387
Accounts receivable	170	19,919	170	19,919
Prepaid items	17,120	-	17,120	-
Total assets	<u>\$ 98,792</u>	<u>\$ 178,306</u>	<u>\$ 98,792</u>	<u>\$ 178,306</u>
Liabilities:				
Accounts payable	\$ 8,827	\$ 9,059	\$ 8,827	\$ 9,059
Accrued liabilities	32,328	34,464	32,328	34,464
Amounts held for others	57,637	134,783	57,637	134,783
Total liabilities	<u>\$ 98,792</u>	<u>\$ 178,306</u>	<u>\$ 98,792</u>	<u>\$ 178,306</u>
<b>SPECIAL WELFARE</b>				
Assets:				
Cash and cash equivalents	\$ 14,508	\$ 24,371	\$ 20,521	\$ 18,358
Liabilities:				
Amounts held for others	\$ 14,508	\$ 24,371	\$ 20,521	\$ 18,358
<b>COURT SERVICE UNIT</b>				
Assets:				
Cash and cash equivalents	\$ 93,670	\$ 295,226	\$ 241,329	\$ 147,567
Accounts receivable	17,925	-	17,925	-
Total assets	<u>\$ 111,595</u>	<u>\$ 295,226</u>	<u>\$ 259,254</u>	<u>\$ 147,567</u>
Liabilities:				
Accounts payable	\$ 28,822	\$ 18,016	\$ 28,822	\$ 18,016
Accrued liabilities	795	811	795	811
Amounts held for others	81,978	276,399	229,637	128,740
Total liabilities	<u>\$ 111,595</u>	<u>\$ 295,226</u>	<u>\$ 259,254</u>	<u>\$ 147,567</u>

Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>RAPPAHANNOCK AREA YOUTH SERVICES</b>				
Assets:				
Cash and cash equivalents	\$ 101,547	\$ -	\$ 101,547	\$ -
Accounts receivable	59,065	329,912	59,065	329,912
Prepaid items	9,949	-	9,949	-
Total assets	<u>\$ 170,561</u>	<u>\$ 329,912</u>	<u>\$ 170,561</u>	<u>\$ 329,912</u>
Liabilities:				
Reconciled overdraft	\$ -	\$ 103,908	\$ -	\$ 103,908
Accounts payable	10,471	25,882	10,471	25,882
Accrued liabilities	-	10,342	-	10,342
Amounts held for others	160,090	189,780	160,090	189,780
Total liabilities	<u>\$ 170,561</u>	<u>\$ 329,912</u>	<u>\$ 170,561</u>	<u>\$ 329,912</u>
<b>REVENUE MAXIMIZATION</b>				
Assets:				
Cash and cash equivalents	\$ 20,451	\$ -	\$ -	\$ 20,451
Liabilities:				
Amounts held for others	\$ 20,451	\$ -	\$ -	\$ 20,451
<b>COMMUNITY DEVELOPMENT AUTHORITY</b>				
Assets:				
Cash and cash equivalents	\$ 329,246	\$ 619,265	\$ 663,791	\$ 284,720
Liabilities:				
Amounts held for others	\$ 329,246	\$ 619,265	\$ 663,791	\$ 284,720
<b>TOTALS -- ALL AGENCY FUNDS</b>				
Assets:				
Cash and cash equivalents	\$ 640,924	\$ 1,097,249	\$ 1,108,690	\$ 629,483
Accounts receivable	77,160	349,831	77,160	349,831
Prepaid items	27,069	-	27,069	-
Total assets	<u>\$ 745,153</u>	<u>\$ 1,447,080</u>	<u>\$ 1,212,919</u>	<u>\$ 979,314</u>
Liabilities:				
Reconciled overdraft	\$ -	\$ 103,908	\$ -	\$ 103,908
Accounts payable	48,120	52,957	48,120	52,957
Accrued liabilities	33,123	45,617	33,123	45,617
Amounts held for others	663,910	1,244,598	1,131,676	776,832
Total liabilities	<u>\$ 745,153</u>	<u>\$ 1,447,080</u>	<u>\$ 1,212,919</u>	<u>\$ 979,314</u>

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds with Legally Adopted Budgets  
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Special Revenue Funds</b>				
<b>Virginia Public Assistance Fund</b>				
<b>Revenues</b>				
Miscellaneous	\$ -	\$ -	\$ 7,001	\$ 7,001
Recovered costs	\$ 35,000	\$ 35,000	\$ 56,576	\$ 21,576
<b>Intergovernmental:</b>				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	\$ 1,880,081	\$ 1,880,081	\$ 1,446,130	\$ (433,951)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 2,125,139	\$ 2,125,139	\$ 2,251,823	\$ 126,684
<b>Total revenues</b>	<u>\$ 4,040,220</u>	<u>\$ 4,040,220</u>	<u>\$ 3,761,530</u>	<u>\$ (278,690)</u>
<b>Expenditures</b>				
Health and welfare	\$ 5,286,060	\$ 5,286,060	\$ 4,770,803	\$ 515,257
<b>State, Federal and Local Grants Fund</b>				
<b>Revenues</b>				
Permits and other licenses	\$ 21,500	\$ 21,500	\$ 6,842	\$ (14,658)
Fines and forfeitures	\$ -	\$ -	\$ 15,840	\$ 15,840
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 436	\$ 436
Miscellaneous	\$ 150,000	\$ 150,000	\$ 88,293	\$ (61,707)
Charges for services:				
Parks and recreation fees	\$ -	\$ -	\$ 2,400	\$ 2,400
Recovered costs:				
Stafford and Spotsylvania Counties	\$ 342,000	\$ 342,000	\$ 347,029	\$ 5,029
<b>Intergovernmental:</b>				
Revenue from the Commonwealth:				
Categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Hazardous materials grant	30,000	175,000	30,000	(145,000)
Fire services program	73,240	73,240	69,275	(3,965)
VA domestic violence victim fund	40,000	40,000	65,000	25,000
Victim-witness program	15,782	15,782	15,782	-
Four-for-life grant	25,000	25,000	32,668	7,668
Other	42,680	56,055	14,967	(41,088)
<b>Total revenue from the Commonwealth</b>	<u>\$ 231,702</u>	<u>\$ 390,077</u>	<u>\$ 232,692</u>	<u>\$ (157,385)</u>
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 69,223	\$ 61,848	\$ 106,531	\$ 44,683
DEQ grant	-	4,350	3,000	(1,350)
Community development block grants	125,000	125,000	161,840	36,840
<b>Total revenue from the Federal Government</b>	<u>\$ 194,223</u>	<u>\$ 191,198</u>	<u>\$ 271,371</u>	<u>\$ 80,173</u>
<b>Total revenues</b>	<u>\$ 939,425</u>	<u>\$ 1,094,775</u>	<u>\$ 964,903</u>	<u>\$ (129,872)</u>

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds with Legally Adopted Budgets  
Year Ended June 30, 2016

	<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</b>				
Judicial administration:				
Victim-witness program	\$ 136,110	\$ 136,110	\$ 142,789	\$ (6,679)
Domestic violence victim fund grant	68,395	68,395	53,248	15,147
Records preservation program	-	-	71,712	(71,712)
Total judicial administration	<u>\$ 204,505</u>	<u>\$ 204,505</u>	<u>\$ 267,749</u>	<u>\$ (63,244)</u>
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 175,000	\$ 25,948	\$ 149,052
Fire services program	73,240	98,240	82,624	15,616
Four-for-life grant	25,000	25,000	32,668	(7,668)
Rescue squad assistance	35,000	35,000	-	35,000
LEMPG	10,680	-	-	-
ICAC grant	14,500	6,000	3,255	2,745
Community projects	-	3,456	-	3,456
Crime prevention	-	1,200	1,049	151
Local emergency performance grant	-	10,680	7,858	2,822
DOJ grant	21,875	17,053	15,937	1,116
DMV grants	-	27,702	16,140	11,562
Total public safety	<u>\$ 210,295</u>	<u>\$ 399,331</u>	<u>\$ 185,479</u>	<u>\$ 213,852</u>
Parks, recreation and cultural:				
Soap Box Derby	\$ 28,000	\$ 28,000	\$ 20,330	\$ 7,670
Starfires drill team	25,000	25,000	5,400	19,600
Farmers' market	26,500	26,500	24,315	2,185
Fredericksburg Arts Commission	35,000	35,000	32,087	2,913
Other	34,000	60,600	21,614	38,986
Total parks, recreation and cultural	<u>\$ 148,500</u>	<u>\$ 175,100</u>	<u>\$ 103,746</u>	<u>\$ 71,354</u>
Community development:				
Community development block grant	\$ 182,215	\$ 182,215	\$ 193,522	\$ (11,307)
First Night celebration	63,000	63,000	-	63,000
Regional consumer marketing	363,000	363,000	396,407	(33,407)
Regional group tourism	150,000	150,000	147,291	2,709
PEG access	40,000	40,000	5,339	34,661
United Way special events	-	-	24,974	(24,974)
Other	-	4,350	7,350	(3,000)
Total community development	<u>\$ 798,215</u>	<u>\$ 802,565</u>	<u>\$ 774,883</u>	<u>\$ 27,682</u>
Total expenditures	<u>\$ 1,361,515</u>	<u>\$ 1,581,501</u>	<u>\$ 1,331,857</u>	<u>\$ 249,644</u>
<b>Children's Services Act Fund</b>				
<b>Revenues</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Children's Services Act grants	\$ 1,050,200	\$ 1,050,200	\$ 961,868	\$ (88,332)
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	\$ 41,155	\$ 41,155	\$ 35,834	\$ (5,321)
Total revenues	<u>\$ 1,091,355</u>	<u>\$ 1,091,355</u>	<u>\$ 997,702</u>	<u>\$ (93,653)</u>
<b>Expenditures</b>				
Health and Welfare:				
Children's Services Act program	<u>\$ 1,928,470</u>	<u>\$ 1,928,470</u>	<u>\$ 1,605,261</u>	<u>\$ 323,209</u>

