

CITY OF FREDERICKSBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	i-vi
Organizational Chart	vii
Directory of Principal Officials	ix
GFOA Certificate of Achievement	xi
FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Assets	19
Exhibit 2 Statement of Activities	20-21
Fund Financial Statements:	
Exhibit 3 Balance Sheet—Governmental Funds	25
Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	26
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances— Governmental Funds	27
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	28
Exhibit 7 Statement of Net Assets—Proprietary Funds	29
Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Assets— Proprietary Funds	30
Exhibit 9 Statement of Cash Flows—Proprietary Funds	31
Exhibit 10 Statement of Fiduciary Net Assets	32
Exhibit 11 Statement of Changes in Fiduciary Net Assets	33
Exhibit 12 Statement of Activities—Component Units	34-35
Notes to Financial Statements	37-69

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS: (CONTINUED)

		Page
FINANCIAL SECTION: (CONTINUED)		
<u>Required Supplementary Information:</u>		
Exhibit 13	Budgetary Comparison Schedule—General Fund	73-78
Exhibit 14	Virginia Retirement System—Schedule of Pension Funding Progress	79
<u>Other Supplementary Information:</u>		
Exhibit 15	Budgetary Comparison Schedule—Public Safety Construction Fund	83
Exhibit 16	Combining Balance Sheet—Nonmajor Governmental Funds	84
Exhibit 17	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds	85
Exhibit 18	Combining Balance Sheet—Nonmajor Special Revenue Funds	86-87
Exhibit 19	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Special Revenue Funds	88-89
Exhibit 20	Combining Balance Sheet—Nonmajor Capital Projects Funds	90
Exhibit 21	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Capital Projects Funds	91
Exhibit 22	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Debt Service Funds	92
Exhibit 23	Combining Statement of Fiduciary Net Assets	93
Exhibit 24	Statement of Changes in Assets and Liabilities—Agency Funds	94-95
Exhibit 25	Revenues and Expenditures Budgetary Comparison Schedule for Nonmajor and Other Funds with Legally Adopted Budgets	96-99
Exhibit 26	Component Unit School Board—Combining Balance Sheet	100
Exhibit 27	Component Unit School Board—Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	101
Exhibit 28	Component Unit School Board—Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	102
Exhibit 29	Component Unit School Board—Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	103
Exhibit 30	Component Unit School Board—School Operating Fund—Revenues and Expenditures Budgetary Comparison Schedule	104
Exhibit 31	Component Unit School Board—Special School Fund—Revenues and Expenditures Budgetary Comparison Schedule	105
Exhibit 32	Component Unit School Board—School Capital Projects Fund—Revenues and Expenditures Budgetary Comparison Schedule	106

CITY OF FREDERICKSBURG, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS: (CONTINUED)

	Page
STATISTICAL SECTION	
Table 1 Net Assets by Component—Last Five Fiscal Years	109
Table 2 Changes in Net Assets—Last Five Fiscal Years	110-112
Table 3 Fund Balances of Governmental Funds—Last Ten Fiscal Years	113
Table 4 Changes in Fund Balances of Governmental Funds—Last Ten Fiscal Years	114
Table 5 General Governmental Tax Revenues by Source—Last Ten Fiscal Years	115
Table 6 Assessed Value and Estimated Actual Value of Taxable Property—Last Ten Fiscal Years	116
Table 7 Property Tax Rates—Last Ten Fiscal Years	117
Table 8 Principal Property Taxpayers—Current Year and the Period Nine Years Prior	118
Table 9 Property Tax Levies and Collections—Last Ten Fiscal Years	119
Table 10 Ratios of Outstanding Debt by Type—Last Ten Fiscal Years	120
Table 11 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita—Last Ten Fiscal Years	121
Table 12 Legal Debt Margin Information—Last Ten Fiscal Years	122
Table 13 Pledged-Revenue Coverage—Last Ten Fiscal Years	123
Table 14 Demographic and Economic Statistics—Last Ten Fiscal Years	124
Table 15 Principal Employers—Current Year and the Period Nine Years Prior	125
Table 16 Full-time Equivalent City Government Employees by Function—Last Ten Fiscal Years	126
Table 17 Operating Indicators by Function—Last Ten Fiscal Years	127-128
Table 18 Capital Asset Statistics by Function—Last Ten Fiscal Years	129-130
COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	131-132
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	133-134
Schedule of Expenditures of Federal Awards	135-136
Notes to Schedule of Expenditures of Federal Awards	137
Schedule of Findings and Questioned Costs	138
Schedule of Prior Year Findings and Questioned Costs	139

This page intentionally left blank

Phillip L. Rodenberg
City Manager



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

Beverly R. Cameron
Assistant City Manager

December 5, 2007

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Fredericksburg, Virginia (the "City") for the fiscal year ended June 30, 2007.

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

The City's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2007, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

City of Fredericksburg Profile

The City was incorporated as an independent city in 1782, after being initially established as a town in 1728. In 1912, the City became one of the first cities in the nation to adopt the Council-Manager form of government, and its current Charter was granted in 1942. The City is located at the geographic center of the "Chesapeake Golden Crescent"; the area between Baltimore, Maryland and Norfolk-Virginia Beach, Virginia. The City is less than an hour's drive from the nation's and state's capitals and within a 500-mile radius of nearly one-half the nation's population and manufacturing activity. The City currently has a land area of 10.4 square miles and serves a population of 21,273.

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

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

The annual budget serves as the foundation for the City's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. City Charter requires the City Manager to submit to the City Council an annual budget for the ensuing fiscal year at least fifteen days prior to the end of the fiscal year. After a required public hearing on the budget is held, the City Council may change any item in the budget (other than debt service or items required by law). An appropriation ordinance must be adopted by the City Council prior to June 30, or as soon thereafter as practicable. City Council must approve all budget revisions once the appropriation ordinance has been adopted. The annual budgets are prepared for all governmental funds, except for the Central Park Special Tax District Fund, the Fall Hill Special Tax District Fund and the Celebrate Virginia Special Tax District Fund, and they are prepared by fund, and department (e.g., police). All appropriations lapse at year-end; however, the unexpended funds may be reappropriated as part of the following year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented in Exhibit 13. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in Exhibit 25.

Economic Condition and Outlook

In fiscal year 2007, regional competition in the form of increased economic growth in the counties had an adverse impact on the City's other local tax revenue when compared to the fiscal year 2006 local tax revenue amounts. Much of the loss in the local tax revenue can be attributed to an increase in retail shopping and dining opportunities that have been established in the neighboring counties.

The City has enjoyed a favorable economic environment with stable local indicators since the mid-1990s. During that period the City experienced major economic growth activity and community revitalization. Growth related revenues such as property taxes and sales taxes had increased in proportion to the City's expanding commercial development. In fiscal year 2007, this previously favorable trend began to change and unfavorable revenue fluctuations were observed. The category of other local tax revenue is being carefully monitored.

The catalyst for much of the City's commercial development has been the primary retail shopping and dining component known as Central Park which started in 1995. Central Park, located at the I-95/Route 3 Interchange, has 2.2 million square feet of leased retail space housing many national big-box stores, restaurants, and smaller local businesses. In addition to the Central Park retail center, Celebrate Virginia South has opened featuring hotels, the Fredericksburg Expo and Conference Center, Corporate Campus sites, and is the future home of the National Slavery Museum. From the extensive commercial development within Celebrate Virginia to the sensitive renovation and adaptive re-use of numerous existing downtown buildings, the City has attempted to improve its overall position as the hub of a fast-growing region.

The prospect for renewed future growth in local tax revenues is still promising. Significant development opportunities exist in the Celebrate Virginia tract and a number of large projects have been initiated or are planned for construction during fiscal years 2008 and 2009.

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

The City's strong economy continues to make it possible for the City to fund numerous capital improvement projects in the areas of education, recreation, public safety, and transportation. A number of the projects were completed during the 2007 fiscal year while several others are in various stages of construction with completion anticipated in early fiscal year 2008.

The new James Monroe High School was opened in time for the 2006-2007 school year. The new high school features classroom accommodations for 1,000 students and core facilities for 1,200 students. The total cost of this project was approximately \$36,800,000. With the addition of this new facility, the City should have adequate capacity for projected enrollments for the foreseeable future.

The downtown has also experienced major public and private investment activity in the past few years. The City constructed a 297-space parking garage that opened in November 2005. The City also sold land for the future construction of a major hotel downtown. The hotel development would not be possible without the construction of the garage.

Economic Condition and Outlook: (Continued)

Work continued on the Dixon Street Athletic Complex during fiscal year 2007. The first phase of the project, involving the construction of athletic fields, a concession stand/comfort station, pathways, parking lots, a maintenance and operations facility and a preserved wetlands area, was completed in July 2005 at a cost of \$4,750,000. The second phase of the recreation complex, a public outdoor leisure pool, was completed early in fiscal year 2007. The architectural features of this project includes a 7,000 square foot pool, including water play features and an adventure slide, a 5,000 square foot concession area, a 1,200 square foot mechanical building, and a parking lot and walkways. The total cost of the pool was approximately \$3,900,000. Phase three of the athletic complex will be the construction of a community center, which will also serve as a replacement facility for the existing Dorothy Hart Community Center. The timing for the construction of the community center has not yet been determined.

Construction on a new police headquarters neared completion as of June 30, 2007. This 35,000 square foot facility, located on Cowan Boulevard, will provide ample space and permit necessary staff growth for all department functions to include patrol, investigation, administrative support services, animal control, and communications. Completion of this project is expected early in fiscal year 2008 at a total projected cost of \$11,500,000.

Construction began during fiscal year 2007 on a new transit facility for the FREDericksburg Regional Transit. The new facility, located at the same Jefferson Davis Highway site as the retired facility, will include administrative offices, storage, parking areas for transit buses, loading and unloading areas for commercial buses, and enhanced traffic flow patterns. This two-story, 7000 square foot facility, was designed with added safety features to promote the safe circulation of bus, car, and pedestrian traffic. The design of the new facility hopes to set a tone for future development within the surrounding area. This project is scheduled to be completed during the fall of 2007 at an estimated cost of \$5,000,000.

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

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

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

Cash Management Policies and Practices

The City and Component Unit School Board cash and cash equivalents consist of pooled cash and investments. The Component Unit Economic Development Authority maintains its own accounts that are separate from the City's pooled funds. Cash temporarily idled during the year was invested in the Commonwealth Cash Reserve Fund and the Arbitrage and Investment Management Fund. The yield on investments during the year ranged from 5.19 percent to 5.23 percent. Investment income includes appreciation in the fair value of investments. Increases in fair value, however, do not represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

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

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

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

Risk Management

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

Pension and Other Post-Employment Benefits

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

The City also provides post-retirement health care insurance for employees who are eligible for retirement benefits. Currently, 102 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. Related to these post-employment benefits, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 43, "Financial Reporting for Post-employment Benefit Plans" and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The purpose of these statements is to require the accrual and reporting of liabilities for the actuarially determined health insurance premiums the City will be paying for retirees. The City is required to implement these statements in its June 30, 2008 CAFR.

Pension and Other Post-Employment Benefits: (Continued)

Additional information on the City's and Component Unit School Board's pension arrangements and post-employment benefits can be found in Notes 11 and 18 in the Notes to Basic Financial Statements section of this report.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This was the seventeenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

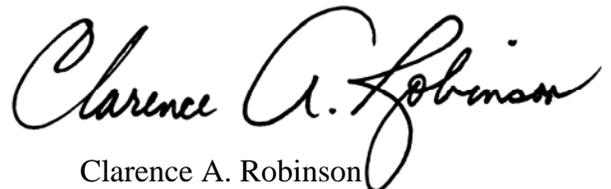
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Fiscal Affairs Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit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

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

Sincerely,



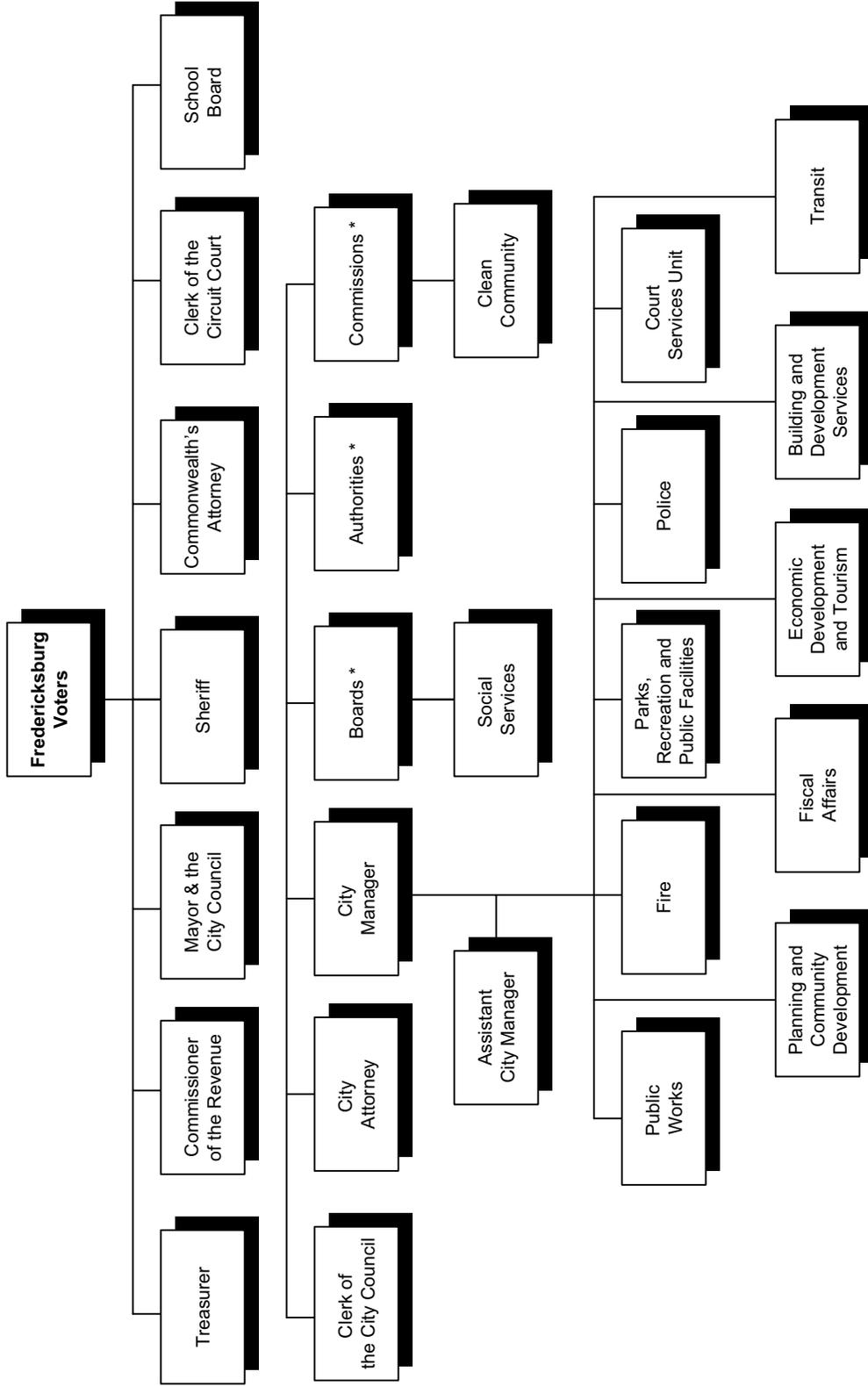
Phillip L. Rodenberg
City Manager



Clarence A. Robinson
Director of Fiscal Affairs

CITY OF FREDERICKSBURG, VIRGINIA

ORGANIZATIONAL CHART



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

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA
PRINCIPAL OFFICIALS
JUNE 30, 2007

CITY COUNCIL

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

CONSTITUTIONAL OFFICERS

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

CITY ADMINISTRATIVE OFFICERS

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

SCHOOL BOARD

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

SCHOOL BOARD ADMINISTRATIVE OFFICER

Dale E. Sander Superintendent

This page intentionally left blank

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fredericksburg
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



President

Executive Director

This page intentionally left blank

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Robinson, Turner, Cox Associates

Fredericksburg, Virginia
December 5, 2007

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- Total net assets for governmental activities were \$111,865,671 at the end of fiscal year 2007. This figure is based on assets totaling \$192,403,139 and liabilities of \$80,537,468. Of the total net asset amount, \$31,075,783 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for business-type activities were \$47,833,588 at the end of fiscal year 2007. The largest portion of this total is related to the water and sewer enterprise operations, valued at \$38,692,755.
- Total net assets for the primary government totaled \$159,699,259. Current assets were \$62,313,615 as compared to total current liabilities of \$18,527,635. The resulting net working capital of \$43,785,980 represents a favorable liquidity position for the City.
- Total net assets for the Component Unit School Board at the end of the fiscal year were \$12,163,335. Of this total, \$10,501,380 represents investment in capital assets, net of related debt.
- At the end of the fiscal year, the City's unreserved, undesignated fund balance for the General Fund was \$12,375,637, or 20.6% of total General Fund expenditures which totaled \$60,124,160.
- The City has an established Financial Management Policy which specifies a targeted goal of maintaining an unreserved, undesignated General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2007 unreserved, undesignated General Fund was 18.9% of the fiscal year 2006 General Fund revenue total of \$65,615,040.
- General Fund revenues increased approximately 3.5% as compared to the preceding fiscal year. The greatest increase was in general property taxes, which increased \$3,489,000, or 15.1%.
- General Fund expenditures increased 12.0% as compared to the preceding fiscal year. Excluding the school allocation, the increase in these expenditures was 10.8%.
- Governmental activities long-term debt decreased by \$3,159,125. The balance at the end of the fiscal year was \$66,873,708. Of this amount, \$46,090,000 is related to the construction of school facilities. The City did not assume any new debt during the fiscal year.

Overview of the Financial Statements

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

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

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

Overview of the Financial Statements: (Continued)

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

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

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

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

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

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

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

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

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund and the Public Safety 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.

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

Overview of the Financial Statements: (Continued)

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

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

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

The basic proprietary fund financial statement can be found on pages 29-31 of this report.

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

The basic fiduciary fund financial statements can be found on pages 32 and 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-71 of this report.

Government-wide Financial Analysis

Statement of Net Assets:

Under GASB 34, governmental entities are required to report on their net asset condition. The Statement of Net Assets presents the value of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets exceeded liabilities by \$159,699,259 at the close of fiscal year 2007.

A large portion of the City's net assets, \$113,005,396 or 70.8%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The \$46,693,863 balance of *unrestricted net assets* may be used to meet the City's ongoing obligations to citizens and creditors.

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

Government-wide Financial Analysis: (Continued)

The following table presents the condensed Statement of Net Assets:

TABLE 1
Summary of Net Assets
As of June 30, 2007
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 07	FY 06	FY 07	FY 06	FY 07	FY 06	FY 07	FY 06
Assets:								
Current and other assets	\$ 44.74	\$ 56.10	\$ 17.57	\$ 20.01	\$ 62.31	\$ 76.11	\$ 6.64	\$ 5.58
Capital assets	147.66	138.60	45.87	42.15	193.53	180.75	10.55	8.88
Total assets	\$ 192.40	\$ 194.70	\$ 63.44	\$ 62.16	\$ 255.84	\$ 256.86	\$ 17.19	\$ 14.46
Liabilities:								
Current and other liabilities	\$ 15.08	\$ 14.60	\$ 3.33	\$ 3.73	\$ 18.41	\$ 18.33	\$ 3.78	\$ 3.39
Long-term liabilities	65.46	68.68	12.28	13.70	77.74	82.38	0.37	0.34
Total Liabilities	\$ 80.54	\$ 83.28	\$ 15.61	\$ 17.43	\$ 96.15	\$ 100.71	\$ 4.15	\$ 3.73
Net assets:								
Invested in capital assets, net of related debt (2)	\$ 80.79	\$ 68.52	\$ 32.21	\$ 27.18	\$ 113.00	\$ 95.70	\$ 10.55	\$ 8.88
Unrestricted	31.07	42.91	15.62	17.55	46.69	60.46	2.49	1.86
Total net assets	\$ 111.86	\$ 111.43	\$ 47.83	\$ 44.73	\$ 159.69	\$ 156.16	\$ 13.04	\$ 10.74

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

Changes in Net Assets:

Governmental Activities

The net assets of the governmental activities increased by \$436,988, resulting in a total net assets position of \$111,865,671. This modest increase represents a slowdown in the net asset growth the City has experienced the last several years. While the revenue collected for such general revenue sources as sales tax, business license tax, and meals tax has remained strong, the growth in these revenues has leveled off as compared to the increasing growth experienced in the costs for personnel, school board operations, and debt service.

Business-type Activities

The net assets of the business-type activities were \$47,833,588. This represents an increase of \$3,100,103 as compared to fiscal year 2006. Much of this increase occurred in the Transit Fund as substantial federal grant revenues were received in connection with the construction of a new transit facility.

Government-wide Financial Analysis: (Continued)

Component Units

The net assets of the School Board were \$12,163,335. Capital assets, net of related debt, comprised the majority of this amount.

