

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 15, 2024**

**NEW ISSUE  
BOOK-ENTRY**

**Ratings: Moody's: Aa1  
Standard & Poor's: AA+  
(See Section Two "Ratings" herein)**

*In the opinion of Kutak Rock LLP, Bond Counsel, under current law and subject to the conditions described herein in the section entitled "Tax Matters", interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. Interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth of Virginia. See "TAX MATTERS" herein.*

**\$31,680,000\***

**CITY OF FREDERICKSBURG, VIRGINIA  
General Obligation Public Improvement Bonds, Series 2024A**

**Dated:** Date of issuance  
**Due:** October 1, as shown below

**Interest Payable:** April 1 and October 1  
**First Interest Payment:** April 1, 2025

The City of Fredericksburg, Virginia (the "City") is issuing its \$31,680,000\* General Obligation Public Improvement Bonds, Series 2024A (the "Bonds") to fund certain public capital improvement projects. The Bonds will be issued in fully registered form without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, principal and interest shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry form only in denominations of \$5,000 or multiples thereof. Beneficial owners of the Bonds will not receive physical delivery of Bond certificates.

The Bonds mature on October 1 in each of the years and amounts set forth below. Interest on the Bonds is payable at the rates specified herein on each April 1 and October 1, commencing April 1, 2025. Interest on the Bonds will be calculated on the basis of a 30-day month and a 360-day year.

The Bonds are general obligations of the City to the payment of which its full faith and credit are pledged. The City Council of the City (the "City Council") is authorized and required by law, unless other funds are lawfully available and appropriated for timely payment of the Bonds, to levy and collect at the same time and in the same manner as other taxes of the City are assessed, levied and collected an ad valorem tax, over and above all other taxes authorized or limited by law, unlimited as to rate or amount, upon all property within the City subject to taxation by the City sufficient to pay the principal of and premium, if any, and interest on the Bonds.

The Bonds are subject to redemption, in whole or in part, before their stated maturities as more fully described herein.

**MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS**

(Base CUSIP\*\* Number: 355856)

<u>Maturity (October 1)</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Suffix</u>	<u>Maturity (October 1)</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Suffix</u>
2025	\$875,000				2038	\$1,135,000			
2026	930,000				2039	1,195,000			
2027	980,000				2040	1,250,000			
2028	1,030,000				2041	1,305,000			
2029	1,080,000				2042	1,355,000			
2030	1,140,000				2043	1,410,000			
2031	1,195,000				2044	1,465,000			
2032	1,250,000				2045	1,525,000			
2033	1,325,000				2046	1,590,000			
2034	1,390,000				2047	1,655,000			
2035	975,000				2048	1,725,000			
2036	1,030,000				2049	1,790,000			
2037	1,080,000								

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

*The Bonds are offered when, as, and if issued, subject to the approving legal opinion of Kutak Rock LLP, Richmond, Virginia, Bond Counsel, to be furnished upon delivery of the Bonds. Additional matters will be passed upon for the City by Kelly Lackey, City Attorney. The Bonds are expected to be delivered on or about November 6, 2024, through the facilities of DTC.*

Dated: \_\_\_\_\_, 2024

\* Preliminary, subject to change.

\*\* CUSIP is a registered trademark of the American Bankers Association, used by S&P in its operation of the CUSIP Service Bureau for the ABA. CUSIP (Committee on Uniform Securities Identification Procedures) numbers used in this Official Statement have been assigned by an organization not affiliated with the Transportation Board, and the Transportation Board is not responsible for the selection or use of the CUSIP numbers. CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The Transportation Board has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

This Preliminary Official Statement and the information contained herein are subject to change, completion and amendment without notice. The Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**CITY OF FREDERICKSBURG, VIRGINIA**

**MAYOR**

KERRY P. DEVINE

**VICE-MAYOR**

CHARLIE L. FRYE, JR.

**COUNCIL MEMBERS**

DR. TIMOTHY P. DUFFY

JONATHAN A. GERLACH

JASON N. GRAHAM

JANNAN W. HOLMES

WILL B. MACKINTOSH

**OTHER CITY OFFICIALS**

City Manager ..... Timothy J. Baroody  
Deputy City Manager..... Mark Whitley  
Deputy City Manager..... David Brown  
City Attorney..... Kelly Lackey  
Director of Finance ..... Robyn E. Shugart  
City Treasurer ..... Brenda A. Wood  
Commissioner of the Revenue ..... Lois B. Jacob

**PAYING AGENT**

U.S. BANK TRUST COMPANY NATIONAL ASSOCIATION

*Richmond, Virginia*

**BOND COUNSEL**

KUTAK ROCK LLP

*Richmond, Virginia*

**FINANCIAL ADVISOR**

PFM FINANCIAL ADVISORS LLC

*Arlington, Virginia*

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations with respect to the City or the Bonds other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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# OFFICIAL STATEMENT

**\$31,680,000\***

## **City of Fredericksburg, Virginia General Obligation Public Improvement Bonds, Series 2024A**

### **SECTION ONE: INTRODUCTION**

The purpose of this Official Statement is to set forth information with respect to the City of Fredericksburg, Virginia (the “City”) and the issuance by it of \$31,680,000\* General Obligation Public Improvement Bonds, Series 2024A (the “Bonds”).

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in the Official Statement, reference to which is hereby made for all purposes. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

#### **The Issuer**

The issuer of the Bonds is the City of Fredericksburg, Virginia, located in the northeastern portion of Virginia, approximately mid-way between Richmond and Washington, D.C. The City had a July 1, 2023 estimated population of 27,711. A more complete description of the City is provided in Sections Three and Four.

#### **The Bonds**

The Bonds will be dated the date of their issuance and will have principal payments annually on October 1 from 2025 through 2049. The Bonds will be issued in authorized denominations of \$5,000 and multiples thereof and will be held in book-entry form through the facilities of The Depository Trust Company, New York, New York (“DTC”), as securities depository with respect to the Bonds. A more complete description of the Bonds is provided in Section Two.

Interest on the Bonds will be payable on April 1 and October 1, commencing April 1, 2025, until the earlier of maturity or redemption. As long as the Bonds are held by DTC or its nominee, interest will be paid to DTC or its nominee, in next day funds on each interest payment date.

#### **Use of Proceeds**

The proceeds of the Bonds will be used to fund certain public capital improvement projects and to pay costs related to issuance of the Bonds. A more complete description of the use of proceeds is provided in Section Two.

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\* Preliminary, subject to change.

## **Optional Redemption**

Bonds maturing on or after October 1, 2035, will be subject to redemption beginning October 1, 2034, in whole or in part, at the option of the City. A more complete description of the redemption features of the Bonds is provided in Section Two.

## **Sale at Competitive Bidding**

The Bonds will be offered for sale at competitive bidding at 10:45 a.m., Eastern Time, on Tuesday, October 22, 2024. A copy of the Notice of Sale for the Bonds is attached to this Preliminary Official Statement as **Appendix E**.

## **Delivery**

The Bonds are offered for delivery, when, as, and if issued, subject to the approval of validity by Kutak Rock LLP, Richmond, Virginia, Bond Counsel, and to certain other conditions referred to herein. Certain legal matters will be passed upon for the City by the City Attorney, Kelly Lackey. It is expected that the Bonds will be available for delivery, at the expense of the City, through the facilities of DTC, on or about November 6, 2024.

## **Ratings**

Ratings have been received from Fitch Ratings, Moody's Investors Service, Inc., and S&P Global Ratings. See the caption "**Ratings**" in Section Two. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time and no assurance can be given that they will not be revised downward or withdrawn entirely by one or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

## **Additional Information**

Any question concerning the content of this Official statement should be directed to the City Manager's Office, City Hall, 715 Princess Anne Street, Fredericksburg, Virginia 22401 (540-372-1010), or the City's Financial Advisor, PFM Financial Advisors LLC, 4350 North Fairfax Drive, Suite 590, Arlington, Virginia 22203 (571-527-5134).

## **SECTION TWO: THE BONDS**

The Bonds are issued pursuant to an ordinance adopted on October 8, 2024 (the "Ordinance") by the Council of the City (the "City Council"), and the Public Finance Act of 1991, Chapter 26 of Title 15.2 of the Code of Virginia of 1950, as amended (the "Act").

## **Plan of Financing**

The Bonds are issued (a) to finance general capital improvement undertakings of the City, including the City's portion of Spotsylvania County Motts shared water project: sanitary sewer interceptors;

pedestrian bridges; two pumping engine fire trucks and other capital improvements, and (ii) to pay issuance and other costs related to or incurred in connection with the issuance of the Bonds.

**Sources and Uses**

The following table summarizes the anticipated application of proceeds of the Bonds for the purposes described above.

<b><u>Sources of Funds</u></b>	
Principal Amount of Bonds	\$ _____
Net Original Issue [Discount] [Premium]	_____
Total Sources	\$ _____
 <b><u>Uses of Funds</u></b>	
Project Costs	\$ _____
Financing Costs <sup>1</sup>	_____
Total Uses	\$ _____

<sup>1</sup> Includes underwriting discount (see the caption “*Sale at Competitive Bidding*” in Section Five), and other estimated costs of issuance.

**Description of the Bonds**

The Bonds will be held in book-entry form through the facilities of DTC, as defined herein, as securities depository with respect to the Bonds, in the name of Cede & Co., as nominee of DTC.

The Bonds will be dated the date of their issuance and will bear interest from their date, payable initially on April 1, 2025 and semiannually on April 1 and October 1 thereafter. The Bonds will mature on October 1 in years and amounts set forth on the front cover page of this Official Statement, subject to prior redemption, as described herein. Principal of the Bonds will be paid to registered owners at maturity upon presentation and surrender of the Bonds at a designated corporate trust office of U.S. Bank Trust Company, National Association, as registrar and paying agent (the “Registrar”). Interest on the Bonds will be paid to the registered owners by check, draft or wire transfer, as of the interest payment date. Registered owners are those persons shown on the registration books of the Registrar on the first day of the month in which any interest payment occurs.

Purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof. Purchasers of the Bonds will not receive physical delivery of bond certificates. Transfer of the Bonds and payment of the principal of and interest on the Bonds will be effected as described below in this section. If the book entry system is discontinued, bond certificates will be delivered as described in the bond ordinance and beneficial owners (“Beneficial Owners”) will become registered owners of the Bonds. So long as Cede & Co., as nominee of DTC, is the registered owner of all the Bonds, references to the registered owners of the Bonds shall mean Cede & Co. and not the Beneficial Owners.

**Optional Redemption**

The Bonds which mature on or before October 1, 2034, are not subject to redemption before maturity. The Bonds which mature on or after October 1, 2035, may be redeemed, at the option of the City, before their respective maturities, on or after October 1, 2034, in whole or in part (in integral multiples of

\$5,000) at any time, upon payment of the redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the redemption date.

### **Manner of Redemption**

If less than all of the Bonds are called for redemption, the Bonds shall be selected by the City in such manner as may be determined to be in the best interest of the City. If less than all of the Bonds of any maturity shall be called, the Bonds to be redeemed shall be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, shall be selected by lot by the Registrar.

If any Bond shall be called for redemption, notice of the redemption thereof, specifying the Bonds or portions thereof to be redeemed, the redemption date and price and the place where Bonds are to be surrendered for payment shall be given not more than 60 nor less than 30 days before the date fixed for redemption to the registered owner thereof as appears on the books of registry kept by the Registrar, but failure to give such notice shall not affect the validity of the proceeding for redemption. If notice of the redemption of any Bond shall have been given as aforesaid, and payment of the principal amount of such Bond (or the portion of the principal amount thereof to be redeemed) and of the accrued interest payable upon such redemption shall have been duly made or provided for, interest thereon shall cease to accrue from and after the date so specified for the redemption thereof.

### **Book-Entry System**

A description of DTC, of procedures and record keeping on beneficial ownership interests in the Bonds, payment of interest and other payments on the Bonds to DTC Direct Participants and Indirect Participants (all as defined therein) or to Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Bonds and other transactions by and between DTC, DTC Participants and Beneficial Owners is attached as **Appendix C** hereto and is based on information furnished by DTC.

**The City has no responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, and interest on the Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the resolution to be given to Bondholders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as bondholder, including the effectiveness of any action taken pursuant to an omnibus proxy.**

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners, and Cede & Co. will be treated as the only holder of Bonds for all purposes under the Ordinance.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Bondholders.

### **Security for the Bonds**

The Bonds are general obligations of the City for the payment of which the City's full faith and credit is pledged. While the Bonds remain outstanding and unpaid, the City Council is authorized and required, unless other funds are lawfully available and appropriated for the timely payment of the Bonds,



to levy and collect an annual ad valorem tax, unlimited as to rate or amount, upon all property in the City subject to local taxation sufficient to pay when due the principal of and interest on the Bonds, which tax shall be in addition to all other taxes authorized to be levied in the City.

The City has never defaulted in the payment of either principal of or interest on any indebtedness.

### **Bondholders' Remedies in the Event of Default**

Section 15.2-2659 of the Code of Virginia of 1950, as amended, provides that upon an affidavit filed with the Governor of the Commonwealth by petition of any owner of or paying agent for a general obligation bond or note in default as to payment of principal, premium, if any, or interest, the Governor shall conduct a summary investigation and, if satisfied that such default has occurred, the Governor shall order the State Comptroller to withhold all funds appropriated and payable by the Commonwealth to the locality issuing such general obligation bond or note and apply the amount so withheld to payment of the defaulted principal, premium and interest. Section 15.2-2659 also provides for notice to the registered owners of such bonds or notes of the default and the availability of withheld funds. The State Comptroller advises that, to date, no order to withhold funds pursuant to Section 15.2-2659, or its predecessor provisions, Sections 15.1-225 and 15.1-227.61, has ever been issued. Although neither Section 15.2-2659 nor its predecessor provisions, Sections 15.1-225 and 15.1-227.61, has been approved by a Virginia court, the Attorney General of Virginia has determined that appropriated funds can be withheld pursuant to its predecessor section. In the fiscal year ended June 30, 2024, total direct appropriations paid by the Commonwealth of Virginia to the City in support of general governmental fund activities amounted to approximately \$18,477,140 (unaudited), of which \$8,105,227 (unaudited), was recorded in the City's General Fund.

Neither the Bonds nor the proceedings with respect thereto specifically provide any remedies to bondholders if the City defaults in the payment of principal of or interest thereon, nor do they contain any provision for the appointment of a trustee to enforce the interests of the bondholders upon the occurrence of such default. Upon any default in the payment of principal or interest, a bondholder could, among other things, seek from an appropriate court a writ of mandamus requiring the City Council to observe the covenants contained in the Bonds. The mandamus remedy, however, may be impracticable and difficult to enforce. Furthermore, the right to enforce payment of the Bonds may be limited by bankruptcy, insolvency, reorganization moratorium, and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the United States Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on the holders of the Bonds, including (1) delay in the enforcement of their remedies, (2) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings, and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent". The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

### **Approval of Legal Proceedings**

Certain legal matters relating to the authorization and validity of the Bonds are subject to the approving opinion of Kutak Rock LLP Richmond, Virginia, Bond Counsel, in substantially the form set

forth as **Appendix D** hereto, which will be furnished at the expense of the City upon delivery of the Bonds (the “Bond Opinion”). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described under the caption “**Tax Matters.**” Bond Counsel has not been engaged to investigate the financial resources of the City or its ability to provide for payment of the Bonds and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

## **Ratings**

As noted on the cover of this Official Statement, the Bonds have been rated “Aa1” by Moody's Investor Service (“Moody’s”), and “AA+” by S&P Global Ratings, a division of McGraw-Hill Financing, Inc. (“S&P”). The Moody’s rating and the S&P rating are based solely on the creditworthiness of the City. The City requested that the Bonds be rated and furnished certain information to such rating agencies, including certain information that may not be included in this Official Statement.

Such ratings reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency. These ratings are not a recommendation to buy, sell or hold the Bonds. The ratings are subject to review and change or withdrawal at any time if, in the judgment of the respective rating agency, circumstances so warrant. There is no assurance that any such rating will continue for any period of time or that it will not be revised or withdrawn. Neither the City nor the Financial Advisor has undertaken to bring to the attention of the registered owners of the Bonds any proposed revision or change in or withdrawal of a rating of the bonds. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

## **Tax Matters**

*General Matters.* In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds ) is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the City with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

Bond Counsel is also of the opinion that, under existing statutes of the Commonwealth, interest on the Bonds, their transfer and income from them and any profit made on their sale, are exempt from taxation by the Commonwealth and its political subdivisions.

*Original Issue Discount.* The Bonds that have an original yield above their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the “Discount Bonds”), are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount that is treated as having accrued with respect to a Discount Bond is added to the cost basis of the owner of the bond in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received on disposition of such Discount Bond that are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis for purposes of the preceding sentence is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond. Subsequent purchasers of Discount Bonds that purchase such bonds for a price that is higher or lower than the “adjusted issue price” of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

*Original Issue Premium.* The Bonds that have an original yield below their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the “Premium Bonds”), are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, generally by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period, and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

*Recognition of Income Generally.* Section 451 of the Code was amended by Pub. L. No. 115-97, enacted December 22, 2017 (sometimes referred to as the Tax Cuts and Jobs Act), to provide that taxpayers using an accrual method of accounting for federal income tax purposes generally will be required to include certain amounts in income, including original issue discount, no later than the time such amounts are reflected on certain financial statements of such taxpayer. The application of this rule may require the accrual of income earlier than would have been the case prior to the amendment of Section 451 of the Code. The rule generally applies to taxable years after 2017, except that in the case of income from a debt instrument having original issue discount, the rule does not apply until taxable years after 2018. Investors

should consult their own tax advisors regarding the application of this rule and its impact on the timing of the recognition of income related to the Bonds under the Code.

*Backup Withholding.* As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments to any owner of the Bonds that fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

*Internal Revenue Service Audits.* The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations such as the Bonds to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is included in the gross income for federal income tax purposes. It cannot be predicted whether or not the Internal Revenue Service will commence an audit of any of the Bonds. If an audit is commenced, under current procedures the Internal Revenue Service may treat the Authority as the issuer of the Bonds as a taxpayer, and the registered owners of the Bonds may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the related Bonds until the audit is concluded, regardless of the ultimate outcome.

*Changes in Federal and State Tax Law.* From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading “TAX MATTERS” or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based on existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

**PROSPECTIVE PURCHASERS OF THE BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE BONDS AS TO THE IMPACT OF THE CODE UPON THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS.**

### **SECTION THREE: FREDERICKSBURG**

The City of Fredericksburg was incorporated as an independent city in 1782, having been initially established as a town in 1728. The City became one of the first cities in the nation to adopt the Council-Manager form of government in 1912.