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds with Legally Adopted Budgets  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Special Revenue Funds: (continued)</b>				
<b>Environmental Section Fund</b>				
<b>Revenues</b>				
Permits and other licenses	\$ -	\$ 40,000	\$ 25,040	\$ (14,960)
Fines and forfeitures	\$ -	\$ -	\$ 3,000	\$ 3,000
Total revenues	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 28,040</u>	<u>\$ (11,960)</u>
<b>Expenditures</b>				
Public works:				
VSMP administration	\$ -	\$ 117,300	\$ 25,403	\$ 91,897
<b>Blight Abatement Fund</b>				
<b>Revenues</b>				
Recovered costs	\$ -	\$ -	\$ 5,616	\$ 5,616
<b>Expenditures</b>				
Public works:				
Blight abatement	\$ -	\$ 95,000	\$ 9,075	\$ 85,925
<b>Forfeited Asset Sharing Program Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 422	\$ 422
Recovered costs	\$ -	\$ -	\$ 916	\$ 916
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Forfeited asset sharing program	\$ -	\$ 113,767	\$ 132,106	\$ 18,339
Revenue from the Federal Government:				
Categorical aid:				
Forfeited asset sharing program	\$ -	\$ -	\$ 2,945	\$ 2,945
Total revenues	<u>\$ -</u>	<u>\$ 113,767</u>	<u>\$ 136,389</u>	<u>\$ 22,622</u>
<b>Expenditures</b>				
Public safety:				
Forfeited asset sharing program	\$ -	\$ 134,859	\$ 32,680	\$ 102,179
<b>Capital Projects Funds</b>				
<b>Public Works Construction Fund</b>				
<b>Revenues</b>				
Other local taxes:				
Gasoline taxes	\$ 250,000	\$ 250,000	\$ 282,500	\$ 32,500
Fines and forfeitures	\$ 30,000	\$ 30,000	\$ 2,850	\$ (27,150)
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 102,404	\$ 102,404
Miscellaneous	\$ -	\$ -	\$ 3,150	\$ 3,150
Recovered costs	\$ -	\$ -	\$ 12,600	\$ 12,600
Intergovernmental:				
Revenue from the Commonwealth:				
VDOT grants	\$ 660,000	\$ 1,485,000	\$ 890,447	\$ (594,553)

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds with Legally Adopted Budgets  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Capital Projects Funds: (continued)</b>				
<b>Public Works Construction Fund: (continued)</b>				
<b>Revenues: (continued)</b>				
Revenue from the Federal Government:				
Categorical aid:				
VDOT grants	\$ -	\$ 418,970	\$ -	\$ (418,970)
Total revenues	<u>\$ 940,000</u>	<u>\$ 2,183,970</u>	<u>\$ 1,293,951</u>	<u>\$ (890,019)</u>
<b>Expenditures</b>				
Capital projects:				
Annual pavement rehabilitation	\$ 897,500	\$ 1,873,087	\$ 661,838	\$ 1,211,249
Drainage improvements	75,000	75,000	-	75,000
Historic district improvements	50,000	50,000	-	50,000
Amelia and Charles street parking lot	-	1,400,000	705,060	694,940
Pedestrian signals revenue sharing	1,125,000	1,125,000	135,727	989,273
Riverfront Park	500,000	451,200	140,349	310,851
Rappahannock Canal repairs	-	56,056	-	56,056
Stormwater management plan	-	129,556	63,122	66,434
Twin Lakes sidewalks	-	480,659	416,768	63,891
Lafayette Boulevard revenue sharing	-	-	173,518	(173,518)
Route 1 revenue sharing	-	-	522,994	(522,994)
Princess Anne Street revenue sharing	-	-	264,050	(264,050)
Route 1 over Hazel Run bridge repair	340,000	340,000	340,000	-
Traffic operations center	-	418,970	13,270	405,700
R-Board landfill construction	-	2,250,000	2,055,327	194,673
Wheeled refuse cart program	200,000	200,000	199,933	67
Total capital projects	<u>\$ 3,187,500</u>	<u>\$ 8,849,528</u>	<u>\$ 5,691,956</u>	<u>\$ 3,157,572</u>
<b>Public Facilities Construction Fund</b>				
<b>Revenues</b>				
Other local taxes:				
Gasoline tax	\$ -	\$ 105,000	\$ 561,590	\$ 456,590
Permits and other licenses	\$ -	\$ -	\$ 32,500	\$ 32,500
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 91,430	\$ 91,430
Use of property	-	-	73,365	73,365
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,795</u>	<u>\$ 164,795</u>
Recovered costs	\$ -	\$ -	\$ 2,500	\$ 2,500
Intergovernmental:				
Revenue from the Federal Government:				
Categorical aid:				
Miscellaneous grants	\$ -	\$ 64,000	\$ -	\$ (64,000)
Total revenues	<u>\$ -</u>	<u>\$ 169,000</u>	<u>\$ 761,385</u>	<u>\$ 592,385</u>
<b>Expenditures</b>				
Capital projects:				
General parks maintenance improvements	\$ 90,000	\$ 90,000	\$ 18,795	\$ 71,205
Roof replacements	40,000	70,000	43,511	26,489
Computer equipment replacement	262,500	334,093	253,798	80,295
Executive Plaza building	80,000	113,975	36,852	77,123
Public facilities general improvements	-	65,080	34,017	31,063
Pathways - VCR Trail areas I and II	-	-	1,177	(1,177)
Pathways - VCR Trail area III	-	80,000	10,943	69,057

Revenues and Expenditures Budgetary Comparison Schedule  
For Nonmajor and Other Funds with Legally Adopted Budgets  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Capital Projects Funds: (continued)</b>				
<b>Public Facilities Construction Fund: (continued)</b>				
<b>Expenditures: (continued)</b>				
Facilities improvements	200,000	217,471	128,151	89,320
City elevator repairs	-	637,111	589,948	47,163
Area plan updates	150,000	150,000	-	150,000
HVAC replacements	97,000	151,033	48,027	103,006
Telephone system replacements	85,500	85,500	80,035	5,465
Total capital projects	<u>\$ 1,005,000</u>	<u>\$ 1,994,263</u>	<u>\$ 1,245,254</u>	<u>\$ 749,009</u>
<b>Public Safety Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 95,006	\$ 95,006
<b>Expenditures</b>				
<b>Capital projects:</b>				
SCBA replacement	\$ 60,000	\$ 60,000	\$ 40,084	\$ 19,916
Public safety radio system upgrade	-	2,783,340	1,454,224	1,329,116
Emergency medical vehicles	260,000	260,000	257,462	2,538
Fire station upgrades	125,000	125,000	6,181	118,819
VA Commonwealth Attorney's info system	-	48,750	48,850	(100)
Tactical firearms training building	100,000	100,000	-	100,000
Police camera system	74,000	75,900	36,984	38,916
Total capital projects	<u>\$ 619,000</u>	<u>\$ 3,452,990</u>	<u>\$ 1,843,785</u>	<u>\$ 1,609,205</u>
<b>New Court Construction Fund</b>				
<b>Revenues</b>				
Revenue from use of money and property:				
Use of money	\$ -	\$ -	\$ 2,169	\$ 2,169
Charges for services:				
Courthouse construction fees	\$ -	\$ -	\$ 52,682	\$ 52,682
Recovered costs	\$ -	\$ -	\$ 23,958	\$ 23,958
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,809</u>	<u>\$ 78,809</u>
<b>Expenditures</b>				
<b>Capital projects:</b>				
Renwick courthouse redevelopment	\$ -	\$ 90,000	\$ 82,984	\$ 7,016
Archaeology	-	48,800	49,504	(704)
New court radio project	-	185,751	185,751	-
New court construction	-	2,144,517	1,260,453	884,064
Total capital projects	<u>\$ -</u>	<u>\$ 2,469,068</u>	<u>\$ 1,578,692</u>	<u>\$ 890,376</u>
<b>Debt Service Funds</b>				
<b>General Obligation Bond Debt Service Fund</b>				
<b>Revenues</b>				
Miscellaneous	\$ -	\$ 350,000	\$ 39,830	\$ (310,170)
<b>Expenditures</b>				
Principal and interest	\$ 3,932,540	\$ 4,282,540	\$ 3,879,686	\$ 402,854
Issuance costs	-	-	105,061	(105,061)
Total expenditures	<u>\$ 3,932,540</u>	<u>\$ 4,282,540</u>	<u>\$ 3,984,747</u>	<u>\$ 297,793</u>
<b>Education Debt Service Fund</b>				
<b>Expenditures</b>				
Principal and interest	\$ 3,370,500	\$ 3,575,339	\$ 3,428,148	\$ 147,191
Issuance costs	-	-	147,190	(147,190)
Total expenditures	<u>\$ 3,370,500</u>	<u>\$ 3,575,339</u>	<u>\$ 3,575,338</u>	<u>\$ 1</u>

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

Component Unit School Board  
 Combining Balance Sheet  
 At June 30, 2016

	<u>School Operating Fund</u>	<u>Special School Fund</u>	<u>School Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,538,405	\$ 767,077	\$ 403,343	\$ 6,708,825
Accrued revenue	-	72,858	-	72,858
Due from other governments	631,149	680,787	-	1,311,936
Prepaid items	297,992	-	-	297,992
<b>Total assets</b>	<b>\$ 6,467,546</b>	<b>\$ 1,520,722</b>	<b>\$ 403,343</b>	<b>\$ 8,391,611</b>
<b>Liabilities:</b>				
Accounts payable	\$ 535,507	\$ 233,930	\$ 6,501	\$ 775,938
Accrued liabilities	3,305,811	454,088	-	3,759,899
<b>Total liabilities</b>	<b>\$ 3,841,318</b>	<b>\$ 688,018</b>	<b>\$ 6,501</b>	<b>\$ 4,535,837</b>
<b>Fund Balances:</b>				
Nonspendable:				
Prepaid items	\$ 297,992	-	-	\$ 297,992
Committed:				
Grant related expenditures	-	832,704	-	832,704
Subsequent year's expenditures	250,000	-	-	250,000
Assigned:				
Capital projects	-	-	396,842	396,842
Unassigned	2,078,236	-	-	2,078,236
<b>Total fund balances</b>	<b>\$ 2,626,228</b>	<b>\$ 832,704</b>	<b>\$ 396,842</b>	<b>\$ 3,855,774</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,467,546</b>	<b>\$ 1,520,722</b>	<b>\$ 403,343</b>	<b>\$ 8,391,611</b>