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

TABLE 2
Changes in Net Assets
For the Fiscal Year ended June 30, 2007
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	FY 07	FY 06	FY 07	FY 06	FY 07	FY 06	FY 07	FY 06
Revenues:								
Program Revenues:								
Charges for services	\$ 2.55	\$ 2.92	\$ 5.37	\$ 5.21	\$ 7.92	\$ 8.13	\$ 0.84	\$ 0.71
Operating grants and contributions	9.34	8.63	4.43	5.89	13.77	14.52	35.29	30.68
Capital grants and contributions	0.77	-	2.39	0.74	3.16	0.74	-	-
General Revenues:								
Property taxes	27.04	24.82	-	-	27.04	24.82	-	-
Other local taxes	31.40	32.00	0.39	-	31.79	32.00	-	-
Grants not restricted	2.00	2.14	-	-	2.00	2.14	-	-
Use of property	0.14	0.16	-	-	0.14	0.16	0.02	0.02
Investment earnings	2.34	1.85	0.42	0.32	2.76	2.17	0.03	0.01
Miscellaneous	0.98	18.21	0.20	0.24	1.18	18.45	0.09	0.01
Total Revenues	\$ 76.56	\$ 90.73	\$ 13.20	\$ 12.40	\$ 89.76	\$ 103.13	\$ 36.27	\$ 31.43
Expenses:								
General government	\$ 5.55	\$ 3.69	\$ -	\$ -	\$ 5.55	\$ 3.69	\$ -	\$ -
Judicial administration	3.13	2.85	-	-	3.13	2.85	-	-
Public safety	18.16	15.92	-	-	18.16	15.92	-	-
Public works	9.10	8.28	-	-	9.10	8.28	-	-
Health and welfare	6.74	6.13	-	-	6.74	6.13	-	-
Education	24.11	18.96	-	-	24.11	18.96	33.90	30.97
Parks, recreation, and cultural	4.48	4.03	-	-	4.48	4.03	-	-
Community development	2.62	2.19	-	-	2.62	2.19	0.06	0.15
Interest	2.99	3.11	-	-	2.99	3.11	-	-
Water	-	-	2.87	2.38	2.87	2.38	-	-
Sewer	-	-	3.54	3.08	3.54	3.08	-	-
Transit	-	-	2.49	2.12	2.49	2.12	-	-
Parking	-	-	0.44	0.30	0.44	0.30	-	-
Total Expenses	\$ 76.88	\$ 65.16	\$ 9.34	\$ 7.88	\$ 86.22	\$ 73.04	\$ 33.96	\$ 31.12
Excess (deficiency) of revenues over expenses before transfers	\$ (0.32)	\$ 25.57	\$ 3.86	\$ 4.52	\$ 3.54	\$ 30.09	\$ 2.31	\$ 0.31
Transfers	0.76	(0.33)	(0.76)	0.33	-	-	-	-
Change in net assets	\$ 0.44	\$ 25.24	\$ 3.10	\$ 4.85	\$ 3.54	\$ 30.09	\$ 2.31	\$ 0.31

Financial Analysis of the City's Governmental Funds

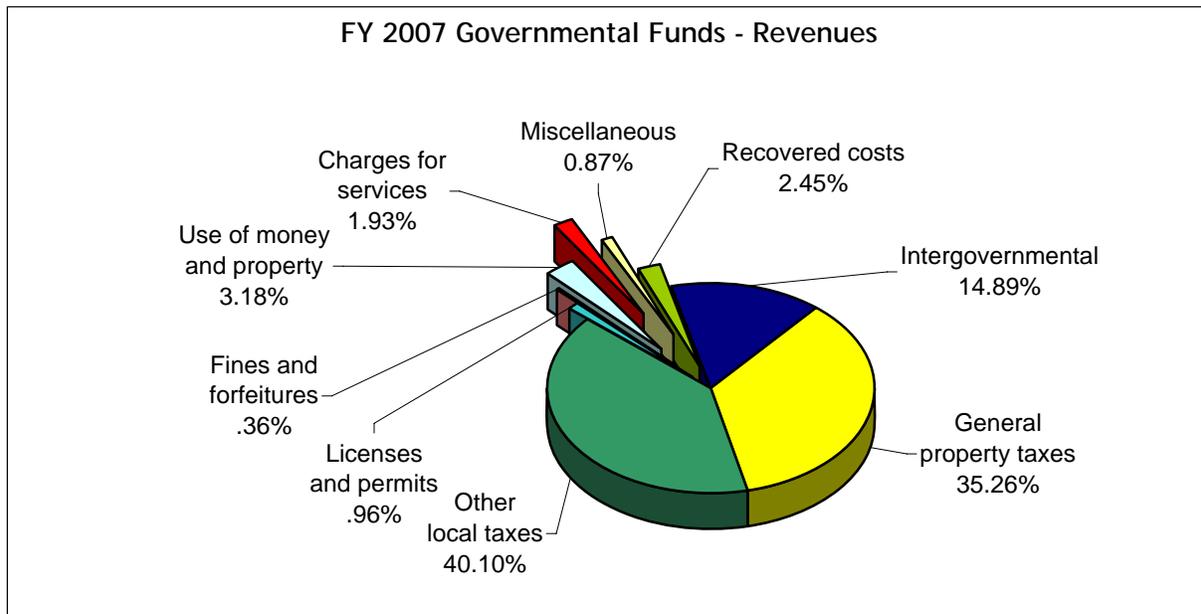
The City's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2007 and 2006 is presented below:

TABLE 3
Governmental Funds - Revenues

	FY 2007	FY 2006	Percentage of Total Revenues FY 2007	Increase (Decrease) from FY 2006
General property taxes	\$ 27,608,258	\$ 24,052,400	35.26%	\$ 3,555,858
Other local taxes	31,394,417	31,997,175	40.10%	(602,758)
Licenses and permits	753,661	1,117,018	0.96%	(363,357)
Fines and forfeitures	283,035	339,338	0.36%	(56,303)
Use of money and property	2,490,880	2,005,694	3.18%	485,186
Charges for services	1,510,745	1,470,494	1.93%	40,251
Miscellaneous	683,108	1,026,316	0.87%	(343,208)
Recovered costs	1,917,637	1,180,093	2.45%	737,544
Intergovernmental	11,652,820	10,770,478	14.88%	882,342
Totals	\$ 78,294,561	\$ 73,959,006	100.00%	\$ 4,335,555



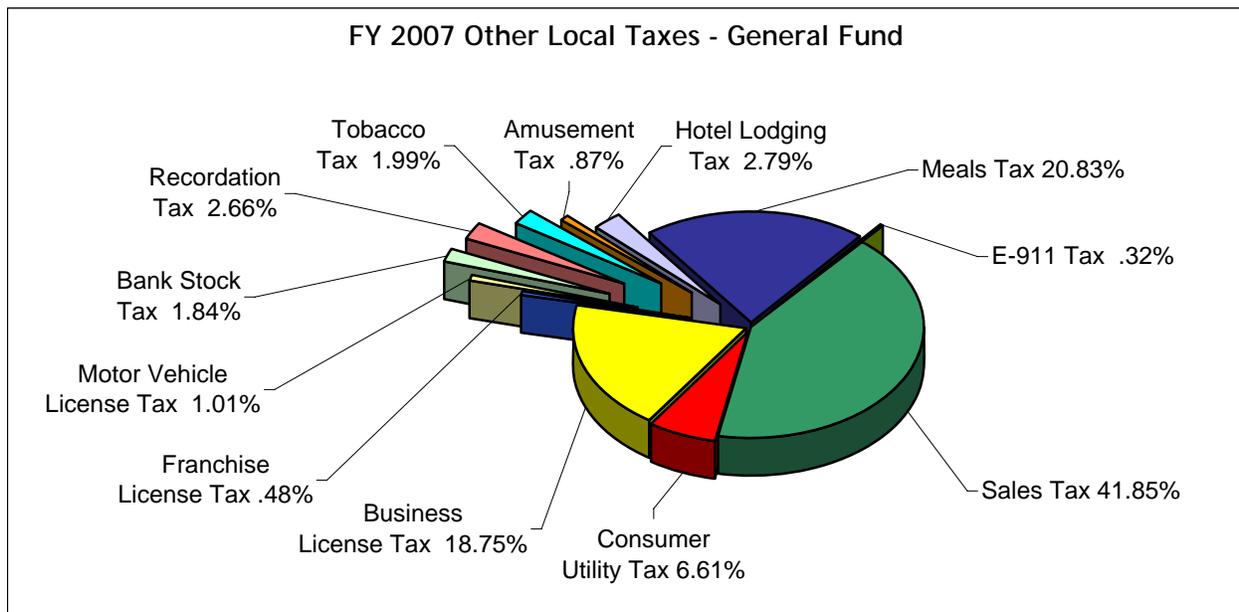
The City's total revenues from governmental activities were \$78,294,561 in fiscal year 2007, an increase of 5.9% over fiscal year 2006. This increase in revenue is primarily attributable to general property taxes increasing 14.8% over fiscal year 2006. This revenue increase, principally accounted for in the General Fund, is a result of real estate and personal property assessed values increasing 8.0% and 21.5%, respectively.

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

Other local tax revenue continues to be the most significant source of revenues supporting governmental activities. The following table reflects other local tax revenues for the General Fund for fiscal years 2007 and 2006:

TABLE 4
Other Local Taxes - General Fund

	<u>FY 2007</u>	<u>FY 2006</u>	<u>Percentage of Total Revenues FY 2007</u>	<u>Increase (Decrease) from FY 2006</u>
Sales Tax	\$ 12,892,369	\$ 12,856,512	41.85%	\$ 35,857
Consumer Utility Tax	2,036,988	2,910,053	6.61%	(873,065)
Business License Tax	5,777,346	5,893,564	18.75%	(116,218)
Franchise License Tax	146,362	291,380	0.48%	(145,018)
Motor Vehicle License Tax	310,039	298,240	1.01%	11,799
Bank Stock Tax	567,273	546,953	1.84%	20,320
Recordation Tax	818,353	985,477	2.66%	(167,124)
Tobacco Tax	612,462	613,471	1.99%	(1,009)
Amusement Tax	269,517	175,635	0.87%	93,882
Hotel Lodging Tax	860,935	808,010	2.79%	52,925
Meals Tax	6,418,546	6,402,076	20.83%	16,470
E-911 Tax	98,521	215,804	0.32%	(117,283)
Totals	\$ 30,808,711	\$ 31,997,175	100.00%	\$ (1,188,464)



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

In recent years various sources of local tax revenue have experienced a flattening, or in some cases, a declining growth rate. Overall, local sales taxes decreased 3.7% compared to fiscal year 2006. Much of this is the result of expanding commercial retail development within neighboring localities.

Effective January 1, 2007, the provisions of House Bill 568 Communications Tax Reform, introduced a statewide communications sales and use tax to retail communication and video services on a competitively neutral basis. The communications sales and use tax will be 5% on the following: Local Exchange, Paging, InterExchange (Both interstate and intrastate); Cable Television; Satellite Television; Wireless; and Voice over the Internet (VoIP).

The reduction, and in some cases elimination of tax revenues associated with the local consumer utility taxes, franchise license taxes and E-911 taxes, accounted for much of the decrease in revenue from fiscal year 2006. However, the most significant local revenue decrease in the 2007 fiscal year is that of local sales and use tax. Page 1 of 6 on Exhibit 13 under heading of Other local taxes reflects an actual fiscal year 2007 local sales and use tax revenue amount of \$12,163,136. This represents a 5.4% decrease when compared to the fiscal year 2006 local sales and use tax amount of \$12,856,512.

Expenditures:

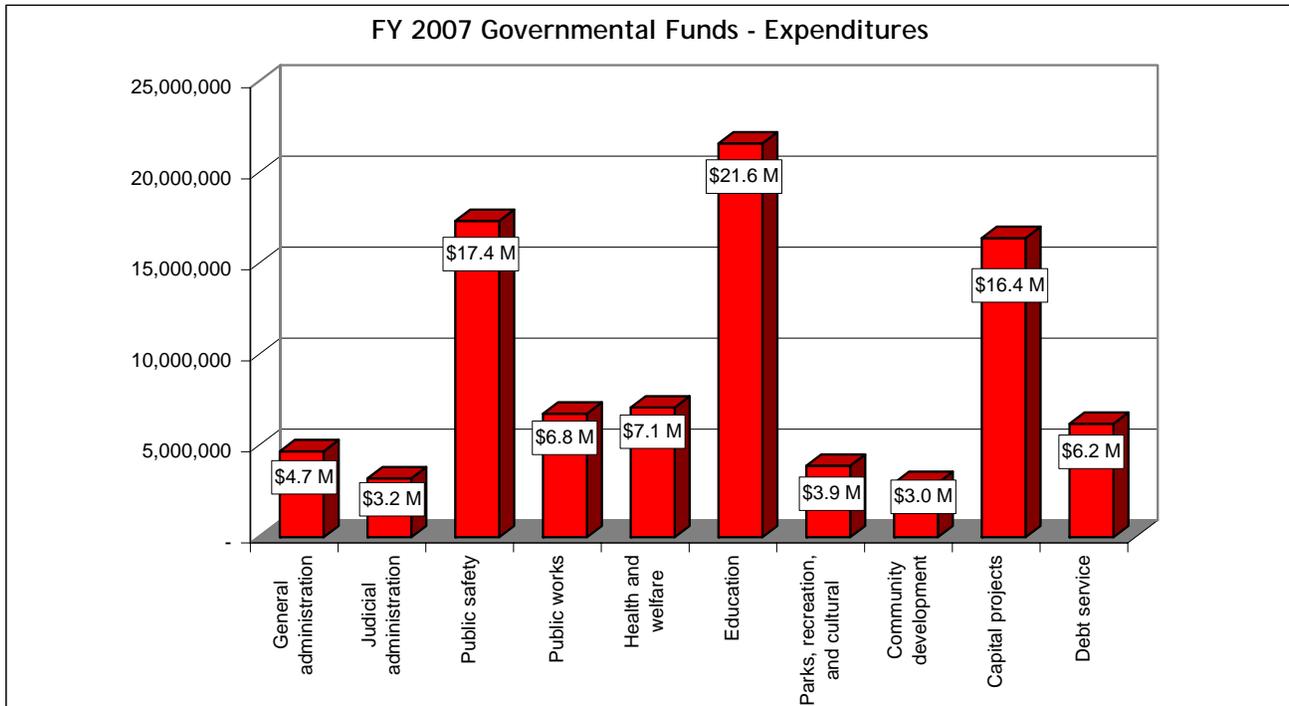
Expenditures for governmental funds in fiscal year 2007 totaled \$90,440,690, a decrease of \$6,461,490 or 6.7%, when compared to fiscal year 2006 activity. Excluding the \$14,369,760 decrease in capital project expenditures, the City experienced a 12% increase in expenditure activity. The most notable increases occurred in the areas of education and personnel costs. Education expenditures increased 14.1% over the preceding fiscal year as additional appropriations to the School Board were required to meet increased school operating costs. Payroll related expenditures increased 12.2% as several new positions were added to meet the ever-growing service and facility maintenance demands.

Capital project activity remained robust during the fiscal year as \$9,780,000 was incurred towards the completion of a new police station; however, fiscal year 2006 capital project activity was extremely active with \$26,700,000 being expended towards the completion of a new high school, an outdoor leisure pool, and the new police headquarters facility.

TABLE 5
Governmental Funds - Expenditures

	FY 2007	FY 2006	Percentage of Total Expenditures FY 2007	Increase (Decrease) from FY 2006
General administration	\$ 4,720,227	\$ 4,094,919	5.22%	\$ 625,308
Judicial administration	3,233,832	2,946,064	3.58%	287,768
Public safety	17,375,049	15,361,207	19.21%	2,013,842
Public works	6,785,769	6,452,638	7.50%	333,131
Health and welfare	7,119,818	6,245,485	7.87%	874,333
Education	21,631,305	18,961,723	23.92%	2,669,582
Parks, recreation, and cultural	3,928,293	3,811,195	4.34%	117,098
Community development	2,975,019	2,174,694	3.29%	800,325
Capital projects	16,439,420	30,809,180	18.18%	(14,369,760)
Debt service	6,231,958	6,045,075	6.89%	186,883
Totals	\$ 90,440,690	\$ 96,902,180	100.00%	\$ (6,461,490)

Expenditures: (Continued)



General Fund Budgetary Highlights

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

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

Actual General Fund expenditures were \$60,124,160 versus the final budgeted expenditures totaling \$61,741,728. This resulted in a favorable variance of \$1,617,568. This variance is the result of careful budgetary monitoring with an emphasis on cost containment.

Actual General Fund revenues were \$67,879,266 compared to final budgeted revenues totaling \$65,966,422. This resulted in a positive variance of \$1,882,844. The majority of the variance occurred among various revenue sources, with real estate tax and personal property tax experiencing the most significant favorable variance of \$1,131,549 and \$1,061,319, respectively. Other local taxes showed an unfavorable variance of \$443,389.

Capital Asset and Debt Administration

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

TABLE 6
Change in Capital Assets
City Governmental Funds

	<u>Balance</u> <u>June 30, 2006</u>	<u>Net</u> <u>Additions/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated:			
Land	\$ 13,249,986	\$ 464,605	\$ 13,714,591
Construction in progress	41,260,740	(28,058,236)	13,202,504
Other capital assets:			
Land improvements	4,734,596	4,037,114	8,771,710
Buildings and building improvements	16,026,444	204,457	16,230,901
Joint tenancy assets	14,000,000	33,511,344	47,511,344
Machinery, equipment, and vehicles	10,916,895	324,945	11,241,840
Infrastructure	66,109,944	2,724,734	68,834,678
Accumulated depreciation	(27,744,908)	(4,099,064)	(31,843,972)
Totals	<u>\$ 138,553,697</u>	<u>\$ 9,109,899</u>	<u>\$ 147,663,596</u>

The net increase in capital assets during the current fiscal year was \$9,109,899. Much of this increase is related to the new police department headquarters building. An additional \$9,780,000 of City resources was invested towards the completion of this project during the fiscal year.

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

Long-term Debt

The City is authorized to issue general obligation bonds to finance general capital improvement projects. These bonds are secured by a pledge of the City's full faith and credit. The City is currently rated AA by Fitch Investors Services, Aa3 by Moody's Investors Services and AA- by Standard and Poor's Investor Services. The City did not issue any new debt during fiscal year 2007.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2007 the City's outstanding long-term indebtedness amount totaled \$80,524,548. After adjustments to reflect the revenue bonded debt of 6,423,952, the remaining total bonded debt of \$74,100,596 is far below the legal debt limit of \$132,869,049.

Long-term Debt: (Continued)

The table below shows a summary of all bonded debt activity during the 2007 fiscal year and the total City debt outstanding:

TABLE 7
Long Term Debt
As of June 30, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2006</u>
Bonds Payable:						
General obligation bonds	\$ 19,198,259	\$ 21,209,184	\$ 7,226,888	\$ 7,670,963	\$ 26,425,147	\$ 28,880,147
General obligation school bonds	46,090,000	47,120,000	-	-	46,090,000	47,120,000
Unamortized bond premium	1,585,449	1,703,649	-	-	1,585,449	1,703,649
Commercial paper	-	-	-	-	-	-
Revenue bonds	-	-	6,423,952	7,293,180	6,423,952	7,293,180
Total long-term debt	<u>\$ 66,873,708</u>	<u>\$ 70,032,833</u>	<u>\$ 13,650,840</u>	<u>\$ 14,964,143</u>	<u>\$ 80,524,548</u>	<u>\$ 84,996,976</u>

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

Long-term Debt

The City government continues to be in solid financial condition as established by the financial statements and schedules included in this report. As noted earlier in this analysis, there has been a trend in recent years where expenditure growth has outpaced the growth in revenues. This has been mainly due to a somewhat sluggish economy and expanding commercial retail development in neighboring localities. However, the City, through fiscally responsible budgets, cost containment monitoring, and adherence to sound financial management policies, has continued to provide quality service to City residents while undertaking major capital improvements in the areas of education, public safety, and public transportation.

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

Long-term Debt: (Continued)

Another opportunity for economic growth is the planned construction of a Courtyard by Marriott in the City's Historic District. Construction of the 98-room hotel is expected to begin sometime during the next fiscal year with the opening scheduled during spring 2009.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

This page intentionally left blank

Government-wide Financial Statements

This page intentionally left blank

Statement of Net Assets
At June 30, 2007

ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units	
				School Board	Economic Development Authority
Assets:					
Cash and cash equivalents	\$ 38,639,690	\$ 14,326,444	\$ 52,966,134	\$ 4,327,555	\$ 830,742
Receivables, net	1,335,926	1,267,448	2,603,374	107,409	-
Due from other governments	4,438,423	1,254,076	5,692,499	1,176,463	-
Inventory, at cost	61,503	180,624	242,127	-	-
Prepaid expenses	264,001	15,800	279,801	195,088	-
Restricted:					
Temporarily restricted:					
Cash and cash equivalents	-	529,680	529,680	-	-
Capital assets:					
Land, construction in progress and other	26,917,095	6,124,953	33,042,048	553,969	47,386
Other capital assets, net of accumulated depreciation	120,746,501	39,741,395	160,487,896	9,947,411	-
Capital assets, net	<u>\$ 147,663,596</u>	<u>\$ 45,866,348</u>	<u>\$ 193,529,944</u>	<u>\$ 10,501,380</u>	<u>\$ 47,386</u>
Total assets	<u>\$ 192,403,139</u>	<u>\$ 63,440,420</u>	<u>\$ 255,843,559</u>	<u>\$ 16,307,895</u>	<u>\$ 878,128</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 3,993,162	\$ 868,452	\$ 4,861,614	\$ 429,526	\$ -
Accrued liabilities	3,393,551	371,034	3,764,585	2,715,045	-
Unearned revenue	1,213,809	34,948	1,248,757	229,792	-
Amounts held for others	1,612,298	-	1,612,298	-	-
Liabilities payable from restricted assets	-	529,680	529,680	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	1,571,204	104,989	1,676,193	400,502	-
Revenue bonds payable	-	899,033	899,033	-	-
General obligation bonds and loans payable	3,411,582	523,893	3,935,475	-	-
Due in more than one year:					
Compensated absences	962,997	46,889	1,009,886	369,695	-
Revenue bonds payable	-	5,524,919	5,524,919	-	-
General obligation bonds and loans payable	63,462,126	6,702,995	70,165,121	-	-
Accrued landfill post-closure costs	916,739	-	916,739	-	-
Total liabilities	<u>\$ 80,537,468</u>	<u>\$ 15,606,832</u>	<u>\$ 96,144,300</u>	<u>\$ 4,144,560</u>	<u>\$ -</u>
Net Assets:					
Invested in capital assets, net of related debt	\$ 80,789,888	\$ 32,215,508	\$ 113,005,396	\$ 10,501,380	\$ 47,386
Unrestricted	31,075,783	15,618,080	46,693,863	1,661,955	830,742
Total net assets	<u>\$ 111,865,671</u>	<u>\$ 47,833,588</u>	<u>\$ 159,699,259</u>	<u>\$ 12,163,335</u>	<u>\$ 878,128</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 5,546,499	\$ 49,059	\$ 322,033	\$ -
Judicial administration	3,131,169	122,520	782,251	-
Public safety	18,155,708	1,036,746	2,151,951	-
Public works	9,099,097	698,875	1,900,149	450,000
Health and welfare	6,745,573	-	4,152,044	-
Education	24,108,406	-	-	-
Parks, recreation and cultural	4,485,451	637,446	5,000	-
Community development	2,619,455	2,795	30,000	316,972
Interest on long-term debt	2,991,013	-	-	-
Total governmental activities	\$ 76,882,371	\$ 2,547,441	\$ 9,343,428	\$ 766,972
Business-type activities				
Water	\$ 2,873,240	\$ 2,067,579	\$ 1,048,358	\$ -
Sewer	3,538,756	3,168,327	935,564	-
Transit	2,491,330	54,952	2,443,613	2,391,013
Parking	441,343	83,520	-	-
Total business-type activities	\$ 9,344,669	\$ 5,374,378	\$ 4,427,535	\$ 2,391,013
Total Primary Government	\$ 86,227,040	\$ 7,921,819	\$ 13,770,963	\$ 3,157,985
Component Units				
Fredericksburg City Public Schools	\$ 33,901,051	\$ 654,511	\$ 11,553,012	\$ -
Fredericksburg Economic Development Authority	63,695	187,173	-	-
Total Component Units	\$ 33,964,746	\$ 841,684	\$ 11,553,012	\$ -

General Revenues

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumer utility taxes

Business license taxes

Motor vehicle license taxes

Recordation 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

Gain on disposal of capital assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				Component Units
Governmental Activities	Business-Type Activities	Total		
\$ (5,175,407)	\$ -	\$ (5,175,407)	\$ -	
(2,226,398)	-	(2,226,398)	-	
(14,967,011)	-	(14,967,011)	-	
(6,050,073)	-	(6,050,073)	-	
(2,593,529)	-	(2,593,529)	-	
(24,108,406)	-	(24,108,406)	-	
(3,843,005)	-	(3,843,005)	-	
(2,269,688)	-	(2,269,688)	-	
(2,991,013)	-	(2,991,013)	-	
<u>\$ (64,224,530)</u>	<u>\$ -</u>	<u>\$ (64,224,530)</u>	<u>\$ -</u>	
\$ -	\$ 242,697	\$ 242,697	\$ -	
-	565,135	565,135	-	
-	2,398,248	2,398,248	-	
-	(357,823)	(357,823)	-	
<u>\$ -</u>	<u>\$ 2,848,257</u>	<u>\$ 2,848,257</u>	<u>\$ -</u>	
<u>\$ (64,224,530)</u>	<u>\$ 2,848,257</u>	<u>\$ (61,376,273)</u>	<u>\$ -</u>	
			\$ (21,693,528)	
			123,478	
			<u>\$ (21,570,050)</u>	
\$ 27,037,526	\$ -	\$ 27,037,526	\$ -	
12,892,369	-	12,892,369	-	
2,036,988	-	2,036,988	-	
5,777,346	-	5,777,346	-	
310,039	-	310,039	-	
818,353	-	818,353	-	
9,559,322	393,707	9,953,029	-	
-	-	-	23,740,042	
1,992,420	-	1,992,420	-	
145,507	-	145,507	21,300	
2,345,373	418,168	2,763,541	27,863	
298,472	-	298,472	-	
683,108	204,666	887,774	86,038	
764,695	(764,695)	-	-	
<u>\$ 64,661,518</u>	<u>\$ 251,846</u>	<u>\$ 64,913,364</u>	<u>\$ 23,875,243</u>	
\$ 436,988	\$ 3,100,103	\$ 3,537,091	\$ 2,305,193	
111,428,683	44,733,485	156,162,168	10,736,270	
<u>\$ 111,865,671</u>	<u>\$ 47,833,588</u>	<u>\$ 159,699,259</u>	<u>\$ 13,041,463</u>	