The City had a U.S. Census population in 2020 of 27,982, and an estimated population in 2024 of 28,258. Its land area is approximately 10.4 square miles, and is located approximately midway between Washington D.C. and Richmond, Virginia. The City serves as a commercial focus for the surrounding counties, and more than 250,000 visitors annually are directly served at the City’s Visitor Center in the heart of its 40-block National Historic District. The City estimates there are over 1 million visitors per year

to the City and the surrounding region, enjoying the colonial, Revolutionary War and Civil War sites and battlefields, the City Historic District, and the scenic Rappahannock River.

Fredericksburg is an independent city with sole government taxing power within its boundaries. There is no overlapping debt or taxing power with other political subdivisions. The City's water and sewer enterprise funds are operated on a self-supporting basis.

### **City Administration**

The City operates under the Council-Manager form of government established by charter granted by the Virginia General Assembly. The Council is comprised of seven members, including a Mayor and Vice-Mayor. All members are elected to staggered four-year terms, with the Mayor and two Council members elected-at-large and the other four members elected by wards. The Council is vested with local legislative powers. The City Council also appoints members to certain boards, commissions and authorities as it deems necessary to the operation of the City.

The six-member School Board, elected by City voters, governs the operation of the public school system. Under Virginia law all operations of the School Board are independent of the Council and the City administration. There are four board members representing four specific wards and two at-large members. All board members serve a four-year term. The Council makes an annual appropriation to the school system, but has no direct authority over how the appropriation is to be spent.

### **Administrative Staff**

The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for appointing other top administrative staff including the Deputy City Manager and the Director of Finance. Current individuals in such positions are:

*City Manager* – Timothy Baroody joined the City of Fredericksburg staff on June 27, 2016. Prior to that he served for almost 13 years as the Director of Economic Development and Legislative Affairs and then as Deputy County Administrator for Stafford County, Virginia. In that role he oversaw Economic Development, Tourism, Legislative Affairs, Military Affairs, Parks and Recreation, Information Technology and served as a member of the County Administrator's Executive Budget Team. Before joining Stafford, he was the Deputy Chief of Staff and Legislative Director for the late U.S. Congresswoman Jo Ann Davis (2000-2003) and the Senior Legislative Aide to U.S. Congressman Bud Shuster of Pennsylvania (1996-2000).

Mr. Baroody grew up in Virginia and graduated from T.C. Williams High School in the City of Alexandria. He earned a B.S. in Political Science with a minor in History from Frostburg State University and his Master of Public Administration degree from Virginia Tech. Tim is also a graduate of the University of Virginia's Senior Executive Institute.

*Deputy City Manager* – On September 20, 2021, City Manager Tim Baroody named Mr. David Brown as Assistant City Manager and then most recently in 2024 Deputy City Manager. Mr. Brown oversees Public Works, Parks & Recreation, Transportation, and FREDericksburg Regional Transit, as well as all City capital and transportation projects. He is a licensed professional engineer in multiple states with more than three decades of public service in local and state governments. His career includes serving as a City Engineer, as a VDOT Resident Engineer, and as a Public Works Director (Ohio, Texas, and Virginia). Mr. Brown graduated from the Pennsylvania State University with a B.S. degree in Civil Engineering and also earned a Certification in Municipal Administration from the University of North Carolina's Institute of Government.

*Deputy City Manager* – Mark Whitley has served as Assistant City Manager since November 2009 and most recently in 2024 as the Deputy City Manager. Prior to appointment as Assistant City Manager, Mr. Whitley served the City as Budget Manager from November 2005 through November 2009, and as a Senior Budget and Management Analyst from November 2004 through November 2005. Prior to coming to the City, Mr. Whitley served as the Director of Municipal Services for the Town of South Hill, Virginia from November 1997 through October, 2004 and began his career as an Administrative Services Intern for the Town of Garner, North Carolina, from July 1995 through October 1997. Mr. Whitley holds a Bachelor of Arts in Political Science from the University of North Carolina at Chapel Hill and a Master’s in Public Administration from the University of Georgia.

*City Attorney* – Kelly Lackey was appointed the City Attorney on May 28, 2024. Ms. Lackey has worked as a local government attorney for 15 years, beginning as an Assistant City Attorney in Chesapeake, Virginia. Ms. Lackey also served as the King George County, Virginia Attorney from November 2021 to January 2024. Ms. Lackey holds a Bachelor of Arts from the College of the Holy Cross in Worcester, Massachusetts and her Juris Doctor from William and Mary School of Law in Williamsburg, Virginia.

*Director of Finance* – Robyn E. Shugart has been with the City as the Director of Finance since August 2018. Prior to coming to the City, Mrs. Shugart was the Finance Division Director in Hanover County, Virginia. Mrs. Shugart was with the County of King George, Virginia from 2005-2017 and served as the Finance Director for the last four years of her career with the County. Prior to working in King George County, Mrs. Shugart worked for Orange County, Virginia as an Accountant in the Finance Department. Mrs. Shugart holds a Bachelor of Science Degree in Finance from Old Dominion University.

## **Constitutional Officers**

The City of Fredericksburg, as an independent city in the Commonwealth of Virginia, has five officers that are elected independently of the City Council to provide a variety of services to the community. These offices are specifically set aside in this fashion by the Constitution of Virginia. The officers are:

*Sheriff* – The City Sheriff is responsible for the provision of court security and serves as an officer of the court, responsible for serving papers, handling juries, and similar tasks. Law enforcement is provided by the Police Department, which is unlike neighboring counties, where the Sheriff is responsible for both court security and law enforcement.

*Clerk of the Circuit Court* – The Clerk of the Circuit Court is elected to provide a wide-variety of record-keeping duties for the Circuit Court of the City, including records relating to court cases and land transfers.

*Commonwealth’s Attorney* – the Commonwealth’s Attorney is the prosecuting attorney for criminal cases in Virginia.

*Commissioner of the Revenue* – the Commissioner of the Revenue is generally responsible for the assessment of local taxes in the Commonwealth.

*Treasurer* – the Treasurer is generally responsible for the collection of local taxes in the Commonwealth. The Treasurer for the City also collects other fees and charges, and processes deposits and payments.

## Governmental Services Provided by City

The City of Fredericksburg provides a full range of local government services, reflecting its status as an independent city under Virginia law and its largely urban character. The following discussion outlines the primary services and facilities which the City provides to its citizens. As of June 30, 2024, total authorized City full-time employment (not including public school or fiscal agencies) was 541 employees.

*Education.* The City public school system is comprised of five school buildings. The administrative offices are housed in the Walker-Grant Center. The buildings are listed below:

<u>School</u>	<u>Grades</u>	<u>Year Constructed/Renovated</u>
Walker-Grant Center	Pre-K & Administration	2017
Hugh Mercer Elementary	K-5	1969
Lafayette Elementary	K-5	2006
Walker-Grant Middle School	6-8	1988
James Monroe High School	9-12	2006

Prior to the 2021-2022 School Year, the Fredericksburg City Schools reorganized the grade and attendance at the two elementary schools so that both Hugh Mercer and Lafayette house grades K-5. Before that time, Hugh Mercer Elementary School housed grades K-2 and Lafayette Elementary School (then known as Lafayette Upper Elementary School) housed grades 3-5.

The Fredericksburg City Public Schools, in partnership with the City, is currently constructing a new middle school at the intersection of Idlewild Boulevard and Gateway Boulevard. The new middle school, which is planned to open to students in August 2025, will have a capacity of 1100 students and serve grades 6-8. The current Walker-Grant Middle School will be converted into the City's third elementary school, which will be named Gladys West Elementary School, and should have a capacity of approximately 750 K-5 students.

The following table shows school enrollment by school for the last five years, as measured in the September enrollment reports provided by the Virginia Department of Education. The Pre-K student population housed at the Walker-Grant Center is included in this table.

<u>School</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Hugh Mercer Elementary School	917	866	873	959	849
Lafayette Upper Elementary School	835	784	802	912	809
Walker-Grant Middle School	763	797	782	750	776
James Monroe High School	1,011	960	1,026	1,002	1,005
Walker-Grant Center - Pre-Kindergarten	<u>185</u>	<u>138</u>	<u>140</u>	<u>139</u>	<u>138</u>
<b><u>Total</u></b>	<b><u>3,711</u></b>	<b><u>3,545</u></b>	<b><u>3,623</u></b>	<b><u>3,762</u></b>	<b><u>3,577</u></b>

*Parks, Recreation, and Events.* The Department of Parks, Recreation, and Events provides a wide-range of facilities and activities to residents of Fredericksburg and surrounding communities. The Department's mission is to maintain the City's parks and provide a diverse package of recreation activities and park opportunities.

Major parks and recreation facilities include the following:

Alum Springs Park – includes covered shelter, picnic areas, restrooms, grills, walking paths and playgrounds;

City Dock – boat ramp access to Rappahannock River, fishing areas plus picnic areas;

Cossey Park – walking trails, fishing, community garden, and botanical garden;

Dixon Park – includes multi-use fields, paved walking trails, outdoor fitness equipment, restrooms, picnic areas, playground, lighted outdoor roller hockey rink, nature preserve area, and a state-of-the-art outdoor pool open during summer months;

Dorothy Hart Community Center – multi-purpose community center for meetings, recreation classes, camps and events, and general use; also houses offices of the Department.

Fredericksburg Dog Park – self-monitored fenced in area for city pets with water for pets;

Hurkamp Park – open area for downtown events and farmer’s market with restrooms;

Maury Park – lighted basketball court, playground, and open space;

Memorial Park – includes lighted tennis courts, pickle ball courts, basketball court, tennis practice wall, picnic areas, restrooms, and playgrounds;

Motts Run Recreational Area –located on reservoir – boating and fishing, nature center, hiking and biking trails, restrooms, grills, covered shelter, and picnic areas;

Old Mill Park – includes covered shelters, canoe/kayak boat launch, fishing, horseshoe pits, picnic areas, multi-use fields, a playground area, and access to Rappahannock River;

Riverfront Park – open area for downtown events on Rappahannock River playground, seasonal water feature, picnic areas, restrooms;

Snowden Park – playground, basketball court, community garden, and baseball / softball fields, and;

W.L Harris Park – covered shelter, playground, and lighted basketball court.

Pathways System – The City also maintains 23 miles of recreational trails. The Canal Pathway runs along Rappahannock Canal between Princess Anne Street and Fall Hill Avenue; the Rappahannock River Heritage Trail runs along the Rappahannock River and connects the two parts of the Canal Path to make a loop; the Virginia Central Railway Trail extends from near the downtown railroad station along Lafayette Blvd across the Blue Gray Parkway, behind Alum Springs park, across Rt. 1 and ends behind the Idlewild Community. There is also fitness equipment and a StoryWalk featured along various trails.

*Public Works.* The City Public Works Department is responsible for street maintenance, refuse collection, public facilities and public utilities for the community.

In Virginia, localities in the urban street maintenance program, such as the City, are responsible for the maintenance and upkeep of city streets and highways, with the exception of Interstates which are



maintained by the Virginia Department of Transportation. For the City this amounts to responsibility for 206 lane miles of streets and highways. Maintenance responsibilities include bridges and culverts, 55 traffic signals, sidewalks, streetlights, and storm drainage systems. Maintenance activities include street cleaning, patching, snow removal, as well as repaving or reconstructing streets as necessary. The Commonwealth shares maintenance funds with the City to assist with this function, which in fiscal year ended June 30, 2024 totaled \$4.13 million (unaudited).

The Public Works Department also provides fleet maintenance to most City vehicles, exclusive of FRED Transit, fire trucks or Fredericksburg City School buses.

The Department also provides refuse collection services to the City, which the City accounts for in its General Fund. The City charges all subscribers a fee for refuse collection services, which is included in the billing for water and sewer services. In FY 2024, the City collected \$1.25 million (unaudited) in solid waste fees to help support the cost of the City's refuse collection program. In addition, in order to offset the cost of the City's curbside recycling program, the City Council in FY 2021 implemented a small per-account fee for recycling customers of \$1.50 per month. This fee raised \$106,341 (unaudited) in revenue to offset recycling expenditures in FY 2024.

The City of Fredericksburg and Stafford County established the Rappahannock Regional Solid Waste Management Board (the "R-Board") under an agreement dated December 9, 1987, for the purpose of operating and maintaining the Regional Landfill for the use and benefit of the citizens of the County and the City. The Board consists of six members, three appointed by each jurisdiction. The current agreement expires December 31, 2049. The Landfill site consists of approximately 700 acres in Stafford County owned jointly by the City and County.

*Public Facilities.* The Public Facilities Division is responsible for the operational and logistical support of building management and facility maintenance activity for 30 City-owned and operated buildings.

*Utilities.* The City owns and operates the water utility and the sewer (wastewater) collection and treatment utility. Customers are billed bi-monthly based upon a "base rate plus consumption" fee schedule. The base rate increases based upon the size of the water meter and is added to a consumption charge based upon metered water consumption. The utilities are self-supporting, and accounted for separately from the City's General Fund. Operating and debt service costs for the water and wastewater utilities are paid for through system fee revenue. The Public Works Department oversees the day-to-day operation of the system, while the Department of Finance oversees the customer billing function.

Water – The City purchases finished water from Spotsylvania County, primarily from the Motts Run Water Treatment Plant completed in 2000. The primary source for raw water for this plant is the Rappahannock River with the Motts Run Reservoir and Hunting Run Reservoir as the backup source. The City's current consumption is 2.5-3 million gallons per day ("MGD"), depending on time of year and weather conditions. Peak demand is approximately 3.5 MGD. The City's water system serves a population of approximately 28,258 persons through approximately 8,752 connections within the City.

The City has a long-term use agreement with Spotsylvania County for the Motts Run Water Treatment Plant. The plant is operated by the County, and has a current production capacity of 12 MGD. The upcoming capital project and the majority of the proceeds of the Bonds will be used to pay for the City's portion of the expansion of Motts Run Water Treatment Plant.

Sewer (Wastewater) – The City owns and operates its own sanitary sewer collection system. The system serves the entire City. There is a small part of the Spotsylvania County system that ties into the

City's Hazel Run Interceptor by agreement between the two localities, but the customers served by this arrangement remain Spotsylvania County customers. The plant is located on 19.8 acres that is owned by the City.

The City is currently in the process of a capital project to expand and upgrade the City's Wastewater Treatment Plant and is currently working with a contractor with construction to begin in FY 2025. The City's treatment plant is currently designed for an average daily flow of 4.5 million gallons per day and the upgrade would expand the capacity to 6.0 million gallons per day. This is to accommodate future residential, commercial, and industrial growth in the City. This project will provide for variable speed pump control and increased treatment capacity and improve nutrient removal treatment efficiency. This project is estimated to cost approximately \$177 million with over \$100 million dollars being funded by state allocated funds and grants.

*Police Protection.* The Fredericksburg Police Department provides residents, businesses, and visitors exceptional service 24-hours a day. Their mission is to provide exceptional public safety services in partnership with the community to improve the quality of life for all.

The agency is comprised of four Divisions: Patrol Division, Detective Division, Support Services, and Emergency 911 Communications. The E-911 Center dispatches calls for fire, medical emergencies, and law enforcement. As of the approved FY 2025 budget, the Fredericksburg Police Department has an authorized strength of 88, including 79 sworn law enforcement positions, and 9 non-sworn personnel. In addition, the Fredericksburg Police Department has 18 authorized positions in the City's 24-hour E-911 Public Safety Communications Center.

In addition to patrol officers and detectives, the agency has several unique details, including community police officers, mental health crisis response team, a school resource officer, k-9 officers, a river steward, a crisis negotiation team, a special equipment tactical team, a traffic unit, an unmanned aircraft system team, a firearms training unit, an honor guard, a vice/narcotics unit, a domestic violence detective, and a parking enforcement unit.

Since 2009, the Fredericksburg Police Department has been a nationally accredited law enforcement agency through the Commission on Accreditation for Law Enforcement Agencies (CALEA.) In 2015, the Department was awarded Advanced Accreditation, which is the highest rating a law enforcement agency can obtain from CALEA and sets the benchmark for public safety professionalism.

*City Court System.* The City of Fredericksburg provides operational support for three separate courts: the Circuit Court, the Juvenile and Domestic Relations Court (J&DR), and the General District Court. The courts are housed in two separate facilities. The Fredericksburg Courthouse houses the Circuit Court and the General District Court. A new courthouse was opened in August of 2014. The Circuit Court is the trial court of general jurisdiction, and hears all types of cases, including all felony criminal cases, civil cases. The General District Court hears most traffic cases, misdemeanor cases, preliminary hearings for felony cases, and civil cases involving claims for amounts under a certain threshold.

Renovation of building which houses the J&DR court was completed in September 2015. The J&DR court handles cases involving juvenile delinquents, juvenile traffic violations, child abuse and neglect cases, domestic violence cases, custody, visitation and support cases, juvenile mental commitment hearings, and Juvenile Drug Treatment Court.

*Correctional Facilities.* The City has partnered with other jurisdictions throughout the region to provide jail facilities for both adult and juvenile offenders. The City is a member, along with King George County, Stafford County and Spotsylvania County, of the Rappahannock Regional Jail Authority, which

governs the operations of the Rappahannock Regional Jail, located in Stafford County. The City appoints three (3) of the twelve (12) members of the Board. No one locality contributes more than 50% of the Authority's funding. The City provided \$5.22 million (unaudited) in operating and other funds to the Authority in FY 2024. The FY 2025 budget is \$3.61 million.

The City is a member, along with King George, Stafford, Spotsylvania, Louisa, Madison, and Orange Counties, of the Rappahannock Juvenile Center Commission. The Rappahannock Juvenile Center Commission governs the operations of the Rappahannock Juvenile Center, which houses juvenile offenders in an 80-bed facility located adjacent to the Rappahannock Regional Jail in Stafford County. As with the Rappahannock Regional Jail, the City pays a proportion of the operating costs roughly commiserate with the use of the facility by the City's law enforcement / judicial system. The City provided operating funds of \$758,481 (unaudited) to the Center in FY 2024. The FY 2025 budgeted contribution from the City to the Rappahannock Juvenile Center is \$724,479.

*Fire Protection.* The City operates two fire stations with a third station currently in the design planning phase. The Fire Suppression Division of the City Fire Department, operating from two stations, fields six fire trucks, four class A pumper trucks, one 105-foot aerial ladder truck, and one 100-foot tower/basket truck. The Fire Department is staffed by 48 paid firefighters, including administrative staff. The Fire Department (including EMS) staffs three operational shifts providing round-the-clock public safety services for the community. The Insurance Services Office currently rates the City of Fredericksburg a "three" on Fire Suppression Rating Schedule, on a scale of one (best) to ten (below minimum standards). The City maintains an aggressive on-going fire inspection program, led by a full-time Fire Marshal. The Fire Department also provides a Hazardous Materials Response team for the region, using two hazardous materials trucks with four trailers.