Component Unit School Board  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 At June 30, 2016

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Total fund balances for governmental funds (Exhibit 31)	\$	3,855,774
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$	472,679
Construction in progress		25,000
Land improvements, net of accumulated depreciation		87,285
Buildings and improvements, net of accumulated depreciation		21,500,763
Machinery, equipment, and vehicles, net of accumulated depreciation		2,218,633
		<u>24,304,360</u>
The net pension asset is not an available resource and, therefore, is not reported in the funds.		258,041
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		(2,941,346)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		3,187,087
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Capital lease		(3,217,000)
Net OPEB obligation not reported as fund liabilities		(2,121,409)
Net pension liability not reported as fund liabilities		(36,284,000)
Compensated absences not reported as fund liabilities		(1,170,535)
Adjustment for changes in proportionate share of net pension liability		<u>2,137,000</u>
Total net position of governmental activities (Exhibits 1 and 12)	\$	<u><u>(11,992,028)</u></u>

Component Unit School Board  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2016

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>				
Use of money and property	\$ 15,606	\$ -	\$ -	\$ 15,606
Charges for services	172,639	344,188	-	516,827
Miscellaneous	75,534	243,233	-	318,767
Recovered costs	185,274	26,324	79,310	290,908
Intergovernmental:				
Appropriation from primary government	27,610,210	-	284,000	27,894,210
Revenue from the Commonwealth	13,026,303	418,246	-	13,444,549
Revenue from the Federal Government	-	4,118,999	-	4,118,999
<b>Total revenues</b>	<b>\$ 41,085,566</b>	<b>\$ 5,150,990</b>	<b>\$ 363,310</b>	<b>\$ 46,599,866</b>
<b>Expenditures</b>				
Current:				
Education:				
Instruction	\$ 30,338,395	\$ 3,384,714	\$ -	\$ 33,723,109
Administration, attendance and health	2,928,505	-	-	2,928,505
Transportation	1,611,418	-	-	1,611,418
Facilities operations	4,145,580	-	-	4,145,580
Technology	1,510,336	104,219	-	1,614,555
School food service operations	93,564	1,817,366	-	1,910,930
Capital projects	-	-	261,294	261,294
Debt service:				
Principal	200,000	-	-	200,000
Interest	81,402	-	-	81,402
<b>Total expenditures</b>	<b>\$ 40,909,200</b>	<b>\$ 5,306,299</b>	<b>\$ 261,294</b>	<b>\$ 46,476,793</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ 176,366</b>	<b>\$ (155,309)</b>	<b>\$ 102,016</b>	<b>\$ 123,073</b>
Net change in fund balance	\$ 176,366	\$ (155,309)	\$ 102,016	\$ 123,073
<b>Fund balances, beginning of year</b>	<b>2,449,862</b>	<b>988,013</b>	<b>294,826</b>	<b>3,732,701</b>
<b>Fund balances, end of year</b>	<b>\$ 2,626,228</b>	<b>\$ 832,704</b>	<b>\$ 396,842</b>	<b>\$ 3,855,774</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, 2016

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Net change in fund balances - total governmental funds (Exhibit 33) \$ 123,073

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (1,089,933)

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board 1,056,167

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred inflows related to the measurement of the net pension liability/asset 2,208,824

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

Repayments of long-term debt:

Capital lease 200,000

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

Net OPEB obligation (360,018)

Net pension asset 73,803

Net pension liability (3,289,000)

Deferred outflows of resources related to pension 1,189,976

Compensated absences (38,224)

Change in net position of governmental activities (Exhibit 12) \$ 74,668

Component Unit School Board  
 School Operating Fund  
 Revenues and Expenditures Budgetary Comparison Schedule  
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>School Operating Fund</b>				
<b>Revenues</b>				
Use of money and property:				
Use of property	\$ 31,560	\$ 31,560	\$ 15,606	\$ (15,954)
Charges for services:				
Charges for education	\$ 176,790	\$ 176,790	\$ 172,639	\$ (4,151)
Miscellaneous	\$ 28,200	\$ 28,200	\$ 75,534	\$ 47,334
Recovered costs:				
Education	\$ -	\$ -	\$ 185,274	\$ 185,274
Intergovernmental:				
Appropriation from primary government	\$ 27,610,210	\$ 27,610,210	\$ 27,610,210	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 3,464,719	\$ 3,464,719	\$ 3,520,270	\$ 55,551
Basic aid	5,980,141	5,980,141	5,957,204	(22,937)
Other	3,585,598	3,585,598	3,548,829	(36,769)
Total revenue from the Commonwealth	\$ 13,030,458	\$ 13,030,458	\$ 13,026,303	\$ (4,155)
Total revenues	\$ 40,877,218	\$ 40,877,218	\$ 41,085,566	\$ 208,348
<b>Expenditures</b>				
Current:				
Education:				
Instruction	\$ 30,715,659	\$ 31,263,353	\$ 30,338,395	\$ 924,958
Administration, attendance and health	3,129,102	3,205,791	2,928,505	277,286
Transportation	1,513,367	1,696,984	1,611,418	85,566
School food service operations	150,000	150,000	93,564	56,436
Facilities operations	4,134,362	4,608,127	4,145,580	462,547
Technology	1,234,728	1,631,728	1,510,336	121,392
Debt service:				
Principal	200,000	200,000	200,000	-
Interest and fiscal charges	50,000	69,235	81,402	(12,167)
Total expenditures	\$ 41,127,218	\$ 42,825,218	\$ 40,909,200	\$ 1,916,018
Excess (deficiency) of revenues over (under) expenditures	\$ (250,000)	\$ (1,948,000)	\$ 176,366	\$ 2,124,366
Net change in fund balance	\$ (250,000)	\$ (1,948,000)	\$ 176,366	\$ 2,124,366
Fund balance, beginning of year	250,000	1,948,000	2,449,862	501,862
Fund balance, end of year	\$ -	\$ -	\$ 2,626,228	\$ 2,626,228

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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Special School Fund</b>				
<b>Revenues</b>				
Charges for services:				
Cafeteria sales	\$ 460,000	\$ 460,000	\$ 344,188	\$ (115,812)
Miscellaneous	\$ -	\$ -	\$ 243,233	\$ 243,233
Recovered costs:				
Education	\$ 312,650	\$ 27,000	\$ 26,324	\$ (676)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 28,000	\$ 28,000	\$ 34,198	\$ 6,198
Preschool initiative grant	168,190	168,190	162,000	(6,190)
VPSA technology grant	154,000	154,000	119,003	(34,997)
Other	26,000	26,000	103,045	77,045
Total revenue from the Commonwealth	\$ 376,190	\$ 376,190	\$ 418,246	\$ 42,056
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 885,943	\$ 885,943	\$ 788,742	\$ (97,201)
School food	1,036,000	1,036,000	1,298,478	262,478
Head Start	869,560	1,155,210	1,076,539	(78,671)
Special education IDEA	661,218	661,218	632,143	(29,075)
Other	389,009	389,009	323,097	(65,912)
Total revenue from the Federal Government	\$ 3,841,730	\$ 4,127,380	\$ 4,118,999	\$ (8,381)
Total revenues	\$ 4,990,570	\$ 4,990,570	\$ 5,150,990	\$ 160,420
<b>Expenditures</b>				
Current:				
Education:				
Instruction	\$ 3,219,568	\$ 3,459,568	\$ 3,384,714	\$ 74,854
Technology	154,000	154,000	104,219	49,781
School food service operations	1,617,002	1,737,002	1,817,366	(80,364)
Total expenditures	\$ 4,990,570	\$ 5,350,570	\$ 5,306,299	\$ 44,271
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (360,000)	\$ (155,309)	\$ 204,691
Net change in fund balance	\$ -	\$ (360,000)	\$ (155,309)	\$ 204,691
Fund balance, beginning of year	-	360,000	988,013	628,013
Fund balance, end of year	\$ -	\$ -	\$ 832,704	\$ 832,704

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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>School Capital Projects Fund</b>				
<b>Revenues</b>				
Recovered costs:				
Education	\$ -	\$ -	\$ 79,310	\$ 79,310
Intergovernmental:				
Appropriation from primary government	\$ 284,000	\$ 284,000	\$ 284,000	\$ -
Total revenues	<u>\$ 284,000</u>	<u>\$ 284,000</u>	<u>\$ 363,310</u>	<u>\$ 79,310</u>
<b>Expenditures</b>				
Capital projects:				
School buses	\$ 180,000	\$ 165,000	\$ 166,958	\$ (1,958)
School computer technology	79,000	79,000	49,867	29,133
Walker-Grant improvements	13,000,000	30,000	29,500	500
Maintenance equipment	-	-	14,969	(14,969)
Other	25,000	10,000	-	10,000
Total capital projects	<u>\$ 13,284,000</u>	<u>\$ 284,000</u>	<u>\$ 261,294</u>	<u>\$ 22,706</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (13,000,000)</u>	<u>\$ -</u>	<u>\$ 102,016</u>	<u>\$ 102,016</u>
<b>Other financing sources (uses)</b>				
Issuance of bonds	\$ 13,000,000	\$ -	\$ -	\$ -
Net change in fund balance	\$ -	\$ -	\$ 102,016	\$ 102,016
Fund balance, beginning of year	-	-	294,826	294,826
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 396,842</u>	<u>\$ 396,842</u>

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

## Statistical Section

### 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.

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#### 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 relates 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.