This page intentionally left blank

Fund Financial Statements

This page intentionally left blank

Balance Sheet
Governmental Funds
At June 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Public Safety Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 22,565,156	\$ 5,686,306	\$ 10,388,228	\$ 38,639,690
Receivables (net of allowances for uncollectibles):				
Property taxes	519,440	-	38,085	557,525
Accounts	133,337	-	-	133,337
Accrued revenue	158,266	159,141	327,657	645,064
Inventory, at cost	61,503	-	-	61,503
Prepays	241,261	15,592	7,148	264,001
Due from other governments	3,244,925	99,854	1,093,644	4,438,423
Total assets	\$ 26,923,888	\$ 5,960,893	\$ 11,854,762	\$ 44,739,543
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable and accrued expenditures	\$ 1,532,469	\$ 1,889,158	\$ 571,535	\$ 3,993,162
Accrued liabilities	611,948	608,650	820,284	2,040,882
Amounts held for others	1,612,298	-	-	1,612,298
Deferred revenue	1,495,380	50,000	52,475	1,597,855
Total liabilities	\$ 5,252,095	\$ 2,547,808	\$ 1,444,294	\$ 9,244,197
Equity:				
Fund balances:				
Reserved:				
Encumbrances	\$ 506,189	\$ 150,000	\$ 343,671	\$ 999,860
Prepays	241,261	-	7,148	248,409
Unreserved:				
Designated for capital projects	4,134,755	3,263,085	6,453,161	13,851,001
Designated for regional security center	1,818,627	-	-	1,818,627
Health insurance claims	950,000	-	-	950,000
Designated for courthouse maintenance	141,697	-	-	141,697
Designated for education debt service	1,503,627	-	-	1,503,627
Subsequent year's expenditures:				
Special Revenue Funds	-	-	1,028,216	1,028,216
Unreserved, undesignated:				
General fund	12,375,637	-	-	12,375,637
Special Revenue Funds	-	-	2,578,272	2,578,272
Total equity	\$ 21,671,793	\$ 3,413,085	\$ 10,410,468	\$ 35,495,346
Total liabilities and equity	\$ 26,923,888	\$ 5,960,893	\$ 11,854,762	\$ 44,739,543

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 At June 30, 2007

Total fund balances for governmental funds (Exhibit 3) \$ 35,495,346

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

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

Land	\$	13,714,591	
Construction in progress		13,202,504	
Land improvements, net of accumulated depreciation		8,435,791	
Buildings and improvements, net of accumulated depreciation		9,393,455	
Joint tenancy assets, net of accumulated depreciation		47,175,935	
Infrastructure, net of accumulated depreciation		50,917,493	
Equipment, net of accumulated depreciation		<u>4,823,827</u>	
 Total capital assets			 147,663,596

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 384,046

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net assets are as follows:

Accrued interest on debt	\$	(1,352,669)	
Bonds and notes payable		(65,288,259)	
Premium on long-term debt, net of accumulated amortization		(1,585,449)	
Landfill post-closure cost liability		<u>(916,739)</u>	(69,143,116)

Compensated absences not reported as fund liabilities (2,534,201)

Total net assets of governmental activities (Exhibits 1 and 2) \$ 111,865,671

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, 2007

	General Fund	Public Safety Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 26,586,942	\$ -	\$ 1,021,316	\$ 27,608,258
Other local taxes	30,808,711	46,003	539,703	31,394,417
Permits, privilege fees and regulatory licenses	753,661	-	-	753,661
Fines and forfeitures	283,035	-	-	283,035
Use of money and property	515,077	711,233	1,264,570	2,490,880
Charges for services	1,510,745	-	-	1,510,745
Miscellaneous	149,446	283,178	250,484	683,108
Recovered costs	834,189	-	1,083,448	1,917,637
Intergovernmental:				
Revenue from the Commonwealth	6,372,011	290,520	2,041,212	8,703,743
Revenue from the Federal Government	65,449	-	2,883,628	2,949,077
Total revenues	\$ 67,879,266	\$ 1,330,934	\$ 9,084,361	\$ 78,294,561
Expenditures				
Current:				
General government administration	\$ 4,720,227	\$ -	\$ -	\$ 4,720,227
Judicial administration	3,103,490	-	130,342	3,233,832
Public safety	17,041,022	-	334,027	17,375,049
Public works	6,785,769	-	-	6,785,769
Health and welfare	1,420,549	-	5,699,269	7,119,818
Education - local community college and other	32,955	-	-	32,955
Education - public school system	21,598,350	-	-	21,598,350
Parks, recreation and cultural	3,775,603	-	152,690	3,928,293
Community development	1,646,195	-	1,328,824	2,975,019
Capital projects	-	10,230,701	6,208,719	16,439,420
Debt service:				
Principal payments	-	-	3,040,925	3,040,925
Interest and fiscal charges	-	-	3,191,033	3,191,033
Total expenditures	\$ 60,124,160	\$ 10,230,701	\$ 20,085,829	\$ 90,440,690
Excess (deficiency) of revenues over expenditures	\$ 7,755,106	\$ (8,899,767)	\$ (11,001,468)	\$ (12,146,129)
Other financing sources (uses)				
Proceeds from the sale of capital assets	\$ -	\$ -	\$ 298,472	\$ 298,472
Transfers in	2,025,672	1,610,000	10,000,982	13,636,654
Transfers out	(11,590,401)	-	(1,281,558)	(12,871,959)
Total other financing sources (uses)	\$ (9,564,729)	\$ 1,610,000	\$ 9,017,896	\$ 1,063,167
Net change in fund balance	\$ (1,809,623)	\$ (7,289,767)	\$ (1,983,572)	\$ (11,082,962)
Fund balance, beginning of year	23,481,416	10,702,852	12,394,040	46,578,308
Fund balance, end of year	\$ 21,671,793	\$ 3,413,085	\$ 10,410,468	\$ 35,495,346

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, 2007

Net change in fund balances - total governmental funds (Exhibit 5) \$ (11,082,962)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 9,693,555

Transfer of joint tenancy assets from Primary Government to the Component Unit School Board (583,656)

Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis. (570,732)

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

Amortization of Premium on long-term debt	\$ 118,200	
Repayments of long-term debt:		
General obligation bonds	3,040,925	3,159,125

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	\$ (281,215)	
Accrued interest on bonds and loans	81,820	
Accrued landfill post-closure costs	21,053	
Net adjustment		(178,342)

Change in net assets of governmental activities (Exhibit 2) \$ 436,988

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

Statement of Net Assets
 Proprietary Funds
 At June 30, 2007

	Business -Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
ASSETS					
Assets:					
Current assets:					
Cash and cash equivalents	\$ 8,770,932	\$ 5,371,618	\$ 238,667	\$ -	\$ 14,381,217
Accounts receivable, net	439,888	680,214	-	-	1,120,102
Accrued revenue	-	-	147,346	-	147,346
Inventory, at cost	135,370	45,254	-	-	180,624
Prepaid expenses	35	35	15,730	-	15,800
Due from other governments	-	21,206	948,326	284,544	1,254,076
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	529,680	-	-	-	529,680
Total current assets	\$ 9,875,905	\$ 6,118,327	\$ 1,350,069	\$ 284,544	\$ 17,628,845
Capital Assets:					
Land	\$ 701,345	\$ 71,680	\$ 283,770	\$ 782,125	\$ 1,838,920
Construction in progress	126,739	192,431	3,966,864	-	4,286,034
Dams and reservoirs	663,536	-	-	-	663,536
Buildings and systems	18,138,310	25,716,470	-	6,513,766	50,368,546
Furniture, machinery and equipment	359,188	1,808,794	1,621,093	208,330	3,997,405
Total property, plant and equipment	\$ 19,989,118	\$ 27,789,375	\$ 5,871,727	\$ 7,504,221	\$ 61,154,441
Less: Accumulated depreciation	(5,287,780)	(9,032,815)	(823,333)	(144,165)	(15,288,093)
Capital assets, net	\$ 14,701,338	\$ 18,756,560	\$ 5,048,394	\$ 7,360,056	\$ 45,866,348
Total assets	\$ 24,577,243	\$ 24,874,887	\$ 6,398,463	\$ 7,644,600	\$ 63,495,193
LIABILITIES AND NET ASSETS					
Liabilities:					
Current liabilities:					
Reconciled overdraft	\$ -	\$ -	\$ -	\$ 54,773	\$ 54,773
Accounts payable and accrued expenses	245,816	177,814	439,347	5,475	868,452
Accrued liabilities	36,044	32,500	210,336	1,148	280,028
Interest payable	-	91,006	-	-	91,006
Compensated absences, current portion	30,284	61,989	12,492	224	104,989
Deferred revenue	34,948	-	-	-	34,948
Revenue bonds payable, current portion	-	899,033	-	-	899,033
General obligation bonds payable, current portion	283,316	90,344	-	150,233	523,893
Current liabilities payable from restricted assets:					
Customer deposits	529,680	-	-	-	529,680
Total current liabilities	\$ 1,160,088	\$ 1,352,686	\$ 662,175	\$ 211,853	\$ 3,386,802
Noncurrent liabilities:					
Compensated absences, noncurrent portion	\$ 18,561	\$ 10,939	\$ 17,252	\$ 137	\$ 46,889
Revenue bonds payable, noncurrent portion	-	5,524,919	-	-	5,524,919
General obligation bonds payable, noncurrent portion	2,277,076	415,106	-	4,010,813	6,702,995
Total noncurrent liabilities	\$ 2,295,637	\$ 5,950,964	\$ 17,252	\$ 4,010,950	\$ 12,274,803
Total liabilities	\$ 3,455,725	\$ 7,303,650	\$ 679,427	\$ 4,222,803	\$ 15,661,605
Net assets:					
Invested in capital assets net of related debt	\$ 12,140,946	\$ 11,827,158	\$ 5,048,394	\$ 3,199,010	\$ 32,215,508
Unrestricted	8,980,572	5,744,079	670,642	222,787	15,618,080
Total net assets	\$ 21,121,518	\$ 17,571,237	\$ 5,719,036	\$ 3,421,797	\$ 47,833,588

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

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 Year Ended June 30, 2007

	Business - Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Operating revenues:					
Charges for services	\$ 2,067,579	\$ 3,168,327	\$ 54,952	\$ 83,520	\$ 5,374,378
Operating expenses:					
Personal services	\$ 377,940	\$ 645,002	\$ 1,258,724	\$ 52,979	\$ 2,334,645
Fringe benefits	181,287	248,293	218,302	6,586	654,468
Contractual services	1,162,578	970,859	195,791	11,870	2,341,098
Other operating expenses	623,408	833,720	643,197	30,154	2,130,479
Depreciation expense	410,923	591,560	175,316	144,164	1,321,963
Total operating expenses	\$ 2,756,136	\$ 3,289,434	\$ 2,491,330	\$ 245,753	\$ 8,782,653
Total operating income (loss)	\$ (688,557)	\$ (121,107)	\$ (2,436,378)	\$ (162,233)	\$ (3,408,275)
Nonoperating revenues (expenses):					
Interest income	\$ 108,003	\$ 108,003	\$ 108,003	\$ 94,159	\$ 418,168
Gasoline tax receipts	-	-	109,163	284,544	393,707
Availability/connection fees	1,048,358	935,564	-	-	1,983,922
Miscellaneous	75,344	5,997	123,228	97	204,666
State and local grant funds	-	-	1,366,919	-	1,366,919
Federal grant funds	-	-	3,467,707	-	3,467,707
Interest expense	(117,104)	(249,322)	-	(195,590)	(562,016)
Total nonoperating revenues (expenses)	\$ 1,114,601	\$ 800,242	\$ 5,175,020	\$ 183,210	\$ 7,273,073
Income (loss) before contributions and transfers	\$ 426,044	\$ 679,135	\$ 2,738,642	\$ 20,977	\$ 3,864,798
Transfers:					
Transfers in	\$ -	\$ -	\$ -	\$ 43,373	\$ 43,373
Transfers out	(395,294)	(412,774)	-	-	(808,068)
Net operating transfers	(395,294)	(412,774)	-	43,373	(764,695)
Change in net assets	\$ 30,750	\$ 266,361	\$ 2,738,642	\$ 64,350	\$ 3,100,103
Net assets, beginning of year	21,090,768	17,304,876	2,980,394	3,357,447	44,733,485
Net assets, end of year	\$ 21,121,518	\$ 17,571,237	\$ 5,719,036	\$ 3,421,797	\$ 47,833,588

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business -Type Activities - Enterprise Funds				
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total
Cash flows from operating activities:					
Receipts from customers	\$ 2,147,883	\$ 3,145,578	\$ 318,740	\$ 541,998	\$ 6,154,199
Other miscellaneous receipts	75,344	5,997	232,391	284,641	598,373
Payments to suppliers	(1,942,456)	(2,009,217)	(371,778)	(673,901)	(4,997,352)
Payments to and for employees	(551,132)	(898,501)	(1,473,368)	(58,056)	(2,981,057)
Net cash provided by (used in) operating activities	\$ (270,361)	\$ 243,857	\$ (1,294,015)	\$ 94,682	\$ (1,225,837)
Cash flows from noncapital financing activities:					
Availability and connection fees	\$ 1,048,358	\$ 935,564	\$ -	\$ -	\$ 1,983,922
State, federal and local grant funds	-	-	4,834,626	-	4,834,626
Transfers	(395,294)	(412,774)	-	43,373	(764,695)
Net cash provided by (used in) noncapital financing activities	\$ 653,064	\$ 522,790	\$ 4,834,626	\$ 43,373	\$ 6,053,853
Cash flows from investing activities:					
Interest income	\$ 108,003	\$ 108,003	\$ 108,003	\$ 94,159	\$ 418,168
Cash flows from capital and related financing activities:					
Purchase of capital assets	\$ (210,149)	\$ (948,812)	\$ (3,936,584)	\$ (2,443)	\$ (5,097,988)
Disposal of capital assets	-	-	57,135	-	57,135
Principal payment on debt	(269,821)	(954,528)	-	(88,954)	(1,313,303)
Interest paid on debt	(117,104)	(261,636)	-	(195,590)	(574,330)
Net cash provided by (used in) capital and related financing activities	\$ (597,074)	\$ (2,164,976)	\$ (3,879,449)	\$ (286,987)	\$ (6,928,486)
Increase (decrease) in cash and cash equivalents for the year	\$ (106,368)	\$ (1,290,326)	\$ (230,835)	\$ (54,773)	\$ (1,682,302)
Cash and cash equivalents, beginning of year	9,406,980	6,661,944	469,502	-	16,538,426
Cash and cash equivalents, end of year	\$ 9,300,612	\$ 5,371,618	\$ 238,667	\$ (54,773)	\$ 14,856,124
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (688,557)	\$ (121,107)	\$ (2,436,378)	\$ (162,233)	\$ (3,408,275)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	410,923	591,560	175,316	144,164	1,321,963
Other miscellaneous receipts	75,344	5,997	232,391	284,641	598,373
Changes in assets and liabilities:					
Accounts receivable	(9,065)	(2,915)	105,370	739,857	833,247
Inventory	65,783	(11,078)	-	-	54,705
Accrued revenue	300	12,450	(147,346)	3,165	(131,431)
Due from other governments	-	(21,206)	305,764	(284,544)	14
Accounts payable and accrued expenses	(179,164)	(213,757)	296,199	(631,877)	(728,599)
Accrued liabilities	22,694	9,119	171,011	1,148	203,972
Deferred revenue	(26,931)	-	-	-	(26,931)
Compensated absences	8,095	(5,206)	3,658	361	6,908
Deposits payable from restricted assets	50,217	-	-	-	50,217
Net cash provided by (used in) operating activities	\$ (270,361)	\$ 243,857	\$ (1,294,015)	\$ 94,682	\$ (1,225,837)

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

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

Statement of Fiduciary Net Assets
At June 30, 2007

	Agency Funds	Private Purpose Trust Funds
Assets:		
Cash and cash equivalents	\$ 391,823	\$ 1,681,874
Accounts receivable	51,978	-
Prepaid items	22,950	-
Total assets	\$ 466,751	\$ 1,681,874
Liabilities:		
Accounts payable	\$ 36,618	\$ -
Amounts held for others	430,133	-
Total liabilities	\$ 466,751	\$ -
Net Assets:		
Held in trust for land conservation (see Note 1)	\$ -	\$ 1,681,874

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

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
Year Ended June 30, 2007

Additions:	
Contributions:	
Contributions	\$ 1,600,000
Investment income:	
Interest earned on investments	<u>81,874</u>
Total additions	\$ <u>1,681,874</u>
Net increase in plan assets	\$ 1,681,874
Net assets held in trust for land conservation :	
Balance, beginning of year	<u>-</u>
Balance, end of year	\$ <u><u>1,681,874</u></u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Statement of Activities
 Component Units
 Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
School Board				
Education	\$ 33,901,051	\$ 654,511	\$ 11,553,012	\$ -
Total School Board	\$ 33,901,051	\$ 654,511	\$ 11,553,012	\$ -
Economic Development Authority				
Community development	63,695	187,173	-	-
Total component units	<u>\$ 33,964,746</u>	<u>\$ 841,684</u>	<u>\$ 11,553,012</u>	<u>\$ -</u>

General revenues

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

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 12

Net (Expense) Revenue and Changes in Net Assets		
School Board	Economic Development Authority	Totals
\$ (21,693,528)	\$ -	\$ (21,693,528)
\$ (21,693,528)	\$ -	\$ (21,693,528)
-	123,478	123,478
\$ (21,693,528)	\$ 123,478	\$ (21,570,050)
\$ 23,740,042	\$ -	\$ 23,740,042
21,300	-	21,300
-	27,863	27,863
86,038	-	86,038
\$ 23,847,380	\$ 27,863	\$ 23,875,243
\$ 2,153,852	\$ 151,341	\$ 2,305,193
10,009,483	726,787	10,736,270
\$ 12,163,335	\$ 878,128	\$ 13,041,463

This page intentionally left blank

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1—Summary of Significant Accounting Policies:

Narrative Profile

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

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

A. Financial Reporting Entity

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

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

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

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

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

A. Financial Reporting Entity: (Continued)

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

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

Inclusions in the Reporting Entity:

1. Component Units:

a. Fredericksburg City School Board:

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

b. Fredericksburg Economic Development Authority:

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

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity:

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and to expend funds. The City appoints three (3) of the nine (9) members of the Board. No one locality contributes more than 50% of the Center's funding. The City provided \$2,829,293 in operating and other funds to the Center in 2007.

b. Rappahannock Regional Library

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and to expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1,194,877 in operating funds to the Library in 2007.

c. Rappahannock Regional Solid Waste Management Board

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

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

d. Rappahannock Area Community Services Board

The Board was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides Mental Health, Mental Retardation and Substance Abuse Services to residents of the participant localities. The City provided operating grants of \$223,354 to the Board in 2007.

e. Rappahannock Area Agency on Aging

The Agency was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$10,303 in operating grants to the Agency in 2007.

f. George Washington Regional Commission

The Commission was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$18,082 in operating grants to the Commission in 2007.

g. Rappahannock Juvenile Detention Center

The Center was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$581,621 to the Center in 2007.

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

A. Financial Reporting Entity: (Continued)

Exclusions from the Reporting Entity: (Continued)

1. Jointly Governed Organizations: (Continued)

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

The Home was created by council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$86,715 in operating funds to the Home in 2007.

i. Stafford Regional Airport Commission

The Commission was created by council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$28,000 in operating funds to the Commission in 2007.

Obtaining of Financial Statements for Jointly Governed Organizations

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in FY 2007.

1. Governmental Funds:

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

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

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

1. Governmental Funds: (Continued)

- a. General Fund - The General Fund is the primary operating fund of the City and accounts for all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds include the following funds:

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

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

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

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

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

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

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

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

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

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

1. Governmental Funds: (Continued)

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.

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

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

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

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

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

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

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:

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Fund (Trust and Agency Funds):

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

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

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

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

George Washington Regional Commission - This fund accounts for revenue and expenditures of the George Washington Regional Commission.

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

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

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

b. Economic Development Authority:

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

C. Basis of Accounting

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

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

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

C. Basis of Accounting: (Continued)

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

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

D. Budgets and Budgetary Accounting

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

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

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2007. 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, 2007.

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

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed on a monthly basis by the City because it is, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control. Open encumbrances as of June 30, 2007, have been reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

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

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

Investments are stated at fair value.

G. Allowance for Uncollectible Accounts

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2007, the allowance totaled \$608,298 with \$378,031 in the General Fund and \$230,267 in the Enterprise Funds.

H. Inventory

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

I. Prepaid Expenses

Prepaid expenses are reported on the consumption method.

J. Capital Assets

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

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

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

J. Capital Assets: (Continued)

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

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

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

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

Interest on cost of construction funds for the Proprietary Funds is capitalized where applicable. There was no interest capitalized in the year ended June 30, 2007.

K. Compensated Absences

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

L. Use of Estimates

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

M. Retirement Plan

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

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

N. Unbilled Revenue

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

O. Bond Premium

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Amortization expense for fiscal year ended June 30, 2007 was \$118,200.