The City also provides, through a shared arrangement with the volunteer Fredericksburg Rescue Squad, Emergency Medical Services. City Fire Department EMS personnel, currently 18 full-time employees, provide 24/7 staffing at the Advanced Life Support (ALS) level for two ambulance units. Fredericksburg Rescue Squad provides protection through volunteers for weekday overnight periods and weekends. The Fire Department, through the Fire Suppression Division, provides a highly trained ALS-level paramedic available during overnight and weekend shifts to assist the volunteer coverage as necessary. Combined, the Fire Department and the Fredericksburg Rescue Squad respond to approximately 6,000 emergency medical calls and provide emergency medical transportation on approximately 3,000 of those calls per year.

The City also operates a public safety radio system through an agreement with Stafford County. Each jurisdiction brings certain items to the system to make the project work. The system is a 700-Mhz system with TDMA capability. The system is composed of about 15 radio frequencies in a trunked configuration with many talk groups. It also features 13 tower sites that are linked together via microwave. The system is continuously monitored by the vendor from a remote location for any potential issues with the system. The agreement between the City and Stafford is for a set term and provides for funds to maintain and enhance the system.

*Department of Social Services and Children's Services Act.* The City Department of Social Services provides financial, medical, food, heating and cooling assistance, family services, protects the safety of children and adults, provides safe foster homes for children and provides adoption services to the neediest children in the community. Direction is provided to the Department through the local Board of Social Services, and the Department is responsible for the execution of a wide variety of state and federal mandates for social services programs. The Department of Social Services has a separate operating fund from the City's General Fund, and the majority of funding is provided by the federal and state governments. In FY 2024, the budget was \$8.36 million with a local share of \$1.81 million which includes a transfer of

\$1.48 million from the City's General Fund. In FY 2025, the budget for Social Services is \$8.71 million, and the local share is approximately \$2.02 million. The Department had 43 authorized full-time employees as of June 30, 2024.

The Children's Services Act (CSA) is now the name for a law enacted in 1993 that establishes a single state pool of funds to support services for eligible youth and their families. State funds, combined with local community funds, are managed by local interagency teams who plan and oversee services to youth and their families. In FY 2024 the budget was \$3.95 million with a local share of \$1.45 million which includes a transfer of \$1.1 million from the City's General Fund. The FY 2025 budget for this function is \$4.34 million, with local support at \$1.4 million.

The City maintains separate operating funds for both the Department of Social Services and the Children's Services Act functions. Balances in those funds represent local support that may be re-appropriated by City Council for future needs in those areas.

*Economic Development and Tourism.* The Department of Economic Development and Tourism (EDT) works to increase tax revenues to the City through business expansion, retention, and development. Tourism development and marketing is recognized as an essential revenue generator for the City and receives emphasis beyond a traditional economic development program. The Department currently consists of five full-time employees and a budget in FY 2025 of approximately \$1.5 million. The City is currently finishing the build out of a new top-of-the-line Visitor Center that will only expand the ability to tell the story of Fredericksburg to all those that visit. The Economic Development and Tourism team also moved into its new office space which is in the same building as the new Visitor Center.

*Public Transportation.* In December 1996, the City began operating a transit system with four routes and five vehicles. Since that time, the FREDericksburg Regional Transit System ("FRED Transit") has grown to an extensive system of 21 routes and 30 vehicles that serves the entire region, with routes serving the City as well as Spotsylvania, Stafford, and Caroline Counties. Core service routes run weekdays from 6:30 a.m. to 8:30 p.m., but special routes run on extended hours and weekends for the University of Mary Washington area and Virginia Railway Express commuters.

FRED Transit is supported mainly through federal and state transit funding. At the local level, each participating jurisdiction contributes local funding to the maintenance of the service. The system also partners with major public and private institutions to provide special service. The City recently received Transit grant support from the federal government related to the pandemic, and there is a grant that covers fares for riders so that riders are not currently paying fares to ride.

*Parking Garage.* The City's Sophia Street Parking Garage in downtown Fredericksburg, a 297-space facility, is heavily utilized by downtown employees and visitors, guests at a nearby hotel, and commuters riding the Virginia Railway Express. The parking garage is operated as an enterprise function by the City, with related debt service paid for through surplus motor fuels taxes and operations paid for through parking garage revenues.

*Jointly Governed Organizations.* In addition to the R-Board, the Rappahannock Regional Jail and the Rappahannock Juvenile Detention Center the City participates in other jointly operated 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 City's financial statements.

The Central Rappahannock Regional Library serves the Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. The City appoints two (2) of the seven (7) members of the Board. No one locality contributes more than 50% of the Library's funding. The City provided \$1.47 million (unaudited) in FY 2024 in operating funds to the Library, and \$1.57 million is budgeted for FY 2025.

The Fredericksburg Branch, located in the City at 1201 Caroline Street, is a 37,000 square foot building that provides the majority of service to City residents. The City expanded the parking lot in 2018 to provide additional parking availability for library customers. The City is responsible for the maintenance of the Fredericksburg Branch building. The FY 2025 Capital Improvement budget also includes funding for the replacement of the heat pumps at the library.

Rappahannock Area Community Services Board ("RACSB") was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members. RACSB provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City contributed \$347,713 (unaudited) in operating grants to RACSB in FY 2024, and in the FY 2025 budget the support is scheduled to be \$354,857. The City has also partnered with RACSB in a regional effort to provide funding for opioid abatement initiatives.

George Washington Regional Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints two (2) of the commissioners. The City contributed \$30,890 (unaudited) in operating grants to the Commission in FY 2024, and the FY 2025 budget includes \$35,113 in support.

The Rappahannock Area Office on Youth and Group Home Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints two (2) board members. The City provided \$139,647 (unaudited) in operating funds to the Home in FY 2024, and \$102,137 in FY 2025.

Stafford Regional Airport Commission was created by City Council resolution pursuant to state statute, and it is legally separate from the City. The Council appoints one commissioner. The City provided \$21,430 in operating funds to the Commission in FY 2024, and the same in the FY 2025 budget.

*Multi-Purpose Stadium Agreement.* The City entered into a Development and Shared Use Agreement for Multipurpose Stadium (the "Development Agreement") with Potomac Baseball, LLC and SAJ Baseball LLC (together, the "Club") dated July 1, 2019 related to the development, construction and operation of a multi-purpose stadium under which the City agreed to pay \$1,050,000 annually for thirty years for the right to use the stadium for 183 calendar days each year. The payment will be made in quarterly installments and is subject to annual appropriation by the City Council. If the City Council fails to appropriate funds, the Development Agreement permits the Club to demand payment by the City of a lump sum payment (the "Lump Sum Payment") equal the present value of certain tax receipts that the City is expected to receive from the stadium project during the remainder of the term of the Development Agreement. The Lump Sum Payment is the average of such annual tax receipts received by the City during the prior three fiscal years, discounted at an annual rate of 4%. The amount of the Lump Sum Payment may not exceed the aggregate sum of the remaining annual City payments, discounted at an annual rate of 4%. If the Lump Sum Payment is made during the first three years of the term of the Development Agreement, the payment will be calculated using actual tax receipts for each complete fiscal year after the date City payments begin and \$700,000 for any other fiscal year. City payments to the Club under the Development Agreement have been assigned by the Club to support the payment of debt service on bonds

issued by the City's Economic Development Authority on behalf of the Club to finance the development and construction of the stadium.

The privately financed and constructed stadium, now named Virginia Credit Union Stadium, opened in May of 2020, but because of the pandemic the 2021 season was the inaugural season of the Fredericksburg Nationals, the low-A affiliate of the major league Washington Nationals. The stadium use and attendance continue to grow as the stadium becomes more established as a venue. All of the City's financial obligations required under the agreement to date have been met.

### **Special Service Funds – Fire and Stormwater - *Fire Tax Fund***

The Commonwealth of Virginia, through Code of Virginia §27-23.1, authorizes governing bodies of local governments to establish fire districts and to levy an annual tax on the assessed value of property within those districts in order to provide funding for the maintenance and operation of fire departments.

The City Council, in May of 2024 as part of the FY 2025 operating budget, established a city-wide fire protection district and levied a one-cent per \$100 valuation tax on City real estate, and created a Fire Tax Fund to support the operations and maintenance of the Fredericksburg Fire Department. The City has budgeted the debt service for the two replacement fire engines from the new Fire Tax Fund.

### **Stormwater Management Fund**

The City maintains a separate fund for the management of the stormwater function, funded through a tax of two-cents per \$100 valuation on real estate in the City. This fund supports the operation of the public infrastructure drainage crew for Public Works and the regulatory personnel included in the Department of Community Planning & Building. The City Council also uses reserves to fund select culvert replacement projects or other capital stormwater needs.

### **Economic and Demographic Factors**

The City of Fredericksburg was founded as an early colonial tobacco trading station at the fall line of the Rappahannock River. The river was the primary source of commerce and transportation during colonial and early American times, replaced by rail during the 1800's and then by U.S. Route 1 and eventually Interstate 95 in the 20th Century. Interstate 95, with over 160,000 vehicles per day traveling through the City, is the main north-south artery for the East Coast and is an essential factor in the City's economic health. Still, the Rappahannock River and the historic central business district that grew up at the fall line remain the heart of a city located in the center of one of the fastest growing regions in the state.

*Population.* The City of Fredericksburg grew 15.2% in population between 2010 and 2020, according to the U.S. Census. This rate of growth exceeded that of the Commonwealth as a whole, which was 8% over the same period. The City's growth in population reflects the attractiveness of the City's location and the strength of the regional economy. The following table provides information on population growth in the City:

<u>Year</u>	<u>City Population</u>
2019	29,144
2020 Census	27,982
2021	28,500
2022	27,596
2023	27,667
2024 (estimated)	28,258

*Source: Weldon Cooper Center For Public Service  
U.S. Census Bureau 2020 population*

The City is the central locality at the heart of one of the fastest-growing regions in Virginia and is heavily impacted by the rapid growth rates of the large neighboring counties. Stafford County, immediately adjacent to the north of the City, grew by 17.8% between the 2010 and 2020 Census, with a 2020 Census population of 156,927 and a 2023 estimated population of 165,184. Spotsylvania County, immediately adjacent to the south and west of the City, grew by 14.4% between the 2010 and 2020 Census, with a 2020 Census population of 140,032 and a 2023 estimated population of 146,708.

*Median Household Income.* The following table presents the most recent data on median household income for the City.

	<u>City of Fredericksburg</u>	<u>Virginia</u>	<u>United States</u>
2019	65,641	74,222	62,843
2020	69,528	76,398	64,994
2021	72,293	80,963	69,717
2022	83,445	85,873	74,755
2023	-	89,931	77,719

*Source: U.S. Census Bureau (inflation adjusted dollars by year)*

*Transportation.* The City is located on Interstate 95, approximately mid-way between Richmond, Virginia, 58 miles to the south, and Washington, D.C., 50 miles to the north. U.S. Routes 1 and 17 and State Route 3 also serve the City. Fredericksburg is the southernmost terminal of the Virginia Railway Express, a commuter rail system in operation since 1992 serving northern Virginia and Washington, D.C. Additional passenger rail service is provided by Amtrak, and freight rail service is provided by CSX Railroad. Reagan National Airport, Dulles International Airport and Richmond International Airport are 54, 68, and 52 miles away, respectively. General aviation in the region is supported by the Stafford Regional Airport in Stafford County and the Shannon Airport in Spotsylvania County.

*Employment.* The total employment in Fredericksburg as of Q1 2024 is 25,604<sup>1</sup>. The most recent commuting patterns data show that commuters into the City to work far outnumber commuters from the City to other jurisdictions for employment. The Virginia Employment Commission, continues to report a net in-migration into the City for work (in-commuters less out-commuters) totaling approximately 12,000 daily.. The global pandemic increased the utilization of telecommuting to appropriate in-office work, therefore establishing the continually evolving landscape of the Fredericksburg regions traditional

<sup>1</sup> JobsEQ®, Data as of 2024Q1.

commuting patterns into Northern Virginia & DC. The City’s physical location lends itself well to both employees and employers in the Northern Virginia and the Richmond regions to working on a partial telecommuting basis. As Federal and non-Federal employers in Fredericksburg’s out-commuting jurisdictions continue to offer hybrid work options we expect to see a continued growth in residential population.

*Major Employers.* The 10 largest employers located within or near the City are shown below:

<b><u>Employer</u><sup>1</sup></b>	<b><u>Service / Product</u></b>	<b><u>Number of Employees</u></b>
Mary Washington HealthCare	Health Care	4,384
University of Mary Washington	Higher Education	1,002
City of Fredericksburg School Board	Public Education	679
City of Fredericksburg	Local Government	677
Wal-Mart	Retail	343
Wegmans	Retail / Grocery	276
RACSB	Social Services	216
Favor Techconsulting, LLC.	Technology	167
Encompass Health	Health Care	163
OS Restaurant Services	Restaurant Services	135

<sup>1</sup>City of Fredericksburg

*Unemployment Rates*<sup>1</sup>. The City’s unemployment rate over the last five years has continued to improve as shown below. The impact of the global pandemic can be seen in 2020. However, the City, the Commonwealth, and the nation are now showing significant improvement in unemployment statistics.

<b><u>Year</u></b>	<b><u>Fredericksburg</u></b>	<b><u>Virginia</u></b>	<b><u>United States</u></b>
2019	3.3	2.8	3.7
2020	7.4	6.4	8.1
2021	4.6	3.9	5.3
2022	3.2	2.8	3.6
2023	3.4	2.9	3.6

*Source: U.S. Bureau of Labor Statistics*

*General Economic Discussion.* The largest sectors of employment in the City are Healthcare and Social Assistance, which provides 25.8%<sup>2</sup> of the jobs in the City. Mary Washington Healthcare is the largest employer in the City, with approximately 3,500 of its almost 4,500 employees at the Mary Washington Hospital and axillary facilities within the City. Mary Washington Hospital was recognized by U.S. News & World Report as a best hospital for 2018-19; ranking No. 3 in the Washington DC Metro

<sup>1</sup> JobsEQ®, Data as of 2024Q1.

<sup>2</sup> JobsEQ®, Data as of 2024Q1.



Area and No. 6 in the state of Virginia. In addition, a wide variety of medical offices cluster on the Mary Washington Hospital campus in the City.

The retail, restaurant and lodging sectors, taken together, provide the next largest sector(s) of the economy. The retail trade sector provides over 3,400 jobs, while the accommodation and food services sector provides over 4,000 jobs<sup>1</sup>. The major shopping complex known as Central Park, located just northwest of the intersection of Interstate 95 and State Route 3, is a large retail and restaurant complex housing more than 2.3 million square feet of commercial space serving both the City and the surrounding region. Central Park continue to hold its own despite continued global trends toward online shopping, new development at Spotsylvania Towne Center, and retains at a healthy occupancy rate. The Virginia Department of Transportation (VDOT) just completed a significant infrastructure investment (more than \$100 million) through Exit 130 off Interstate 95 which included extension of HOV lanes and the addition of local access lanes connecting Exit 130 and Exit 133 (Stafford County). Said infrastructure improvement support Central Park development as well as increased northern access into the City. The City also has many small businesses commercial clusters located along both State Route 3 between Interstate 95 and U.S. Route 1 and along U.S. Route 1 between State Route 3 and the Rappahannock River.

Located adjacent to Central Park is the Celebrate Virginia South development, a 2,500-acre mixture of office, commercial, and high-density residential uses. Major developments within Celebrate Virginia South include Wegmans grocery store, the Fredericksburg Expo & Conference Center, and three major hotels – a Hilton Garden Inn, a Homewood Suites, and a Hampton Inn and Suites. Celebrate Virginia South is also home to a 5,000-seat multi-purpose stadium that serves as home to the Fredericksburg Nationals, a Class-A affiliate of the Washington Nationals. The stadium, which is just to the north of the Expo Center, was privately financed, and continues to support year-round regional events including the Historic Marine Corp. Half Marathon.

Across U.S. Route 1 from the University of Mary Washington campus (the City’s second-largest employer), the University’s real estate foundation has made significant investments into the City including the more than \$100 million Eagle Village mixed-use project, a redevelopment of a 1960’s-era strip shopping center. The Eagle Village development now contains more than 30,000 square feet of retail, 34,000 square feet of Class-A office space, a 550-space parking garage, a 624-bed student apartment complex and a 93-room Hyatt Place Hotel.

The historic downtown central business district has seen significant momentum over the past few years as local residents and regional visitors seek out its authentic, walkable attractions. Downtown has over 200 local small businesses, including restaurants, shops, museums, and art galleries, some of which have thrived in the same location for decades. William Street has become known as “Restaurant Row,” contributing to a Meals Tax base that now brings in more than \$1 million a month to the City. There continues to be significant interest in residential, municipal and commercial development projects in the downtown. These development projects include Liberty Place, Riverfront Park, William Square (site of the former The Free Lance-Star) which includes the William Square Luxury Residence and The Publisher Hotel, the Lofts at Frederick Street, One Hanover, the Mill District project, and the redevelopment of the former Mary Washington Hospital property and more. Downtown’s future continues to evolve into the regional downtown for the Fredericksburg region and is indeed bright.

With few greenfield development sites remaining to be developed in the City, there are several with the potential to be highly impactful in the forthcoming years. These sites include a 20-acre parcel to the North of the Spotsylvania Towne Centre property, about 250 acres in Celebrate Virginia South, and a 90-acre property just off Exit 130 owned by Dale City-based Hylton Group. The latter properties is among the

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<sup>1</sup> JobsEQ®, Data as of 2024Q1

top candidates for potential data center development(s) within the City. Those proposed data center development projects have the potential to bring hundreds of jobs additional high-paying jobs and more than \$50 million in annual new tax revenue to the City. There are also significant commercial corridor redevelopment opportunities in the City clustered along U.S. 1, State Route 3, Princess Anne Street and Lafayette Boulevard. The entire western half of the City has been designated for the federal Opportunity Zone program, which is likely to help attract new commercial and residential investments.

*Industry.* The City has one major industrial park: the Battlefield Industrial Park, located along State Route 3 south of the City’s historic downtown. This diverse park includes, multiple recycling facilities, equipment-rental businesses, various light manufacturers and logistics & distribution companies, as well as the City’s only active large-scale farm (Braehead Farm).

The following table sets forth recent taxable sales data for the City.