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
Invested in capital assets, net of related debt	\$ 80,789,888	\$ 81,234,288	\$ 80,177,661	\$ 81,665,145	\$ 80,513,796	\$ 80,274,520	\$ 81,353,678	\$ 84,961,559	\$ 88,179,245	\$ 85,329,030
Unrestricted	31,075,783	28,429,225	24,379,848	22,042,434	23,055,185	27,061,221	31,143,089	30,874,128	6,205,397	9,448,661
Total governmental activities net position	\$ 111,865,671	\$ 109,663,513	\$ 104,557,509	\$ 103,707,579	\$ 103,568,981	\$ 107,335,741	\$ 112,496,767	\$ 115,835,687	\$ 94,384,642	\$ 94,777,691
Business-type activities:										
Invested in capital assets, net of related debt	\$ 32,215,508	\$ 29,319,742	\$ 38,744,975	\$ 39,780,366	\$ 39,550,414	\$ 40,307,710	\$ 44,809,475	\$ 47,687,656	\$ 47,153,509	\$ 44,280,931
Unrestricted	15,618,080	21,584,625	12,503,966	13,022,965	16,473,376	17,161,279	16,705,512	17,779,917	17,046,024	21,962,726
Total business-type activities net position	\$ 47,833,588	\$ 50,904,367	\$ 51,248,941	\$ 52,803,331	\$ 56,023,790	\$ 57,468,989	\$ 61,514,987	\$ 65,467,573	\$ 64,199,533	\$ 66,243,657
Primary government:										
Net investment in capital assets	\$ 113,005,396	\$ 110,554,030	\$ 118,922,636	\$ 121,445,511	\$ 120,064,210	\$ 120,582,230	\$ 126,163,153	\$ 132,649,215	\$ 135,332,754	\$ 129,609,961
Unrestricted	46,693,863	50,013,850	36,883,814	35,065,399	39,528,561	44,222,500	47,848,601	48,654,045	23,251,421	31,411,387
Total primary government net position	\$ 159,699,259	\$ 160,567,880	\$ 155,806,450	\$ 156,510,910	\$ 159,592,771	\$ 164,804,730	\$ 174,011,754	\$ 181,303,260	\$ 158,584,175	\$ 161,021,348

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General government	\$ 5,546,499	\$ 5,254,913	\$ 5,760,023	\$ 5,171,028	\$ 5,407,587	\$ 5,833,003	\$ 6,889,501	\$ 6,397,126	\$ 6,285,041	\$ 6,866,241
Judicial administration	3,131,169	3,559,936	3,701,857	3,854,380	3,609,180	3,879,790	4,341,611	4,392,902	4,478,163	5,566,392
Public safety	18,155,708	19,073,783	20,056,605	20,200,427	19,937,181	19,316,975	19,579,277	20,623,797	20,645,685	21,630,457
Public works	9,099,097	9,882,486	10,194,381	10,964,359	10,707,212	10,898,437	11,584,108	12,681,384	13,162,173	12,836,598
Health and welfare	6,745,573	6,465,395	6,661,643	6,721,050	6,797,908	6,790,459	6,426,311	6,594,938	7,279,605	7,014,254
Education	24,108,406	28,328,165	27,341,339	26,228,250	26,383,137	27,249,752	28,633,110	28,797,870	28,803,904	29,862,457
Parks, recreation and cultural	4,485,451	4,588,059	4,400,464	3,936,068	4,031,435	4,340,912	4,554,212	4,765,119	4,790,452	4,748,604
Community development	2,619,455	2,344,557	1,965,407	1,819,607	1,930,369	2,154,832	2,165,794	2,186,948	2,694,020	2,882,580
Interest on long-term debt	2,991,013	2,948,621	2,859,774	2,674,176	2,542,424	3,186,127	3,485,231	3,343,630	3,150,988	3,419,833
Total governmental activities expenses	\$ 76,882,371	\$ 82,445,915	\$ 82,941,493	\$ 81,569,345	\$ 81,346,433	\$ 83,650,287	\$ 87,659,155	\$ 89,783,714	\$ 91,290,031	\$ 94,827,416
Business-type activities:										
Water	\$ 2,873,240	\$ 3,148,696	\$ 2,748,400	\$ 2,882,295	\$ 2,523,517	\$ 2,884,071	\$ 2,999,771	\$ 2,751,523	\$ 2,933,514	\$ 2,972,130
Sewer	3,538,756	4,172,099	4,476,638	4,156,245	4,975,289	5,256,052	4,875,587	4,874,582	4,795,857	5,092,925
Transit	2,491,330	3,345,639	3,893,458	3,600,428	3,887,158	4,097,929	4,157,157	4,437,179	4,275,370	4,410,391
Parking	441,343	495,917	493,920	528,819	460,950	476,315	456,999	470,905	448,933	443,485
Total business-type activities expenses	\$ 9,344,669	\$ 11,162,351	\$ 11,612,416	\$ 11,167,787	\$ 11,846,914	\$ 12,714,367	\$ 12,489,514	\$ 12,534,189	\$ 12,453,674	\$ 12,918,931
Total primary government expenses	\$ 86,227,040	\$ 93,608,266	\$ 94,553,909	\$ 92,737,132	\$ 93,193,347	\$ 96,364,654	\$ 100,148,669	\$ 102,317,903	\$ 103,743,705	\$ 107,746,347

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 49,059	\$ 50,515	\$ 93,045	\$ 79,215	\$ 85,191	\$ 82,624	\$ 94,773	\$ 109,152	\$ 152,025	\$ 157,793
Judicial administration	122,520	112,162	106,210	196,474	219,127	214,894	209,917	204,046	220,427	195,804
Public safety	1,036,746	1,361,978	1,834,819	1,848,719	2,111,221	1,943,884	2,042,868	1,862,973	2,087,775	1,891,374
Public works	698,875	689,151	727,253	725,710	733,070	743,145	757,997	828,049	967,752	985,924
Parks, recreation and cultural	637,446	550,465	518,630	469,802	487,368	459,848	440,392	471,289	497,253	455,603
Community development	2,795	2,470	1,685	691	476	145	274	1,169	263	57
Operating grants and contributions	9,343,428	10,656,874	10,522,749	10,073,459	10,159,077	11,758,221	9,685,095	9,985,588	10,896,754	10,645,954
Capital grants and contributions	766,972	453,402	202,849	1,750,758	841,870	1,725,467	2,967,105	4,595,323	2,011,484	1,460,003
Total governmental activities program revenues	\$ 12,657,841	\$ 13,877,017	\$ 14,007,240	\$ 15,144,828	\$ 14,637,400	\$ 16,928,228	\$ 16,198,421	\$ 18,057,589	\$ 16,833,733	\$ 15,792,512
Business-type activities:										
Charges for services:										
Water	\$ 2,067,579	\$ 2,150,126	\$ 2,180,347	\$ 2,261,200	\$ 2,344,438	\$ 2,448,425	\$ 2,689,470	\$ 2,829,872	\$ 3,035,359	\$ 3,285,584
Sewer	3,168,327	3,264,915	3,457,792	3,742,221	3,821,281	4,013,111	4,526,072	4,857,512	5,144,191	5,408,049
Transit	54,952	116,661	159,741	271,610	274,395	368,072	344,624	423,081	403,921	470,343
Parking	83,520	106,916	130,281	192,461	238,240	261,991	304,003	328,385	353,532	283,741
Operating grants and contributions	4,427,535	4,560,490	4,342,760	5,270,270	6,621,263	5,493,221	3,521,961	4,784,398	3,514,732	4,336,969
Capital grants and contributions	2,391,013	2,301,859	566,957	931,897	870,726	763,564	4,397,886	2,307,225	145,599	410,573
Total business-type activities program revenues	\$ 12,192,926	\$ 12,500,967	\$ 10,837,878	\$ 12,669,659	\$ 14,170,343	\$ 13,348,384	\$ 15,784,016	\$ 15,530,473	\$ 12,597,334	\$ 14,195,259
Total primary government program revenues	\$ 24,850,767	\$ 26,377,984	\$ 24,845,118	\$ 27,814,487	\$ 28,807,743	\$ 30,276,612	\$ 31,982,437	\$ 33,588,062	\$ 29,431,067	\$ 29,987,771
Net (expense)/revenue										
Governmental activities	\$ (64,224,530)	\$ (68,568,898)	\$ (68,934,253)	\$ (66,424,517)	\$ (66,709,033)	\$ (66,722,059)	\$ (71,460,734)	\$ (71,726,125)	\$ (74,456,298)	\$ (79,034,904)
Business-type activities	2,848,257	1,338,616	(774,538)	1,501,872	2,323,429	634,017	3,294,502	2,996,284	143,660	1,276,328
Total primary government net expense	\$ (61,376,273)	\$ (67,230,282)	\$ (69,708,791)	\$ (64,922,645)	\$ (64,385,604)	\$ (66,088,042)	\$ (68,166,232)	\$ (68,729,841)	\$ (74,312,638)	\$ (77,758,576)