P. Long-term Obligations

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

Note 2—Deposits and Investments:

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

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

Custodial Credit Risk (Investments) - The City's investments at June 30, 2007 were held by the City or in the City's name by the City's custodial banks; except \$30,743,558 of U.S. Agency investments, and \$4,655,828 of Corporate Debt investments, where the underlying securities were uninsured and held by an investment broker.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 2—Deposits and Investments: (Continued)

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2007 were rated by Standard and Poor or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Locality's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings				
	AAA	AAAm	AA+	AA	AA-
U.S. Agencies	\$ 30,743,558	\$ -	\$ -	\$ -	\$ -
Corporate Debt	-	-	1,999,420	1,003,452	1,652,956
Virginia State Non-Arbitrage Program	-	797,345	-	-	-
Money Market Mutual Fund	-	19,820,114	-	-	-
Total	\$ 30,743,558	\$ 20,617,459	\$ 1,999,420	\$ 1,003,452	\$ 1,652,956

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

Interest Rate Risk

Investment Maturities (in years)

Investment Type	Fair Value	Less Than	
		1 Year	1-5 Years
U.S. Agencies	\$ 30,743,558	\$ 12,814,658	\$ 17,928,900
Corporate Debt	4,655,828	3,002,872	1,652,956
Total	\$ 35,399,386	\$ 15,817,530	\$ 19,581,856

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

External Investment Pools

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 3—Real and Personal Property Tax Data:

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

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

Note 4—Receivables and Accrued Revenue:

Receivables and accrued revenue at June 30, 2007 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	\$ 884,033	\$ 38,085	\$ -	\$ 922,118	\$ -
Tax on deeds	115,341	-	-	115,341	-
Water charges	-	-	-	-	503,019
Wastewater charges	-	-	-	-	797,736
Refuse disposal fees	83,930	-	-	83,930	-
Investment earnings	-	-	477,423	477,423	-
Other	105,770	7,855	1,520	115,145	196,960
Total	<u>\$ 1,189,074</u>	<u>\$ 45,940</u>	<u>\$ 478,943</u>	<u>\$ 1,713,957</u>	<u>\$ 1,497,715</u>
Allowance for uncollectibles	(378,031)	-	-	(378,031)	(230,267)
Net receivables	<u>\$ 811,043</u>	<u>\$ 45,940</u>	<u>\$ 478,943</u>	<u>\$ 1,335,926</u>	<u>\$ 1,267,448</u>

Component Units and Fiduciary Activities:

	<u>School Board</u>	<u>Fiduciary Activities</u>
Other	\$ 107,409	\$ 51,978
Total	<u>\$ 107,409</u>	<u>\$ 51,978</u>
Allowance for uncollectibles	-	-
Net receivables	<u>\$ 107,409</u>	<u>\$ 51,978</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 5—Due From Other Governmental Units:

	Governmental Activities				Business-Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	Total		
Primary Government						
Commonwealth of Virginia:						
Local sales taxes	\$ 2,056,273	\$ -	\$ -	\$ 2,056,273	\$ -	\$ -
Telecommunication sales tax	162,731	-	-	162,731	-	-
PPTRA	676,647	-	-	676,647	-	-
Comprehensive Services Act	-	353,733	-	353,733	-	-
Shared expenses and grants	200,474	-	-	200,474	-	-
Virginia Department of Rail and Public Transportation	-	-	-	-	130,417	-
Virginia Department of Criminal Justice	-	43,212	-	43,212	-	-
Virginia Department of Emergency Management	6,243	-	-	6,243	-	-
Recordation taxes	32,663	-	-	32,663	-	-
Noncategorical aid	33,582	-	-	33,582	-	-
Social services grants	-	273,686	-	273,686	-	-
Federal government:						
Community Development Block Grant	-	70,210	-	70,210	-	-
Transit grants	-	-	-	-	406,662	-
Criminal Justice Grants	-	58,100	-	58,100	-	-
Others:						
Potomac and Rappahannock Transportation Commission	-	154,703	186,003	340,706	393,707	-
VA Information Technology Agency	-	-	53,851	53,851	-	-
Local government reimbursements:						
County of Spotsylvania	31,735	-	-	31,735	321,725	-
County of Stafford	13,593	-	-	13,593	-	-
County of King George	15,492	-	-	15,492	-	-
County of Caroline	15,492	-	-	15,492	1,565	-
Component Unit School Board						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	393,060
State school funds	-	-	-	-	-	24,544
Federal pass-through:						
School funds	-	-	-	-	-	432,023
Federal government:						
Head Start	-	-	-	-	-	326,836
Total	\$ 3,244,925	\$ 953,644	\$ 239,854	\$ 4,438,423	\$ 1,254,076	\$ 1,176,463

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 6—Interfund Balances and Activity:

Primary Government:

Balances due to/from other funds at June 30, 2007:

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	\$ 754,740
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	496,003
Transfer to the Comprehensive Services Act Fund for the local share of the program costs	681,491
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	2,681,101
Transfers to the School Debt Service Fund to pay school debt service and related costs	3,550,857
Transfers to the Public Works Construction Fund to fund infrastructure and related capital projects	849,790
Transfers to the Public Facilities Construction Fund to fund building improvements and related costs	987,000
Transfers to the Public Safety Construction Fund to fund police, fire and rescue capital costs	1,610,000
Transfers to the General Fund for various programs	<u>2,025,672</u>
Total transfers	<u><u>\$ 13,636,654</u></u>
Reconciliation of transfers:	
Transfers in from governmental funds	\$ 12,871,959
Transfers from governmental funds to enterprise funds	(43,373)
Transfers from enterprise funds to governmental funds	<u>808,068</u>
Total transfers	<u><u>\$ 13,636,654</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, 2007

Note 7—Capital Assets:

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

Primary Government:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 13,249,986	\$ 467,880	\$ 3,275	\$ 13,714,591
Construction in progress:				
Infrastructure	\$ 84,081	\$ 1,340,711	\$ 1,390,409	\$ 34,383
Land improvements	3,755,303	426,839	4,040,607	141,535
Buildings	3,326,356	10,427,677	727,447	13,026,586
Joint tenancy construction in progress	34,095,000	-	34,095,000	-
Total construction in progress	<u>\$ 41,260,740</u>	<u>\$ 12,195,227</u>	<u>\$ 40,253,463</u>	<u>\$ 13,202,504</u>
Total capital assets not being depreciated	<u>\$ 54,510,726</u>	<u>\$ 12,663,107</u>	<u>\$ 40,256,738</u>	<u>\$ 26,917,095</u>
Other capital assets:				
Land improvements	\$ 4,734,596	\$ 4,037,114	\$ -	\$ 8,771,710
Buildings	16,026,444	350,417	145,960	16,230,901
Joint tenancy assets	14,000,000	34,095,000	583,656	47,511,344
Infrastructure	66,109,944	2,724,734	-	68,834,678
Machinery, equipment and vehicles	10,916,895	715,540	390,595	11,241,840
Total other capital assets	<u>\$ 111,787,879</u>	<u>\$ 41,922,805</u>	<u>\$ 1,120,211</u>	<u>\$ 152,590,473</u>
Accumulated depreciation:				
Land improvements	\$ 163,378	\$ 172,541	\$ -	\$ 335,919
Buildings	6,398,145	585,261	145,960	6,837,446
Joint tenancy assets	-	335,409	-	335,409
Infrastructure	15,236,750	2,680,435	-	17,917,185
Machinery, equipment and vehicles	5,946,635	861,973	390,595	6,418,013
Total accumulated depreciation	<u>\$ 27,744,908</u>	<u>\$ 4,635,619</u>	<u>\$ 536,555</u>	<u>\$ 31,843,972</u>
Other capital assets, net	<u>\$ 84,042,971</u>	<u>\$ 37,287,186</u>	<u>\$ 583,656</u>	<u>\$ 120,746,501</u>
Net capital assets	<u><u>\$ 138,553,697</u></u>	<u><u>\$ 49,950,293</u></u>	<u><u>\$ 40,840,394</u></u>	<u><u>\$ 147,663,596</u></u>
Depreciation is allocated to:				
General government administration		\$ 228,317		
Judicial administration		87,204		
Public safety		619,545		
Health and welfare		69,427		
Education		335,409		
Public works		2,924,928		
Parks and recreation		363,127		
Community development		7,662		
Total		<u><u>\$ 4,635,619</u></u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 7—Capital Assets: (Continued)

Business-Type Activities:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 1,838,920	\$ -	\$ -	\$ 1,838,920
Construction in progress	<u>1,073,218</u>	<u>4,198,055</u>	<u>985,240</u>	<u>4,286,033</u>
Total capital assets not being depreciated	<u>\$ 2,912,138</u>	<u>\$ 4,198,055</u>	<u>\$ 985,240</u>	<u>\$ 6,124,953</u>
Other capital assets:				
Buildings and systems	\$ 49,404,240	\$ 964,306	\$ -	\$ 50,368,546
Dams and reservoirs	663,536	-	-	663,536
Furniture, machinery and equipment	<u>3,276,513</u>	<u>920,867</u>	<u>199,974</u>	<u>3,997,406</u>
Total other capital assets	<u>\$ 53,344,289</u>	<u>\$ 1,885,173</u>	<u>\$ 199,974</u>	<u>\$ 55,029,488</u>
Accumulated depreciation:				
Buildings and systems	\$ 12,504,329	\$ 1,027,847	\$ -	\$ 13,532,176
Dams and reservoirs	36,692	13,271	-	49,963
Furniture, machinery and equipment	<u>1,567,948</u>	<u>280,845</u>	<u>142,839</u>	<u>1,705,954</u>
Total accumulated depreciation	<u>\$ 14,108,969</u>	<u>\$ 1,321,963</u>	<u>\$ 142,839</u>	<u>\$ 15,288,093</u>
Other capital assets, net	<u>\$ 39,235,320</u>	<u>\$ 563,210</u>	<u>\$ 57,135</u>	<u>\$ 39,741,395</u>
Net capital assets	<u>\$ 42,147,458</u>	<u>\$ 4,761,265</u>	<u>\$ 1,042,375</u>	<u>\$ 45,866,348</u>
Depreciation is allocated to:				
Water operations		\$ 410,923		
Wastewater operations		591,560		
Parking garage operations		144,164		
Transit operations		<u>175,316</u>		
Total		<u>\$ 1,321,963</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 7—Capital Assets: (Continued)

Component Unit School Board:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 531,555	\$ -	\$ -	\$ 531,555
Construction in progress:				
Buildings	<u>1,107,476</u>	<u>1,580,450</u>	<u>2,665,512</u>	<u>22,414</u>
Total capital assets not being depreciated	<u>\$ 1,639,031</u>	<u>\$ 1,580,450</u>	<u>\$ 2,665,512</u>	<u>\$ 553,969</u>
Other capital assets:				
Land improvements	\$ 115,603	\$ -	\$ -	\$ 115,603
Buildings	17,812,051	3,249,168	4,888,841	16,172,378
Machinery, equipment and vehicles	<u>2,081,296</u>	<u>348,108</u>	<u>44,265</u>	<u>2,385,139</u>
Total other capital assets	<u>\$ 20,008,950</u>	<u>\$ 3,597,276</u>	<u>\$ 4,933,106</u>	<u>\$ 18,673,120</u>
Accumulated depreciation:				
Land improvements	\$ 25,199	\$ 5,780	\$ -	\$ 30,979
Buildings	11,455,261	674,956	4,888,841	7,241,376
Machinery, equipment and vehicles	<u>1,333,726</u>	<u>163,893</u>	<u>44,265</u>	<u>1,453,354</u>
Total accumulated depreciation	<u>\$ 12,814,186</u>	<u>\$ 844,629</u>	<u>\$ 4,933,106</u>	<u>\$ 8,725,709</u>
Other capital assets, net	<u>\$ 7,194,764</u>	<u>\$ 2,752,647</u>	<u>\$ -</u>	<u>\$ 9,947,411</u>
Net capital assets	<u>\$ 8,833,795</u>	<u>\$ 4,333,097</u>	<u>\$ 2,665,512</u>	<u>\$ 10,501,380</u>
Depreciation allocated to education		<u>\$ 844,629</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 8—Deferred Revenue:

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

	Government-wide Statements		
	Governmental Activities	Business-Type Activities	Component Unit School Board
Deferred property tax revenue:			
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	\$ 1,044,307	\$ -	\$ -
Other	169,502	34,948	229,792
Total deferred revenue	<u>\$ 1,213,809</u>	<u>\$ 34,948</u>	<u>\$ 229,792</u>

	Balance Sheet	
	Governmental Funds	Component Unit School Board
Deferred property tax revenue:		
Deferred revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ 384,046	\$ -
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	1,044,307	-
Other	169,502	229,792
Total deferred revenue	<u>\$ 1,597,855</u>	<u>\$ 229,792</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9—Long-term Debt:

Primary Government:

A summary of long-term obligation transactions of the City for the year ended June 30, 2007 is as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
General long-term debt payable from governmental activities:					
General obligation bonds	\$ 21,209,184	-	\$ 2,010,925	\$ 19,198,259	\$ 2,211,107
General obligation school bonds	47,120,000	-	1,030,000	46,090,000	1,085,000
Add: Unamortized bond premium	<u>1,703,649</u>	<u>-</u>	<u>118,200</u>	<u>1,585,449</u>	<u>115,475</u>
Total	<u>\$ 70,032,833</u>	<u>-</u>	<u>\$ 3,159,125</u>	<u>\$ 66,873,708</u>	<u>\$ 3,411,582</u>
Long-term debt payable from business activities:					
General obligation bonds	\$ 7,670,963	-	\$ 444,075	\$ 7,226,888	\$ 523,893
Virginia Resources Authority revenue bonds	<u>7,293,180</u>	<u>-</u>	<u>869,228</u>	<u>6,423,952</u>	<u>899,033</u>
Total	<u>\$ 14,964,143</u>	<u>-</u>	<u>\$ 1,313,303</u>	<u>\$ 13,650,840</u>	<u>\$ 1,422,926</u>
Total long-term debt	<u>\$ 84,996,976</u>	<u>-</u>	<u>\$ 4,472,428</u>	<u>\$ 80,524,548</u>	<u>\$ 4,834,508</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

The schedule below shows principal and interest requirements through maturity for all outstanding debt at June 30, 2007:

Year Ending June 30	General Obligation Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 3,820,000	\$ 3,322,568	\$ 899,033	\$ 210,837
2009	3,580,000	3,170,600	929,860	180,010
2010	3,405,000	3,023,591	961,744	148,126
2011	3,515,000	2,874,801	994,721	115,149
2012	3,210,000	2,727,143	1,028,829	81,041
2013	3,030,000	2,586,026	1,064,107	45,763
2014	3,095,000	2,445,371	545,658	9,276
2015	3,195,000	2,300,842	-	-
2016	2,820,000	2,160,564	-	-
2017	2,955,000	2,024,194	-	-
2018	3,090,000	1,880,853	-	-
2019	2,695,000	1,730,010	-	-
2020	2,815,000	1,595,724	-	-
2021	2,950,000	1,454,876	-	-
2022	3,085,000	1,306,937	-	-
2023	3,015,000	1,156,792	-	-
2024	3,170,000	1,004,185	-	-
2025	3,325,000	843,423	-	-
2026	3,495,000	677,506	-	-
2027	2,845,000	525,134	-	-
2028	2,985,000	383,756	-	-
2029	3,130,000	235,468	-	-
2030	3,290,147	79,783	-	-
	<u>\$ 72,515,147</u>	<u>\$ 39,510,147</u>	<u>\$ 6,423,952</u>	<u>\$ 790,202</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 9—Long-term Debt: (Continued)

Primary Government: (Continued)

At June 30, 2007, the City's long-term debt consisted of the following:

	<u>Issued</u>	<u>Due Date</u>	<u>Rate(s)</u>	<u>Amount Outstanding</u>	<u>Current Portion</u>
General obligation bonds:					
1998A General Obligation Refunding Bonds	1998	2018	4.5-6.0%	\$ 4,880,000	\$ 385,000
2001A General Obligation Refunding Bonds	2001	2022	4.5-6.5%	11,020,147	1,970,000
2004A General Obligation School Bonds	2004	2030	4.85-5.1%	46,090,000	1,085,000
2005B General Obligation Bonds	2005	2026	4.0-4.5%	<u>10,525,000</u>	<u>380,000</u>
Total general obligation bonds				\$ 72,515,147	\$ 3,820,000
Revenue bonds:					
Virginia Resources Authority Wastewater bonds	1992	2014	3.40%	6,423,952	899,033
Unamortized bond premium:					
2004A General Obligation School Bonds				<u>1,585,449</u>	<u>115,475</u>
Total long-term debt				<u>\$ 80,524,548</u>	<u>\$ 4,834,508</u>

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

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

Conduit debt. There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. Outstanding obligations at June 30, 2007 totaled approximately \$214,645,581. The City has no responsibility for the repayment of these debt obligations.

Federal Arbitrage Regulations:

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 10—Compensated Absences:

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

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

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

	<u>Balance</u> <u>July 1,</u> <u>2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30,</u> <u>2007</u>	<u>Current</u> <u>Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 2,252,986	\$ 1,614,292	\$ 1,333,077	\$ 2,534,201	\$ 1,571,204
Business-type activities	<u>144,969</u>	<u>109,579</u>	<u>102,670</u>	<u>151,878</u>	<u>104,989</u>
Total primary government	\$ 2,397,955	\$ 1,723,871	\$ 1,435,747	\$ 2,686,079	\$ 1,676,193
Component Unit School Board	<u>698,777</u>	<u>434,784</u>	<u>363,364</u>	<u>770,197</u>	<u>400,502</u>
Total	<u>\$ 3,096,732</u>	<u>\$ 2,158,655</u>	<u>\$ 1,799,111</u>	<u>\$ 3,456,276</u>	<u>\$ 2,076,695</u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 11—Defined Benefit Pension Plan:

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

Plan Description

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

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

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be and has been assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employer contribution rates for the fiscal year ended 2007 were 8.98% and 6.50% of annual covered payroll, respectively.

The School Board's contribution for professional employees were \$1,584,603, \$1,076,013 and \$856,811 to the teacher cost-sharing pool for the fiscal years ended June 30, 2007, 2006 and 2005, respectively, and these contributions represented 9.2%, 6.62% and 6.03%, respectively, of current covered payroll.

Annual Pension Cost

For fiscal year 2007, the City's annual pension cost of \$1,698,893 (does not include the employee share assumed by the City which was \$945,931) was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

In fiscal year 2007, the City of Fredericksburg School Board’s annual pension cost for the Board’s non-professional employees was \$68,719 (does not include the employee share assumed by the Board which was \$52,680) which was equal to the Board’s required and actual contributions. The required contribution was determined as a part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions used to determine the FY2007 contributions are as follows:

	<u>City</u>	<u>Non-Professional School Board</u>
Valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	21 Years	21 Years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return ¹	7.50%	7.50%
Projected salary increases: ¹		
Non-LEO Employees	3.50% to 5.73%	3.50% to 5.73%
LEO Employees	3.50% to 4.71%	3.50% to 4.71%
Cost-of-living adjustment	2.50%	2.50%

¹ Includes inflation at 2.50%

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 11—Defined Benefit Pension Plan: (Continued)

Annual Pension Cost: (Continued)

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2007	\$ 1,698,893	100%	\$ -
June 30, 2006	1,427,778	100%	-
June 30, 2005	1,345,206	100%	-
School Board Non-Professional:			
June 30, 2007	\$ 68,719	100%	\$ -
June 30, 2006	13,792	100%	-
June 30, 2005	12,464	100%	-

(1) Employer portion only

Note 12—Deferred Compensation Plan:

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

Note 13—Commitments and Contingencies:

State and Federal Programs

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 13—Commitments and Contingencies: (Continued)

Environmental Matters

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

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

Construction Commitments:

At June 30, 2007 the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$1,600,000 at June 30, 2007.

The School Board had no significant construction or related commitments outstanding at June 30, 2007.

Note 14—Litigation:

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

Note 15—Landfill Postclosure Costs:

The City closed the Cool Springs Landfill in 1988 and is subject to postclosure monitoring. The estimated postclosure care cost for the next twenty-one years is \$916,739 and has been recorded as long-term liability at June 30, 2007. These amounts are based on what it would cost to perform all postclosure care based on 2007 costs. These costs may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2006	\$	937,792
Decrease in estimate		(21,053)
Balance at June 30, 2007	\$	<u>916,739</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 16—Surety Bonds:

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

Note 17—Self Insurance/Risk Management:

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

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

Employee Health Insurance

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

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

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

City General Fund	
Estimated claims incurred but not reported	\$ 275,297
Estimated maximum stop-loss liability based on premium cost and experience rate	<u>674,703</u>
 Total funds designated	 <u><u>\$ 950,000</u></u>

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

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims and Payments	End of Fiscal Year Liability
2005	\$ 206,074	\$ 2,010,625	\$ 1,995,869	\$ 220,830
2006	220,830	2,355,587	2,323,637	252,780
2007	252,780	2,341,019	2,318,502	275,297

Unemployment Insurance

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

Property and Casualty Insurance

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2007

Note 18—Other Post-Employment Benefits:

In addition to the pension benefit described in Note 11, the City provides post-retirement health care insurance for employees who are eligible for retirement benefits. Currently, 102 retirees are eligible and are receiving these benefits. The City pays all of the health insurance premiums for the retirees. These costs are financed on a pay-as-you-go basis. During the year, approximately \$331,142 was expended for post-retirement health care by the City.

This page intentionally left blank

REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

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

This page intentionally left blank

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 19,195,500	\$ 19,195,500	\$ 20,327,049	\$ 1,131,549
Public service corporations	417,500	417,500	361,034	(56,466)
Personal property	4,505,670	4,505,670	5,566,989	1,061,319
Mobile homes	2,000	2,000	1,550	(450)
Machinery and tools	95,251	95,251	80,241	(15,010)
Penalties	125,000	125,000	198,034	73,034
Interest	35,000	35,000	52,045	17,045
Total general property taxes	\$ 24,375,921	\$ 24,375,921	\$ 26,586,942	\$ 2,211,021
Other local taxes:				
Local sales and use taxes	\$ 12,200,000	\$ 12,200,000	\$ 12,163,136	\$ (36,864)
Communication sales tax	940,000	940,000	729,233	(210,767)
Utility taxes	2,160,000	2,160,000	2,036,988	(123,012)
Business licenses and rental tax	5,622,000	5,622,000	5,777,346	155,346
Franchise license taxes	130,000	130,000	146,362	16,362
Motor vehicle licenses	350,100	350,100	310,039	(40,061)
Bank stock taxes	500,000	500,000	567,273	67,273
Recordation taxes	700,000	700,000	818,353	118,353
Tobacco tax	800,000	800,000	612,462	(187,538)
Amusement tax	240,000	240,000	269,517	29,517
Hotel/lodging taxes	900,000	900,000	860,935	(39,065)
Meals taxes	6,600,000	6,600,000	6,418,546	(181,454)
E-911 taxes	110,000	110,000	98,521	(11,479)
Total other local taxes	\$ 31,252,100	\$ 31,252,100	\$ 30,808,711	\$ (443,389)
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 941,200	\$ 941,200	\$ 745,872	\$ (195,328)
Animal licenses	4,000	4,000	7,789	3,789
Total permits, privilege fees and licenses	\$ 945,200	\$ 945,200	\$ 753,661	\$ (191,539)
Fines and forfeitures	\$ 439,000	\$ 439,000	\$ 283,035	\$ (155,965)
Revenue from use of money and property:				
Revenue from use of money	\$ 270,000	\$ 270,000	\$ 442,227	\$ 172,227
Revenue from use of property	28,000	28,000	72,850	44,850
Total revenue from use of money and property	\$ 298,000	\$ 298,000	\$ 515,077	\$ 217,077
Charges for services:				
Court costs	\$ 116,800	\$ 116,800	\$ 120,052	\$ 3,252
Commonwealth's attorney	1,500	1,500	2,468	968
Sanitation and waste removal	691,000	691,000	686,917	(4,083)
Parks and recreation	687,700	687,700	637,446	(50,254)
Planning and community development	800	800	2,795	1,995
Courthouse maintenance	-	-	11,958	11,958
Animal protection	-	-	50	50
Administrative charges	40,000	40,000	49,059	9,059
Total charges for services	\$ 1,537,800	\$ 1,537,800	\$ 1,510,745	\$ (27,055)