<u>Calendar Year</u>	<u>Taxable Sales</u>	<u>Per Capita</u>
2019	1,007,272,303	34,561
2020	1,007,841,144	36,017
2021	1,150,453,738	41,689
2022	1,234,320,710	44,613
2023	1,253,374,847	44,355

*Source: Weldon Cooper Center for Public Service*

*Government Sector.* The government sector of the local economy provides another strong foundation of stable employment within the City. The presence of the University of Mary Washington, part of the Commonwealth’s higher education system, provides the City a source of both quality employment and economic and cultural activity. Local government employment includes both the City, responsible for delivering a broad-range of local government services to the citizens, and the City public school system, which educates the children in the City. The federal government also provides employment opportunities within the region for both civilian and military jobs. The City is located in close proximity to military bases at Quantico, Fort Belvoir, Fort Walker, Dahlgren Naval Surface Warfare Center, and the Pentagon.

*Industry.* The City has one major industrial park: the Battlefield Industrial Park, located off State Route 3 south of the City’s historic downtown. This diverse park includes a large commercial-printing plant (Print Innovators), recycling facilities, equipment-rental businesses, various light manufacturers and distribution companies, and even the City’s only farm (Braehead Farm).

*Building Permits.* The City has experienced the following trends in building permits<sup>1</sup>:

<u>Fiscal Year</u>	<u>Residential</u>		<u>Commercial</u>	
	<u># Permits</u>	<u>Value</u>	<u># Permits</u>	<u>Value</u>
2019	782	16,907,963	903	36,086,852
2020	745	18,715,183	862	91,668,846
2021	828	45,360,868	774	35,408,453
2022	1,020	57,294,942	674	77,069,451
2023	1,109	41,706,904	739	45,170,377

<sup>1</sup> City of Fredericksburg Building Services Division

*Higher Education.* The University of Mary Washington is a state-supported, coeducational residential college with a current enrollment of approximately 3,700 undergraduate and graduate students at its main campus located in the City. The University offers over 60 different majors and programs as well as several master's programs. In 2010, the Schools of Business and Education were added. The University currently has over 1,000 employees. In recent years the University has invested nearly \$200 million on a new convocation center, campus center and technology hub. The University's Master Plan envisions, over the next 15-20 years, approximately \$750 million of capital improvements to the University campus as well as Eagle Village. These improvements include renovation of 15 of the 18 campus residence halls, a performing arts center, an additional parking deck, additional academic buildings and improved facilities at the athletic complex. The University and City have increasingly been working together on various initiatives, and the school's top students provide a constant stream of entrepreneurial ideas and energy to the City.

*Healthcare.* The City is a center for the provision of healthcare services to the north central Virginia region. The centerpiece of healthcare in the City is the City's largest employer, Mary Washington Healthcare. Mary Washington Hospital is a 474-bed, full-service hospital that provides many different medical specialties. The emergency room facility at the hospital is the only Level II Trauma Center in the region recognized by the Commonwealth of Virginia. A regional cancer center opened in 2011 with some of the most advanced diagnostic and surgical equipment in the country. Mary Washington is investing over \$40 million to expand the hospital campus with construction beginning in 2025. With this, 157 Physician Residents will come through the Graduate Medical Education Program by 2029.

There are other major medical facilities located in the City as well, many of which are clustered around the Mary Washington Hospital campus. Encompass Health has an acute inpatient rehabilitation facility in the City. The Surgi-Center Medical Office Building on Dixon Street represented a significant investment in the City. Many additional doctor offices are located in the City due to Fredericksburg's central location and the presence of Mary Washington Hospital.

*Cyber Security – Protection of City Information Technology.* The use of electronic systems and information technologies are essential to conducting City operations and delivering services. The City strives to use best practices and has developed cyber security policies and procedures and uses various technologies to protect its data and related information technology infrastructure, prevent, respond to, and minimize impacts of cyber-attacks. Those policies and procedures are based on the National Institute of Standards and Technology's Cyber Security Framework, which conforms to regulatory requirements involving: Health Insurance Portability and Accountability, Payment Card Industry Security Standards, Virginia Government Data Collection and Dissemination Practices Act, Virginia HB 2178 Controls for Electronic Systems, and CJIS Security Policy. Annual audits are conducted by the State, City and third parties of various IT systems to ensure the security of the City's electronic systems. An Information Technology security awareness training program was developed and implemented for all City staff members. E-mail alerts and security awareness reminders are sent to all City staff by the City's IT department when e-mail threats are identified. Additionally, the City has increased funding each year to provide for cyber security upgrades and enhancements.

*Environmental Initiatives* – In 2019, City Council passed the 100% Renewable Energy Resolution, which commits the City to have 100% renewable energy power municipal operations by 2035. In 2021, the City hired its first Environmental Sustainability Coordinator. The Environmental Sustainability Coordinator works with various City departments to manage: the utility bill accounting and energy management system; renewable energy installations; electric vehicle (EV) charging stations; transition of fleet vehicles to EVs and alternative fuel vehicles; partnerships with other local governments, businesses, non-profits, universities, city schools, and other organizations on environmental and sustainability. In FY 2022, the City established the Environmental Sustainability Program dedicated to environmental

compliance, public education, pollution prevention, and environmental sustainability and stewardship. The program is responsible for developing, implementing, and supporting environmental and sustainability initiatives that achieve environmental, social, and economic goals within city operations and the community at large. The City's green and sustainable initiatives are outlined in the City's annual budget. Currently, City staff in conjunction with Stafford County, are exploring the feasibility of a solar project at a portion of a closed 90-acre Cool Springs Landfill in southern Stafford County.

Other Environmental Sustainability Program objectives include:

- Working to achieve the city's 100% Renewable Energy Resolution;
- Advancing energy improvements and renewable energy use in buildings throughout city facilities;
- Encouraging use of fuel-efficient and carbon-free transportation;
- Supporting public options for electric vehicle (EV) charging stations; and
- Developing resiliency projects to protect the community and its natural resources.

The City's Community Planning and Building Department works to reduce pollution of the City's environment by effectively applying all applicable city, state, and federal stormwater and floodplain regulations. The Community Planning and Building Department major focus is to coordinate and implement the City's stormwater management programs to ensure proper control of the quantity of water runoff and improve its quality. The department works with the City's Environmental and Sustainability Coordinator to incorporate sustainable land use and development practices into the update of the Comprehensive Plan as well as the on-going work of small area plans.

In 2016, the City established the Stormwater Management Fund to address the increasing focus on stormwater management issues by the United States Environmental Protection Agency and the Virginia Department of Environmental Quality. The Stormwater Management Fund supports the City's activities to regulate stormwater runoff, manage the City's stormwater collection system and manage the City's floodplains and other environmentally sensitive areas. The Stormwater Management Fund also transfers funds to the Public Works Capital Fund to help pay for new major capital stormwater projects. Two cents of the City's property tax rate is used to support the City's stormwater management efforts. The City collects various fines and fees associated with land disturbing activities including the Virginia Stormwater Management Program permit fees. The Commonwealth of Virginia sets these fees and requires that 28% is returned to the State. The fund is comprised of two programs: Stormwater Management and the Drainage Division of Public Works. Stormwater Management is further structured into plan review and compliance during construction and projects to achieve state mandated municipal storm sewer system (MS4) and total maximum daily loads (TMDL) objectives.

## **SECTION FOUR: CITY FINANCIAL INFORMATION**

### **Auditors and Basis of Accounting**

The City Charter requires an independent audit at the end of each fiscal year. The audit for the fiscal year ended June 30, 2023, was performed by the firm of Robinson, Farmer, Cox Associates, PLLC, Fredericksburg, Virginia. The combined financial statements and accompanying notes are attached as **Appendix A** hereto. Audited financial reports for prior years are available for inspection at the office of the City Manager.

The City's accounts are maintained in accordance with generally accepted accounting principles applicable to government accounts.

### **General Fund Revenues and Expenditures**

The General Fund revenues are derived from ad valorem taxes, other local taxes, licenses, fees, permits, certain revenue from the Federal and State governments, interest earned on invested cash balances and other revenues. General Fund disbursements include the costs of general City Government, transfers to the School Operating Fund and transfers to the Debt Service Funds to pay principal and interest on the City's general obligation bonds and notes.

The financial data shown below presents a summary of Governmental Funds Revenues, Expenditures, and Changes in the Fund Balance for the five fiscal years ended June 30, 2019 through 2023 derived from the City's financial statements for such fiscal years.

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**Governmental Funds Revenues, Expenditures  
and Changes in Fund Balance**

**Fiscal Years Ended June 30**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>REVENUES:</b>					
Property taxes	\$43,669,156	\$44,111,793	\$46,389,239	\$50,737,977	\$52,552,470
Other local taxes	37,156,088	35,423,281	38,665,411	44,952,568	46,625,338
Permits, privilege fees and regulatory licenses	1,125,519	1,063,717	836,452	918,778	882,608
Fines and forfeitures	661,837	473,741	260,986	405,155	487,441
Use of money and property	2,163,744	2,072,245	385,329	(483,148)	5,090,454
Charges for services	2,748,662	2,576,638	2,610,690	2,980,037	3,322,573
Miscellaneous	729,375	582,125	1,027,644	637,430	892,800
Recovered costs	1,337,404	1,379,306	1,341,410	972,949	857,625
Contribution from Component School Bd					3,400,376
Revenue from the Commonwealth	14,128,204	13,792,865	13,699,207	13,572,921	16,450,227
Revenue from the Federal Govt	<u>3,284,464</u>	<u>3,736,166</u>	<u>8,344,464</u>	<u>4,123,511</u>	<u>8,032,375</u>
<b>Total revenues</b>	<b><u>\$107,004,453</u></b>	<b><u>\$105,211,877</u></b>	<b><u>\$113,560,832</u></b>	<b><u>\$118,818,178</u></b>	<b><u>\$138,594,287</u></b>
<b>EXPENDITURES:</b>					
General government administration	\$7,761,417	\$8,025,669	\$8,989,502	\$8,974,467	\$9,854,433
Judicial administration	4,916,591	5,088,552	5,186,289	5,541,449	6,195,286
Public safety	21,708,907	23,290,931	23,339,013	27,070,833	29,563,615
Public works	9,309,156	9,579,697	9,770,892	9,856,733	9,937,154
Health and welfare	9,711,324	9,720,362	9,732,153	9,699,067	10,256,352
Education	30,309,183	30,458,501	28,933,557	31,500,557	30,234,291
Parks, recreation and cultural	4,455,929	4,347,256	4,210,394	4,865,580	5,370,278
Community development	2,936,606	3,167,415	4,413,373	2,958,489	3,721,318
Capital projects	4,763,583	7,392,210	5,931,715	5,904,667	11,779,131
Non-Departmental					150,000
Debt - Principal payments	4,855,064	5,420,206	3,914,017	5,028,525	6,447,131
Debt -Interest and fiscal charges	<u>3,722,358</u>	<u>3,950,857</u>	<u>2,940,767</u>	<u>3,463,358</u>	<u>4,654,996</u>
<b>Total expenditures</b>	<b><u>\$104,450,118</u></b>	<b><u>\$110,441,656</u></b>	<b><u>\$107,361,672</u></b>	<b><u>\$114,863,725</u></b>	<b><u>\$128,163,985</u></b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b><u>\$2,554,335</u></b>	<b><u>\$(5,229,779)</u></b>	<b><u>\$6,199,160</u></b>	<b><u>\$3,954,453</u></b>	<b><u>\$10,430,302</u></b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	\$14,534,669	\$15,092,237	\$13,971,752	\$16,060,240	\$22,463,842
Transfers out	(13,928,497)	(14,457,080)	(13,341,752)	(14,991,247)	(24,186,746)
Refunding bonds issued	-	(28,193,417)	-	-	-
Bonds issued	10,329,145	25,067,540	-	-	68,045,000
Premium on bonds issued	720,544	3,473,999	-	-	3,279,770
Payments to refunded bonds escrow agent	-	-	-	-	-
Long-term notes payable issued	-	-	-	-	-
Issuance of capital lease	-	-	459,880	-	231,013
Sale of capital assets	<u>32,457</u>	<u>77,936</u>	<u>11,378</u>	<u>19,824</u>	<u>1,281,329</u>
<b>Total other financing sources (uses)</b>	<b><u>11,688,318</u></b>	<b><u>\$1,061,215</u></b>	<b><u>\$1,101,258</u></b>	<b><u>\$1,088,817</u></b>	<b><u>\$71,114,208</u></b>
Net change in fund balance	<u>\$14,242,653</u>	<u>\$(4,168,564)</u>	<u>\$7,300,418</u>	<u>\$5,043,270</u>	<u>\$81,544,510</u>
<b>Fund Balance at beginning of year, as restated</b>	<b><u>\$37,060,057</u></b>	<b><u>\$52,629,245</u></b>	<b><u>\$48,460,681</u></b>	<b><u>\$55,761,099</u></b>	<b><u>\$60,804,369</u></b>
<b>Fund Balance at end of year</b>	<b><u>\$51,302,710</u></b>	<b><u>\$48,460,681</u></b>	<b><u>\$55,761,099</u></b>	<b><u>\$60,804,369</u></b>	<b><u>\$141,022,344</u></b>

## Revenues Discussion

Ad valorem taxes are levied by the City on the assessed value of real property located within the City as of July 1 and on tangible personal property located within the City as of January 1. Real property taxes are the largest source of revenues. Tax rates are applied to the assessed valuation of property.

Real property is assessed at 100% of fair market value as required by state law. The ratio of assessed value of personal property to its fair market value is generally 90%, except that the assessment basis for business and rental property is original cost depreciated on the basis of economic depreciation. Machinery and tools are assessed at approximately 90% of fair market value, vehicles and boats are assessed at 90% of fair market value and mobile homes are assessed on the same basis as real property.

The City is authorized to levy real and personal property taxes without limitation as to rate or amount. A public hearing is required by state law before tax revenue may be increased either by an increase in the tax levy or when it is anticipated that tax revenue may be increased by more than 1% as a result of a general assessment. Tax rates are established by the City Council concurrent with the adoption of the budget for each fiscal year. Real estate taxes are levied on July 1 each year and are payable during the fiscal year of assessment in two equal installments, on December 5th and June 5th. Personal property, machinery and tools and mobile home taxes are levied on January 1 of each year and are payable on June 5th and December 5th of the calendar year assessed. The tax rates in effect for the first billing of FY 2024, for each \$100 of assessed value were \$0.89 for real property, \$0.80 for machinery and tools, and \$0.80 for mobile homes, and \$3.40 for all classes of personal property.

Charges are levied on real estate owned by University Mary Washington that is used for faculty housing. The service charges cannot exceed the real estate tax rate and are payable in one installment annually.

The tax rates in effect for FY 2023, for each \$100 of assessed value are \$0.86 for real property, \$3.40 for personal property with the exception of motor vehicles which have received a temporary adjusted rate of \$2.95, \$0.80 for machinery and tools, and \$0.80 for mobile homes.

In the event any installment of taxes on real property is not paid on or before the due date a penalty of 10% of the amount due or \$2.00, whichever is greater, will be added to the installment. The unpaid installment shall bear interest at the rate of 10%. Unpaid annual personal property taxes are subject to the same dollar amount and interest rate penalties.

Revenues for the general government functions (accounted for in the governmental fund types including component units) totaled \$138,594,287 in FY 2023, an increase of 16.6% over fiscal year 2022. General property taxes produced 37.92% of the total revenue for governmental fund types. The large increase in revenue is primarily attributable to intergovernmental revenues, investment earnings, increased consumption based tax revenue and property tax revenue. The amounts of revenue from various sources and the respective increases and decreases are reflected in the following table:

### Revenues for General Government Functions

	<u>FY 2023</u>	<u>FY 2022</u>	<u>Percentage of Total Revenues FY 2023</u>	<u>Increase (Decrease) from FY 2022</u>
General property taxes	\$52,552,470	\$50,737,977	37.92%	\$1,814,493
Other local taxes	46,625,338	44,952,568	33.64	1,672,770
Licenses and permits	882,608	918,778	0.64	(36,170)
Fines and forfeitures	487,441	405,155	0.35	82,286
Use of money and property	5,090,454	-483,148	3.67	5,573,602
Charges for services	3,322,573	2,980,037	2.40	342,536
Miscellaneous	892,800	637,430	.64	255,370
Recovered costs	857,625	972,949	.62	(115,324)
Intergovernmental	<u>27,882,978</u>	<u>\$17,696,432</u>	<u>20.12</u>	<u>10,186,546</u>
<b>Totals</b>	<u><u>\$138,594,287</u></u>	<u><u>\$118,818,178</u></u>	<u><u>100.00%</u></u>	<u><u>\$19,776,109</u></u>

#### Expenditures Discussion

Expenditures for governmental funds in FY 2023 totaled \$128,163,985 an increase of \$13,300,260 from the preceding year. The most significant change occurred in capital projects, public safety, and debt service. Public Safety expenditures increased due to personnel and operating capital costs. Debt service saw an increase due to the first payment being made on the City's series 2022A general obligation bond issuance. Capital projects saw an increase due to multiple locally funded projects along with the new middle school project.

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Changes in the levels of expenditures for general governmental functions of the City over the preceding year are shown in the following table:

**Expenditures for General Government Functions**

	<u>FY 2023</u>	<u>FY 2022</u>	<u>Percentage of Total Expenditures FY 2023</u>	<u>Increase (Decrease) from FY 2022</u>
General administration	\$9,854,433	\$8,774,467	7.69%	\$1,079,966
Judicial administration	6,195,286	5,541,449	4.83	653,837
Public safety	29,563,615	27,070,833	23.07	2,492,782
Public works	9,937,154	9,846,733	7.75	80,421
Health and welfare	10,256,352	9,699,067	8.00	557,285
Education	30,234,291	31,500,557	23.59	(1,266,266)
Parks, recreation, and cultural	5,370,278	4,865,580	4.19	504,698
Community development	3,721,318	2,958,489	2.90	762,829
Nondepartmental	150,000	200,000	0.12	(50,000)
Capital projects	11,779,131	5,904,667	9.19	5,874,464
Debt service	11,102,127	8,491,883	8.66	2,610,244
<b>Totals</b>	<u>\$128,163,985</u>	<u>\$114,863,725</u>	<u>100%</u>	<u>\$13,300,260</u>

**Preliminary Unaudited Results for Fiscal Year 2024**

The unaudited results of fiscal year 2024 are positive with the General Fund continuing to reflect strong revenue collections. After property taxes, the City’s most significant sources of revenue are dependent on consumption expenditures. The consumption driven revenue sources have continued to remain resilient over the last year. At the end of FY 2024 the City saw an increase of 3.00% in Meals Tax collections in comparison to the prior fiscal year and an increase in Sales Tax of 3.55%. Another revenue source that has seen significant growth is interest income due to the favorable conditions in the market for invested funds.