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes:										
Property taxes	\$ 27,037,526	\$ 27,791,803	\$ 29,632,428	\$ 29,951,918	\$ 31,254,682	\$ 33,896,976	\$ 34,601,092	\$ 35,247,134	\$ 37,567,214	\$ 38,983,743
Local sales and use taxes	12,892,369	12,746,040	11,929,648	10,043,091	10,191,895	10,311,633	10,840,598	10,663,183	10,780,677	11,176,401
Consumer utility taxes	2,036,988	1,527,028	1,517,109	1,677,699	1,644,628	1,831,083	1,795,046	1,844,379	1,856,992	1,810,911
Business license taxes	5,777,346	5,436,366	5,847,174	5,893,072	5,538,312	5,735,557	5,994,920	5,641,614	5,943,742	6,101,499
Hotel/Lodging taxes	860,935	918,952	1,050,586	1,084,542	1,175,244	1,182,500	1,204,855	1,149,906	1,329,542	1,432,190
Meals taxes	6,418,546	7,042,409	7,080,021	8,132,542	8,842,347	9,373,302	9,657,796	9,752,120	10,115,765	10,693,375
Other local taxes	3,408,233	3,406,556	2,707,109	3,147,579	2,892,598	2,877,503	2,914,744	3,837,495	4,391,651	3,911,733
Unrestricted grants and contributions	1,992,420	2,027,309	1,967,696	3,810,995	3,909,817	3,741,002	4,696,323	5,557,931	3,820,401	3,814,470
Unrestricted revenues from use of money and property	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109	122,448	88,766
Gain/(loss) on disposal of assets	298,472	1,073,425	(846,807)	-	-	-	-	-	283,009	465,933
Miscellaneous	683,108	1,837,386	733,896	391,890	294,113	512,888	243,201	287,916	403,665	329,387
Transfers	764,695	834,798	856,580	904,224	385,020	600,000	620,436	604,393	603,480	619,545
<b>Total governmental activities</b>	\$ 64,661,518	\$ 66,366,740	\$ 63,828,249	\$ 65,574,587	\$ 66,570,435	\$ 70,488,819	\$ 72,917,306	\$ 75,048,180	\$ 77,218,586	\$ 79,427,953
Business-type activities:										
Taxes:										
Other local taxes	\$ 393,707	\$ 536,846	\$ 1,355,225	\$ 321,058	\$ 765,756	\$ 726,653	\$ 897,209	\$ 961,084	\$ 743,502	\$ 687,620
Unrestricted revenues from use of money and property	418,168	448,499	275,621	123,522	71,152	85,668	31,694	70,392	65,812	111,862
Miscellaneous	204,666	1,581,616	344,846	512,162	445,142	598,861	443,029	529,219	655,766	587,859
Transfers	(764,695)	(834,798)	(856,580)	(904,224)	(385,020)	(600,000)	(620,436)	(604,393)	(603,480)	(619,545)
<b>Total business-type activities</b>	\$ 251,846	\$ 1,732,163	\$ 1,119,112	\$ 52,518	\$ 897,030	\$ 811,182	\$ 751,496	\$ 956,302	\$ 861,600	\$ 767,796
<b>Total primary government</b>	\$ 64,913,364	\$ 68,098,903	\$ 64,947,361	\$ 65,627,105	\$ 67,467,465	\$ 71,300,001	\$ 73,668,802	\$ 76,004,482	\$ 78,080,186	\$ 80,195,749
<b>Change in Net Position</b>										
Governmental activities	\$ 436,988	\$ (2,202,158)	\$ (5,106,004)	\$ (849,930)	\$ (138,598)	\$ 3,766,760	\$ 1,456,572	\$ 3,322,056	\$ 2,762,288	\$ 393,049
Business-type activities	3,100,103	3,070,779	344,574	1,554,390	3,220,459	1,445,199	4,045,998	3,952,586	1,005,260	2,044,124
<b>Total primary government</b>	\$ 3,537,091	\$ 868,621	\$ (4,761,430)	\$ 704,460	\$ 3,081,861	\$ 5,211,959	\$ 5,502,570	\$ 7,274,642	\$ 3,767,548	\$ 2,437,173

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General fund										
Reserved	\$ 747,450	\$ 225,153	\$ 189,721	\$ 445,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	20,924,343	17,750,689	15,924,951	17,272,991	-	-	-	-	-	-
Nonspendable	-	-	-	-	44,611	348,945	359,240	480,656	370,237	387,695
Restricted	-	-	-	-	-	-	-	-	-	327,422
Committed	-	-	-	-	5,257,805	5,004,661	7,786,761	6,236,045	6,731,037	4,347,210
Assigned	-	-	-	-	373,829	292,876	858,372	769,149	47,997	1,306,350
Unassigned	-	-	-	-	13,662,911	20,225,801	18,571,037	19,799,255	20,988,745	19,335,778
Total general fund	\$ 21,671,793	\$ 17,975,842	\$ 16,114,672	\$ 17,718,299	\$ 19,339,156	\$ 25,872,283	\$ 27,575,410	\$ 27,285,105	\$ 28,138,016	\$ 25,704,455
All other governmental funds										
Reserved	\$ 500,819	\$ 870,711	\$ 1,232,229	\$ 250,474	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	3,606,488	2,730,594	3,255,921	3,346,494	-	-	-	-	-	-
Capital projects funds	9,716,246	11,504,973	9,629,901	7,938,299	-	-	-	-	-	-
Nonspendable, reported in:										
Special revenue funds	-	-	-	-	-	-	1,190	4,569	4,876	581
Restricted, reported in:										
Special revenue funds	-	-	-	-	193,070	243,980	290,342	336,280	332,993	-
Committed, reported in:										
Special revenue funds	-	-	-	-	2,480,555	1,821,770	1,487,032	1,966,427	1,758,385	2,157,281
Capital projects funds	-	-	-	-	1,981,075	31,832,728	24,819,754	9,247,406	2,351,359	12,032,685
Debt service Funds	-	-	-	-	-	-	805,804	2,462,142	2,308,258	2,614,397
Assigned, reported in:										
Capital projects funds	-	-	-	-	7,653,041	8,261,194	9,501,088	5,784,081	8,251,305	7,939,214
Total all other governmental funds	\$ 13,823,553	\$ 15,106,278	\$ 14,118,051	\$ 11,535,267	\$ 12,307,741	\$ 42,159,672	\$ 36,905,210	\$ 19,800,905	\$ 15,007,176	\$ 24,744,158

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

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>										
General property taxes	\$ 27,608,258	\$ 27,840,128	\$ 29,410,334	\$ 29,903,318	\$ 31,240,415	\$ 33,961,795	\$ 34,698,020	\$ 35,293,983	\$ 37,516,803	\$ 39,027,174
Other local taxes	31,394,417	31,077,351	30,131,647	29,978,525	30,285,024	31,311,578	32,407,959	32,888,697	34,418,369	35,126,109
Permits, privilege fees and regulatory licenses	753,661	653,453	717,349	822,476	945,035	748,371	676,892	598,444	726,685	691,636
Fines and forfeitures	283,035	408,580	466,213	344,897	586,421	479,355	603,398	477,161	523,547	350,564
Revenue from use of money and property	2,490,880	1,724,668	1,352,809	537,035	441,779	426,375	348,295	462,109	405,457	554,699
Charges for services	1,510,745	1,704,708	2,098,080	2,153,238	2,104,997	2,216,814	2,265,931	2,401,073	2,675,263	2,644,355
Miscellaneous	683,108	563,376	392,910	391,890	257,448	485,647	214,655	274,259	273,284	248,557
Recovered costs	1,917,637	1,694,312	1,364,758	1,256,605	1,004,106	1,491,448	1,087,070	959,739	1,143,810	1,038,569
Intergovernmental:										
Commonwealth	8,703,743	10,169,012	9,936,350	11,239,010	11,490,604	13,345,182	12,561,997	15,071,859	12,829,369	12,909,183
Federal	2,949,077	2,968,573	2,756,944	3,337,402	3,221,610	3,879,508	4,775,305	4,363,883	3,761,934	2,603,528
<b>Total revenues</b>	<b>\$ 78,294,561</b>	<b>\$ 78,804,161</b>	<b>\$ 78,627,394</b>	<b>\$ 79,964,396</b>	<b>\$ 81,577,439</b>	<b>\$ 88,346,073</b>	<b>\$ 89,639,522</b>	<b>\$ 92,791,207</b>	<b>\$ 94,274,521</b>	<b>\$ 95,194,374</b>
<b>Expenditures</b>										
General government administration	\$ 4,720,227	\$ 5,047,982	\$ 5,402,264	\$ 4,785,487	\$ 5,034,113	\$ 5,785,583	\$ 6,669,886	\$ 6,178,075	\$ 6,309,106	\$ 7,905,904
Judicial administration	3,233,832	3,575,964	3,324,483	3,326,241	3,347,017	3,707,295	3,872,721	4,058,896	4,426,162	4,757,907
Public safety	17,375,049	18,603,995	18,220,229	18,666,202	18,154,890	18,006,243	18,838,158	19,354,308	20,738,813	21,014,424
Public works	6,785,769	7,273,319	7,206,095	7,648,942	7,430,631	7,932,048	8,134,695	8,719,453	8,680,717	9,938,991
Health and welfare	7,119,818	6,859,859	6,976,070	7,004,337	7,136,173	7,181,433	6,692,144	6,878,616	7,776,388	7,343,391
Education	21,631,305	24,441,360	25,202,840	24,143,850	24,343,841	25,243,850	26,663,850	26,853,825	26,883,825	27,937,535
Parks, recreation and cultural	3,928,293	4,053,007	4,090,417	3,441,368	3,389,943	3,733,260	3,755,802	3,883,740	4,041,718	4,134,366
Community development	2,975,019	2,732,018	2,380,204	2,168,755	2,250,173	2,416,979	2,487,037	2,602,400	2,848,613	3,102,783
Capital projects	16,439,420	6,735,321	3,456,377	4,792,112	2,675,390	9,269,823	10,160,076	25,044,316	13,197,828	12,206,160
Debt service										
Principal	3,040,925	3,296,107	3,126,779	3,026,695	3,127,831	2,857,891	2,704,885	3,588,507	4,437,379	3,966,345
Interest and other fiscal charges	3,191,033	3,064,543	3,046,535	2,843,788	2,710,791	2,675,680	3,860,585	3,658,596	3,457,000	3,593,740
<b>Total expenditures</b>	<b>\$ 90,440,690</b>	<b>\$ 85,683,475</b>	<b>\$ 82,432,293</b>	<b>\$ 81,847,777</b>	<b>\$ 79,605,793</b>	<b>\$ 88,810,084</b>	<b>\$ 93,839,839</b>	<b>\$ 110,820,732</b>	<b>\$ 102,797,549</b>	<b>\$ 105,901,546</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (12,146,129)</b>	<b>\$ (6,879,314)</b>	<b>\$ (3,804,899)</b>	<b>\$ (1,883,381)</b>	<b>\$ 1,971,646</b>	<b>\$ (464,011)</b>	<b>\$ (4,200,317)</b>	<b>\$ (18,029,525)</b>	<b>\$ (8,523,028)</b>	<b>\$ (10,707,172)</b>
<b>Other financing sources (uses)</b>										
Transfers in	\$ 764,695	\$ 834,798	\$ 10,133,320	\$ 9,732,457	\$ 11,913,628	\$ 9,615,156	\$ 10,600,181	\$ 10,924,477	\$ 12,138,388	\$ 12,726,061
Transfers out	-	-	(9,276,740)	(8,828,233)	(11,528,608)	(9,015,156)	(9,979,745)	(10,320,084)	(11,534,908)	(12,106,516)
Refunding bonds issued	-	-	2,672,836	-	-	2,469,101	-	-	5,714,176	-
Bonds issued	-	-	-	-	-	33,860,000	-	-	3,832,391	14,820,000
Premium on bonds issued	-	2,462,150	-	-	-	-	-	-	-	2,490,218
Payments to refunded bond escrow agent	-	64,015	-	-	-	1,760,063	-	-	-	-
Long-term notes payable issued	-	-	(2,650,207)	-	-	(2,592,336)	-	-	(5,698,218)	-
Sale of capital assets	298,472	1,105,125	76,293	-	-	725,000	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>\$ 1,063,167</b>	<b>\$ 4,466,088</b>	<b>\$ 955,502</b>	<b>\$ 904,224</b>	<b>\$ 421,685</b>	<b>\$ 36,849,069</b>	<b>\$ 648,982</b>	<b>\$ 618,051</b>	<b>\$ 4,582,210</b>	<b>\$ 18,010,593</b>
<b>Net change in fund balances</b>	<b>\$ (11,082,962)</b>	<b>\$ (2,413,226)</b>	<b>\$ (2,849,397)</b>	<b>\$ (979,157)</b>	<b>\$ 2,393,331</b>	<b>\$ 36,385,058</b>	<b>\$ (3,551,335)</b>	<b>\$ (17,411,474)</b>	<b>\$ (3,940,818)</b>	<b>\$ 7,303,421</b>
Debt service as a percentage of noncapital expenditures	8.19%	8.03%	7.84%	7.59%	7.53%	6.93%	7.86%	8.44%	6.79%	6.52%