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue:				
Payments in-lieu of taxes	\$ 20,000	\$ 20,000	\$ 309	\$ (19,691)
Souvenir sales	20,000	20,000	15,369	(4,631)
Donations - parks and recreation	-	-	62,000	62,000
Other	23,900	25,900	71,768	45,868
Total miscellaneous revenue	<u>\$ 63,900</u>	<u>\$ 65,900</u>	<u>\$ 149,446</u>	<u>\$ 83,546</u>
Recovered costs:				
Circuit court secretaries	\$ 160,000	\$ 177,740	\$ 239,610	\$ 61,870
Health department	188,500	188,500	221,537	33,037
Social services	154,000	154,000	118,815	(35,185)
Other	66,150	114,498	254,227	139,729
Total recovered costs	<u>\$ 568,650</u>	<u>\$ 634,738</u>	<u>\$ 834,189</u>	<u>\$ 199,451</u>
Total revenue from local sources	<u>\$ 59,480,571</u>	<u>\$ 59,548,659</u>	<u>\$ 61,441,806</u>	<u>\$ 1,893,147</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ -	\$ -	\$ 11,302	\$ 11,302
Wine taxes	-	-	11,847	11,847
Grantors tax	90,000	90,000	157,378	67,378
Motor vehicle rental tax	80,000	80,000	72,261	(7,739)
Personal property relief	1,710,000	1,710,000	1,728,833	18,833
Other	9,500	9,500	10,799	1,299
Total noncategorical aid	<u>\$ 1,889,500</u>	<u>\$ 1,889,500</u>	<u>\$ 1,992,420</u>	<u>\$ 102,920</u>
Categorical aid - shared expenses:				
Commonwealth's attorney	\$ 427,601	\$ 547,854	\$ 511,286	\$ (36,568)
Sheriff	382,727	419,848	423,887	4,039
Commissioner of revenue	143,239	143,239	149,898	6,659
Treasurer	107,426	124,142	123,836	(306)
Medical examiner	400	400	60	(340)
Registrar	51,500	52,917	46,883	(6,034)
Clerk of the circuit court	251,158	270,321	270,965	644
Total categorical aid - shared expenses	<u>\$ 1,364,051</u>	<u>\$ 1,558,721</u>	<u>\$ 1,526,815</u>	<u>\$ (31,906)</u>
Categorical aid - other:				
Street and highway maintenance	\$ 2,000,000	\$ 2,000,000	\$ 1,894,842	\$ (105,158)
Law enforcement assistance	921,409	921,409	921,408	(1)
Other	12,500	30,133	36,526	6,393
Total categorical aid - other	<u>\$ 2,933,909</u>	<u>\$ 2,951,542</u>	<u>\$ 2,852,776</u>	<u>\$ (98,766)</u>
Total revenue from the Commonwealth	<u>\$ 6,187,460</u>	<u>\$ 6,399,763</u>	<u>\$ 6,372,011</u>	<u>\$ (27,752)</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Payment in-lieu of taxes	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Hazardous materials grant	-	-	8,553	8,553
Emergency services	-	-	5,340	5,340
Election commission grant	-	-	1,416	1,416
Public assistance - cost allocation	47,000	47,000	50,140	3,140
	<u>48,000</u>	<u>48,000</u>	<u>65,449</u>	<u>17,449</u>
Total revenue from the Federal Government	\$ 48,000	\$ 48,000	\$ 65,449	\$ 17,449
Total revenues	<u>\$ 65,716,031</u>	<u>\$ 65,996,422</u>	<u>\$ 67,879,266</u>	<u>\$ 1,882,844</u>
Expenditures				
General government administration:				
Legislative:				
City council	\$ 219,400	\$ 219,400	\$ 190,726	\$ 28,674
Clerk of council	91,569	92,569	92,450	119
	<u>310,969</u>	<u>311,969</u>	<u>283,176</u>	<u>28,793</u>
Total legislative	\$ 310,969	\$ 311,969	\$ 283,176	\$ 28,793
General and financial administration:				
City manager	\$ 668,958	\$ 699,214	\$ 670,394	\$ 28,820
Insurance program	457,010	447,010	435,293	11,717
Personnel	317,857	327,857	319,937	7,920
Independent auditor	60,910	60,910	58,664	2,246
Commissioner of the revenue	851,785	848,785	786,560	62,225
Board of real estate assessors	126,000	129,000	128,224	776
Treasurer	662,964	692,527	692,509	18
Fiscal affairs	529,809	529,809	506,005	23,804
Information systems	334,538	334,538	330,856	3,682
Copying and postage	25,750	25,750	21,445	4,305
Legal services	406,793	406,793	307,908	98,885
	<u>4,442,374</u>	<u>4,502,193</u>	<u>4,257,795</u>	<u>244,398</u>
Total general and financial administration	\$ 4,442,374	\$ 4,502,193	\$ 4,257,795	\$ 244,398
Board of elections:				
Registrar and electoral board	\$ 187,177	\$ 190,955	\$ 179,256	\$ 11,699
Total general government administration	<u>\$ 4,940,520</u>	<u>\$ 5,005,117</u>	<u>\$ 4,720,227</u>	<u>\$ 284,890</u>
Judicial administration:				
Courts:				
Circuit court	\$ 334,334	\$ 352,074	\$ 352,073	\$ 1
General district court	48,600	48,600	26,832	21,768
Special magistrates	10,000	10,000	7,334	2,666
Juvenile and domestic relations court	23,890	23,890	22,740	1,150
Clerk of the circuit court	665,605	692,716	641,000	51,716
Sheriff	1,053,708	1,091,703	1,067,089	24,614
JDR services	50,741	50,741	50,627	114
Juries	30,000	30,000	21,210	8,790
Court appointed attorney	25,000	25,000	15,556	9,444
	<u>2,241,878</u>	<u>2,324,724</u>	<u>2,204,461</u>	<u>120,263</u>
Total courts	\$ 2,241,878	\$ 2,324,724	\$ 2,204,461	\$ 120,263

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures: (continued)				
Judicial administration: (continued)				
Commonwealth attorney:				
Commonwealth attorney	\$ 942,937	\$ 1,130,310	\$ 899,029	\$ 231,281
Total judicial administration	<u>\$ 3,184,815</u>	<u>\$ 3,455,034</u>	<u>\$ 3,103,490</u>	<u>\$ 351,544</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 7,095,476	\$ 7,213,032	\$ 7,018,754	\$ 194,278
Auxiliary police	22,800	15,250	4,465	10,785
Narcotics taskforce	-	-	-	-
Total law enforcement and traffic control	<u>\$ 7,118,276</u>	<u>\$ 7,228,282</u>	<u>\$ 7,023,219</u>	<u>\$ 205,063</u>
Fire and rescue:				
Fire department	\$ 3,960,762	\$ 3,983,128	\$ 3,973,687	\$ 9,441
Volunteer fire department	20,000	20,000	20,000	-
Rescue services	191,874	191,874	191,874	-
Emergency medical services	536,002	574,001	558,389	15,612
Hazardous materials	21,400	21,400	6,774	14,626
E-911 communications	957,585	909,238	880,441	28,797
Total fire and rescue	<u>\$ 5,687,623</u>	<u>\$ 5,699,641</u>	<u>\$ 5,631,165</u>	<u>\$ 68,476</u>
Correction and detention:				
Juvenile detention center	\$ 476,771	\$ 581,621	\$ 581,621	\$ -
Rappahannock security center	2,829,293	2,829,293	2,829,293	-
Total correction and detention	<u>\$ 3,306,064</u>	<u>\$ 3,410,914</u>	<u>\$ 3,410,914</u>	<u>\$ -</u>
Inspections:				
Code compliance	\$ 966,099	\$ 966,099	\$ 892,027	\$ 74,072
Other protection:				
Animal control	\$ 93,413	\$ 89,523	\$ 83,337	\$ 6,186
Medical examiner	1,200	1,200	360	840
Total other protection	<u>\$ 94,613</u>	<u>\$ 90,723</u>	<u>\$ 83,697</u>	<u>\$ 7,026</u>
Total public safety	<u>\$ 17,172,675</u>	<u>\$ 17,395,659</u>	<u>\$ 17,041,022</u>	<u>\$ 354,637</u>
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 667,889	\$ 703,789	\$ 703,275	\$ 514
Street maintenance	1,064,481	1,039,913	954,770	85,143
Drainage	358,718	357,718	330,912	26,806
Street lights	288,550	366,898	318,141	48,757
Industrial park rail spur	15,000	15,100	15,093	7
Traffic engineering	293,854	296,402	226,016	70,386
Shop and garage	1,147,446	1,177,416	1,175,450	1,966
Graphics	78,432	78,432	75,699	2,733
Total maintenance of streets, highways, bridges and sidewalks	<u>\$ 3,914,370</u>	<u>\$ 4,035,668</u>	<u>\$ 3,799,356</u>	<u>\$ 236,312</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures: (continued)				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 726,936	\$ 727,886	\$ 664,969	\$ 62,917
Tree purchase program	35,000	35,000	29,452	5,548
Refuse collection	620,228	575,228	550,617	24,611
Refuse disposal	44,090	84,090	82,273	1,817
Recycling collection	106,216	111,216	111,044	172
Total sanitation and waste removal	<u>\$ 1,532,470</u>	<u>\$ 1,533,420</u>	<u>\$ 1,438,355</u>	<u>\$ 95,065</u>
Maintenance of buildings and grounds:				
General properties	\$ 1,236,878	\$ 1,322,438	\$ 1,308,956	\$ 13,482
Environmental management system	15,750	15,750	2,814	12,936
Buildings and grounds - special	243,739	256,939	236,288	20,651
Total maintenance of buildings and grounds	<u>\$ 1,496,367</u>	<u>\$ 1,595,127</u>	<u>\$ 1,548,058</u>	<u>\$ 47,069</u>
Total public works	<u>\$ 6,943,207</u>	<u>\$ 7,164,215</u>	<u>\$ 6,785,769</u>	<u>\$ 378,446</u>
Health and welfare:				
Health:				
Supplement to local health department	\$ 437,535	\$ 437,535	\$ 437,535	\$ -
Mental health and mental retardation:				
Chapter X board	\$ 223,354	\$ 223,354	\$ 223,354	\$ -
Social services:				
Other contributions	\$ 743,268	\$ 760,268	\$ 759,660	\$ 608
Total health and welfare	<u>\$ 1,404,157</u>	<u>\$ 1,421,157</u>	<u>\$ 1,420,549</u>	<u>\$ 608</u>
Education:				
Community colleges	\$ 6,022	\$ 6,022	\$ 6,022	\$ -
UMW alumni center	26,600	26,933	26,933	-
Appropriations to public school system	21,163,759	21,683,759	21,598,350	85,409
Total education	<u>\$ 21,196,381</u>	<u>\$ 21,716,714</u>	<u>\$ 21,631,305</u>	<u>\$ 85,409</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 490,707	\$ 533,757	\$ 533,709	\$ 48
Supervision	788,690	763,690	746,434	17,256
Maintenance	993,201	1,004,201	996,775	7,426
Dixon Park swimming pool	160,210	160,210	148,808	11,402
Total parks and recreation	<u>\$ 2,432,808</u>	<u>\$ 2,461,858</u>	<u>\$ 2,425,726</u>	<u>\$ 36,132</u>
Library:				
Regional library	\$ 1,194,877	\$ 1,194,877	\$ 1,194,877	\$ -
Cultural:				
Museums	\$ 145,000	\$ 145,000	\$ 145,000	\$ -
Other cultural	10,000	10,000	10,000	-
Total cultural	<u>\$ 155,000</u>	<u>\$ 155,000</u>	<u>\$ 155,000</u>	<u>\$ -</u>
Total parks, recreation and cultural	<u>\$ 3,782,685</u>	<u>\$ 3,811,735</u>	<u>\$ 3,775,603</u>	<u>\$ 36,132</u>

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures: (continued)				
Community Development:				
Planning and community development:				
Planning	\$ 465,609	\$ 651,959	\$ 564,165	\$ 87,794
Building appeals board	600	600	460	140
Community development	113,986	113,986	103,986	10,000
Architectural review board	3,500	3,500	1,393	2,107
Economic development/tourism	1,210,304	991,052	965,191	25,861
Total planning and community development	<u>\$ 1,793,999</u>	<u>\$ 1,761,097</u>	<u>\$ 1,635,195</u>	<u>\$ 125,902</u>
Environmental management:				
Soil and water conservation district	\$ 11,000	\$ 11,000	\$ 11,000	\$ -
Total community development	<u>\$ 1,804,999</u>	<u>\$ 1,772,097</u>	<u>\$ 1,646,195</u>	<u>\$ 125,902</u>
Total expenditures	<u>\$ 60,429,439</u>	<u>\$ 61,741,728</u>	<u>\$ 60,124,160</u>	<u>\$ 1,617,568</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 5,286,592</u>	<u>\$ 4,254,694</u>	<u>\$ 7,755,106</u>	<u>\$ 3,500,412</u>
Other Financing Sources (Uses)				
Transfers in	\$ 2,105,672	\$ 2,105,672	\$ 2,025,672	\$ (80,000)
Transfers out	<u>(7,866,984)</u>	<u>(11,590,401)</u>	<u>(11,590,401)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (5,761,312)</u>	<u>\$ (9,484,729)</u>	<u>\$ (9,564,729)</u>	<u>\$ (80,000)</u>
Net change in fund balance	\$ (474,720)	\$ (5,230,035)	\$ (1,809,623)	\$ 3,420,412
Fund balance, beginning of year	<u>474,720</u>	<u>5,230,035</u>	<u>23,481,416</u>	<u>18,251,381</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 21,671,793</u></u>	<u><u>\$ 21,671,793</u></u>

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

Virginia Retirement System
 Public Employees Retirement System
 Schedule of Funding Progress

City:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 57,680,905	\$ 64,334,840	\$ 6,653,935	89.66%	\$ 17,133,104	38.84%
June 30, 2005	53,369,162	62,366,870	8,997,708	85.57%	15,954,784	56.40%
June 30, 2004	50,810,723	57,279,778	6,469,055	88.71%	15,278,332	42.34%

School Board Non-Professional:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2006	\$ 1,970,050	\$ 1,823,798	\$(146,252)	108.02%	\$ 934,473	-15.65%
June 30, 2005	1,808,405	1,931,573	123,168	93.62%	842,429	14.62%
June 30, 2004	1,708,902	1,563,232	(145,670)	109.32%	806,294	-18.07%

This page intentionally left blank

OTHER SUPPLEMENTARY INFORMATION

This page intentionally left blank

Budgetary Comparison Schedule
 Public Safety Construction Fund
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public Safety Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ -	\$ -	\$ 46,003	\$ 46,003
Revenue from use of money and property:				
Use of money	\$ 100,000	\$ 100,000	\$ 711,233	\$ 611,233
Miscellaneous	\$ -	\$ 261,474	\$ 283,178	\$ 21,704
Intergovernmental:				
Revenue from the Commonwealth:				
E-911 wireless grant	\$ 240,000	\$ 240,000	\$ 290,520	\$ 50,520
Total revenues	\$ 340,000	\$ 601,474	\$ 1,330,934	\$ 729,460
Expenditures				
Capital projects:				
Fire training center	\$ -	\$ 511,474	\$ 370,000	\$ 141,474
Backup generators - fire and police headquarters	150,000	150,000	22,900	127,100
Automated parking enforcement	-	-	30,411	(30,411)
Police headquarters	1,800,000	10,252,655	9,807,390	445,265
Total capital projects	\$ 1,950,000	\$ 10,914,129	\$ 10,230,701	\$ 683,428
Total expenditures	\$ 1,950,000	\$ 10,914,129	\$ 10,230,701	\$ 683,428
Excess (deficiency) of revenues over expenditures	\$ (1,610,000)	\$ (10,312,655)	\$ (8,899,767)	\$ 1,412,888
Other Financing Sources (Uses)				
Transfers in	\$ 1,610,000	\$ 1,610,000	\$ 1,610,000	\$ -
Total other financing sources (uses)	\$ 1,610,000	\$ 1,610,000	\$ 1,610,000	\$ -
Net change in fund balance	\$ -	\$ (8,702,655)	\$ (7,289,767)	\$ 1,412,888
Fund balance, beginning of year	-	8,702,655	10,702,852	2,000,197
Fund balance, end of year	\$ -	\$ -	\$ 3,413,085	\$ 3,413,085

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, 2007

ASSETS	Special Revenue	Capital Projects	Total
Assets:			
Cash and cash equivalents	\$ 3,467,236	\$ 7,271,351	\$ 10,738,587
Receivables:			
Property taxes	38,085	-	38,085
Accrued revenue	7,855	319,802	327,657
Prepays	7,148	-	7,148
Due from other governments	953,644	140,000	1,093,644
Total assets	\$ 4,473,968	\$ 7,731,153	\$ 12,205,121
LIABILITIES AND EQUITY			
Liabilities:			
Reconciled overdraft	\$ 350,359	\$ -	\$ 350,359
Accounts payable	383,038	188,497	571,535
Accrued liabilities	70,266	750,018	820,284
Deferred revenue	37,475	15,000	52,475
Total liabilities	\$ 841,138	\$ 953,515	\$ 1,794,653
Equity:			
Fund Balance:			
Reserved:			
Encumbrances	\$ 19,194	\$ 324,477	\$ 343,671
Prepays	7,148	-	7,148
Unreserved:			
Designated for:			
Subsequent year's expenditures	1,028,216	-	1,028,216
Capital projects	-	6,453,161	6,453,161
Unreserved/undesignated	2,578,272	-	2,578,272
Total equity	\$ 3,632,830	\$ 6,777,638	\$ 10,410,468
Total liabilities and equity	\$ 4,473,968	\$ 7,731,153	\$ 12,205,121

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenues				
General property taxes	\$ 1,021,316	\$ -	\$ -	\$ 1,021,316
Other local taxes	154,703	385,000	-	539,703
Use of money and property	4,314	1,260,256	-	1,264,570
Miscellaneous	247,484	3,000	-	250,484
Recovered costs	554,011	529,437	-	1,083,448
Intergovernmental:				
Revenue from the Commonwealth	2,036,212	5,000	-	2,041,212
Revenue from the Federal Government	2,883,628	-	-	2,883,628
Total revenues	<u>\$ 6,901,668</u>	<u>\$ 2,182,693</u>	<u>\$ -</u>	<u>\$ 9,084,361</u>
Expenditures				
Current:				
Judicial administration	\$ 130,342	\$ -	\$ -	\$ 130,342
Public safety	334,027	-	-	334,027
Health and welfare	5,699,269	-	-	5,699,269
Parks, recreation and cultural	152,690	-	-	152,690
Community development	1,328,824	-	-	1,328,824
Capital projects	-	6,208,719	-	6,208,719
Debt service:				
Principal	-	-	3,040,925	3,040,925
Interest	-	-	3,191,033	3,191,033
Total expenditures	<u>\$ 7,645,152</u>	<u>\$ 6,208,719</u>	<u>\$ 6,231,958</u>	<u>\$ 20,085,829</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (743,484)</u>	<u>\$ (4,026,026)</u>	<u>\$ (6,231,958)</u>	<u>\$ (11,001,468)</u>
Other financing sources (uses)				
Proceeds from the sale of capital assets	\$ -	\$ 298,472	\$ -	\$ 298,472
Transfers in	1,932,234	1,836,790	6,231,958	10,000,982
Transfers out	<u>(1,281,558)</u>	<u>-</u>	<u>-</u>	<u>(1,281,558)</u>
Total other financing sources (uses)	<u>\$ 650,676</u>	<u>\$ 2,135,262</u>	<u>\$ 6,231,958</u>	<u>\$ 9,017,896</u>
Net change in fund balance	\$ (92,808)	\$ (1,890,764)	\$ -	\$ (1,983,572)
Fund balance, beginning of year	<u>3,725,638</u>	<u>8,668,402</u>	<u>-</u>	<u>12,394,040</u>
Fund balance, end of year	<u>\$ 3,632,830</u>	<u>\$ 6,777,638</u>	<u>\$ -</u>	<u>\$ 10,410,468</u>

CITY OF FREDERICKSBURG, VIRGINIA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 At June 30, 2007

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Regional Transportation Fund	Compre- hensive Services Act Fund
ASSETS				
Assets:				
Cash and cash equivalents	\$ -	\$ 857,702	\$ 31,872	\$ -
Receivables:				
Taxes	-	-	-	-
Accrued revenue	4,735	-	3,120	-
Prepaid items	5,288	1,860	-	-
Due from other governments	273,686	171,522	154,703	353,733
Total assets	\$ 283,709	\$ 1,031,084	\$ 189,695	\$ 353,733
LIABILITIES AND EQUITY				
Liabilities:				
Reconciled overdraft	\$ 174,146	\$ -	\$ -	\$ 176,213
Accounts payable	18,723	99,186	158,300	106,829
Accrued liabilities	57,688	10,919	-	1,659
Deferred revenue	-	-	-	-
Total liabilities	\$ 250,557	\$ 110,105	\$ 158,300	\$ 284,701
Equity:				
Fund Balance:				
Reserved:				
Encumbrances	\$ -	\$ 19,194	\$ -	\$ -
Prepays	5,288	1,860	-	-
Unreserved:				
Designated for:				
Subsequent year's expenditures	27,864	899,925	31,395	69,032
Unreserved/undesignated	-	-	-	-
Total equity	\$ 33,152	\$ 920,979	\$ 31,395	\$ 69,032
Total liabilities and equity	\$ 283,709	\$ 1,031,084	\$ 189,695	\$ 353,733

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 1,223,726	\$ 720,268	\$ 633,668	\$ 3,467,236
3,256	33,201	1,628	38,085
-	-	-	7,855
-	-	-	7,148
-	-	-	953,644
<u>\$ 1,226,982</u>	<u>\$ 753,469</u>	<u>\$ 635,296</u>	<u>\$ 4,473,968</u>
\$ -	\$ -	\$ -	\$ 350,359
-	-	-	383,038
-	-	-	70,266
<u>2,849</u>	<u>32,998</u>	<u>1,628</u>	<u>37,475</u>
<u>\$ 2,849</u>	<u>\$ 32,998</u>	<u>\$ 1,628</u>	<u>\$ 841,138</u>
\$ -	\$ -	\$ -	\$ 19,194
-	-	-	7,148
-	-	-	1,028,216
<u>1,224,133</u>	<u>720,471</u>	<u>633,668</u>	<u>2,578,272</u>
<u>\$ 1,224,133</u>	<u>\$ 720,471</u>	<u>\$ 633,668</u>	<u>\$ 3,632,830</u>
<u>\$ 1,226,982</u>	<u>\$ 753,469</u>	<u>\$ 635,296</u>	<u>\$ 4,473,968</u>

CITY OF FREDERICKSBURG, VIRGINIA

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

Nonmajor Special Revenue Funds

Year Ended June 30, 2007

	Virginia Public Assistance Fund	State, Federal and Local Grants Fund	Regional Transportation Fund	Compre- hensive Services Act Fund
Revenues				
General property taxes	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	154,703	-
Use of money and property	-	4,314	-	-
Miscellaneous	-	247,484	-	-
Recovered costs	115,820	431,951	6,240	-
Intergovernmental:				
Revenue from the Commonwealth	1,173,185	156,739	-	706,288
Revenue from the Federal Government	2,222,431	661,197	-	-
Total revenues	\$ 3,511,436	\$ 1,501,685	\$ 160,943	\$ 706,288
Expenditures				
Current:				
Judicial administration	\$ -	\$ 130,342	\$ -	\$ -
Public safety	-	334,027	-	-
Health and welfare	4,325,227	-	-	1,374,042
Parks, recreation and cultural	-	152,690	-	-
Community Development	-	1,131,758	197,066	-
Total expenditures	\$ 4,325,227	\$ 1,748,817	\$ 197,066	\$ 1,374,042
Excess (deficiency) of revenues over expenditures	\$ (813,791)	\$ (247,132)	\$ (36,123)	\$ (667,754)
Other financing sources (uses)				
Transfers in	\$ 754,740	\$ 496,003	\$ -	\$ 681,491
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ 754,740	\$ 496,003	\$ -	\$ 681,491
Net change in fund balance	\$ (59,051)	\$ 248,871	\$ (36,123)	\$ 13,737
Fund balance, beginning of year	92,203	672,108	67,518	55,295
Fund balance, end of year	\$ 33,152	\$ 920,979	\$ 31,395	\$ 69,032

Exhibit 19

Central Park Special Tax District Fund	Fall Hill Special Tax District Fund	Celebrate Virginia Special Tax District Fund	Total
\$ 395,976	\$ 201,447	\$ 423,893	\$ 1,021,316
-	-	-	154,703
-	-	-	4,314
-	-	-	247,484
-	-	-	554,011
-	-	-	2,036,212
-	-	-	2,883,628
<u>\$ 395,976</u>	<u>\$ 201,447</u>	<u>\$ 423,893</u>	<u>\$ 6,901,668</u>
\$ -	\$ -	\$ -	\$ 130,342
-	-	-	334,027
-	-	-	5,699,269
-	-	-	152,690
-	-	-	1,328,824
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,645,152</u>
<u>\$ 395,976</u>	<u>\$ 201,447</u>	<u>\$ 423,893</u>	<u>\$ (743,484)</u>
\$ -	\$ -	\$ -	\$ 1,932,234
<u>(643,254)</u>	<u>(200,000)</u>	<u>(438,304)</u>	<u>(1,281,558)</u>
<u>\$ (643,254)</u>	<u>\$ (200,000)</u>	<u>\$ (438,304)</u>	<u>\$ 650,676</u>
\$ (247,278)	\$ 1,447	\$ (14,411)	\$ (92,808)
<u>1,471,411</u>	<u>719,024</u>	<u>648,079</u>	<u>3,725,638</u>
<u>\$ 1,224,133</u>	<u>\$ 720,471</u>	<u>\$ 633,668</u>	<u>\$ 3,632,830</u>