The FY 2024 amended budget is \$123 million, with preliminary General Fund revenues at June 30, 2024 of \$119.9 million and budgeted use of fund balance at \$5.9 million– most of which is represented by the Fund Balance Assigned to Capital that was transferred for one-time capital projects. The preliminary General Fund expenditures at June 30, 2024 are \$118.9 million not including \$379,000 of encumbrances that will be carried forward into FY 2025. The preliminary positive variance at the close of FY 2024 will allow for additional assignments including the implementation of the updated Fund Balance Policy that City Council adopted in August 2024.

The chart below shows some of the major revenue sources for the City including unaudited FY 2024 results:

<u>Revenue</u>	<u>FY 2024</u>	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>
Real Estate Taxes	\$ 40,601,701	\$ 38,554,004	\$ 36,891,772	\$ 33,886,235
Personal Property Taxes	\$ 12,311,891	\$ 11,319,213	\$ 11,026,850	\$ 9,331,468
Local Sales and Use Taxes	\$ 16,342,562	\$ 15,781,634	\$ 15,569,291	\$ 13,842,064
Business License Taxes	\$ 8,102,017	\$ 8,283,896	\$ 7,810,020	\$ 6,914,851
Hotel Lodging Taxes	\$ 2,675,169	\$ 1,746,141	\$ 1,661,182	\$ 1,183,455
Meals Taxes	\$ 15,542,416	\$ 15,081,582	\$ 13,849,223	\$ 11,199,108

## Budget for Fiscal Year 2025

The City presented the recommended budget for FY 2025 to City Council on March 12, 2024, with a total General Fund budget of \$126.7 million. Within this recommendation, City management took action in a wide variety of areas to ensure that the City of Fredericksburg maintains its strong foundation moving forward. Highlights from this recommendation include a \$32.4 million transfer to Fredericksburg City Public Schools, a 2.5% across the board pay scale adjustment and an additional 2.5% for staff, and \$4.0 million transfer to fund City capital projects.

After the initial recommendation, there were proposals made by both City staff and City Council to ensure the FY 2025 budget captured all potential expenses and revenues. Items of note included: transferring an additional \$800,000 to the City Schools, funding an additional police officer to start mid-year, upgrading a part-time position in Parks and Recreation, additional fundings to hire an Assistant City Attorney to start mid-year, and additional grant funding. On May 28<sup>th</sup>, 2024, City Council adopted the FY 2025 Capital Budget in the amount of \$58.1 million and the General Fund Operating Budget in the amount of \$127.9 million.

## Tax Data

Real estate is assessed at 100% of fair market value. The City uses a four-year reassessment cycle. The next reassessment will be effective January 1, 2025. The following data are presented to illustrate the trends and characteristics of the assessed value of taxable property in the City, property tax rates, tax collection experience and the ten largest City taxpayers.

### Assessed Value of Taxable Property

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service	Service Charge Property	Total
2019	4,033,008,800	341,306,676	14,446,339	114,503,940	3,541,360	4,506,807,115
2020	4,099,237,700	379,124,411	12,787,003	108,951,829	3,541,360	4,603,642,303
2021	4,543,901,400	470,179,053	45,050,585	111,975,248	3,541,360	5,174,647,646
2022	4,597,867,200	570,143,398	19,494,298	112,875,355	4,393,460	5,304,773,711
2023	4,703,973,200	483,905,786	13,059,539	105,520,469	4,393,500	5,310,852,494

### Property Tax Rates Per \$100 Assessment

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools
2019	0.80	3.40	0.80	0.80
2020	0.80	3.40	0.85	0.80
2021	0.80	3.40	0.85	0.80
2022	0.83	3.40	0.85	0.80
2023	0.86	3.40	0.85	0.80

### Property Tax Levies and Collections

<u>Fiscal Year</u>	<u>Fiscal Year (1)</u>	<u>Collected in Fiscal Year (1) (3)</u>	<u>Percentage of Levy (2)</u>	<u>Collected in Subsequent Years (1) (3)</u>	<u>Amount (1) (3)</u>	<u>Percentage of Levy (2)</u>
2019	44,388,011	43,258,568	97.46%	942,054	44,200,622	99.58%
2020	47,636,098	44,988,894	94.44%	2,3853,128	47,342,022	99.38%
2021	49,246,840	46,879,283	95.19%	2,094,696	48,973,979	99.45%
2022	53,741,100	50,808,057	95.54%	2,211,734	53,019,791	98.66%
2023	52,588,061	50,699,850	96.41%	-	50,699,850	96.41%

(1) Exclusive of penalties and interest.

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

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

The following data show the assessed value of the real property of the ten largest taxpayers in the City as of June 30, 2023. The aggregate assessed value of real property owned by these ten taxpayers totals approximately 11.05% percent of the total assessed value of real property in the City.

#### **Ten Largest Taxpayers**

<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessment</u>	<u>Percentage of Total Assessed</u>
Collection at Celebrate Virginia	Apartment complex	\$ 72,151,100	1.57%
Central Park Retail LLC	Retail	\$ 66,340,300	1.44%
The Apartments at Cobblestone	New home sales	\$ 61,649,500	1.34%
Goldelm at Belmont LLC	Apartment complex	\$ 48,609,400	1.06%
Virginia Electric & Power Co	Public Utility	\$ 48,527,600	1.05%
Mid-America Apartments LP	Apartment complex	\$ 48,304,400	1.05%
Mid-America Apts. LP Seasons at Cel. VA.	Apartment complex	\$ 44,639,400	0.97%
Jubilation At Celebrate Virginia South	Apartment complex	\$ 43,841,800	0.95%
Medicorp Properties, Inc.	Hospitals, office buildings, surgical center	\$ 43,346,300	0.94%
SREIT Riverside Fredericksburg LLC	Apartment complex	\$ 31,288,600	0.68%
		\$ 508,698,400	11.05%

#### **Debt Administration and Limitations**

The Constitution of Virginia authorizes cities to issue bonds secured by a pledge of their full faith and credit, subject to a limitation of 10% of the assessed valuation of taxable real estate in the City as shown by the last preceding assessment for taxes. Excluded from the debt limit are, among others, certain short-term obligations issued in anticipation of the collection of revenues maturing in one year or less, referendum-approved general obligation bonds payable from a specified revenue producing undertaking for as long as the undertaking is self-supporting, and obligations payable solely from revenues of a specific

undertaking. The City prior to August 27, 2024 had a self-imposed policy debt limitation for General Fund supported debt of 4.8% of total assessed value of taxable real estate. City Council approved a revised policy in August 2024 that is 5.0% of taxable assessed value and also added a 15.0% limit for General Fund supported annual debt service as a percentage of General Fund revenues.

As of June 30, 2023, the legal debt margin and policy debt limitation under the old policy for General Fund supported debt of 4.8% of total assessed value of taxable real estate of the City was as follows:

<b><u>Legal Debt Margin</u></b>	<b>June 30, 2023</b>
Total Assessed Value of Real Estate	\$ 6,237,785,769
Legal Debt Limit (10%)	\$ 623,778,577
Less: Amount of Debt Applicable to Debt Limit	\$ <u>165,250,762</u>
Legal Margin for Creation of Additional Debt	\$ <u><u>458,527,815</u></u>
<b><u>Policy Debt Margin</u></b>	<b>June 30, 2023</b>
Total Assessed Value of Real Estate	\$ 6,237,785,769
Policy Debt Limit (4.8%)	\$ 299,413,717
Less: Amount of Debt Applicable to Debt Limit	\$ <u>165,250,762</u>
Policy Margin for Creation of Additional Debt	\$ <u><u>131,162,955</u></u>

The FY24 preliminary estimate of the policy debt limitation for General Fund supported debt of 5.0% of taxable assessed value of real estate and 15.0% limit for General Fund supported annual debt service under the new policies adopted in August 2024 are as follows:

<b><u>Policy Debt Margin</u></b>	<b>June 30, 2024</b>
Total Assessed Value of Taxable Real Estate	\$ 6,065,367,600
Policy Debt Limit (5%)	\$ 303,268,380
Less: Amount of Debt Applicable to Debt Limit	\$ <u>155,878,291</u>
Policy Margin for Creation of Additional Debt	\$ <u><u>147,390,089</u></u>
FY 2025 Adopted Budget General Fund Revenues	\$ 127,913,709
FY 2025 Transfer to Debt Service	\$ 11,775,514
Policy Limit	\$ <u>19,187,056</u>
Policy Margin for Annual Debt Service on Additional Debt	\$ <u><u>7,411,542</u></u>

The City had \$275,000 of solid waste revenue bonds outstanding at June 30, 2023 secured solely by revenues and not subject to the legal or policy debt limit. All other bonds issued by the City are general obligations of the City secured by a pledge of its full faith and credit for the payment of the principal of and the interest on such bonds. However, bonds issued for water and wastewater system capital improvements are self-supporting and paid from system revenues. The following table shows the City's net general obligation debt as of June 30, 2023

<b>General Obligation Debt</b>	<b>June 30, 2023</b>
General Obligation Debt	\$157,664,370
Less: Self-Supporting Indebtedness	
Water Enterprise Fund	\$11,227,988
Wastewater Enterprise Fund	\$12,787,311
Parking Enterprise Fund	<u>\$863,840</u>
Net General Obligation Indebtedness	<u>\$132,785,231</u>

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## Bond Amortization Schedules

Total principal and interest payments required to retire general obligation bonded indebtedness of the City outstanding are shown below, before the issuance of the Bonds and after the issuance of the Bonds.

<b>Year Ending 30-Jun</b>	<b><u>Prior to Issuance of the Bonds</u>* (1)(2)</b>			<b><u>After Issuance of the Bonds</u></b>		
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Requirements</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Requirements</u></b>
2024	\$ 9,372,471	\$6,347,282	\$15,719,753			
2025	9,790,386	5,929,248	15,719,634			
2026	10,217,869	5,495,839	15,713,708			
2027	9,689,263	5,060,681	14,749,944			
2028	10,120,170	4,627,231	14,747,401			
2029	9,736,170	4,193,152	13,929,322			
2030	10,143,041	3,751,716	13,894,757			
2031	6,750,000	3,373,366	10,123,366			
2032	7,050,000	3,065,724	10,115,724			
2033	7,380,000	2,750,200	10,130,200			
2034	6,480,000	2,475,971	8,955,971			
2035	6,580,000	2,241,260	8,821,260			
2036	6,110,000	1,998,275	8,108,275			
2037	6,340,000	1,760,697	8,100,697			
2038	5,730,000	1,544,016	7,274,016			
2039	3,890,000	1,356,705	5,246,705			
2040	3,035,000	1,235,938	4,270,938			
2041	3,165,000	1,111,938	4,276,938			
2042	3,290,000	982,838	4,272,838			
2043	3,425,000	848,538	4,273,538			
2044	3,570,000	708,638	4,278,638			
2045	3,715,000	562,938	4,277,938			
2046	3,870,000	411,238	4,281,238			
2047	4,025,000	253,338	4,278,338			
2048	4,190,000	86,419	4,276,419			
2049						
2050						
<b>Total</b>	<b>\$157,664,370</b>	<b>\$62,173,174</b>	<b>\$219,837,544</b>			

<sup>(1)</sup> As of June 30, 2023

<sup>(2)</sup> Excludes self-supporting general obligation bonds and revenue bonds payable from the Enterprise Funds.

\* Totals may not add up due to rounding

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## Key Debt Ratios

<u>Fiscal Year</u>	<u>Gross Bonded Debt (1)</u>	<u>Less: Amounts Reserved for Debt Service</u>	<u>Net Bonded Debt<sup>1</sup></u>	<u>Ratio of Net GO Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
2019	114,603,926	-	114,603,926	2.54%	3,932
2020	106,908,009	-	106,908,009	2.32%	3,747
2021	100,916,423	-	100,916,423	1.95%	3,541
2022	94,610,853	-	94,610,853	1.78%	3,428
2023	165,708,465	-	165,708,465	3.12%	5,989

*Note: As of June 30, 2023*

*(1) Excludes revenue bonds, capital leases, compensated absences, landfill post-closure costs, net OPEB liability, and net pension liability. Includes unamortized bond premium.*

## Capital Improvements Plan

As part of the budget process, the City adopts an annual capital budget that includes capital improvements for education, public works, public facilities, public safety, and courts as well as improvements to the water and wastewater systems. The CIP includes an additional four years of projects and references certain projects beyond that time frame. The CIP reflects the substantial investment that is required to maintain and improve core public infrastructure, and to advance stated City Council priorities. Each year the CIP is reviewed and updated as new projects are identified and existing projects, cost estimates, and operating impacts are updated. The source of funding may also be updated. The City is actively pursuing state and federal grants for transportation improvements and anticipates less reliance on debt to fund the CIP.

The following table shows the City’s Adopted FY 2025 - FY 2027 CIP. The FY 2025 CIP was appropriated as part of the FY 2025 budget process. Future years do not represent appropriations or commitments for funding projects. “Local” funding represents a combination of current revenues and balances available for capital expenditures.

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<b>Capital Improvement Plan</b>	<b><u>FY2025</u></b>	<b><u>FY2026</u></b>	<b><u>FY2027</u></b>	<b><u>FY2028</u></b>	<b><u>FY2029</u></b>	<b><u>Total</u></b>
<b><u>General Government Projects</u></b>						
Schools	\$1,250,000	\$1,564,226	\$2,950,000	\$2,250,000	\$15,878,388	\$23,892,614
Public Works	1,765,000	2,480,000	2,625,000	5,555,000	2,275,000	14,700,000
Public Facilities	2,908,641	6,320,626	8,652,100	3,690,000	4,300,000	25,871,367
Public Safety	4,146,936	1,360,684	23,364,020	3,509,387	1,509,387	33,890,414
Transit Capital Fund	3,540,000	-	-	-	-	3,540,000
Courts	502,600	421,600	421,600	1,021,600	346,600	2,714,000
<b>TOTAL</b>	<b>\$14,113,177</b>	<b>\$12,147,136</b>	<b>\$38,012,720</b>	<b>\$16,025,987</b>	<b>\$24,309,375</b>	<b>\$104,608,395</b>

<b><u>General Government Funding</u></b>						
Local	\$7,648,177	\$12,147,136	\$14,712,720	\$5,735,987	\$8,680,987	\$48,925,007
State & Federal	3,865,000	-	-	5,390,000	-	9,255,000
Debt	2,600,000	-	23,300,000	4,900,000	15,628,388	46,428,388
<b>TOTAL</b>	<b>\$14,133,177</b>	<b>\$12,147,136</b>	<b>\$38,012,720</b>	<b>\$16,025,987</b>	<b>\$24,309,375</b>	<b>\$104,608,395</b>

<b><u>Enterprise Fund Projects</u></b>						
Water System	\$24,852,022	\$1,750,000	\$1,850,000	\$750,000	\$750,000	\$29,952,022
Wastewater System	19,092,607	1,325,000	25,475,000	1,225,000	7,725,000	54,842,607
<b>TOTAL</b>	<b>\$43,944,629</b>	<b>\$3,075,000</b>	<b>\$27,325,000</b>	<b>\$1,975,000</b>	<b>\$8,475,000</b>	<b>\$84,794,629</b>

<b><u>Enterprise Fund Project Funding</u></b>						
State & Federal	\$15,632,107	-	-	-	-	\$15,632,107
System Reserves/Local	517,500	870,000	-	-	-	1,387,500
System Revenues	2,360,500	2,205,000	1,975,000	1,975,000	1,975,000	10,490,500
Debt	25,434,522	-	25,350,000	-	6,500,000	57,284,522
<b>TOTAL</b>	<b>\$43,944,629</b>	<b>\$3,075,000</b>	<b>\$27,325,000</b>	<b>\$1,975,000</b>	<b>\$8,475,000</b>	<b>\$84,794,629</b>

### **Employee Benefits**

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

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

The Virginia Retirement System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these different benefit structures has different eligibility



criteria. The specific information for each plan and the eligibility for covered groups within each plan are detailed in Note 12 of Appendix A.

The VRS 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 from the VRS Web site at <http://www.varetire.org> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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

The City's contractually required employer contribution rate for the year ended June 30, 2023 was 16.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$4,681,859 and \$3,831,873 for the years ended June 30, 2023 and June 30, 2022, respectively.

Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$4,621,451 and \$4,238,212 for the years ended June 30, 2023 and June 30, 2022, respectively.

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2023 was 3.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$56,753 and \$42,139 for the years ended June 30, 2021 and June 30, 2020, respectively.

See Note 12 in Appendix A for further information on the City's participation in the VRS defined benefit pension plan.

*Post-Employment Benefits Other Than Pensions (OPEB).* The Governmental Accounting Standards Board (GASB) adopted Statement #45 entitled "Accounting and Financial Reporting by Employers for Post-Retirement Benefits other than Pensions" that requires localities to recognize the post-retirement benefits other than pensions (such as healthcare and related costs) that localities provide their retired employees. The City and the City School Board have implemented GASB Statement #45 and incorporate such information into their financial statements.

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Individuals employed before July 1, 1996, and who retire from City service with full VRS benefits (*i.e.*, 50 years of age and 30 years of continuous service) and complete 10 years of service at the City will receive 100% of their health insurance premium until age 65 when they become eligible for Medicare, at which time the City will provide 100% supplemental insurance benefits. Individuals employed on or after July 1, 1996, and who retire from City service with full VRS benefits (*i.e.*, 50 years of age and 30 years of continuous service) and complete 15 years of service at the City, will receive \$1.50 per month per year of service (up to a maximum of 30 years of service) towards the individual's cost of coverage. Disabled individuals must complete five years of service and be eligible for both VRS and Social Security disability to be eligible for these benefits.

Effective January 1, 2022, the City offers employees in qualified public safety positions hired after July 1, 1996 will receive a credit of \$650 per month upon unreduced retirement with the City. Once Medicare eligible the retired employees will receive a credit of \$150 per month. To receive this benefit, employees must have served a total of fifteen years with the City of Fredericksburg in a qualified public safety position with the last five being consecutive.

In FY 2016 the City joined a Trust for OPEB Benefits that is administered by VML / VaCO Finance, and determines on an annual basis an appropriate level of contribution to the Trust to grow the Trust balance and offset future liabilities. During FY 2024, the City contributed \$75,000 to the OPEB Trust. As of the most recent ACFR, FY 2023, the funded status of the plan as of June 30, 2023 is an actuarial accrued liability of \$17,861,542. The City Plan's fiduciary net position is \$2,475,104, and the City's net OPEB liability is \$15,386,438.

The City school system does not participate in the City retirement plan. Employees of the school system participate in a plan administered by the City School Board, and under certain conditions may be entitled to benefits under the VRS plan and may be eligible for post-retirement healthcare benefits.

The City School Board provides post-retirement health care insurance benefits for employees who are eligible. The plan is administered by the School Board. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 50, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan.