CITY OF FREDERICKSBURG, VIRGINIA

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

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Business License Tax	Motor			Record-ation and Wills Tax	Tobacco Tax	Hotel Lodging Tax	Meals Tax	Total
					Vehicle License Tax	Bank Stock Tax	Hotel Lodging Tax					
2007	\$ 27,608,258	\$ 12,892,369	\$ 2,036,988	\$ 5,777,346	\$ 310,039	\$ 567,273	\$ 818,353	\$ 612,462	\$ 860,935	\$ 6,418,546	\$ 57,902,569	
2008	27,840,128	12,746,040	1,527,028	5,436,366	300,786	459,020	715,884	593,940	918,952	7,042,409	57,580,553	
2009	29,410,334	11,929,648	1,517,109	5,847,174	377,547	469,094	460,085	530,216	1,050,586	7,080,021	58,671,814	
2010	29,903,318	10,043,091	1,677,699	5,893,072	375,553	758,805	406,123	503,322	1,084,542	8,132,542	75,939,346	
2011	31,240,415	10,191,895	1,644,628	5,538,312	429,626	777,521	468,241	554,701	1,175,244	8,842,347	60,862,930	
2012	33,961,795	10,311,633	1,831,083	5,735,557	421,393	696,511	402,018	578,303	1,182,500	9,373,302	64,494,095	
2013	34,698,020	10,840,598	1,795,046	5,994,920	450,126	657,687	408,981	442,569	1,204,855	9,657,796	66,150,598	
2014	35,293,983	10,663,183	1,844,379	5,641,614	455,246	700,378	567,244	543,916	1,149,906	9,752,120	66,611,969	
2015	37,516,803	10,780,677	1,856,992	5,943,742	471,438	792,451	456,665	525,413	1,329,542	10,115,765	69,789,488	
2016	39,027,174	11,176,401	1,810,911	6,101,499	472,014	755,230	711,445	513,669	1,432,190	10,693,375	72,693,908	

CITY OF FREDERICKSBURG, VIRGINIA

Table 6

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

Fiscal Year	Real Estate	Direct Tax		Personal Property	Direct Tax		Machinery and Tools	Direct Tax		Public Service	Service Charges	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value		Assessed Value as a Percentage of Actual Value
		Rate	\$		Rate	\$		Rate	\$					Rate	\$	
2007	\$ 2,241,072,600	0.89	\$ 238,522,432	2.99	\$ 10,016,867	0.80	\$ 41,254,287	1.856,400	1.09	\$ 2,532,722,586	100.00%					
2008	4,045,740,800	0.53	247,570,187	2.99	8,972,280	0.80	45,382,045	4,023,600	0.67	4,351,688,912	100.00%					
2009	4,106,387,300	0.56	244,149,967	2.99	9,064,237	0.80	87,776,155	4,060,300	0.70	4,451,437,959	100.00%					
2010	3,501,342,300	0.68	237,860,715	3.40	20,065,271	0.80	92,224,942	3,464,100	0.85	3,854,957,328	100.00%					
2011	3,542,088,600	0.68	252,413,838	3.40	33,658,145	0.80	106,522,343	3,464,100	0.86	3,938,147,026	100.00%					
2012	3,606,739,500	0.72	266,300,640	3.40	34,817,018	0.80	121,621,449	3,464,100	0.90	4,032,942,707	100.00%					
2013	3,519,520,600	0.74	289,788,976	3.40	29,433,766	0.80	112,250,088	3,427,400	0.94	3,954,420,830	100.00%					
2014	3,596,021,600	0.74	296,590,842	3.40	25,812,744	0.80	98,288,766	3,927,400	0.94	4,020,641,352	100.00%					
2015	3,626,209,900	0.79	301,993,080	3.40	22,001,821	0.80	100,894,855	3,427,400	0.99	4,054,527,056	100.00%					
2016	3,651,843,200	0.82	311,513,383	3.40	16,746,858	0.80	98,498,817	3,427,400	1.02	4,082,029,658	100.00%					

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 7

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

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Total Direct Tax Rate
2007	\$ 0.89	\$ 2.99	0.89	\$ 0.80	\$ 1.09
2008	0.53	2.99	0.53	0.80	0.67
2009	0.56	2.99	0.56	0.80	0.70
2010	0.68	3.40	0.68	0.80	0.85
2011	0.68	3.40	0.68	0.80	0.86
2012	0.72	3.40	0.72	0.80	0.90
2013	0.74	3.40	0.74	0.80	0.94
2014	0.74	3.40	0.74	0.80	0.94
2015	0.79	3.40	0.79	0.80	0.99
2016	0.82	3.40	0.82	0.80	1.02

(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 2016			Fiscal Year 2007		
		Assessed Valuation	Rank	% of Total Assessed Valuation (1)	2006-2007 Assessed Valuation	Rank	% of Total Assessed Valuation (1)
Fredericksburg 35 LLC	Central Park property	\$ 99,072,100	1	2.64 %	\$ 87,072,900	1	3.81 %
Home Properties Cobblestone LLC	New Home Sales	51,349,200	2	1.37	-	-	-
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	49,341,800	3	1.31	45,278,200	2	1.98
Virginia Electric & Power Co.	Public utility	46,191,897	4	1.23	-	-	0.00
Mid-America Apartments, LP	Apartment complex	42,987,400	5	1.15	-	-	-
Central Park Marketplace Holdings LLC	Central Park property	37,635,200	6	1.00	-	-	-
Mid-America Apts, LP Seasons at Cel. VA.	Apartment complex	35,989,600	7	0.96	-	-	-
Residences at Belmont Apts., LLC	Apartment complex	32,893,600	8	0.88	-	-	-
Verizon Virginia, Inc.	Public utility	26,691,907	9	0.71	-	-	-
Wal-Mart Real Estate Business	Commercial	25,256,100	10	0.67	18,171,900	5	-
Ryland Group	Home builder	-	-	-	38,586,300	3	1.69
Fall Hill - Central Park	Restaurants, ice park, office building	-	-	-	23,832,200	4	1.04
Riverside Manor	Apartment complex	-	-	-	17,288,600	6	0.76
Stellar Belmont	Apartment complex	-	-	-	17,134,000	7	0.75
Celebrate Virginia South LLC	Office buildings, retail	-	-	-	16,538,700	8	0.72
CRIT VA II Inc	Investments	-	-	-	15,889,500	9	0.70
2801 Plank Road Hotel Co.	Motel	-	-	-	15,002,700	10	0.66
<b>Total</b>		<b>\$ 447,408,804</b>		<b>11.92 %</b>	<b>\$ 294,795,000</b>		<b>12.91 %</b>

Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1) (3)	Total Collections to Date	
		Amount (1) (3)	Percentage of Levy (2)		Amount (1) (3)	Percentage of Levy (2)
2007	\$ 28,552,323	\$ 28,097,519	98.41%	\$ 427,073	\$ 28,524,592	99.90%
2008	29,330,707	28,961,391	98.74%	315,231	29,276,622	99.82%
2009	30,902,557	30,222,352	97.80%	616,582	30,838,934	99.79%
2010	32,129,525	31,050,501	96.64%	1,006,104	32,056,605	99.77%
2011	33,269,826	32,103,892	96.50%	939,058	33,042,950	99.32%
2012	35,663,960	34,417,182	96.50%	745,495	35,162,677	98.59%
2013	36,540,252	35,453,742	97.03%	618,604	36,072,346	98.72%
2014	37,507,994	35,982,391	95.93%	1,011,911	36,994,302	98.63%
2015	39,392,612	38,212,293	97.00%	489,660	38,701,953	98.25%
2016	40,976,073	39,725,807	96.95%	-	39,725,807	96.95%

(1) Exclusive of penalties and interest.