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 At June 30, 2007

	Public Works Construction Fund	Public Facilities Construction Fund	New High School Construction Fund	New Elementary School Construction Fund	Total
ASSETS					
Assets:					
Cash and cash equivalents	\$ 1,971,330	\$ 4,057,575	\$ 1,092,446	\$ 150,000	\$ 7,271,351
Accrued revenue	159,141	160,661	-	-	319,802
Due from other governments	140,000	-	-	-	140,000
Total assets	\$ 2,270,471	\$ 4,218,236	\$ 1,092,446	\$ 150,000	\$ 7,731,153
LIABILITIES AND EQUITY					
Liabilities:					
Accounts payable	\$ 152,482	\$ 36,015	\$ -	\$ -	\$ 188,497
Accrued liabilities	56,596	43,422	500,000	150,000	750,018
Deferred revenue	-	15,000	-	-	15,000
Total liabilities	\$ 209,078	\$ 94,437	\$ 500,000	\$ 150,000	\$ 953,515
Equity:					
Fund Balance:					
Reserved:					
Encumbrances	\$ 274,051	\$ 50,426	\$ -	\$ -	\$ 324,477
Unreserved:					
Designated for:					
Capital projects	1,787,342	4,073,373	592,446	-	6,453,161
Total equity	\$ 2,061,393	\$ 4,123,799	\$ 592,446	\$ -	\$ 6,777,638
Total liabilities and equity	\$ 2,270,471	\$ 4,218,236	\$ 1,092,446	\$ 150,000	\$ 7,731,153

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 Year Ended June 30, 2007

	Public Works Construction Fund	Public Facilities Construction Fund	New High School Construction Fund	New Elementary School Construction Fund	Total
Revenues					
Other local taxes	\$ 385,000	\$ -	\$ -	\$ -	\$ 385,000
Use of money and property	588,982	562,148	109,126	-	1,260,256
Miscellaneous	-	3,000	-	-	3,000
Recovered costs	433,492	95,945	-	-	529,437
Intergovernmental:					
Revenue from the Commonwealth	-	5,000	-	-	5,000
Total revenues	\$ 1,407,474	\$ 666,093	\$ 109,126	\$ -	\$ 2,182,693
Expenditures					
Capital projects	\$ 2,972,651	\$ 1,677,768	\$ 1,558,300	\$ -	\$ 6,208,719
Excess (deficiency) of revenues over expenditures	\$ (1,565,177)	\$ (1,011,675)	\$ (1,449,174)	\$ -	\$ (4,026,026)
Other financing sources (uses)					
Proceeds from the sale of capital assets	\$ -	\$ 298,472	\$ -	\$ -	\$ 298,472
Transfers in	849,790	987,000	-	-	1,836,790
Total other financing sources (uses)	\$ 849,790	\$ 1,285,472	\$ -	\$ -	\$ 2,135,262
Net change in fund balance	\$ (715,387)	\$ 273,797	\$ (1,449,174)	\$ -	\$ (1,890,764)
Fund balance, beginning of year	2,776,780	3,850,002	2,041,620	-	8,668,402
Fund balance, end of year	\$ 2,061,393	\$ 4,123,799	\$ 592,446	\$ -	\$ 6,777,638

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2007

	General Obligation Bond Debt Service Fund	Education Debt Service Fund	Total
Expenditures			
Debt service:			
Principal	\$ 1,871,251	\$ 1,169,674	\$ 3,040,925
Interest and fiscal charges	809,850	2,381,183	3,191,033
Total expenditures	\$ 2,681,101	\$ 3,550,857	\$ 6,231,958
Excess (deficiency) of revenues over expenditures	\$ (2,681,101)	\$ (3,550,857)	\$ (6,231,958)
Other financing sources (uses)			
Transfers in	\$ 2,681,101	\$ 3,550,857	\$ 6,231,958
Total other financing sources (uses)	\$ 2,681,101	\$ 3,550,857	\$ 6,231,958
Net change in fund balance	\$ -	\$ -	\$ -
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -

Combining Statement of Fiduciary Net Assets
At June 30, 2007

	Criminal Justice Academy	Special Welfare	Court Service Unit	CASA Program	GWRC Agency	Rappahannock Area Youth Commission	Revenue Maximization Fund	Forfeited Asset Sharing Program Fund	Total
ASSETS									
Assets:									
Cash and cash equivalents	\$ 7,068	\$ 28,350	\$ 154,005	\$ 96,299	\$ -	\$ 53,601	\$ 20,451	\$ 44,817	\$ 404,591
Accounts receivable	-	-	10,532	9,307	12,770	19,369	-	-	51,978
Prepaid items	-	-	5,538	-	-	17,412	-	-	22,950
Total assets	<u>\$ 7,068</u>	<u>\$ 28,350</u>	<u>\$ 170,075</u>	<u>\$ 105,606</u>	<u>\$ 12,770</u>	<u>\$ 90,382</u>	<u>\$ 20,451</u>	<u>\$ 44,817</u>	<u>\$ 479,519</u>
LIABILITIES AND NET ASSETS									
Liabilities:									
Reconciled overdraft	\$ -	\$ -	\$ -	\$ -	\$ 12,768	\$ -	\$ -	\$ -	\$ 12,768
Accounts payable	7,068	-	19,515	347	-	7,817	-	1,871	36,618
Amounts held for others	-	28,350	150,560	105,259	2	82,565	20,451	42,946	430,133
Total liabilities	<u>\$ 7,068</u>	<u>\$ 28,350</u>	<u>\$ 170,075</u>	<u>\$ 105,606</u>	<u>\$ 12,770</u>	<u>\$ 90,382</u>	<u>\$ 20,451</u>	<u>\$ 44,817</u>	<u>\$ 479,519</u>
Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

AGENCY FUNDS

Statement of Changes in Assets and Liabilities

Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
CRIMINAL JUSTICE ACADEMY				
Assets:				
Cash and cash equivalents	\$ 7,726	\$ 807,982	\$ 808,640	\$ 7,068
Liabilities:				
Accounts payable	\$ 7,726	\$ 807,982	\$ 808,640	\$ 7,068
SPECIAL WELFARE				
Assets:				
Cash and cash equivalents	\$ 18,089	\$ 17,018	\$ 6,757	\$ 28,350
Accounts receivable	41	-	41	-
Total assets	\$ 18,130	\$ 17,018	\$ 6,798	\$ 28,350
Liabilities:				
Amounts held for others	\$ 18,130	\$ 17,018	\$ 6,798	\$ 28,350
COURT SERVICE UNIT				
Assets:				
Cash and cash equivalents	\$ 154,508	\$ 203,532	\$ 204,035	\$ 154,005
Accounts receivable	1,582	10,532	1,582	10,532
Prepaid items	5,238	5,538	5,238	5,538
Total assets	\$ 161,328	\$ 219,602	\$ 210,855	\$ 170,075
Liabilities:				
Accounts payable	\$ 14,108	\$ 19,515	\$ 14,108	\$ 19,515
Amounts held for others	147,220	200,087	196,747	150,560
Total liabilities	\$ 161,328	\$ 219,602	\$ 210,855	\$ 170,075
CASA PROGRAM				
Assets:				
Cash and cash equivalents	\$ 64,299	\$ 192,960	\$ 160,960	\$ 96,299
Accounts receivable	4,710	9,307	4,710	9,307
Prepaid items	1,443	-	1,443	-
Total assets	\$ 70,452	\$ 202,267	\$ 167,113	\$ 105,606
Liabilities:				
Accounts payable	\$ 79	\$ 347	\$ 79	\$ 347
Amounts held for others	70,373	201,920	167,034	105,259
Total liabilities	\$ 70,452	\$ 202,267	\$ 167,113	\$ 105,606
GWRC AGENCY				
Assets:				
Cash and cash equivalents	\$ -	\$ 66,235	\$ 66,235	\$ -
Accounts receivable	27,960	12,770	27,960	12,770
Total assets	\$ 27,960	\$ 79,005	\$ 94,195	\$ 12,770
Liabilities:				
Reconciled overdraft	\$ -	\$ 12,768	\$ -	\$ 12,768
Accounts payable	27,960	-	27,960	-
Amounts held for others	-	66,237	66,235	2
Total liabilities	\$ 27,960	\$ 79,005	\$ 94,195	\$ 12,770

AGENCY FUNDS
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
RAPPAHANNOCK AREA YOUTH COMMISSION				
Assets:				
Cash and cash equivalents	\$ 46,476	\$ 502,836	\$ 495,711	\$ 53,601
Accounts receivable	50,986	19,369	50,986	19,369
Prepaid items	-	17,412	-	17,412
Total assets	<u>\$ 97,462</u>	<u>\$ 539,617</u>	<u>\$ 546,697</u>	<u>\$ 90,382</u>
Liabilities:				
Accounts payable	\$ 4,027	\$ 7,817	\$ 4,027	\$ 7,817
Amounts held for others	93,435	531,800	542,670	82,565
Total liabilities	<u>\$ 97,462</u>	<u>\$ 539,617</u>	<u>\$ 546,697</u>	<u>\$ 90,382</u>
REVENUE MAXIMIZATION FUND				
Assets:				
Cash and cash equivalents	\$ 20,451	\$ -	\$ -	\$ 20,451
Liabilities:				
Amounts held for others	\$ 20,451	\$ -	\$ -	\$ 20,451
FORFEITED ASSET SHARING PROGRAM FUND				
Assets:				
Cash and cash equivalents	\$ 40,659	\$ 15,488	\$ 11,330	\$ 44,817
Accounts receivable	4,389	-	4,389	-
Total assets	<u>\$ 45,048</u>	<u>\$ 15,488</u>	<u>\$ 15,719</u>	<u>\$ 44,817</u>
Liabilities:				
Accounts payable	\$ -	\$ 1,871	\$ -	\$ 1,871
Amounts held for others	45,048	13,617	15,719	42,946
Total liabilities	<u>\$ 45,048</u>	<u>\$ 15,488</u>	<u>\$ 15,719</u>	<u>\$ 44,817</u>
TOTALS -- ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 352,208	\$ 1,806,051	\$ 1,753,668	\$ 404,591
Accounts receivable	89,668	51,978	89,668	51,978
Prepaid items	6,681	22,950	6,681	22,950
Total assets	<u>\$ 448,557</u>	<u>\$ 1,880,979</u>	<u>\$ 1,850,017</u>	<u>\$ 479,519</u>
Liabilities:				
Reconciled overdraft	\$ -	\$ 12,768	\$ -	\$ 12,768
Accounts payable	53,900	837,532	854,814	36,618
Amounts held for others	394,657	1,030,679	995,203	430,133
Total liabilities	<u>\$ 448,557</u>	<u>\$ 1,880,979</u>	<u>\$ 1,850,017</u>	<u>\$ 479,519</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds				
Virginia Public Assistance Fund				
Revenues				
Recovered costs	\$ -	\$ -	\$ 115,820	\$ 115,820
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance grants	1,055,699	1,055,699	1,173,185	117,486
Revenue from the Federal Government:				
Categorical aid:				
Public assistance grants	2,525,406	2,455,406	2,222,431	(232,975)
Total revenues	<u>\$ 3,581,105</u>	<u>\$ 3,511,105</u>	<u>\$ 3,511,436</u>	<u>\$ 331</u>
Expenditures				
Health and welfare	<u>\$ 4,300,845</u>	<u>\$ 4,326,845</u>	<u>\$ 4,325,227</u>	<u>\$ 1,618</u>
State, Federal and Local Grants Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ 2,089	\$ 2,089	\$ 4,314	\$ 2,225
Miscellaneous	<u>\$ 248,580</u>	<u>\$ 248,580</u>	<u>\$ 247,484</u>	<u>\$ (1,096)</u>
Recovered costs:				
Stafford and Spotsylvania Counties	<u>\$ 100,000</u>	<u>\$ 431,951</u>	<u>\$ 431,951</u>	<u>\$ -</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Litter control	\$ -	\$ -	\$ 5,307	\$ 5,307
Arts grant	5,000	5,000	5,000	-
Hazardous materials grant	30,000	30,000	30,000	-
Victim-witness program	-	-	11,984	11,984
Fire services program	37,967	37,967	46,762	8,795
Other	57,285	57,285	57,686	401
Total revenue from the Commonwealth	<u>\$ 130,252</u>	<u>\$ 130,252</u>	<u>\$ 156,739</u>	<u>\$ 26,487</u>
Revenue from the Federal Government:				
Categorical aid:				
Law enforcement and related programs	\$ 61,793	\$ 392,017	\$ 344,225	\$ (47,792)
Community development block grant	237,854	237,854	316,972	79,118
Total revenue from the Federal Government	<u>\$ 299,647</u>	<u>\$ 629,871</u>	<u>\$ 661,197</u>	<u>\$ 31,326</u>
Total revenues	<u>\$ 780,568</u>	<u>\$ 1,442,743</u>	<u>\$ 1,501,685</u>	<u>\$ 58,942</u>
Expenditures				
Judicial administration:				
Victim-witness	<u>\$ 140,068</u>	<u>\$ 140,068</u>	<u>\$ 130,342</u>	<u>\$ 9,726</u>
Total judicial administration	<u>\$ 140,068</u>	<u>\$ 140,068</u>	<u>\$ 130,342</u>	<u>\$ 9,726</u>

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Special Revenue Funds: (continued)				
State, Federal and Local Grants Fund: (continued)				
Expenditures: (continued)				
Public safety:				
Hazardous materials response program	\$ 30,000	\$ 30,000	\$ 21,897	\$ 8,103
Hazard mitigation grant	-	10,818	10,818	-
Emergency response team	-	-	2,653	(2,653)
Byrne memorial grant program	-	81,431	81,388	43
Fire services program	37,967	39,147	42,222	(3,075)
Domestic violence	-	165,720	58,018	107,702
Police officers	62,095	81,445	64,521	16,924
DMV grants	10,000	10,000	8,787	1,213
State homeland security grant	-	25,194	6,000	19,194
Crime and delinquency grant	-	79,998	22,183	57,815
Criminal justice system improvement	-	34,250	15,540	18,710
Total public safety	\$ 140,062	\$ 558,003	\$ 334,027	\$ 223,976
Parks, recreation and cultural:				
Soap Box Derby	\$ 25,000	\$ 30,000	\$ 42,325	\$ (12,325)
Fine Arts Commission	5,000	5,000	5,000	-
War memorial	-	53,581	2,794	50,787
First Fridays	83,000	83,000	70,637	12,363
Other	60,530	60,530	31,934	28,596
Total parks, recreation and cultural	\$ 173,530	\$ 232,111	\$ 152,690	\$ 79,421
Community development:				
PEG access	\$ 30,000	\$ 30,000	\$ 29,367	\$ 633
Community development block grant	261,136	310,686	375,123	(64,437)
First night celebration	40,050	40,050	46,539	(6,489)
Regional consumer marketing	-	592,651	488,712	103,939
Regional group tourism	150,000	194,542	162,104	32,438
Other	71,589	81,975	29,913	52,062
Total community development	\$ 552,775	\$ 1,249,904	\$ 1,131,758	\$ 118,146
Total expenditures	\$ 1,006,435	\$ 2,180,086	\$ 1,748,817	\$ 431,269
Regional Transportation Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 100,000	\$ 255,000	\$ 154,703	\$ (100,297)
Miscellaneous	-	15,000	-	(15,000)
Recovered costs	-	-	6,240	6,240
Total revenues	\$ 100,000	\$ 270,000	\$ 160,943	\$ (109,057)
Expenditures				
Community development:				
Commuter rail	\$ 100,000	\$ 306,123	\$ 197,066	\$ 109,057
Comprehensive Services Act Fund				
Revenues				
Intergovernmental:				
Revenue from the Commonwealth:				
Comprehensive Services Act grants	\$ 691,730	\$ 690,755	\$ 706,288	\$ 15,533
Expenditures				
Health and Welfare:				
Comprehensive Services Act program	\$ 1,293,528	\$ 1,374,044	\$ 1,374,042	\$ 2

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds				
Public Works Construction Fund				
Revenues				
Other local taxes:				
Gasoline taxes	\$ 651,000	\$ 2,026,427	\$ 385,000	\$ (1,641,427)
Revenue from use of money and property:				
Use of money	\$ 200,000	\$ 200,000	\$ 539,237	\$ 339,237
Use of property	50,000	50,000	49,745	(255)
Total revenue from use of money and property	\$ 250,000	\$ 250,000	\$ 588,982	\$ 338,982
Recovered costs	\$ -	\$ -	\$ 433,492	\$ 433,492
Revenue from the Commonwealth:				
VDOT revenue sharing	\$ 361,000	\$ 1,105,920	\$ -	\$ (1,105,920)
Total revenues	<u>\$ 1,262,000</u>	<u>\$ 3,382,347</u>	<u>\$ 1,407,474</u>	<u>\$ (1,974,873)</u>
Expenditures				
Capital projects:				
Drainage improvements	\$ 175,000	\$ 462,694	\$ 472,650	\$ (9,956)
Bridge improvements	722,000	722,000	16,020	705,980
Concrete rehabilitation	160,000	160,000	175,122	(15,122)
Annual pavement rehabilitation	400,000	400,000	383,513	16,487
Downtown brick sidewalks	85,000	125,000	160,967	(35,967)
Pavement rehabilitation - maintenance	-	90,000	-	90,000
Industrial park/streets and drainage	100,000	267,427	-	267,427
Cowan Boulevard extension	-	897,820	91,471	806,349
George Street pedestrian walk	267,100	569,521	304,966	264,555
Riverfront walk	-	103,935	115,319	(11,384)
Historic downtown signs project	183,000	183,000	-	183,000
Veterans memorial	-	-	323	(323)
Cossey plant closure	-	-	268,619	(268,619)
Blue-Gray parkway bridge	-	85,000	-	85,000
Cowan Boulevard streetlights	100,000	300,000	102,080	197,920
Fall Hill Avenue/Wicklow Drive	80,000	265,588	263,938	1,650
Stafford Avenue traffic	-	1,272,307	481,563	790,744
Route 3 traffic signals	-	600,000	-	600,000
Fall Hill Avenue engineering	-	3,040	-	3,040
Embrey Dam removal	-	136,100	136,100	-
Total capital projects	<u>\$ 2,272,100</u>	<u>\$ 6,643,432</u>	<u>\$ 2,972,651</u>	<u>\$ 3,670,781</u>
Public Facilities Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ 160,000	\$ 160,000	\$ 539,236	\$ 379,236
Use of property	45,000	45,000	22,912	(22,088)
Total revenue from use of money and property	\$ 205,000	\$ 205,000	\$ 562,148	\$ 357,148
Miscellaneous	\$ -	\$ -	\$ 3,000	\$ 3,000
Recovered costs	\$ -	\$ 50,000	\$ 95,945	\$ 45,945
Revenue from the Commonwealth:				
Town hall renovation grant	\$ -	\$ -	\$ 5,000	\$ 5,000
Total revenues	<u>\$ 205,000</u>	<u>\$ 255,000</u>	<u>\$ 666,093</u>	<u>\$ 411,093</u>
Expenditures				
Capital projects:				
Regional library	\$ -	\$ 332,500	\$ 331,780	\$ 720
Maury School renovation	300,000	300,000	249,641	50,359
HVAC retrofit	50,000	100,000	52,563	47,437

Revenues and Expenditures Budgetary Comparison Schedule
For Nonmajor and Other Funds With Legally Adopted Budgets
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Capital Projects Funds: (continued)				
Public Facilities Construction Fund: (continued)				
Expenditures: (continued)				
Capital projects: (continued)				
Rescue squad interior renovation	125,000	125,000	8,425	116,575
Circuit court holding cell renovations	-	107,620	130,954	(23,334)
Circuit court renovations	100,000	100,000	82,815	17,185
Canal path improvements	-	150,000	148,174	1,826
Fredericksburg area museum	100,000	100,000	100,000	-
Downman house	-	363,018	179,203	183,815
Dixon Park pool	-	18,558	159,701	(141,143)
Executive plaza building	850,000	850,000	-	850,000
Hart center renovations	80,000	80,000	61,461	18,539
Sheriff and commonwealth attorney renovations	-	111,000	118,664	(7,664)
Other	137,000	257,139	54,387	202,752
Total capital projects	<u>\$ 1,742,000</u>	<u>\$ 2,994,835</u>	<u>\$ 1,677,768</u>	<u>\$ 1,317,067</u>
New High School Construction Fund				
Revenues				
Revenue from use of money and property:				
Use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,126</u>	<u>\$ 109,126</u>
Expenditures				
Capital projects:				
New high school	<u>\$ 1,535,607</u>	<u>\$ 3,577,227</u>	<u>\$ 1,558,300</u>	<u>\$ 2,018,927</u>
Debt Service Funds				
General Obligation Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 2,617,147</u>	<u>\$ 2,617,147</u>	<u>\$ 2,681,101</u>	<u>\$ (63,954)</u>
Education Debt Service Fund				
Expenditures				
Principal and interest	<u>\$ 3,550,857</u>	<u>\$ 3,550,857</u>	<u>\$ 3,550,857</u>	<u>\$ -</u>

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

Component Unit School Board
Combining Balance Sheet
At June 30, 2007

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 2,607,407	\$ 451,051	\$ 1,269,097	\$ 4,327,555
Accounts receivable	4,935	102,474	-	107,409
Due from other governments	602,807	573,656	-	1,176,463
Prepays	139,595	55,493	-	195,088
Total assets	<u>\$ 3,354,744</u>	<u>\$ 1,182,674</u>	<u>\$ 1,269,097</u>	<u>\$ 5,806,515</u>
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 282,429	\$ 88,269	\$ 58,828	\$ 429,526
Accrued liabilities	2,359,911	355,134	-	2,715,045
Deferred revenue	-	177,365	52,427	229,792
Total liabilities	<u>\$ 2,642,340</u>	<u>\$ 620,768</u>	<u>\$ 111,255</u>	<u>\$ 3,374,363</u>
Equity:				
Fund Balance:				
Reserved for:				
Prepays	\$ 139,595	\$ 55,493	\$ -	\$ 195,088
Designated:				
Subsequent year's expenditures	-	506,413	-	506,413
Capital projects	184,937	-	1,157,842	1,342,779
Unreserved/undesignated	387,872	-	-	387,872
Total equity	<u>\$ 712,404</u>	<u>\$ 561,906</u>	<u>\$ 1,157,842</u>	<u>\$ 2,432,152</u>
Total liabilities and equity	<u>\$ 3,354,744</u>	<u>\$ 1,182,674</u>	<u>\$ 1,269,097</u>	<u>\$ 5,806,515</u>

Component Unit School Board
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 At June 30, 2007

Total fund balances for governmental funds (Exhibit 26) \$ 2,432,152

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

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

Land	\$ 531,555	
Construction in progress	22,414	
Land improvements, net of accumulated depreciation	84,624	
Buildings and improvements, net of accumulated depreciation	8,931,002	
Equipment, net of accumulated depreciation	<u>931,785</u>	
Total capital assets		10,501,380
Compensated absences not reported as fund liabilities		<u>(770,197)</u>
Total net assets of governmental activities (Exhibits 1 and 12)		\$ <u><u>12,163,335</u></u>

Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	School Operating Fund	Special School Fund	School Capital Projects Fund	Total Governmental Funds
Revenues				
Use of money and property	\$ 21,300	\$ -	\$ -	\$ 21,300
Charges for services	271,909	382,602	-	654,511
Miscellaneous	86,038	-	-	86,038
Recovered costs	-	299,579	-	299,579
Intergovernmental:				
Appropriation from primary government	20,913,407	164,943	520,000	21,598,350
Revenue from the Commonwealth	6,735,288	418,350	181,147	7,334,785
Revenue from the Federal Government	552,745	3,665,482	-	4,218,227
Total revenues	\$ 28,580,687	\$ 4,930,956	\$ 701,147	\$ 34,212,790
Expenditures				
Current:				
Education:				
Instruction	\$ 20,864,973	\$ 3,778,503	\$ -	\$ 24,643,476
Administration, attendance and health	2,768,317	-	-	2,768,317
Transportation	1,088,287	-	-	1,088,287
Facilities operations	3,386,802	-	-	3,386,802
School food services	215,837	987,722	-	1,203,559
Capital projects	-	-	564,662	564,662
Total expenditures	\$ 28,324,216	\$ 4,766,225	\$ 564,662	\$ 33,655,103
Excess (deficiency) of revenues over expenditures	\$ 256,471	\$ 164,731	\$ 136,485	\$ 557,687
Net change in fund balance	\$ 256,471	\$ 164,731	\$ 136,485	\$ 557,687
Fund balance, beginning of year	455,933	397,175	1,021,357	1,874,465
Fund balance, end of year	\$ 712,404	\$ 561,906	\$ 1,157,842	\$ 2,432,152

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, 2007

Net change in fund balances - total governmental funds (Exhibit 28) \$ 557,687

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation in the current period. 1,083,929

Transfer of joint tenancy assets from Primary Government to the Component Unit 583,656

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

Compensated absences	<u>(71,420)</u>
Change in net assets of governmental activities (Exhibit 12)	<u>\$ 2,153,852</u>

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

Component Unit School Board
 School Operating Fund
 Revenues and Expenditures Budgetary Comparison Schedule
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
School Operating Fund				
Revenues				
Use of money and property:				
Use of property	\$ 3,500	\$ 3,500	\$ 21,300	\$ 17,800
Charges for services:				
Charges for education	\$ 205,375	\$ 205,375	\$ 271,909	\$ 66,534
Miscellaneous	\$ 27,500	\$ 27,500	\$ 86,038	\$ 58,538
Intergovernmental:				
Appropriation from primary government	\$ 20,998,816	\$ 20,998,816	\$ 20,913,407	\$ (85,409)
Revenue from the Commonwealth:				
Categorical aid:				
State sales taxes	\$ 2,649,850	\$ 2,649,850	\$ 2,566,825	\$ (83,025)
Basic aid	2,468,468	2,468,468	2,616,389	147,921
Other	1,536,373	1,536,373	1,552,074	15,701
Total revenue from the Commonwealth	\$ 6,654,691	\$ 6,654,691	\$ 6,735,288	\$ 80,597
Revenue from the Federal Government:				
Categorical aid:				
Special education	\$ 495,000	\$ 495,000	\$ 499,675	\$ 4,675
Other	55,000	55,000	53,070	(1,930)
Total revenue from the Federal Government	\$ 550,000	\$ 550,000	\$ 552,745	\$ 2,745
Total revenues	\$ 28,439,882	\$ 28,439,882	\$ 28,580,687	\$ 140,805
Expenditures				
Current:				
Education:				
Instruction	\$ 21,353,743	\$ 21,274,151	\$ 20,864,973	\$ 409,178
Administration, attendance and health	2,523,622	2,892,623	2,768,317	124,306
Transportation	1,097,405	1,091,120	1,088,287	2,833
School food operations	50,000	214,000	215,837	(1,837)
Facilities operations	3,454,703	3,336,279	3,386,802	(50,523)
Total expenditures	\$ 28,479,473	\$ 28,808,173	\$ 28,324,216	\$ 483,957
Excess (deficiency) of revenues over expenditures	\$ (39,591)	\$ (368,291)	\$ 256,471	\$ 624,762
Other financing sources (uses)				
Transfers out	\$ (85,409)	\$ (85,409)	\$ -	\$ 85,409
Total other financing sources (uses)	\$ (85,409)	\$ (85,409)	\$ -	\$ 85,409
Net change in fund balance	\$ (125,000)	\$ (453,700)	\$ 256,471	\$ 710,171
Fund balance, beginning of year	125,000	453,700	455,933	2,233
Fund balance, end of year	\$ -	\$ -	\$ 712,404	\$ 712,404

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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special School Fund				
Revenues				
Revenue from use of money and property:				
Use of money	\$ 2,500	\$ 2,500	\$ -	\$ (2,500)
Charges for services:				
Cafeteria sales	\$ 362,500	\$ 362,500	\$ 382,602	\$ 20,102
Miscellaneous	\$ 750	\$ 750	\$ -	\$ (750)
Recovered costs:				
Education	\$ 188,493	\$ 338,577	\$ 299,579	\$ (38,998)
Intergovernmental:				
Appropriation from primary government	\$ -	\$ 164,943	\$ 164,943	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 13,419	\$ 13,419	\$ 16,391	\$ 2,972
Project graduation	85,000	85,000	209,077	124,077
Other	369,490	329,272	192,882	(136,390)
Total revenue from the Commonwealth	\$ 467,909	\$ 427,691	\$ 418,350	\$ (9,341)
Revenue from the Federal Government:				
Categorical aid:				
Title I	\$ 606,899	\$ 647,117	\$ 661,198	\$ 14,081
School food	507,077	507,077	595,327	88,250
Head Start	1,825,415	1,825,415	1,786,044	(39,371)
Enhancing education via technology	509,495	509,495	251,474	(258,021)
Other	296,827	296,827	371,439	74,612
Total revenue from the Federal Government	\$ 3,745,713	\$ 3,785,931	\$ 3,665,482	\$ (120,449)
Total revenues	\$ 4,767,865	\$ 5,082,892	\$ 4,930,956	\$ (151,936)
Expenditures				
Current:				
Instruction	\$ 4,245,766	\$ 4,305,766	\$ 3,778,503	\$ 527,263
School food service operations	920,496	920,496	987,722	(67,226)
Total expenditures	\$ 5,166,262	\$ 5,226,262	\$ 4,766,225	\$ 460,037
Excess (deficiency) of revenues over expenditures	\$ (398,397)	\$ (143,370)	\$ 164,731	\$ 308,101
Other financing sources (uses)				
Transfers in	\$ 164,943	\$ -	\$ -	\$ -
Total other financing sources (uses)	\$ 164,943	\$ -	\$ -	\$ -
Net change in fund balance	\$ (233,454)	\$ (143,370)	\$ 164,731	\$ 308,101
Fund balance, beginning of year	233,454	143,370	397,175	253,805
Fund balance, end of year	\$ -	\$ -	\$ 561,906	\$ 561,906

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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
School Capital Projects Fund				
Revenues				
Intergovernmental:				
Appropriation from primary government	\$ 520,000	\$ 520,000	\$ 520,000	\$ -
Revenue from the Commonwealth:				
Lottery funds	\$ 70,000	\$ 70,000	\$ 68,721	\$ (1,279)
School construction funds	115,000	115,000	112,426	(2,574)
Total Revenue from the Commonwealth	<u>\$ 185,000</u>	<u>\$ 185,000</u>	<u>\$ 181,147</u>	<u>\$ (3,853)</u>
Total revenues	<u>\$ 705,000</u>	<u>\$ 705,000</u>	<u>\$ 701,147</u>	<u>\$ (3,853)</u>
Expenditures				
Capital projects:				
School buses	\$ 170,000	\$ 183,000	\$ 182,743	\$ 257
School computer technology	300,000	300,000	292,635	7,365
School improvements	220,000	194,000	67,292	126,708
Maintenance equipment	15,000	15,000	14,539	461
Other	-	13,000	7,453	5,547
Total capital projects	<u>\$ 705,000</u>	<u>\$ 705,000</u>	<u>\$ 564,662</u>	<u>\$ 140,338</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,485</u>	<u>\$ 136,485</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>1,021,357</u>	<u>1,021,357</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,157,842</u></u>	<u><u>\$ 1,157,842</u></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

<u>Contents</u>	<u>Tables</u>
Financial Trends These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.	1 - 5
Revenue Capacity These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	6 - 9
Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.	10 - 13
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	14, 15
Operating Information These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relate to the services the City provides and the activities it performs.	16 - 18

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

This page intentionally left blank

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 4,880,522	\$ 18,210,496	\$ 27,167,134	\$ 68,520,864	\$ 80,789,888
Unrestricted	28,326,393	29,766,767	59,025,733	42,907,819	31,075,783
Total governmental activities net assets	\$ 33,206,915	\$ 47,977,263	\$ 86,192,867	\$ 111,428,683	\$ 111,865,671
Business-type activities:					
Invested in capital assets, net of related debt	\$ 21,806,563	\$ 21,954,260	\$ 28,763,172	\$ 27,183,315	\$ 32,215,508
Unrestricted	13,149,428	12,692,077	11,123,212	17,550,170	15,618,080
Total business-type activities net assets	\$ 34,955,991	\$ 34,646,337	\$ 39,886,384	\$ 44,733,485	\$ 47,833,588
Primary government:					
Invested in capital assets, net of related debt	\$ 26,687,085	\$ 40,164,756	\$ 55,930,306	\$ 95,704,179	\$ 113,005,396
Unrestricted	41,475,821	42,458,844	70,148,945	60,457,989	46,693,863
Total primary government net assets	\$ 68,162,906	\$ 82,623,600	\$ 126,079,251	\$ 156,162,168	\$ 159,699,259

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

Changes in Net Assets

Last Five Fiscal Years

(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental activities:					
General government	\$ 3,667,325	\$ 3,836,089	\$ 4,105,737	\$ 3,688,618	\$ 5,546,499
Judicial administration	2,084,990	2,155,331	2,434,259	2,853,064	3,131,169
Public safety	12,950,555	13,448,595	14,424,379	15,922,143	18,155,708
Public works	5,280,143	5,342,332	6,689,270	8,278,001	9,099,097
Health and welfare	4,228,980	5,098,576	5,357,236	6,130,391	6,745,573
Education	15,556,786	14,232,858	15,942,171	18,961,723	24,108,406
Parks, recreation and cultural	3,007,944	3,302,359	3,648,639	4,029,638	4,485,451
Community development	2,022,708	1,914,617	1,972,940	2,186,347	2,619,455
Interest on long-term debt	817,031	1,180,917	2,951,161	3,110,420	2,991,013
Total governmental activities expenses	\$ 49,616,462	\$ 50,511,674	\$ 57,525,792	\$ 65,160,345	\$ 76,882,371
Business-type activities:					
Water	\$ 1,691,936	\$ 1,691,301	\$ 2,561,096	\$ 2,381,713	\$ 2,873,240
Sewer	2,610,054	2,566,538	2,708,274	3,077,612	3,538,756
Transit	1,085,071	1,156,280	1,464,268	2,124,171	2,491,330
Parking	-	-	19,575	297,067	441,343
Total business-type activities expenses	\$ 5,387,061	\$ 5,414,119	\$ 6,753,213	\$ 7,880,563	\$ 9,344,669
Total primary government expenses	\$ 55,003,523	\$ 55,925,793	\$ 64,279,005	\$ 73,040,908	\$ 86,227,040

	Fiscal Year				
	2003	2004	2005	2006	2007
Changes in Net Assets					
Last Five Fiscal Years					
(accrual basis of accounting)					
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 44,352	\$ 35,159	\$ 36,160	\$ 41,889	\$ 49,059
Judicial administration	77,388	65,162	66,795	230,864	122,520
Public safety	880,080	1,001,944	1,438,302	363,782	1,036,746
Public works	555,898	598,371	598,081	1,695,616	698,875
Parks, recreation and cultural	564,243	592,019	562,119	579,514	637,446
Community development	766	2,478	1,675	15,185	2,795
Operating grants and contributions	7,013,544	8,034,289	8,113,818	8,625,114	9,343,428
Capital grants and contributions	647,763	229,535	-	-	766,972
Total governmental activities program revenues	\$ 9,784,034	\$ 10,558,957	\$ 10,816,950	\$ 11,551,964	\$ 12,657,841
Business-type activities:					
Charges for services:					
Water	\$ 1,753,862	\$ 1,870,329	\$ 1,938,886	\$ 2,056,764	\$ 2,067,579
Sewer	2,926,124	3,101,699	3,103,723	3,073,788	3,168,327
Transit	28,604	32,157	45,830	50,416	54,952
Parking	-	-	-	28,563	83,520
Operating grants and contributions	2,605,140	2,695,011	4,350,268	5,887,681	4,427,535
Capital grants and contributions	-	22,289	2,328,265	739,857	2,391,013
Total business-type activities program revenues	\$ 7,313,730	\$ 7,721,485	\$ 11,766,972	\$ 11,837,069	\$ 12,192,926
Total primary government program revenues	\$ 17,097,764	\$ 18,280,442	\$ 22,583,922	\$ 23,389,033	\$ 24,850,767
Net (expense) / revenue					
Governmental activities	\$ (39,832,428)	\$ (39,952,717)	\$ (46,708,842)	\$ (53,608,381)	\$ (64,224,530)
Business-type activities	1,926,669	2,307,366	5,013,759	3,956,506	2,848,257
Total primary government net expense	\$ (37,905,759)	\$ (37,645,351)	\$ (41,695,083)	\$ (49,651,875)	\$ (61,376,273)

	Fiscal Year				
	2003	2004	2005	2006	2007
Changes in Net Assets Last Five Fiscal Years (accrual basis of accounting)					
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Property taxes	\$ 19,529,042	\$ 21,998,946	\$ 22,552,006	\$ 24,818,965	\$ 27,037,526
Local sales and use taxes	9,966,988	11,537,324	11,994,065	12,856,512	12,892,369
Taxes on recordation and wills	334,216	277,548	708,156	985,477	818,353
Motor vehicle licenses taxes	159,618	160,089	165,647	298,240	310,039
Consumer utility taxes	2,497,143	2,780,470	2,882,555	2,910,053	2,036,988
Business licenses taxes	3,761,772	4,536,150	4,974,756	5,893,564	5,777,346
Other local taxes	6,266,207	7,754,622	8,722,648	9,053,329	9,559,322
Unrestricted grants and contributions	1,925,405	1,799,222	1,989,643	2,145,364	1,992,420
Unrestricted revenues from use of money and property	1,449,961	575,451	2,180,879	2,005,694	2,490,880
Gain on disposal of assets	-	-	-	-	298,472
Miscellaneous	277,862	434,025	431,637	18,207,446	683,108
Transfers	-	-	-	-	764,695
Total governmental activities	\$ 46,168,214	\$ 51,853,847	\$ 56,601,992	\$ 79,174,644	\$ 64,661,518
Business-type activities:					
Taxes:					
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 393,707
Unrestricted revenues from use of money and property	-	20,731	31,997	315,856	418,168
Miscellaneous	185,861	231,467	169,744	244,292	204,666
Transfers	-	-	24,547	-	(764,695)
Total business-type activities	\$ 185,861	\$ 252,198	\$ 226,288	\$ 560,148	\$ 251,846
Total primary government	\$ 46,354,075	\$ 52,106,045	\$ 56,828,280	\$ 79,734,792	\$ 64,913,364
Change in Net Assets					
Governmental activities	\$ 6,335,786	\$ 11,901,130	\$ 9,893,150	\$ 25,566,263	\$ 436,988
Business-type activities	2,112,530	2,559,564	5,240,047	4,516,654	3,100,103
Total primary government	\$ 8,448,316	\$ 14,460,694	\$ 15,133,197	\$ 30,082,917	\$ 3,537,091

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

CITY OF FREDERICKSBURG, VIRGINIA

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	\$ 614,116	\$ 668,645	\$ 851,741	\$ 909,480	\$ 477,061	\$ 326,832	\$ 506,004	\$ 422,747	\$ 248,573	\$ 747,450
Unreserved	13,297,670	12,831,336	14,756,765	16,824,296	18,152,895	17,343,550	22,354,035	26,847,192	23,232,843	20,924,343
Total general fund	<u>\$ 13,911,786</u>	<u>\$ 13,499,981</u>	<u>\$ 15,608,506</u>	<u>\$ 17,733,776</u>	<u>\$ 18,629,956</u>	<u>\$ 17,670,382</u>	<u>\$ 22,860,039</u>	<u>\$ 27,269,939</u>	<u>\$ 23,481,416</u>	<u>\$ 21,671,793</u>
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ 5,156	\$ 4,066,022	\$ 917,284	\$ 283,399	\$ 2,551,352	\$ 421,979	\$ 500,819
Unreserved, reported in:										
Special revenue funds	1,093,657	1,314,584	1,465,873	1,781,006	1,943,344	2,565,757	3,186,317	3,392,644	3,634,866	3,606,488
Capital projects funds	750,143	4,011,963	3,530,801	6,192,242	6,938,287	10,196,613	53,849,607	30,128,715	19,040,047	9,716,246
Total all other governmental funds	<u>\$ 1,843,800</u>	<u>\$ 5,326,547</u>	<u>\$ 4,996,674</u>	<u>\$ 7,978,404</u>	<u>\$ 12,947,653</u>	<u>\$ 13,679,654</u>	<u>\$ 57,319,323</u>	<u>\$ 36,072,711</u>	<u>\$ 23,096,892</u>	<u>\$ 13,823,553</u>

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
General property taxes	\$ 17,561,608	\$ 18,433,324	\$ 18,538,569	\$ 18,692,583	\$ 18,817,668	\$ 19,658,874	\$ 22,038,643	\$ 22,575,809	\$ 24,052,400	\$ 27,608,258
Other local taxes	14,903,631	15,632,074	17,335,501	18,649,664	20,308,612	22,985,944	27,046,203	29,447,827	31,997,175	31,394,417
Permits, privilege fees and regulatory										
Licenses	327,203	264,346	356,612	312,088	411,268	413,773	499,110	988,302	1,117,018	753,661
Fines and forfeitures	308,623	303,542	324,606	320,803	363,912	466,307	502,834	450,000	339,338	283,035
Revenue from use of money and property	793,766	1,038,191	1,471,274	2,185,150	1,655,617	1,449,961	575,451	2,180,879	2,005,694	2,490,880
Charges for services	828,858	885,521	966,349	960,168	1,196,574	1,242,647	1,293,189	1,264,830	1,470,494	1,510,745
Miscellaneous	469,727	526,431	797,511	1,094,851	1,120,525	277,862	434,025	468,884	1,026,316	683,108
Recovered costs	786,087	851,735	1,493,536	810,357	1,173,621	729,646	1,589,560	1,425,432	1,180,093	1,917,637
Intergovernmental:										
Commonwealth	3,845,934	4,042,677	5,719,255	6,262,769	6,964,179	7,276,493	7,204,137	7,615,919	8,141,771	8,703,743
Federal	1,523,429	1,678,756	2,088,434	1,868,574	1,993,890	2,310,219	2,858,909	2,487,542	2,628,707	2,949,077
Total revenues	\$ 41,348,866	\$ 43,656,597	\$ 49,091,647	\$ 51,157,007	\$ 54,005,866	\$ 56,811,726	\$ 64,042,061	\$ 68,905,424	\$ 73,959,006	\$ 78,294,561
Expenditures										
General government administration	\$ 2,497,297	\$ 2,674,119	\$ 2,791,511	\$ 2,895,024	\$ 3,136,650	\$ 3,544,021	\$ 3,620,386	\$ 3,956,701	\$ 4,094,919	\$ 4,720,227
Judicial administration	1,398,369	1,538,214	1,730,031	1,936,309	2,023,991	2,173,551	2,260,530	2,494,022	2,946,064	3,233,832
Public safety	7,871,946	8,371,978	9,175,608	10,540,624	11,466,442	12,653,369	13,210,581	14,051,770	15,361,207	17,375,049
Public works	4,307,373	4,653,178	4,741,736	4,990,191	5,021,480	5,067,820	5,655,233	5,767,195	6,452,638	6,785,769
Health and welfare	3,008,403	3,489,727	4,405,362	4,178,371	4,381,046	4,602,554	5,491,600	5,814,011	6,245,485	7,119,818
Education	4,925	5,108	4,846	4,617	47,864	15,556,786	14,839,742	15,942,171	18,961,723	21,631,305
Parks, recreation and cultural	1,941,187	2,185,243	2,521,250	2,651,247	2,854,800	2,879,319	3,108,829	3,423,702	3,811,195	3,928,293
Community development	1,790,493	1,570,662	1,654,686	1,808,255	2,596,914	2,460,671	2,026,074	2,030,189	2,174,694	2,975,019
Capital projects	2,882,272	1,983,716	5,730,552	2,035,012	7,513,543	4,811,374	15,286,264	27,965,223	30,809,180	16,439,420
Debt service										
Principal	1,905,820	4,660,902	2,103,930	1,782,022	1,776,054	2,520,546	1,804,469	1,933,645	2,897,462	3,040,925
Interest and other fiscal charges	1,227,354	1,344,694	988,103	895,382	1,028,277	941,679	779,714	2,329,960	3,147,613	3,191,033
Total expenditures	\$ 28,835,439	\$ 32,477,541	\$ 35,847,615	\$ 33,717,054	\$ 41,847,061	\$ 57,211,690	\$ 68,083,422	\$ 85,717,589	\$ 96,902,180	\$ 90,440,690
Excess (deficiency) of revenues over expenditures	\$ 12,513,427	\$ 11,179,056	\$ 13,244,032	\$ 17,439,953	\$ 12,158,805	\$ (399,964)	\$ (4,041,361)	\$ (16,812,165)	\$ (22,943,174)	\$ (12,146,129)
Other financing sources (uses)										
Transfers in	\$ 320,683	\$ 577,947	\$ 326,751	\$ 250,435	\$ 221,303	\$ 172,391	\$ 2,869,218	\$ 210,862	\$ 228,217	\$ 764,695
Transfers out	(10,646,779)	(12,540,260)	(11,792,131)	(12,583,388)	(13,339,139)	-	-	(235,409)	(558,664)	-
Refunding bonds issued	-	4,550,000	-	-	9,675,841	-	-	-	-	-
Bonds issued	-	4,257,000	-	-	6,824,460	-	48,095,000	-	6,509,279	-
Premium on bonds issued	-	-	-	-	-	-	1,906,469	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	(9,675,841)	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	298,472
Total other financing sources (uses)	\$ (10,326,096)	\$ (7,705,313)	\$ (11,465,380)	\$ (12,332,953)	\$ (6,293,376)	\$ 172,391	\$ 52,870,687	\$ (24,547)	\$ 6,178,832	\$ 1,063,167
Net change in fund balances	\$ 2,187,331	\$ 3,473,743	\$ 1,778,652	\$ 5,107,000	\$ 5,865,429	\$ (221,573)	\$ 48,829,326	\$ (16,836,712)	\$ (16,764,342)	\$ (11,082,962)
Debt service as a percentage of noncapital expenditures	13.73%	24.52%	11.44%	9.23%	8.89%	7.07%	5.15%	7.97%	10.07%	9.20%

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	Record-ation and Wills Tax					
1998	\$ 17,561,608	\$ 6,093,040	\$ 1,808,190	\$ 2,515,020	\$ 273,145	\$ 199,555	\$ 118,715	\$ 123,628	\$ 406,760	\$ 2,894,097	\$ 31,993,758	
1999	18,433,324	6,365,366	1,798,646	2,703,738	139,099	198,047	133,996	127,266	419,687	3,266,774	33,585,943	
2000	18,538,569	7,386,944	2,071,496	2,891,387	145,503	216,606	146,804	135,722	416,766	3,511,566	35,461,363	
2001	18,692,583	7,799,457	2,223,651	3,135,701	146,534	238,888	135,923	138,819	501,884	3,871,611	36,885,051	
2002	18,817,668	8,196,684	2,517,378	3,432,061	167,346	489,445	199,467	147,844	509,259	4,162,786	38,639,938	
2003	19,658,874	9,966,988	2,497,143	3,761,772	159,618	425,193	334,216	147,270	527,818	4,562,821	42,041,713	
2004	22,038,643	11,537,324	2,780,470	4,536,150	160,089	519,107	277,548	195,098	605,936	5,395,346	48,045,711	
2005	22,575,809	11,994,065	2,882,555	4,974,756	165,647	501,213	708,156	898,413	718,473	5,987,400	51,406,487	
2006	24,052,400	12,856,512	2,910,053	5,893,564	298,240	546,953	985,477	613,471	808,010	6,402,076	55,366,756	
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	

CITY OF FREDERICKSBURG, VIRGINIA

Table 6

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service	Service Charges	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
1998	\$ 1,122,316,366	\$ 120,736,634	\$ 19,392,950	\$ 59,212,312	\$ 1,691,500	\$ 1,323,349,762	\$ 1,323,349,762	100.00%
1999	1,147,247,536	147,258,857	21,853,937	61,267,689	1,691,500	1,379,319,519	1,379,319,519	100.00%
2000	1,205,127,728	152,446,465	19,735,538	66,469,329	1,451,400	1,445,230,460	1,445,230,460	100.00%
2001	1,230,424,387	164,606,380	19,747,480	77,319,484	1,436,700	1,493,534,431	1,493,534,431	100.00%
2002	1,269,438,700	158,352,705	14,888,368	80,502,860	1,436,700	1,524,619,333	1,524,619,333	100.00%
2003	1,303,778,900	168,645,633	14,726,044	83,318,479	1,436,700	1,571,905,756	1,571,905,756	100.00%
2004	1,902,889,000	171,794,008	13,794,812	78,948,771	1,856,400	2,169,282,991	2,169,282,991	100.00%
2005	1,931,966,200	204,140,325	12,538,835	81,650,555	1,856,400	2,232,152,315	2,232,152,315	100.00%
2006	2,074,818,500	234,903,200	11,710,055	49,453,104	1,856,400	2,372,741,259	2,372,741,259	100.00%
2007	2,241,072,600	285,384,824	7,994,810	41,254,287	1,856,400	2,577,562,921	2,577,562,921	100.00%

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 7

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

Fiscal Years	\$	Real	Personal	Mobile	Machinery
		Estate	Property	Homes	and Tools
1998	\$	1.16	2.99	1.16	0.80
1999		1.16	2.99	1.16	0.80
2000		1.13	2.99	1.13	0.80
2001		1.13	2.99	1.13	0.80
2002		1.13	2.99	1.13	0.80
2003		1.13	2.99	1.13	0.80
2004		0.89	2.99	0.89	0.80
2005		0.89	2.99	0.89	0.80
2006		0.89	2.99	0.89	0.80
2007		0.89	2.99	0.89	0.80

(1) Source: Commissioner of Revenue.