See note 19, 20, 21 and 22 in Appendix A for further information on the City's participation in Post-Employment Benefits Other Than Pensions (OPEB).

### **Employee Collective Bargaining**

The Commonwealth of Virginia adopted legislation authorizing collective bargaining by public employees, effective May 1, 2021. The legislation is permissive and does not require local governments to allow collective bargaining. In addition, the legislation does not set forth the collective bargaining framework. The governing board of a local government can by resolution or ordinance allow collective bargaining. If collective bargaining is authorized then a local ordinance is required setting for the rules of collective bargaining including but not limited to number of bargaining units, topics subject to collective bargaining, certification and decertification of exclusive bargaining representatives, and local government rights. An ordinance permitting collective bargaining cannot include provisions that restrict City Council's authority to establish a budget and appropriate funds. No formal request for collective bargaining has been submitted to the City Council, nor has the City taken in independent action regarding collective bargaining. Regardless of whether the City Council adopts an ordinance or resolution permitting collective bargaining, under Virginia Law, public employees of Virginia or of any county, city, or town in Virginia do not have a legal right to strike. Any such employee who engages in any organized strike or willfully refuses to perform

his/her duties shall, according to Virginia law, be deemed to have terminated his/her employment. Thereafter such employee would be ineligible for employment in any position or capacity during the next 12 months.

## **SECTION FIVE: MISCELLANEOUS**

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reasonable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. Any statements in this Official Statement involving matters of opinion, regardless of whether expressly so stated, are intended merely as such and not representations of fact. The financial statements of the City as of June 30, 2023, and for the fiscal year then ended, of the City in **Appendix A** have been audited to the extent set forth in the report of Robinson, Farmer, Cox Associates, independent certified public accountants, included therein and are included in this Official Statement in reliance on such report.

### **Litigation**

The City is not currently involved in litigation of any kind that would restrain or enjoin the issuance or delivery of the Bonds or that would question in any manner the proceedings or authority under which the Bonds are issued or that would affect the ability of the City to levy or collect ad valorem taxes for payment of the Bonds.

During the normal course of business, the City and its employees have been named in various other claims which are being defended by the City. It is the opinion of the City Attorney that any possible losses in connection with such litigation will not have a material adverse effect on the City's financial condition.

### **Certificates of City Officials**

Concurrently with the delivery of the Bonds the appropriate City officials will furnish (1) a certificate dated the date of delivery of the Bonds, stating that no litigation is then pending or, to their knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds or the levy or collection of taxes to pay principal or interest thereon or in any manner questioning the proceedings and authority under which the Bonds are issued and (2) a certificate dated the date of delivery of the Bonds, stating that the descriptions and statements in this Official Statement (except under the caption "Litigation") on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects, did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such descriptions and statements, in the light of the circumstances under which they were made, not misleading, and that no material adverse change has occurred in the financial condition of the City between the date of this Official Statement and date of delivery of the Bonds other than as contemplated in this Official Statement. Such certificate will also state, however, that such City officials did not independently verify the information indicated in this Official Statement as having been obtained or derived from sources other than the City and its officers but that they have no reason to believe that such information is not accurate.

The City Attorney will furnish concurrently with the delivery of the Bonds a certificate dated the date of delivery of the Bonds, stating that the statements under the caption entitled "Litigation" on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects and did not and do not contain any untrue statement of a material fact or omit to state therein or necessary to make such statements, in the light of the circumstances under which they were made, not misleading.

## **Sale at Competitive Bidding**

The Bonds will be offered for sale at competitive bidding on October 22, 2024, pursuant to the Notice of Sale attached as **Appendix E** hereto. After the Bonds have been awarded, the City will issue an Official Statement in final form. The City will deem the Official Statement in final form as of its date, and the Official Statement in final form will be a “Final Official Statement” within the meaning of the Rule. The Official Statement in final form will include, among other matters, the identity of the winning bidder, the expected selling compensation to such underwriters and other information on the interest rates and offering prices or yields of Bonds, all as supplied by the successful bidder.

## **Continuing Disclosure**

The City will execute and deliver to the purchasers of Bonds a Continuing Disclosure Agreement, the form of which is set forth as **Appendix B** hereto, pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with Rule 15c2-12 of the Securities and Exchange Commission to provide: annual financial information and operating data for the City, including audited financial statement of the City for each fiscal year, beginning with the fiscal year ending on June 30, 2023; in a timely manner, notices of certain events provided for in Rule 15c2-12 as described in the Agreement. The notices of certain events referred to above will be provided to the Municipal Securities Rulemaking Board electronically via its EMMA system, as described in the Agreement.

The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds.

## **Financial Advisor**

PFM Financial Advisors LLC, Arlington, Virginia, is the City’s financial advisor (the “Financial Advisor”) in connection with the issuance of the Bonds. In assisting in the preparation of the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with the accounting standards.

## **Summaries and Descriptions**

All summaries or descriptions of the provisions of the Bonds set forth in this Preliminary Official Statement, and all other references in this Preliminary Official Statement to other documents not purported to be quoted in full, are made subject to all detailed provisions thereof, to which reference is hereby made for further information. Such summaries or descriptions are only brief outlines of certain, of the provisions of such documents and materials, and do not purport to summarize or describe all of the provisions thereof.

This City has deemed this Preliminary Official Statement final as of its date within the meaning of Rule 15c2-12 of the federal Securities and Exchange Commission, except for the omission of certain pricing information permitted to be omitted pursuant to the Rule.

The distribution of this Preliminary Official Statement has been duly authorized by the City Council.

**CITY OF FREDERICKSBURG, VIRGINIA**

By: \_\_\_\_\_  
*City Manager*

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**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS**



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**Independent Auditors' Report**

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

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fredericksburg, Virginia, as of and for the year ended June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Fredericksburg, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Fredericksburg, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Fredericksburg, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Fredericksburg, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fredericksburg, Virginia's basic financial statements. The accompanying other supplementary information and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023, on our consideration of City of Fredericksburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of City of Fredericksburg, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fredericksburg, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*  
Fredericksburg, Virginia  
December 11, 2023

## 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, 2023. 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 7-14 of this report.

### Financial Highlights

- Total net position for governmental activities was \$145,837,513 at the end of fiscal year 2023. This figure is based on assets and deferred outflows of resources totaling \$379,359,250 and liabilities and deferred inflows of resources of \$233,521,737.
- Total net position for business-type activities was \$89,651,542 at the end of fiscal year 2023. The largest portion of this total is related to the water, sewer, and transit enterprise operations valued at \$28,870,782; \$32,210,144; and \$23,229,571, respectively.
- Total net position for the primary government was \$235,489,055 at the end of fiscal year 2023. Current assets were \$224,064,744 as compared to total current and other liabilities of \$ 39,274,414. The resulting net working capital of \$184,790,330 represents a favorable liquidity position for the City.
- The City has an established Financial Management Policy that specifies a targeted goal of maintaining an unassigned General Fund balance of 12.0% of the actual General Fund revenues for the preceding fiscal year. The fiscal year 2023 unassigned General Fund balance was 20.02% of the fiscal year 2022 General Fund revenue total of \$108,350,346.
- General Fund revenues increased \$6,457,437, or 5.96%, as compared to the preceding fiscal year.
- General Fund expenditures increased \$2,728,980 or 3.03% as compared to fiscal year 2022.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving

## Overview of the Financial Statements: (Continued)

rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

The government-wide financial statements can be found on pages 37-39 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 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, COVID-19 Relief Fund, and the Public Works Capital Fund, which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 41-44 of this report.

## Overview of the Financial Statements: (Continued)

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

healthcare activities. These services have been included within *governmental activities* in the government-wide financial statements as they predominantly benefit governmental rather than business-type activities.

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

The proprietary funds' financial statements can be found on pages 45-47 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 48 and 49 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 51-142 of this report.

## Government-wide Financial Analysis

### Statement of Net Position:

Under GASB 34, governmental entities are required to report on their net position. The Statement of Net Position presents the value of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of changes in a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$235,489,055 at the close of fiscal year 2023.

A large portion of the City's net position, \$156,040,149, or 66.26%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are generally not sold or otherwise disposed of during their useful lives. The \$77,251,301 balance of *unrestricted net position* is a combination of both governmental activities and business-type activities and may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Government-wide Financial Analysis: (Continued)**

**Statement of Net Position: (Continued)**

The following table presents the condensed Statement of Net Position:

**TABLE 1**  
**Summary of Net Position**  
**As of June 30, 2023**  
**(in millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>Component Units (1)</b>	
	<b>FY 23</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 22</b>
<b>Assets:</b>								
Current and other assets	\$ 172.48	\$ 86.29	\$ 51.58	\$ 42.12	\$ 224.06	\$ 128.41	\$ 14.75	\$ 20.69
Capital assets	199.14	198.36	7.30	68.33	206.44	266.69	36.45	32.89
<b>Total assets</b>	<b>\$ 371.62</b>	<b>\$ 284.65</b>	<b>\$ 58.88</b>	<b>\$ 110.45</b>	<b>\$ 430.50</b>	<b>\$ 395.10</b>	<b>\$ 51.20</b>	<b>\$ 53.58</b>
<b>Deferred Outflow of Resources:</b>								
Pension related items	\$ 6.34	\$ 7.00	\$ 0.86	\$ 0.96	\$ 7.20	\$ 7.96	\$ 8.52	\$ 8.18
OPEB related items	1.32	1.31	0.08	0.08	1.40	1.39	1.91	1.84
Deferred charge on refunding	0.08	0.11	0.20	0.25	0.28	0.36	-	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 7.74</b>	<b>\$ 8.42</b>	<b>\$ 1.14</b>	<b>\$ 1.29</b>	<b>\$ 8.88</b>	<b>\$ 9.71</b>	<b>\$ 10.43</b>	<b>\$ 10.02</b>
<b>Liabilities:</b>								
Current and other liabilities	\$ 18.46	\$ 15.08	\$ 5.96	\$ 4.28	\$ 24.42	\$ 19.36	\$ 4.81	\$ 6.48
Long-term liabilities	208.25	134.74	28.47	21.84	236.72	156.58	42.88	35.26
<b>Total Liabilities</b>	<b>\$ 226.71</b>	<b>\$ 149.82</b>	<b>\$ 34.43</b>	<b>\$ 26.12</b>	<b>\$ 261.14</b>	<b>\$ 175.94</b>	<b>\$ 47.69</b>	<b>\$ 41.74</b>
<b>Deferred Inflows of Resources:</b>								
Unavailable revenue - property taxes	\$ 0.58	\$ 0.74	\$ -	\$ -	\$ 0.58	\$ 0.74	\$ -	\$ -
Deferred gain on refunding	0.22	0.24	-	-	0.22	0.24	-	-
Pension related items	3.86	14.19	0.46	1.59	4.32	15.78	6.60	17.28
Lease related items	0.67	0.81	0.40	0.52	1.07	1.33	0.16	-
OPEB related items	1.49	2.37	0.09	0.14	1.58	2.51	1.83	2.30
<b>Total Deferred Inflows of Resources</b>	<b>\$ 6.82</b>	<b>\$ 18.35</b>	<b>\$ 0.95</b>	<b>\$ 2.25</b>	<b>\$ 7.77</b>	<b>\$ 20.60</b>	<b>\$ 8.59</b>	<b>\$ 19.58</b>
<b>Net position:</b>								
Net invested in capital assets	\$ 101.45	\$ 102.00	\$ 54.59	\$ 48.92	\$ 156.04	\$ 150.92	\$ 34.06	\$ 30.72
Restricted	2.20	0.60	-	-	2.20	0.60	0.68	1.09
Unrestricted	42.19	22.80	35.06	34.46	77.25	57.26	(29.34)	(29.53)
<b>Total net position</b>	<b>\$ 145.84</b>	<b>\$ 125.40</b>	<b>\$ 89.65</b>	<b>\$ 83.38</b>	<b>\$ 235.49</b>	<b>\$ 208.78</b>	<b>\$ 5.40</b>	<b>\$ 2.28</b>

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

**Changes in Net Position:**

**Governmental Activities**

Governmental activities net position experienced an increase of \$20,435,715. Governmental activities revenues were impacted by robust organic growth stemming from development within the City as well as continued growth in consumption based revenues and a more positive interest market for City investments, including interest earnings from 2022(A) G.O. Issuance. The largest source of impact was other local taxes that include: sales and use tax, meals tax, lodging tax, admissions tax, and business license tax. General property taxes had continued strong performance in fiscal year 2023. Revenues from general property taxes rose \$1,814,493 in response to growth in the City’s tax base and continued high collection rates.

## **Government-wide Financial Analysis: (Continued)**

Total governmental activities expenses experienced an increase of \$1,840,951 to a total expense amount of \$115,492,314. Of this amount, \$26,190,236, or 22.68%, was offset with program revenues consisting of \$5,043,536 in charges for services and \$21,146,700 for grants and contributions. The remaining funding for the City's expenses came from general property taxes, other local taxes, interest and investment earnings, and unrestricted grants from the state.

Education continues to be the City's largest program, with education expenses representing 27.83% of the total expenses for governmental activities in fiscal year 2023. The amount transferred from the City for School Board operations and capital improvements, to include joint tenancy asset transfers, totaled \$28,535,589.

### **Business-type Activities**

The positive growth in net position in the Sewer Fund of \$4,952,951 and Transit Fund of \$1,504,975 represent the most notable changes to the City's enterprise operations.

The revenues from availability and connection fees were \$455,200 in the Water Fund and \$732,440 in the Sewer Fund. This revenue helps to address the funding needed to replace aging water and sewer treatment and transmission facilities.

A rate study was conducted that provided recommendations on water and sewer rates over the next several years. The fiscal year 2023 budget included an eight percent increase in water and ten percent increase in sewer rates to help offset future capital and operating costs. Future rate increases are anticipated as a result of the study to assist with funding that will be needed for increasing operational costs as well as for significant capital projects planned for the future.

### **Component Units**

The School Board's net position increased \$2,912,764 for fiscal year 2023. Virginia Code §15.2-1800.1 states that local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one fiscal year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation. Over time, as principal payments are made, the local government's share of a capital asset is reduced and the school board's portion is increased. The City has a tenancy in common relationship with the School Board for the construction of two schools and the renovation of a school/administration building. Accordingly, each year the City records an asset transfer to the School Board equal to the principal payments made on the debt issued to acquire those assets, less any accumulated depreciation. In fiscal year 2023 the City's asset transfer to the School Board was \$2,765,000.

The overall surplus net position of \$3,737,240 is related to the School Board's net pension liability increasing to \$27,161,316 and net OPEB liability increasing to \$11,496,073 while the deferred inflow of resources related to pension related items decreased to \$6,559,200.

The net position of the Economic Development Authority increased \$204,495 as economic development grants and other expenses outpaced interest revenue, bond issuance fees, and transfers from the City.



## Component Units: (Continued)

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

**TABLE 2**  
**Changes in Net Position**  
**For the Fiscal Year ended June 30, 2023**  
**(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units (1)	
	FY 23	FY 22	FY 23	FY 22	FY 23	FY 22	FY 23	FY 22
<b>Revenues:</b>								
Program Revenues:								
Charges for services	\$ 5.05	\$ 4.51	\$ 12.57	\$ 11.32	\$ 17.62	\$ 15.83	\$ 0.30	\$ 0.24
Operating grants and contributions	18.84	13.73	5.94	6.87	24.78	20.60	37.58	32.69
Capital grants and contributions	2.32	0.55	1.79	0.37	4.11	0.92	-	-
General Revenues:								
Property taxes	54.39	50.55	-	-	54.39	50.55	-	-
Other local taxes	46.60	44.95	0.43	0.52	47.03	45.47	-	-
Grants and contributions not restricted	3.40	3.42	-	-	3.40	3.42	29.28	33.41
Use of property	0.14	-	-	-	0.14	-	-	-
Investment earnings	4.60	(0.69)	0.14	(0.18)	4.74	(0.87)	0.06	0.03
Gain(Loss) on Disposal of Capital Asset	1.24	-	-	-	1.24	-	-	-
Miscellaneous	0.76	1.27	0.43	0.45	1.19	1.72	1.38	0.72
<b>Total Revenues</b>	<b>\$ 137.34</b>	<b>\$ 118.29</b>	<b>\$ 21.30</b>	<b>\$ 19.35</b>	<b>\$ 158.64</b>	<b>\$ 137.64</b>	<b>\$ 68.60</b>	<b>\$ 67.09</b>
<b>Expenses:</b>								
General government	\$ 10.35	\$ 9.53	\$ -	\$ -	\$ 10.35	\$ 9.53	\$ -	\$ -
Judicial administration	6.91	6.61	-	-	6.91	6.61	-	-
Public safety	29.67	28.78	-	-	29.67	28.78	-	-
Public works	13.85	13.26	-	-	13.85	13.26	-	-
Health and welfare	9.98	9.58	-	-	9.98	9.58	-	-
Education	29.37	34.03	-	-	29.37	34.03	64.65	56.47
Parks, recreation, and cultural	6.19	5.43	-	-	6.19	5.43	-	-
Community development	4.56	3.71	-	-	4.56	3.71	0.81	0.38
Interest	4.60	2.72	-	-	4.60	2.72	0.02	-
Water	-	-	5.28	3.75	5.28	3.75	-	-
Sewer	-	-	5.58	6.85	5.58	6.85	-	-
Transit	-	-	5.11	5.36	5.11	5.36	-	-
Parking	-	-	0.48	0.45	0.48	0.45	-	-
<b>Total Expenses</b>	<b>\$ 115.48</b>	<b>\$ 113.65</b>	<b>\$ 16.45</b>	<b>\$ 16.41</b>	<b>\$ 131.93</b>	<b>\$ 130.06</b>	<b>\$ 65.48</b>	<b>\$ 56.85</b>
<b>Excess (deficiency) of revenues over expenses before transfers</b>	<b>\$ 21.86</b>	<b>\$ 4.64</b>	<b>\$ 4.85</b>	<b>\$ 2.94</b>	<b>\$ 26.71</b>	<b>\$ 7.58</b>	<b>\$ 3.12</b>	<b>\$ 10.24</b>
<b>Transfers</b>	<b>(1.42)</b>	<b>1.07</b>	<b>1.42</b>	<b>(1.07)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net position</b>	<b>\$ 20.44</b>	<b>\$ 5.71</b>	<b>\$ 6.27</b>	<b>\$ 1.87</b>	<b>\$ 26.71</b>	<b>\$ 7.58</b>	<b>\$ 3.12</b>	<b>\$ 10.24</b>
<b>Net Position, beginning of year, as restated</b>	<b>125.40</b>	<b>119.69</b>	<b>83.38</b>	<b>81.51</b>	<b>208.78</b>	<b>201.20</b>	<b>2.28</b>	<b>(7.96)</b>
<b>Net Position, end of year</b>	<b>\$ 145.84</b>	<b>\$ 125.40</b>	<b>\$ 89.65</b>	<b>\$ 83.38</b>	<b>\$ 235.49</b>	<b>\$ 208.78</b>	<b>\$ 5.40</b>	<b>\$ 2.28</b>