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Years	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General		Notes		General		Notes				
	Obligation	Revenue	Obligation	Revenue	Obligation	Revenue	Obligation	Revenue			
2007	\$ 66,873,708	\$ -	\$ 7,226,888	\$ -	\$ -	\$ 6,423,952	\$ -	80,524,548	9.31%	\$ 3,555	
2008	65,988,291	-	15,160,159	-	-	5,524,919	-	86,673,369	9.75%	3,785	
2009	62,766,729	-	14,445,225	-	-	4,595,059	-	81,807,013	9.17%	3,503	
2010	59,625,306	-	20,068,845	-	-	3,633,315	-	83,327,466	8.73%	3,431	
2011	56,386,080	-	19,035,185	-	-	2,638,594	-	78,059,859	7.43%	3,038	
2012	88,917,128	725,000	17,984,434	-	-	1,609,765	-	109,236,327	10.26%	4,198	
2013	85,946,002	725,000	16,964,140	-	-	545,659	-	104,180,801	9.33%	3,815	
2014	82,110,710	725,000	15,939,460	-	-	-	-	98,775,170	8.12%	3,511	
2015	82,357,412	-	27,611,336	-	-	-	-	109,968,748	9.15%	3,898	
2016	93,367,519	-	25,658,010	2,103,232	-	-	-	121,128,761	9.64%	4,308	

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 11

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

Fiscal Year	Gross Bonded Debt		Less: Amounts Reserved for Debt Service		Net Bonded Debt (1)	Ratio of Net General Obligation Debt to Assessed Value (2)		Net Bonded Debt per Capita (3)
	\$		\$			%	\$	
2007	74,100,596		-		74,100,596	2.93%	\$ 3,271	
2008	81,148,450		-		81,148,450	1.86%	3,544	
2009	77,211,954		-		77,211,954	1.73%	3,306	
2010	79,694,151		-		79,694,151	2.07%	3,281	
2011	75,421,265		-		75,421,265	1.92%	2,936	
2012	107,626,562		-		107,626,562	2.67%	4,136	
2013	103,635,142		805,804		102,829,338	2.60%	3,766	
2014	98,775,170		2,462,142		96,313,028	2.40%	3,424	
2015	109,968,748		2,308,258		107,660,490	2.66%	3,816	
2016	119,025,529		2,614,397		116,411,132	2.85%	4,140	

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

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

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

Legal Debt Margin Information  
Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 132,869,049	\$ 231,895,610	\$ 237,514,942	\$ 207,207,276	\$ 211,856,637	\$ 216,056,402	\$ 212,771,995	\$ 215,659,654	\$ 218,129,465	\$ 219,586,863
Total net debt applicable to limit	72,515,147	79,400,147	75,597,147	78,024,146	73,892,147	104,475,147	99,973,210	93,731,873	105,466,742	112,218,603
Legal debt margin	\$ 60,353,902	\$ 152,495,463	\$ 161,917,795	\$ 129,183,130	\$ 137,964,490	\$ 111,581,255	\$ 112,798,785	\$ 121,927,781	\$ 112,662,723	\$ 107,368,260
Total net debt applicable to the limit as a percentage of debt limit	54.58%	34.24%	31.83%	37.66%	34.88%	48.36%	46.99%	43.46%	48.35%	51.10%

Legal Debt Margin Calculation for Fiscal Year 2016

Assessed value	\$ 3,750,342,017
Add back: exempt real property	824,384,300
Total assessed value	\$ 4,574,726,317
Debt limit (4.8% of total assessed value)	\$ 219,586,863
Net debt applicable to limit	112,218,603
Legal debt margin	\$ 107,368,260

Pledged-Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Bonds							
	Water & Sewer		Less:		Net Available Revenue	Debt Service		Coverage
	Charges and Other	Operating Expenses	Operating Expenses	Net Available Revenue		Principal	Interest	
2007	\$ 7,517,175	\$ 6,045,570	\$ 1,471,605	\$ 1,224,349	\$ 366,426	\$ 0.93		
2008	7,142,159	6,799,902	342,257	1,272,693	520,893	0.19		
2009	7,361,317	6,559,626	801,691	1,514,393	665,412	0.37		
2010	7,693,179	6,388,224	1,304,955	1,583,149	650,316	0.58		
2011	10,049,028	6,710,195	3,338,833	1,860,357	788,611	1.26		
2012	9,218,671	7,394,400	1,824,271	1,905,625	745,723	0.69		
2013	8,241,838	7,211,193	1,030,645	1,902,540	664,165	0.40		
2014	9,101,122	7,019,203	2,081,919	1,380,571	606,902	1.05		
2015	9,342,915	7,097,478	2,245,437	835,936	631,893	1.53		
2016	10,357,703	7,294,421	3,063,282	1,707,399	770,634	1.24		

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income	Per Capita		School Enrollment (3)	Unemployment Rate (4)
			Personal Income (2)	Income (2)		
2007	22,651 \$	865,154,945 \$	38,195	2,511	4.1%	
2008	22,899	889,030,776	38,824	2,540	5.7%	
2009	23,353	892,131,306	38,202	2,655	9.2%	
2010	24,286 *	954,391,228	39,298	2,793	9.6%	
2011	25,691 *	1,050,582,063	40,893	3,037	10.3%	
2012	26,024 *	1,064,199,432	40,893	3,072	8.8%	
2013	27,307 *	1,116,665,151	40,893	3,139	8.2%	
2014	28,132 *	1,215,808,776	43,218	3,214	5.9%	
2015	28,213 *	1,201,676,309	42,593	3,300	6.2%	
2016	28,118 *	1,256,818,364	44,698	3,478	4.8%	

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

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

(3) Source: Fredericksburg School Board office.

(4) Source: Bureau of Labor Statistics.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers  
Current Year and the Period Nine Years Prior

Employer	Fiscal Year 2016			Fiscal Year 2007		
	Number of Employees (1)	Rank	Percentage of Total Employment	Number of Employees (2)	Rank	Rank
Mary Washington Healthcare	4,503	1	21.95%	1000 and over	1	1
University of Mary Washington	872	2	4.25%	500 to 999	2	2
City of Fredericksburg	752	3	3.67%	500 to 999	4	4
City of Fredericksburg School Board	742	4	3.62%	-	-	-
Wal-Mart	541	5	2.64%	500 to 999	3	3
Wegmans	534	6	2.60%	-	-	-
Snowden Services	450	7	2.19%	250 to 499	6	6
Free Lance Star Publishing, Inc.	418	8	2.04%	250 to 499	5	5
RACSB	312	9	1.52%	250 to 499	10	10
OS Restaurant Services	205	10	1.00%	-	-	-
VDOT	-	-	-	250 to 499	7	7
Outback Steakhouse	-	-	-	250 to 499	9	9
Medicorp Health System	-	-	-	250 to 499	8	8

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

(2) For fiscal year 2007 only ranges were available from the Virginia Employment Commission.

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	41	43	40	38	41	41	43	44	51	52
Judicial administration	42	41	39	38	39	39	40	42	48	48
Public safety	166	162	162	164	162	166	162	156	165	159
Public works	87	86	81	75	73	74	73	78	72	73
Health and welfare	33	35	35	35	34	33	32	34	33	35
Parks and recreation	16	19	17	17	17	16	17	32	19	19
Community development	12	13	12	12	12	11	13	14	14	16
Water	9	9	10.5	10.5	10	10	9	6	11	12
Wastewater	18	21	18.5	16.5	19	19	17	12	20	21
Transit	11	12	13	13	13	13	14	15	15	14
Parking garage	1	1	1	1	1	1	1	1	1	1
Totals	436	442	429	420	421	423	421	434	449	450

Source: Fiscal Affairs department.

Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public safety:										
Police department:										
Physical arrests	2,839	2,850	3,168	3,477	3,772	3,621	3,722	3,660	3,974	3,522
Traffic violations (1)	6,167	7,290	7,335	6,546	7,937	7,914	7,824	5,981	5,320	3,733
Parking violations	10,055	10,671	8,397	7,467	7,223	6,965	6,528	7,513	6,235	6,219
Sheriffs department:										
Civil papers (2)	42,279	44,088	41,379	48,074	48,918	50,764	63,886	58,338	58,111	59,405
Fire and rescue:										
Number of calls answered	5,728	6,145	5,885	5,882	5,825	5,471	5,407	5,311	5,344	5,462
Inspections	1,651	2,030	1,478	1,624	1,596	1,548	1,650	1,673	2,072	2,015
Building inspections:										
Permits issued	2,395	1,781	1,541	1,486	1,633	1,558	1,554	1,618	1,640	1,703
Animal control:										
Number of calls answered	1,163	1,010	811	1,015	897	864	1,022	926	520	895
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	483	311	277	327	517	400	309	212	248	377
Waste removal:										
Refuse collected										
(thousands of pounds/day)	24.3	24.7	20.6	21.4	20.7	19.3	19.0	20.6	21.1	21.4
Recycling collected:										
Leaves (cubic yards)	5,379	6,292	5,604	5,604	5,038	4,510	5,421	5,336	5,027	4,218
General services:										
Buildings maintained										
(thousands of square feet)	572.1	496.9	501.9	500.5	500.5	480.5	462.3	551.2	551.9	604.2
Culture and recreation:										
Parks and recreation:										
Number of programs (3)	403	518	510	464	471	514	495	414	397	377
Number of participants (3)	17,055	20,964	18,563	16,193	19,082	20,425	19,525	14,177	13,966	8,421
Community development:										
Planning:										
Zoning permits issued (4) (5)	289	237	291	260	283	390	338	309	367	365

Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Water:</b>										
Number of connections	7,245	7,274	7,351	7,453	7,614	7,718	7,801	7,861	7,911	7,950
Average daily consumption (thousands of gallons)	2,529	2,639	2,492	2,334	2,557	2,584	2,649	2,537	2,650	2,544
<b>Wastewater:</b>										
Average daily sewage treatment (thousands of gallons)	2,454	2,700	2,794	3,210	2,700	3,010	2,493	2,833	3,290	3,350
<b>Transit:</b>										
Ridership per service area:										
City of Fredericksburg (7)	184,670	208,410	273,685	261,238	274,540	278,657	279,363	259,790	238,024	214,439
UMW - Eagle Express	17,723	16,444	15,014	12,030	15,323	12,284	13,685	11,679	10,287	11,371
Spotsylvania County	44,659	81,315	113,669	97,343	96,248	116,623	117,633	114,162	114,417	94,740
South Stafford County (6)	34,808	32,112	39,234	40,830	45,288	44,341	68,614	65,033	63,781	62,618
North Stafford County (6)	53,957	62,895	77,303	74,369	70,397	72,366	39,446	33,751	38,495	34,036
Caroline County	5,855	6,189	8,160	7,155	5,882	7,352	10,425	11,094	12,168	10,192
King George County	10,727	15,867	21,550	16,792	16,993	17,033	-	-	-	-
<b>Component Unit - School Board:</b>										
Education:										
Number of students	2,511	2,540	2,655	2,793	3,037	3,072	3,139	3,214	3,300	3,356
Number of teachers	251	256	257	256	258	258	264	267	265	269
Cost per pupil	\$ 13,403	\$ 14,416	\$ 13,911	\$ 13,276	\$ 11,882	\$ 12,546	\$ 13,853	\$ 14,235	\$ 13,771	\$ 13,849

Source: Individual city departments.