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

CITY OF FREDERICKSBURG, VIRGINIA

Principal Property Taxpayers
Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2007			Fiscal Year 1998		
		2006-2007 Assessed Valuation	Rank	% of Total Assessed Valuation	1997-1998 Assessed Valuation	Rank	% of Total Assessed Valuation
Fredericksburg 35 LLC	Central Park property	\$ 87,072,900	1	3.89 %	\$ -	-	- %
Medicorp Properties, Inc.	Office buildings, surgical center	45,278,200	2	2.02	22,496,600	4	2.00
Ryland Group, Inc.	Home builder	38,586,300	3	1.72	-	-	-
Fall Hill - Central Park LP	Restaurants, ice park, office building	23,832,200	4	1.06	-	-	-
Wal-Mart Real Estate Business	Retail	18,171,900	5	0.81	-	-	-
Riverside Manor LP	Apartment complex	17,288,600	6	0.77	-	-	-
Stellar Belmont LLC	Apartment complex	17,134,000	7	0.76	-	-	-
Celebrate VirginiaSouth LLC	Office buildings, retail	16,538,700	8	0.74	-	-	-
CRIT-VA II, Inc.	Investments	15,889,500	9	0.71	9,383,500	10	0.84
2801 Plank Road Hotel Co.	Motel	15,002,700	10	0.67	-	-	-
Carl D. Silver	Central Park property	-	-	-	67,789,800	1	6.04
Bell Atlantic - Virginia	Public utility	-	-	-	24,449,930	2	2.18
Virginia Electric & Power Co.	Public utility	-	-	-	22,782,059	3	2.03
Carl D. Silver Co.	Various commercial	-	-	-	10,735,500	5	0.96
Summit Properties Partnership LP	Apartment complex	-	-	-	10,359,200	6	0.92
Lowes Home Center, Inc.	Retail	-	-	-	10,347,300	7	0.92
Fredericksburg Park & Shop LP	Shopping center	-	-	-	10,151,600	8	0.90
Greenbrier Center Associates, Inc.	Shopping center	-	-	-	9,420,700	9	0.84
Total		\$ 294,795,000		13.15 %	\$ 197,916,189		17.63 %

Source: Commissioner of Revenue.

CITY OF FREDERICKSBURG, VIRGINIA

Table 9

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 17,550,940	\$ 17,469,835	99.54	\$ 70,010	\$ 17,539,845	99.94
1999	18,510,245	18,229,682	98.48	260,617	18,490,299	99.89
2000	19,050,569	18,840,945	98.90	179,821	19,020,766	99.84
2001	19,832,960	19,581,072	98.73	197,911	19,778,983	99.73
2002	20,299,165	20,021,483	98.63	202,444	20,223,927	99.63
2003	21,078,696	20,898,738	99.15	124,827	21,023,565	99.74
2004	23,173,114	22,971,933	99.13	84,384	23,056,317	99.50
2005	24,116,517	23,928,589	99.22	69,217	23,997,806	99.51
2006	26,308,977	25,676,915	97.60	169,516	25,846,431	98.24
2007	28,552,323	28,097,519	98.41	-	28,097,519	98.41

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

CITY OF FREDERICKSBURG, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Years	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Literary Fund Loans	Other Notes/Bonds	Capital Leases	General Obligation Bonds	Other Notes/Bonds					
1998	\$ 20,929,175	\$ 300,000	\$ 2,572,500	\$ 36,037	\$ 2,645,816	\$ -	\$ -	\$ 26,483,528	5.73%	\$ 1,286	
1999	22,717,773	250,000	-	-	5,976,227	-	-	28,944,000	5.67%	1,335	
2000	20,233,845	200,000	-	-	5,771,158	-	-	26,205,003	4.55%	1,208	
2001	18,071,823	150,000	-	-	5,278,182	-	-	23,500,005	4.36%	1,219	
2002	22,790,306	100,000	-	-	4,929,773	-	-	27,820,079	4.95%	1,405	
2003	20,319,760	50,000	-	-	4,530,240	-	-	24,900,000	4.13%	1,240	
2004	68,566,760	-	-	-	4,134,709	-	-	72,701,469	11.96%	3,601	
2005	66,551,078	-	-	-	3,778,501	4,035,000	-	74,364,579	11.92%	3,635	
2006	70,032,833	-	-	-	7,670,963	-	-	77,703,796	11.73%	3,748	
2007	66,873,708	-	-	-	7,226,888	-	-	74,100,596	10.42%	3,483	

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)
1998	\$ 23,801,675	\$ -	23,801,675	1.80%	\$ 1,155
1999	22,967,773	-	22,967,773	1.67%	1,059
2000	20,433,845	-	20,433,845	1.41%	942
2001	18,221,823	-	18,221,823	1.22%	945
2002	22,890,306	-	22,890,306	1.50%	1,156
2003	20,369,760	-	20,369,760	1.30%	1,015
2004	68,566,760	-	68,566,760	3.16%	3,396
2005	66,551,078	-	66,551,078	2.98%	3,253
2006	70,032,833	-	70,032,833	2.95%	3,378
2007	66,873,708	-	66,873,708	2.59%	3,144

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

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

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

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 71,179,919	\$ 72,804,750	\$ 76,240,764	\$ 78,161,461	\$ 80,602,006	\$ 82,545,570	\$ 115,844,874	\$ 119,047,390	\$ 124,498,301	\$ 132,869,049
Total net debt applicable to limit	<u>26,447,491</u>	<u>28,944,000</u>	<u>26,205,003</u>	<u>23,500,005</u>	<u>27,820,079</u>	<u>24,900,000</u>	<u>72,701,469</u>	<u>74,364,579</u>	<u>77,703,796</u>	<u>74,100,596</u>
Legal debt margin	<u>\$ 44,732,428</u>	<u>\$ 43,860,750</u>	<u>\$ 50,035,761</u>	<u>\$ 54,661,456</u>	<u>\$ 52,781,927</u>	<u>\$ 57,645,570</u>	<u>\$ 43,143,405</u>	<u>\$ 44,682,811</u>	<u>\$ 46,794,505</u>	<u>\$ 58,768,453</u>
Total net debt applicable to the limit as a percentage of debt limit	37.16%	39.76%	34.37%	30.07%	34.52%	30.17%	62.76%	62.47%	62.41%	55.77%

Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value	\$ 2,282,326,887
Add back: exempt real property	<u>485,778,300</u>
Total assessed value	<u>\$ 2,768,105,187</u>
Debt limit (4.8% of total assessed value)	\$ 132,869,049
Net debt applicable to limit	<u>74,100,596</u>
Legal debt margin	<u>\$ 58,768,453</u>

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	Principal		Interest		
1998	\$ 6,342,680	\$ 3,279,846	\$ 3,062,834	\$ 562,927	\$ 894,049	2.10		
1999	7,727,967	4,019,140	3,708,827	701,756	924,050	2.28		
2000	6,831,357	3,675,828	3,155,529	811,834	876,894	1.87		
2001	5,466,477	3,691,122	1,775,355	1,128,908	812,354	0.91		
2002	6,294,872	3,698,729	2,596,143	1,014,900	795,509	1.43		
2003	6,164,964	3,547,818	2,617,146	1,098,061	767,997	1.40		
2004	6,233,777	3,717,094	2,516,683	1,153,404	606,067	1.43		
2005	7,885,646	5,102,334	2,783,312	1,168,757	167,036	2.08		
2006	9,346,467	5,049,094	4,297,373	1,197,949	410,231	2.67		
2007	7,517,175	6,045,570	1,471,605	1,224,349	366,426	0.93		

CITY OF FREDERICKSBURG, VIRGINIA

Table 14

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita		Median Age	School Enrollment	Unemployment Rate
			Personal Income	Personal Income			
1998	20,600	\$ 462,058,000	\$	22,430	28.9	2,140	3.5%
1999	21,686	510,553,498		23,543	28.9	2,088	3.3%
2000	21,686	575,871,730		26,555	28.9	2,143	2.3%
2001	19,279	538,751,655		27,945	30.3	2,170	3.7%
2002	19,800	561,508,200		28,359	30.3	2,278	4.0%
2003	20,076	602,179,620		29,995	30.3	2,278	5.8%
2004	20,189	607,668,711		30,099	30.3	2,387	6.0%
2005	20,458	623,825,794		30,493	30.3	2,418	5.0%
2006	20,732	662,387,400		31,950	30.3	2,447	4.2%
2007	21,273	710,837,295		33,415	30.3	2,511	4.4%

Source: Weldon Cooper Center, Annual school report - prepared by the School Board, www.fedstats.gov.

CITY OF FREDERICKSBURG, VIRGINIA

Table 15

Principal Employers
Current Year and Nine Years Prior

Employer	Fiscal Year 2007		Fiscal Year 1998	
	Number of Employees	Rank	Number of Employees	Rank
Mary Washington Hospital	1000 and over	1	1000 and over	1
University of Mary Washington	500 to 999	2	500 to 999	3
Wal-Mart	500 to 999	3	-	-
City of Fredericksburg	500 to 999	4	250 to 499	4
Free Lance Star Publishing, Inc.	250 to 499	5	250 to 499	7
Snowden Services, Inc.	250 to 499	6	-	-
Virginia Department of Transportation	250 to 499	7	250 to 499	5
Medicorp Health System	250 to 499	8	-	-
Outback Steakhouse	250 to 499	9	-	-
Rappahannock Area Community Services Board	250 to 499	10	250 to 499	8
ABC Temps, Inc.	-	-	1000 and over	2
MSI Construction	-	-	250 to 499	6
Pratt Medical Center, Ltd.	-	-	250 to 499	9
Bookcrafters, Inc.	-	-	100 to 249	10

Source: Virginia Employment Commission.

Full-time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	30	30	34	35	34	37	37	37	37	41
Judicial administration	27	27	30	31	31	31	31	30	35	42
Public safety	146	151	150	152	158	162	163	162	169	166
Public works	74	73	74	72	70	73	70	73	69	87
Health and welfare	28	28	29	30	31	31	33	32	34	33
Parks and recreation	12	12	11	12	13	13	13	13	16	16
Community development	12	10	10	10	10	8	11	11	11	12
Water	14	14	4	4	3	4	4	4	7	9
Wastewater	16	15	16	16	16	16	15	16	16	18
Transit	2	3	3	3	5	5	5	5	6	11
Parking garage	-	-	-	-	-	-	-	-	-	1
Totals	361	363	361	365	371	380	382	383	400	436

Source: Fiscal Affairs department.

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public safety:										
Police department:										
Physical arrests (1)	-	-	-	-	3,131	3,407	3,281	3,656	3,805	2,839
Traffic violations (1)	-	-	-	-	8,827	10,935	12,496	10,644	9,500	6,167
Parking violations (1)	-	-	-	-	-	6,999	11,791	10,431	10,449	10,055
Sheriffs department:										
Civil papers (1)	20,039	23,110	23,263	26,421	35,168	37,272	39,771	40,314	40,502	42,279
Fire and rescue:										
Number of calls answered (1)	-	-	-	-	-	3,971	4,794	5,159	5,450	5,728
Inspections (1)	-	-	-	-	-	-	1,432	1,434	1,542	2,531
Building inspections:										
Permits issued	1,775	1,707	2,417	1,905	1,817	2,100	2,192	3,528	3,820	2,395
Animal control:										
Number of calls answered (1)	-	-	-	899	893	897	899	901	992	1,163
Public works:										
Street maintenance:										
Asphalt usage for street repairs (tons)	656	323	365	618	440	370	315	518	483	483
Waste removal:										
Refuse collected	-	23.5	24.6	26.2	25.7	26.9	29.4	30.3	28.8	24.3
(thousands of pounds/day)										
Recycling collected:										
Leaves (cubic yards)	5,620	6,900	6,012	4,433	5,709	4,939	4,972	5,049	5,577	5,379
General services:										
Buildings maintained	-	-	-	-	236.0	208.0	375.5	375.5	486.6	567.1
(thousands of square feet)										
Culture and recreation:										
Parks and recreation:										
Number of programs	-	-	-	-	198	214	250	370	385	403
Number of participants	-	-	-	-	10,020	10,830	12,650	14,260	15,300	17,055

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Community development:										
Planning:										
Zoning permits issued (1) (2)	266	272	298	272	330	337	391	327	309	289
Water:										
Number of connections	5,710	5,779	5,941	6,119	6,126	6,293	6,435	6,696	7,062	7,245
Average daily consumption (thousands of gallons)	2,245	2,429	2,407	2,294	2,396	2,269	2,362	2,394	2,718	2,529
Wastewater:										
Average daily sewage treatment (thousands of gallons)	3,277	2,079	1,766	2,248	2,167	2,829	2,739	2,389	2,181	2,454
Transit:										
Ridership per service area: (3)										
City of Fredericksburg	96,334	124,004	140,435	148,049	155,586	161,329	181,743	185,663	177,833	184,670
Spotsylvania County	-	16,158	29,462	34,525	36,751	36,764	39,059	40,514	40,730	44,659
South Stafford County	-	-	-	-	6,878	19,181	21,678	25,043	30,900	34,808
Caroline County	-	-	-	-	834	3,834	5,924	5,701	5,647	5,855
North Stafford County	-	-	-	-	-	-	-	9,908	44,445	53,957
King George County	-	-	-	-	-	-	-	1,020	7,803	10,727
Component Unit - School Board:										
Education:										
Number of students	2,140	2,088	2,143	2,170	2,278	2,278	2,384	2,418	2,447	2,511
Number of teachers	164	163	178	195	196	230	239	238	248	251
Cost per pupil	\$ 8,296	\$ 9,207	\$ 9,580	\$ 10,546	\$ 9,581	\$ 10,507	\$ 11,429	\$ 11,867	\$ 13,131	\$ 13,403

Source: Individual city departments.

(1) Information presented on a calendar year basis.

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

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

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Vehicles	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police department:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	-	-	-	-	-	22	22	22	25	30
Fire department:										
Stations	2	2	2	2	2	2	2	2	2	2
Fire/Rescue vehicles	-	-	-	-	-	6	6	6	7	7
Sheriffs department:										
Patrol units	-	-	-	-	-	12	13	15	16	18
Building inspections:										
Vehicles	-	-	-	-	-	4	4	4	5	7
Animal control:										
Vehicles	-	-	-	-	-	1	1	1	1	1
Public works:										
Street maintenance:										
Trucks/vehicles	-	-	-	-	-	21	21	22	22	22
Streets (moving lane miles)	168	170	170	172	172	172	172	174	183	189
Traffic signals	46	46	46	46	46	50	52	52	57	61
Waste removal:										
Trucks/vehicles	-	-	-	-	-	7	7	7	7	7
Building maintenance:										
Trucks/vehicles	-	-	-	-	-	6	6	6	6	6
Health and welfare:										
Department of Social Services:										
Vehicles	-	-	-	-	-	5	5	6	6	6

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Culture and recreation:										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Trucks/vehicles	-	-	-	-	-	15	14	17	17	18
Parks	8	8	8	8	9	10	10	12	12	13
Park acreage	929	929	929	929	932	946	946	1,000	1,000	1,006
Water:										
Water mains (miles)	65	66	66	66	66	66	66	66	66	66
Maximum daily capacity (millions of gallons)	6	6	6	5	5	5	5	5	5	5
Wastewater:										
Sanitary sewers (miles)	65	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	3	3	3	3	3	3	3	3	4	4
School buses	-	-	-	-	-	41	35	35	33	36

Source: Individual city departments.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

However we noted certain matters that we reported to management of the City of Fredericksburg, Virginia in a separate letter dated December 5, 2007.

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

Robinson, Tamra, Cox Associates

Fredericksburg, Virginia
December 5, 2007

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

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

Compliance

We have audited the compliance of the City of Fredericksburg, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Fredericksburg, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fredericksburg, Virginia's management. Our responsibility is to express an opinion on the City of Fredericksburg, Virginia's compliance based on our audit.

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

In our opinion, the City of Fredericksburg, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Robinson, Thomas, Cox Associates

Fredericksburg, Virginia
December 5, 2007

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2007

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Primary Government:		
Department of Agriculture:		
Pass-through Payments:		
Department of Social Services:		
Food Stamp Administration	10.561	\$ <u>218,706</u>
Department of Housing and Urban Development:		
Direct Payments:		
Community Development Block Grant - Entitlement	14.218	\$ <u>316,972</u>
Department of Justice:		
Pass-through Payments:		
Crime Victim Assistance	16.575	\$ 106,035
Drug Control and System Improvement	16.579	61,530
Edward Byrne Memorial State and Local Law Enforcement	16.580	25,789
Community Policing Grant	16.710	2,290
Justice Assistance Grant Program	16.738	91,438
Bullet Proof Vest Program	16.607	<u>27,269</u>
Total Department of Justice		\$ <u>314,351</u>
Department of Transportation:		
Pass-through Payments:		
Virginia Department of Rail and Public Transportation:		
Federal Transit - Formula Grants	20.507	\$ 3,467,707
Virginia Department of Motor Vehicles:		
Highway Safety Grant	20.600	<u>14,635</u>
Total Department of Transportation		\$ <u>3,482,342</u>
Department of Health and Human Services:		
Pass-through Payments:		
Department of Social Services:		
Family Preservation and Support	93.556	\$ 46,139
Temporary Assistance to Needy Families	93.558	278,253
Refugee Assistance and Resettlement	93.566	186
Low-Income Energy Assistance	93.568	11,112
Child Care Assistance	93.575	382,264
Child Care and Development Block Grant	93.596	390,536
Foster Care - Title IV-E	93.658	374,152
Adoption Assistance	93.659	111,394
Social Services Block Grant	93.667	222,505
Independent Living	93.674	29,603
Medical Assistance Program	93.778	193,546
Americorps	94.006	962
Other Assistance	N/A	<u>13,213</u>
Total Department of Health and Human Services		\$ <u>2,053,865</u>

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and Discretely Presented Component Unit
 Year Ended June 30, 2007 (Continued)

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Department of Homeland Security:		
Pass-through Payments:		
Department of Emergency Services:		
Emergency Management Preparedness Grant	97.042	\$ 5,340
Hazardous Materials Assistance	97.021	8,553
State Homeland Security Grant Program	97.004	<u>15,239</u>
Total Department of Homeland Security		\$ <u>29,132</u>
Election Assistance Commission:		
Pass-through Payments:		
Help America Vote Assistance	90.401	\$ <u>1,416</u>
Total Expenditures of Federal Awards - Primary Government		\$ <u>6,416,784</u>
Component Unit - School Board:		
State Department of Agriculture:		
Pass-through Payments:		
School Breakfast Program	10.553	\$ 145,731
National School Lunch Program (SL-4) (SL-11)	10.555	<u>508,777</u>
Total Department of Agriculture		\$ <u>654,508</u>
Department of Health and Human Services:		
Direct Payments:		
Head Start	93.600	\$ <u>1,786,044</u>
Department of Education:		
Pass-through Payments:		
Education Consolidation and Improvement		
Act of 1981:		
Title I:		
Educationally Deprived Children - LEA	84.010	\$ 661,198
Title V, Part A - Innovative Programs	84.298	10,086
Vocational Education:		
Basic Grants to States	84.048	52,985
Title VI-B Special Education for the Handicapped	84.027	503,236
Assistive Technology	84.224	5,126
Advanced Placement Program	84.330	85
Handicapped-Preschool Incentive Grants	84.173	30,634
Drug Free Schools and Communities	84.186	21,194
Technology Challenge Grant	84.318	264,917
Language Acquisition	84.365	48,196
Title II, Part A - Improving Teacher Quality	84.367	<u>180,018</u>
Total Department of Education		\$ <u>1,777,675</u>
Total Expenditures of Federal Awards - Component Unit School Board		\$ <u>4,218,227</u>
Total Expenditures of Federal Awards - Reporting Entity		\$ <u>10,635,011</u>
Loans and loan guarantees not included in the above as federal assistance:		
Environmental Protection Agency:		
Pass-through Payments:		
State Water Control Board:		
Capitalization Grants for State Revolving Fund - balance of loan as of June 30, 2007	66.458	\$ <u>6,423,952</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Note 1 - General

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

Note 2 - Basis of Accounting

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

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$	65,449
Special Revenue Funds:		
Virginia Public Assistance Fund		2,222,431
City Grants Fund		661,197
Proprietary Funds:		
Transit Fund		3,467,707
Total primary government	\$	<u>6,416,784</u>

Component Unit School Board:

School Operating Fund	\$	552,745
School Grants Fund		3,665,482
Total component unit School Board	\$	<u>4,218,227</u>

Total federal expenditures per the Schedule of Expenditures
of Federal Awards

\$ 10,635,011

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Findings and Questioned Costs
 Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.010	Title I
84.027	Title VI-B Special Education for the Handicapped - special education cluster
84.173	Handicapped-Preschool Incentive Grants - special education cluster
20.507	Federal Transit - Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs	\$319,050
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

CITY OF FREDERICKSBURG, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2007

Department of Education

Finding 2006-1

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

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

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

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

Questioned Costs \$537,832

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

Corrective Action:

Internal control measures have been implemented to provide supporting documentation for all costs charged to the Title VI-B program.

This page intentionally left blank