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

## Financial Analysis of the City's Governmental Funds

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

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

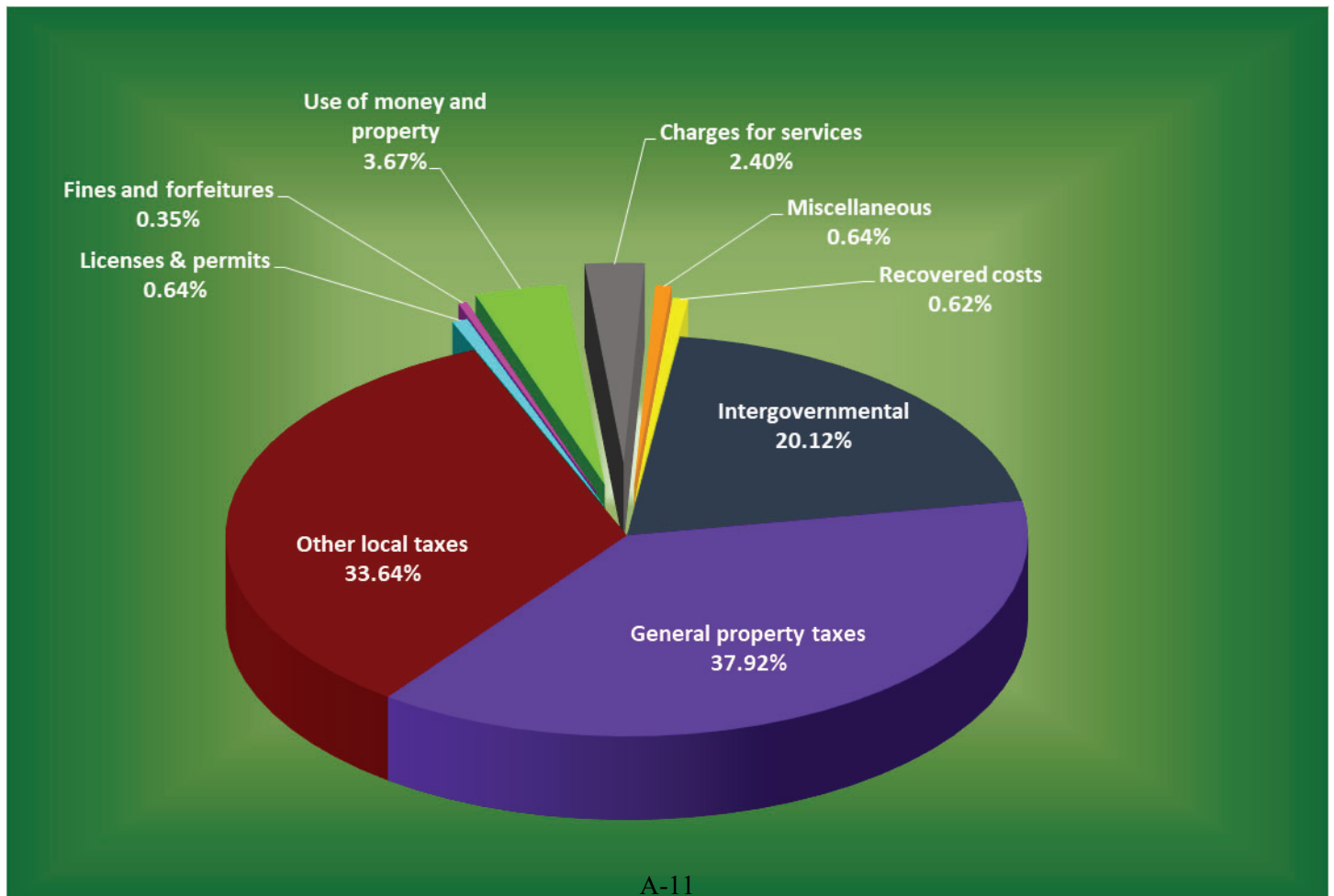
Revenues:

A summary of the general revenue sources for the governmental funds for fiscal years 2023 and 2022 is presented below:

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

			Percentage of Total Revenues FY 2023	Increase (Decrease) from FY 2022
	FY 2023	FY 2022	FY 2023	FY 2022
General property taxes	\$ 52,552,470	\$ 50,737,977	37.92%	\$ 1,814,493
Other local taxes	46,625,338	44,952,568	33.64%	1,672,770
Licenses and permits	882,608	918,778	0.64%	(36,170)
Fines and forfeitures	487,441	405,155	0.35%	82,286
Use of money and property	5,090,454	(483,148)	3.67%	5,573,602
Charges for services	3,322,573	2,980,037	2.40%	342,536
Miscellaneous	892,800	637,430	0.64%	255,370
Recovered costs	857,625	972,949	0.62%	(115,324)
Intergovernmental	27,882,978	17,696,432	20.12%	10,186,546
<b>Totals</b>	<b>\$ 138,594,287</b>	<b>\$ 118,818,178</b>	<b>100.00%</b>	<b>\$ 19,776,109</b>

**FY2023 GOVERNMENTAL FUNDS - REVENUES**



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

### Revenues: (Continued)

The City's total revenues in the governmental funds were \$138,594,287 in fiscal year 2023, an increase of \$19,779,109, or 16.6%, compared to fiscal year 2022. Much of the increase can be attributed to intergovernmental revenues, investment earnings, increased consumption based tax revenue, and property tax revenue. The City's real estate tax impacting the General Fund increased to \$38,554,004, which was \$1,647,138 more than the prior year total. Included within that total are real estate collections for prior tax years. Real estate tax revenue accounted for 33.6% of General Fund revenue for fiscal year 2023.

For fiscal years 2018 and 2019, \$0.01 of the tax rate of \$0.80 per \$100 valuation was been dedicated for operating and capital costs of the Stormwater Management Fund, which is a special revenue fund. In fiscal year 2021, this amount increased to \$0.02 of the tax rate of \$0.85 per \$100 valuation. The fiscal year 2020 rate continued for the first half of fiscal year 2021, with a mid-year assessment moving the tax rate back to \$0.80 but maintaining the \$0.02 Stormwater Management portion. The fiscal year 2023 rate was increased to \$0.86 and continued to maintain the \$0.02 Stormwater Management portion. The additional revenue will enhance the City's ability to manage stormwater runoff. Real estate revenue allocated to that fund totaled \$918,255 during the fiscal year.

Revenue from other local taxes increased by \$1,033,569 during the fiscal year. Continued organic growth within the City returned to pre-pandemic levels which still allowed these tax sources to continue to outpace the prior fiscal year. Sales tax revenue saw a slight increase and the total for the fiscal year was \$15,781,634. Sales tax revenue accounted for 13.8% of total General Fund revenues for fiscal year 2023.

Meals tax revenue, which accounted for 13.1% of General Fund revenues for the current fiscal year, totaled \$15,081,582 along with business license and rental tax accounting for 7.2% of general fund revenues totaling \$8,283,896 for the fiscal year.

The following table reflects other local tax revenue for the General Fund for fiscal years 2023 and 2022:

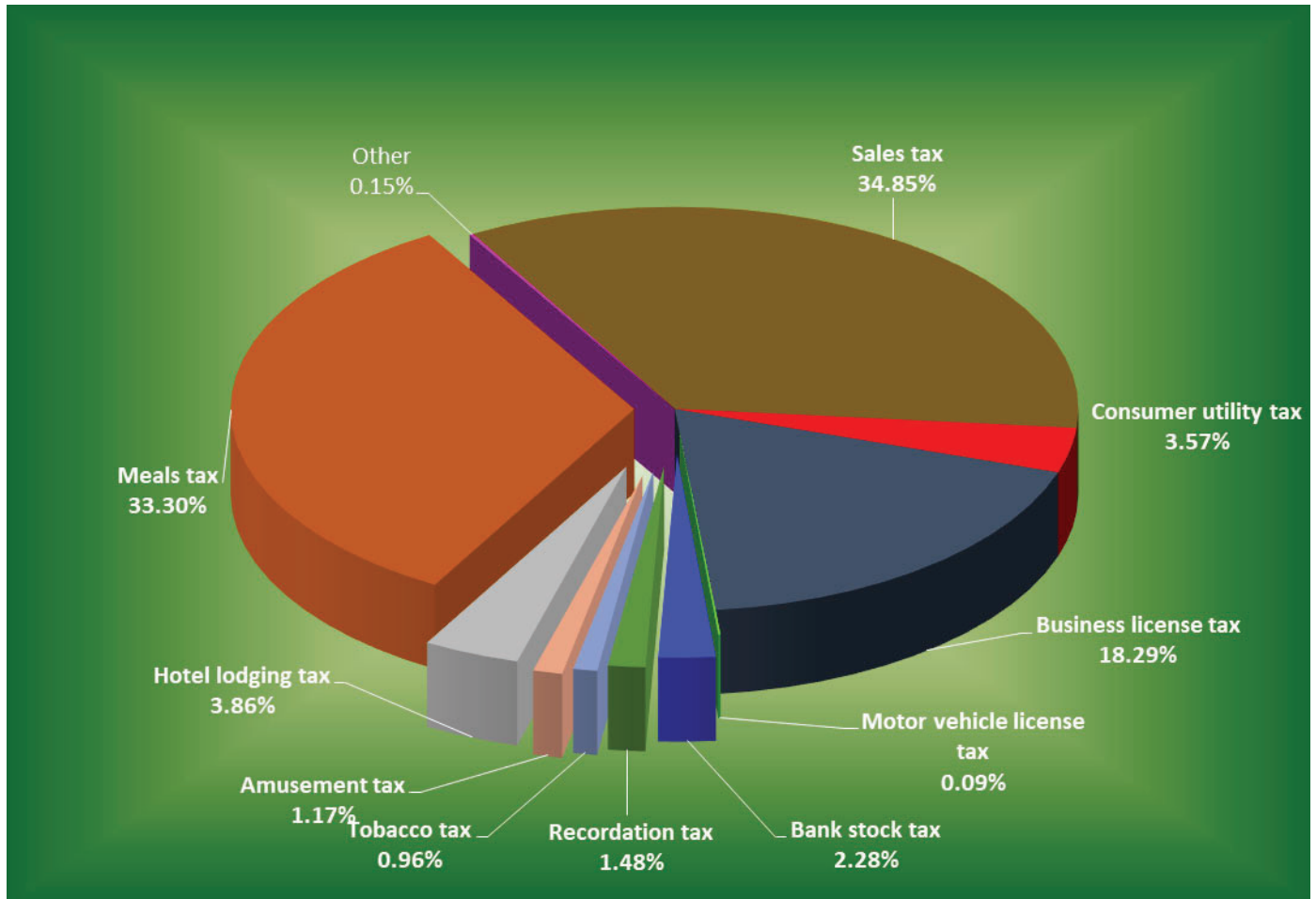
**TABLE 4**  
**Other Local Taxes - General Fund**

	FY 2023	FY 2022	Percentage of Total Revenues FY 2023	Increase (Decrease) from FY 2022
Sales and use tax	\$ 15,781,634	\$ 15,569,291	34.85%	\$ 212,343
Consumer utility tax	1,616,977	1,946,425	3.57%	(329,448)
Business license tax	8,283,896	7,810,020	18.29%	473,876
Motor vehicle license tax	38,627	137,252	0.09%	(98,625)
Bank stock tax	1,030,273	1,112,472	2.28%	(82,199)
Recordation tax	672,380	1,087,879	1.48%	(415,499)
Tobacco tax	434,337	532,959	0.96%	(98,622)
Amusement tax	531,782	459,244	1.17%	72,538
Hotel lodging tax	1,746,141	1,661,182	3.86%	84,959
Meals tax	15,081,582	13,849,223	33.30%	1,232,359
Other	66,506	84,619	0.15%	(18,113)
<b>Totals</b>	<b>\$ 45,284,135</b>	<b>\$ 44,250,566</b>	<b>100.00%</b>	<b>\$ 1,033,569</b>

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

### Revenues: (Continued)

#### FY2023 OTHER LOCAL TAXES - GENERAL FUND



### Expenditures:

The expenditures of governmental funds in fiscal year 2023 totaled \$128,163,985 which is a 11.58% increase from the prior fiscal year. The most significant changes occurred in capital projects, public safety, and debt service. Public Safety expenditures increased by \$2,492,782 with the largest majority being related to personnel and operating capital costs. Debt Service saw an increase due to the 2022(A) issuance seeing its first payment in Spring 2023. Capital projects saw an increase due to multiple locally funded projects including the new middle school project.

Increases to governmental expenditures stem from personnel related costs as well as the impact of inflation on operational costs.

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

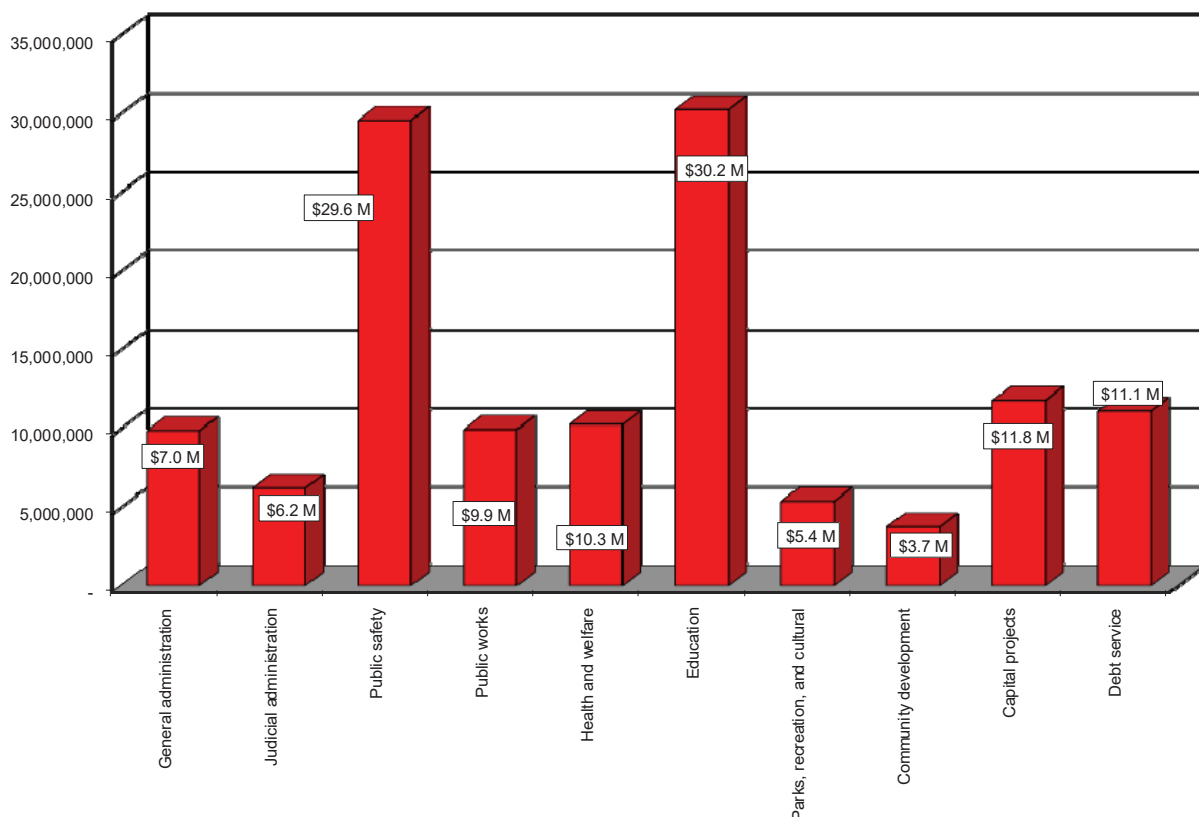
### Expenditures: (Continued)

Expenditures in the Special Revenue Fund for Public Safety saw an increase due to more grant funding opportunities being compared to the prior year. The Children’s Services Act Fund (CSA), expenditures slightly increased in comparison to the previous fiscal year. Expenditures to the Virginia Retirement System saw an increase during the year related to the increase to salaries City wide.

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

	FY 2023	FY 2022	Percentage of Total Expenditures FY 2023	Increase (Decrease) from 2022
General administration	\$ 9,854,433	\$ 8,774,467	7.69%	\$ 1,079,966
Judicial administration	6,195,286	5,541,449	4.83%	653,837
Public safety	29,563,615	27,070,833	23.07%	2,492,782
Public works	9,937,154	9,856,733	7.75%	80,421
Health and welfare	10,256,352	9,699,067	8.00%	557,285
Education	30,234,291	31,500,557	23.59%	(1,266,266)
Parks, recreation, and cultural	5,370,278	4,865,580	4.19%	504,698
Community development	3,721,318	2,958,489	2.90%	762,829
Nondepartmental	150,000	200,000	0.12%	(50,000)
Capital projects	11,779,131	5,904,667	9.19%	5,874,464
Debt service	11,102,127	8,491,883	8.66%	2,610,244
<b>Totals</b>	<b>\$ 128,163,985</b>	<b>\$ 114,863,725</b>	<b>100.00%</b>	<b>\$ 13,300,260</b>

**FY 2023 GOVERNMENTAL FUNDS - EXPENDITURES**



## General Fund Budgetary Highlights

Over the course of fiscal year 2023, the City Council amended the City budget. These budget changes included various budget adjustments for:

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

For fiscal year 2023, total final General Fund budgeted expenditures and revenues increased by \$3,574,717 from the original adopted budget.

Actual General Fund expenditures were \$92,811,322 compared to the final budgeted expenditures totaling \$96,682,968. The City increased expenditures from the prior year in response to increased inflation and rising personnel costs. This still resulted in a favorable budget variance of \$3,871,646. General Government Administration and Public Works experienced the most significant favorable variance of \$1,456,292 and \$1,307,023, respectively.

Actual General Fund revenues were \$114,807,783 compared to the final budgeted revenues totaling \$105,979,656. This resulted in a budget variance of \$8,828,127. The largest source of budget variance was local taxes. This is mainly due to the categories of meals tax and business licenses. This revenue source was largely impacted by continued commercial and residential development as well as continued organic growth.

The General Fund budget for fiscal year 2023 included a use of fund balance totaling \$10,697,667. During FY23, due to increased revenue and reduced expenditures, the City was able to increase its fund balance. A portion of these funds were committed to help offset costs of future capital projects.