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

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	30	35	33	31	31	31	35	34	34	40
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	7	7	8	8	9	10	11	12	12	14
Sheriffs department:										
Patrol units	18	14	15	15	15	15	16	16	19	20
Building inspections:										
Vehicles	7	7	7	7	7	7	7	6	5	5
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	22	22	22	21	20	20	20	20	20	20
Streets (moving lane miles)	189	189	189	189	189	189	189	189	189	189
Traffic signals	61	61	61	61	61	61	61	60	61	61
Waste removal:										
Trucks/vehicles	7	7	7	8	10	10	7	7	7	7
Building maintenance:										
Trucks/vehicles	9	10	8	10	10	10	10	13	15	16
Health and welfare:										
Department of Social Services:										
Vehicles	6	6	6	6	6	6	6	6	6	6

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	14	13	15	13	13	14	14	13	15	15
Parks	13	13	13	17	18	18	18	18	19	19
Park acreage	1,009	1,015	1,015	1,051	1,055	1,055	1,055	1,057	1,085	1,085
Water:										
Water mains (miles)	66	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	5	5	5	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	67	67	67	67	67	67	67	67	67	67
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Component Unit - School Board:										
Education:										
Schools	5	5	5	5	5	5	5	5	5	5
School buses	36	36	36	37	38	37	41	41	42	43

Source: Individual City departments.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Fredericksburg, Virginia's basic financial statements, and have issued our report thereon dated November 22, 2016.

## Internal Control over Financial Reporting

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

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

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

## Compliance and Other Matters

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

### Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia  
November 22, 2016

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

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

### Report on Compliance for Each Major Federal Program

We have audited the City of Fredericksburg, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Fredericksburg, Virginia's major federal programs for the year ended June 30, 2016. City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

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

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

#### *Opinion on Each Major Federal Program*

In our opinion, the City of Fredericksburg, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control over Compliance

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

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

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

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

*Robinson, Farmer, Cox Associates*  
Fredericksburg, Virginia  
November 22, 2016

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit  
 Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
<b>Primary Government:</b>				
Department of Agriculture:				
Pass-through Payments:				
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010116/0010115/ 0040116/0040115	\$ 382,583	\$ -
Total Department of Agriculture			<u>\$ 382,583</u>	<u>\$ -</u>
Department of the Treasury:				
Direct Payments:				
Asset Forfeiture	21.000	N/A	\$ 2,945	\$ -
Total Department of the Treasury			<u>\$ 2,945</u>	<u>\$ -</u>
Department of Housing and Urban Development:				
Direct Payments:				
Community Development Block Grant/Entitlement Grants	14.218	N/A	\$ 161,840	\$ 31,546
Total Department of Housing and Urban Development			<u>\$ 161,840</u>	<u>\$ 31,546</u>
Department of Justice:				
Direct Payments:				
Public Safety Partnership and Community Policing Grants	16.710	N/A	\$ 526	\$ -
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	15,411	-
Pass-through Payments:				
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	39001-46000/86015	53,094	-
Total Department of Justice			<u>\$ 69,031</u>	<u>\$ -</u>
Department of Transportation:				
Direct Payments:				
Federal Transit - Formula Grants	20.507	N/A	\$ 1,685,495	\$ -
Pass-through Payments:				
Virginia Department of Rail and Public Transportation:				
Formula Grants for Rural Areas	20.509	42516-06	132,915	-
Total Federal Transit Formula Grants			<u>\$ 1,818,410</u>	<u>\$ -</u>
Virginia Department of Motor Vehicles:				
State and Community Highway Safety	20.600	60507-55350	\$ 16,140	\$ -
Total Department of Transportation			<u>\$ 1,834,550</u>	<u>\$ -</u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit  
 Year Ended June 30, 2016 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
<b>Primary Government: (continued)</b>				
Department of Health and Human Services:				
Pass-through Payments:				
Department of Social Services:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760116/0760115	\$ 44,745	-
Promoting Safe and Stable Families	93.556	0950115/0950114	16,632	-
Temporary Assistance for Needy Families	93.558	0400116/0400115	272,839	-
Refugee and Entrant Assistance State Administered Programs	93.566	0500116/0500115	10,779	-
Low-Income Home Energy Assistance	93.568	0600416/0600415	30,407	-
Chafee Education and Training Vouchers Program	93.599	9160115/9160114	1,071	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900116/0900115	1,824	-
Foster Care - Title IV-E	93.658	1100116/1100115	300,651	-
Adoption Assistance	93.659	1120116/1120115	495,587	-
Social Services Block Grant	93.667	1000116/1000115	217,042	-
Chafee Foster Care Independence Program	93.674	9150116/9150115	3,317	-
Children's Health Insurance Program	93.767	0540116/0540115	19,266	-
Medical Assistance Program	93.778	1200116/1200115	532,469	-
Total Department of Health and Human Services			<u>\$ 1,946,629</u>	<u>\$ -</u>
Department of Homeland Security:				
Pass-through Payments:				
Department of Emergency Services:				
Emergency Management Performance Grants	97.042	77501-62744	\$ 21,360	-
Total Department of Homeland Security			<u>\$ 21,360</u>	<u>\$ -</u>
Department of Commerce National Oceanic and Atmospheric Administration:				
Pass-through Payments:				
Virginia Department of Environmental Quality:				
Chesapeake Bay Studies	11.457	16167/16168	\$ 3,000	-
Total Department of Commerce National Oceanic and Atmospheric Administration			<u>\$ 3,000</u>	<u>\$ -</u>
Total Expenditures of Federal Awards - Primary Government			<u>\$ 4,421,938</u>	<u>\$ 31,546</u>
<b>Component Unit - School Board:</b>				
Department of Agriculture:				
Pass-through Payments:				
Child Nutrition Cluster:				
Food Distribution Service	10.555	2015IN109941/ 201616N109941	\$ 134,757	-
Virginia Department of Education:				
National School Lunch Program (SL-4) (SL-11)	10.555	2015IN109941/ 201616N109941	1,018,821	-
Total 10.555			<u>\$ 1,153,578</u>	<u>\$ -</u>
School Breakfast Program	10.553	2015IN109941/ 201616N109941	\$ 279,657	-
Total Department of Agriculture			<u>\$ 1,433,235</u>	<u>\$ -</u>
Department of Health and Human Services:				
Direct Payments:				
Head Start	93.600	N/A	\$ 1,076,539	-
Total Department of Health and Human Services			<u>\$ 1,076,539</u>	<u>\$ -</u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit  
 Year Ended June 30, 2016 (Continued)

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Provided to Subrecipients
<b>Component Unit - School Board: (continued)</b>				
Department of Education:				
Pass-through Payments:				
Virginia Department of Education:				
Title I Grants to Local Educational Agencies	84.010	S010A140046/ S010A150046	\$ 788,742	\$ -
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	H027A140107/ H027A150107	\$ 632,143	\$ -
Special Education - Preschool Grants	84.173	H173A130112/ H173A140112	17,853	-
Total Special Education Cluster (IDEA)			<u>\$ 649,996</u>	<u>\$ -</u>
English Language Acquisition State Grants	84.365	S365A150046	4,087	-
Career and Technical Education - Basic Grants to States	84.048	V048A140046	40,022	-
Supporting Effective Instruction State Grant	84.367	S367A150044/ S367A140044	126,378	-
Total Department of Education			<u>\$ 1,609,225</u>	<u>\$ -</u>
Total Expenditures of Federal Awards - Component Unit School Board			<u>\$ 4,118,999</u>	<u>\$ -</u>
Total Expenditures of Federal Awards - Reporting Entity			<u>\$ 8,540,937</u>	<u>\$ 31,546</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2016

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Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Fredericksburg, Virginia under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Fredericksburg, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Fredericksburg, Virginia.

Note 2 - Summary of Significant Accounting Policies

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

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

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	\$ 41,555
Special Revenue Funds:	
Virginia Public Assistance Fund	2,251,823
Children's Services Act Fund	35,834
State, Federal, and Local Grants Fund	271,371
Forfeited Asset Sharing Program Fund	2,945
Proprietary Funds:	
Transit Fund	1,818,410
Wastewater Fund	57,428
Total Primary Government	<u>\$ 4,479,366</u>
Component Unit School Board:	
Special School Fund	\$ <u>4,118,999</u>
Total Component Unit School Board	\$ <u>4,118,999</u>
Less:	
Build America Bonds Interest Subsidy	\$ <u>(57,428)</u>
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 8,540,937</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2016

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Section I - Summary of Auditors' Results

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:  
 Material weaknesses identified? No  
 Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:  
 Material weaknesses identified? No  
 Significant deficiencies identified? None reported

Type of auditors' report issued on compliance  
 for major programs: Unmodified

Any audit findings disclosed that are required to be reported  
 in accordance with 2 CFR Section 200.516(a)? No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.600	Head Start
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A  
 and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

CITY OF FREDERICKSBURG, VIRGINIA

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2016

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There were no prior year findings.