## Capital Asset and Debt Administration

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

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

	Balance June 30, 2022	Net Additions/ Deletions	Balance June 30, 2023
<b>Capital assets not being depreciated:</b>			
Land	\$ 26,373,125	\$ (11,600)	\$ 26,361,525
Construction in progress	3,271,681	7,157,063	10,428,744
<b>Other capital assets:</b>			
Land improvements	27,951,602	79,800	28,031,402
Buildings and building improvements	64,446,327	2,615,468	67,061,795
Lease buildings and building improvements	24,762,624	231,013	24,993,637
Joint tenancy assets	31,630,000	(2,765,000)	28,865,000
Machinery, equipment, and vehicles	31,616,239	1,760,686	33,376,925
Lease equipment	461,293	-	461,293
Infrastructure	107,923,957	-	107,923,957
Accumulated depreciation	(120,074,170)	(8,293,758)	(128,367,928)
<b>Totals</b>	<b>\$ 198,362,678</b>	<b>\$ 773,672</b>	<b>\$ 199,136,350</b>

## Capital Asset and Debt Administration: (Continued)

The net increase in capital assets during the fiscal year was \$773,672, mainly due to construction in progress. Other increases to capital assets include \$2,615,468 for building and building improvements, and \$1,760,686 for machinery, equipment and vehicles.

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

### Long-term Debt

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

Governmental activities general obligation debt totaled \$133,552,610 at the end of the fiscal year. This debt includes projects such as the construction of three new schools, building renovation, and construction and renovation of court facilities, and construction of new parks. Business-type activities general obligation debt total outstanding balance is \$24,110,872.

The City has a self-imposed debt limitation of 4.8% of the total assessed value of all real property. As of June 30, 2023, the City's outstanding long-term indebtedness amount totaled \$157,938,482. After an adjustment to reflect the reserve of \$4,811,998 for future debt service payments and \$275,000 of revenue bonded debt, the remaining net debt applicable to the debt limit of \$165,250,762 is below the policy debt limit of \$299,413,717.

During fiscal year 2023, the City completed the issuance of Series 2022 A bonds. The City will begin to make regular principal payments in fiscal year 2024.

The table below reflects a summary of the City's long-term debt outstanding for fiscal years 2023 and 2022:

**TABLE 7**  
**Long-Term Debt**  
**As of June 30, 2023**

	Governmental Activities		Business-type Activities		Total	
	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022
General obligation bonds	\$ 48,777,610	\$ 38,997,198	\$ 24,110,872	\$ 19,042,517	\$ 72,888,482	\$ 58,039,715
General obligation school bonds	84,775,000	31,630,000	-	-	84,775,000	31,630,000
Revenue bonds	275,000	535,000	-	-	275,000	535,000
<b>Total long-term debt</b>	<b>\$ 133,827,610</b>	<b>\$ 71,162,198</b>	<b>\$ 24,110,872</b>	<b>\$ 19,042,517</b>	<b>\$ 157,938,482</b>	<b>\$ 90,204,715</b>

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

## **Economic Factors and Next Year's Budget**

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

The City is setting the standard in the region for innovative, upscale and mixed-use development. These developments produce significantly higher property values and support the vitality of the downtown business climate. Downtown Fredericksburg has been transformed into a walkable, mixed-use environment that is attractive to residents, tourists and daytime workers alike. Many revitalization projects have been completed in recent years with several more projects in the pipeline.

The fiscal year 2024 budget represents a responsible spending plan which advances City Council's Vision and Priorities, strengthens public safety, and supports the City's workforce, all while meeting the needs of a growing community. Within this budget, the City has approved a classification and compensation adjustment for City staff as well as an upgrade to our wastewater treatment facility. The wastewater treatment plant is a generational project that will allow the City to continue to grow in a sustainable manner.

The fiscal year 2024 adopted budget includes expenditures of \$121,434,445, a 5.6% increase over the fiscal year 2023 original adopted budget. The fiscal year 2024 budget is higher than the adopted fiscal year 2023 budget due to the continued positive economic outlook provided by the City's progressive plans for growth and development.

The revenue budget for fiscal year 2024 also reflect increases in revenue sources that have sustained growth throughout the pandemic and maintained post-pandemic. One of the largest sources being meals tax. This budget was projected to be significantly higher for fiscal year 2024, bringing the totals closer to their recent growth rates. Other impacted revenues include: lodging taxes, amusement taxes, business license tax, and sales tax. Real estate tax revenue is budgeted to increase to a budgeted amount of \$ 40,313,000 for current tax collections. Personal property tax revenue is budgeted at a slightly higher budget in the amount of \$12,223,218. Both of these can be partially attributed to new residential developments within 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 Director of Finance, P.O. Box 7447, Fredericksburg, Virginia, 22404 or visit our website at [www.fredericksburgva.gov](http://www.fredericksburgva.gov).



**BASIC FINANCIAL STATEMENTS**

## **Government-wide Financial Statements**

Statement of Net Position  
At June 30, 2023

				Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
<b>Assets:</b>					
Cash and cash equivalents	\$ 147,714,873	\$ 44,290,875	\$ 192,005,748	\$ 2,927,793	\$ 625,598
Receivables, net of allowance for uncollectibles	7,354,724	2,744,289	10,099,013	147,275	124,469
Due from other governments	5,333,966	3,141,058	8,475,024	8,561,981	-
Inventory, at cost	24,351	192,834	217,185	-	-
Prepaid items	2,343,508	54,274	2,397,782	1,187,720	-
Investment in joint venture	9,033,941	-	9,033,941	-	-
Loans receivable	-	-	-	-	390,202
Leases receivable	676,243	404,918	1,081,161	-	114,692
Net pension asset	-	-	-	675,450	-
Restricted:					
Cash and cash equivalents	-	754,890	754,890	-	-
Capital assets:					
Land, construction in progress and other	36,790,269	6,768,036	43,558,305	1,671,099	866,168
Other capital assets, net of accumulated depreciation	162,346,081	65,535,800	227,881,881	33,498,428	412,793
Capital assets, net	\$ 199,136,350	\$ 72,303,836	\$ 271,440,186	\$ 35,169,527	\$ 1,278,961
Total assets	\$ 371,617,956	\$ 123,886,974	\$ 495,504,930	\$ 48,669,746	\$ 2,533,922
<b>Deferred Outflows of Resources:</b>					
Pension related items	\$ 6,338,683	\$ 857,029	\$ 7,195,712	\$ 8,523,998	\$ -
OPEB related items	1,318,857	84,045	1,402,902	1,904,836	-
Deferred charge on refunding	83,754	198,563	282,317	-	-
Total deferred outflows of resources	\$ 7,741,294	\$ 1,139,637	\$ 8,880,931	\$ 10,428,834	\$ -
<b>Liabilities:</b>					
Accounts payable	\$ 3,426,702	\$ 2,252,678	\$ 5,679,380	\$ 1,701,843	\$ 110,742
Accrued liabilities	4,901,322	1,587,591	6,488,913	2,651,941	-
Unearned revenue	7,983,318	1,364,174	9,347,492	349,345	-
Claims payable	446,000	-	446,000	-	-
Amounts held for others	1,700,027	-	1,700,027	-	-
Liabilities payable from restricted assets	-	754,890	754,890	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	2,882,098	240,063	3,122,161	1,007,390	-
Revenue bonds	275,000	-	275,000	-	-
Note payable	-	-	-	-	4,723
General obligation bonds	7,930,755	2,389,262	10,320,017	-	-
Accrued landfill post-closure costs	90,000	-	90,000	-	-
Lease liabilities	1,050,534	-	1,050,534	88,731	-
Energy performance contract	-	-	-	283,000	-
Due in more than one year:					
Compensated absences	1,766,447	152,293	1,918,740	929,898	-
Net OPEB liability	16,111,459	818,945	16,930,404	11,496,073	-
Note payable	-	-	-	-	595,277
General obligation bonds	132,903,975	22,489,877	155,393,852	-	-
Lease liabilities	22,395,830	-	22,395,830	115,192	-
Energy performance contract	-	-	-	1,192,000	-
Net pension liability	21,343,901	2,383,669	23,727,570	27,161,316	-
Accrued landfill post-closure costs	1,497,395	-	1,497,395	-	-
Total liabilities	\$ 226,704,763	\$ 34,433,442	\$ 261,138,205	\$ 46,976,729	\$ 710,742
<b>Deferred Inflows of Resources:</b>					
Deferred revenue - property taxes	\$ 581,296	\$ -	\$ 581,296	\$ -	\$ -
Deferred gain on refunding	223,314	-	223,314	-	-
Pension related items	3,860,469	456,296	4,316,765	6,559,200	-
Leases related	665,246	399,638	1,064,884	-	163,634
OPEB related items	1,486,649	85,693	1,572,342	1,825,411	-
Total deferred inflows of resources	\$ 6,816,974	\$ 941,627	\$ 7,758,601	\$ 8,384,611	\$ 163,634
<b>Net Position:</b>					
Net investment in capital assets	\$ 101,452,771	\$ 54,587,378	\$ 156,040,149	\$ 33,383,720	\$ 678,961
Restricted:					
Net pension asset	-	-	-	675,450	-
Opioid settlement	640,621	-	640,621	-	-
Construction	1,556,984	-	1,556,984	-	-
Unrestricted	42,187,137	35,064,164	77,251,301	(30,321,930)	980,585
Total net position	\$ 145,837,513	\$ 89,651,542	\$ 235,489,055	\$ 3,737,240	\$ 1,659,546

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

Statement of Activities  
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental activities</b>				
General government administration	\$ 10,352,064	\$ 141,914	\$ 416,812	\$ -
Judicial administration	6,913,642	166,528	1,250,072	-
Public safety	29,673,716	2,291,367	3,171,221	-
Public works	13,850,639	1,448,620	6,576,720	325,909
Health and welfare	9,979,460	166,183	7,189,302	-
Education	29,365,505	-	-	1,566,984
Parks, recreation and cultural	6,194,059	591,062	132,997	-
Community development	4,561,267	237,862	98,249	418,434
Interest on long-term debt	4,601,962	-	-	-
Total governmental activities	<u>\$ 115,492,314</u>	<u>\$ 5,043,536</u>	<u>\$ 18,835,373</u>	<u>\$ 2,311,327</u>
<b>Business-type activities</b>				
Water	\$ 5,274,959	\$ 4,509,099	\$ 455,933	\$ -
Sewer	5,578,259	7,664,481	733,704	50,220
Transit	5,113,353	40,313	4,748,962	1,736,528
Parking	481,893	353,063	-	-
Total business-type activities	<u>\$ 16,448,464</u>	<u>\$ 12,566,956</u>	<u>\$ 5,938,599</u>	<u>\$ 1,786,748</u>
<b>Total Primary Government</b>	<u>\$ 131,940,778</u>	<u>\$ 17,610,492</u>	<u>\$ 24,773,972</u>	<u>\$ 4,098,075</u>
<b>Component Units</b>				
Fredericksburg City Public Schools	\$ 65,922,032	\$ 137,804	\$ 38,729,542	\$ -
Fredericksburg Economic Development Authority	817,514	158,045	110,742	-
<b>Total Component Units</b>	<u>\$ 66,739,546</u>	<u>\$ 295,849</u>	<u>\$ 38,840,284</u>	<u>\$ -</u>

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

Statement of Activities  
Year Ended June 30, 2023

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>				
<b>Governmental activities</b>				
General government administration	\$ (9,793,338)	\$ -	\$ (9,793,338)	\$ -
Judicial administration	(5,497,042)	-	(5,497,042)	-
Public safety	(24,211,128)	-	(24,211,128)	-
Public works	(5,499,390)	-	(5,499,390)	-
Health and welfare	(2,623,975)	-	(2,623,975)	-
Education	(27,798,521)	-	(27,798,521)	-
Parks, recreation and cultural	(5,470,000)	-	(5,470,000)	-
Community development	(3,806,722)	-	(3,806,722)	-
Interest on long-term debt	(4,601,962)	-	(4,601,962)	-
Total governmental activities	\$ (89,302,078)	\$ -	\$ (89,302,078)	\$ -
<b>Business-type activities</b>				
Water	\$ -	\$ (309,927)	\$ (309,927)	\$ -
Sewer	-	2,870,146	2,870,146	-
Transit	-	1,412,450	1,412,450	-
Parking	-	(128,830)	(128,830)	-
Total business-type activities	\$ -	\$ 3,843,839	\$ 3,843,839	\$ -
<b>Total Primary Government</b>	\$ (89,302,078)	\$ 3,843,839	\$ (85,458,239)	\$ -
<b>Component Units</b>				
Fredericksburg City Public Schools				\$ (27,054,686)
Fredericksburg Economic Development Authority				(548,727)
<b>Total Component Units</b>				\$ (27,603,413)
<b>General Revenues</b>				
Taxes:				
General property taxes, real and personal	\$ 54,388,578	\$ -	\$ 54,388,578	\$ -
Local sales and use taxes	15,781,634	-	15,781,634	-
Consumer utility taxes	1,616,977	-	1,616,977	-
Business license taxes	8,283,896	-	8,283,896	-
Hotel/lodging taxes	1,746,141	-	1,746,141	-
Meals taxes	15,081,582	-	15,081,582	-
Other local taxes	4,115,108	430,050	4,545,158	-
Payment from City of Fredericksburg:				
Education	-	-	-	29,280,453
Grants and contributions not restricted to specific programs	3,401,589	-	3,401,589	-
Use of property	141,488	-	141,488	-
Interest and investment earnings	4,598,052	136,344	4,734,396	64,100
Gain (loss) on disposal of capital assets	1,241,857	-	1,241,857	-
Miscellaneous	763,795	433,944	1,197,739	1,376,119
<b>Transfers</b>	(1,422,904)	1,422,904	-	-
Total general revenues and transfers	\$ 109,737,793	\$ 2,423,242	\$ 112,161,035	\$ 30,720,672
Change in net position	\$ 20,435,715	\$ 6,267,081	\$ 26,702,796	\$ 3,117,259
<b>Net position, beginning of year</b>	125,401,798	83,384,461	208,786,259	2,279,527
<b>Net position, end of year</b>	\$ 145,837,513	\$ 89,651,542	\$ 235,489,055	\$ 5,396,786

## Fund Financial Statements

Balance Sheet  
 Governmental Funds  
 At June 30, 2023

	General	School Bond Funded Capital Fund	COVID-19 Relief Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 38,763,939	\$ 62,639,115	\$ 7,193,702	\$ 38,257,932	\$ 146,854,688
Receivables (net of allowances for uncollectibles):					
Property taxes	3,741,150	-	-	31,879	3,773,029
Accounts	362,830	-	-	-	362,830
Accrued revenue	2,433,829	-	-	785,036	3,218,865
Leases receivable	676,243	-	-	-	676,243
Inventory, at cost	24,351	-	-	-	24,351
Prepaid items	400,838	-	4,000	1,938,670	2,343,508
Due from other governments	3,555,132	-	94,290	1,684,544	5,333,966
<b>Total assets</b>	<b>\$ 49,958,312</b>	<b>\$ 62,639,115</b>	<b>\$ 7,291,992</b>	<b>\$ 42,698,061</b>	<b>\$ 162,587,480</b>
<b>Liabilities:</b>					
Accounts payable	\$ 892,738	\$ 1,770,178	\$ 50,461	\$ 646,412	\$ 3,359,789
Accrued liabilities	2,475,979	215,520	-	372,101	3,063,600
Amounts held for others	1,700,027	-	-	-	1,700,027
Unearned revenue	82,633	-	7,241,531	659,154	7,983,318
<b>Total liabilities</b>	<b>\$ 5,151,377</b>	<b>\$ 1,985,698</b>	<b>\$ 7,291,992</b>	<b>\$ 1,677,667</b>	<b>\$ 16,106,734</b>
<b>Deferred Inflows of Resources:</b>					
Leases related	\$ 665,246	\$ -	\$ -	\$ -	\$ 665,246
Unavailable revenue - other	-	-	-	484,424	484,424
Unavailable revenue - property taxes	2,967,336	-	-	14,861	2,982,197
<b>Total deferred inflows of resources</b>	<b>\$ 3,632,582</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 499,285</b>	<b>\$ 4,131,867</b>
<b>Fund Balances:</b>					
Nonspendable	\$ 436,186	\$ -	\$ 4,000	\$ 1,938,670	\$ 2,378,856
Restricted	-	1,556,984	-	251,447	1,808,431
Committed	16,763,359	-	-	12,702,682	29,466,041
Assigned	2,281,009	59,096,433	-	25,628,310	87,005,752
Unassigned	21,693,799	-	(4,000)	-	21,689,799
<b>Total fund balances</b>	<b>\$ 41,174,353</b>	<b>\$ 60,653,417</b>	<b>\$ -</b>	<b>\$ 40,521,109</b>	<b>\$ 142,348,879</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 49,958,312</b>	<b>\$ 62,639,115</b>	<b>\$ 7,291,992</b>	<b>\$ 42,698,061</b>	<b>\$ 162,587,480</b>

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
At June 30, 2023

Total fund balances for governmental funds (Exhibit 3)	\$	142,348,879
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Total net position reported for governmental activities in the statement of net position is different because:

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

Land	\$	26,361,525	
Construction in progress		10,428,744	
Land improvements, net of accumulated depreciation		20,289,322	
Buildings and improvements, net of accumulated depreciation		40,318,120	
Lease buildings and improvements, net of accumulated depreciation		23,000,534	
Joint tenancy assets, net of accumulated depreciation		21,888,917	
Infrastructure, net of accumulated depreciation		44,512,657	
Lease equipment, net of accumulated depreciation		125,808	
Machinery, vehicles, and equipment, net of accumulated depreciation		<u>12,210,723</u>	
 Total capital assets			 199,136,350

Internal service funds are used by the City to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.		347,272
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Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Investment in joint venture		9,033,941
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Deferred charge on refunding	\$	83,754	
Pension related items		6,338,683	
OPEB related items		<u>1,318,857</u>	7,741,294

Some of the City's property, other taxes and revenues 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.		2,885,325
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:

Accrued interest on debt	\$	(1,837,722)	
Bonds and notes payable		(133,827,619)	
Lease liabilities		(23,446,364)	
Premium on long-term debt, net of accumulated amortization		(7,282,111)	
Net pension liability		(21,343,901)	
Net OPEB liability		(16,111,459)	
Landfill post-closure costs		<u>(1,587,395)</u>	(205,436,571)

Compensated absences not reported as fund liabilities		(4,648,545)
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Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$	(3,860,469)	
Deferred gain on refunding		(223,314)	
OPEB related items		<u>(1,486,649)</u>	<u>(5,570,432)</u>

Total net position of governmental activities (Exhibits 1 and 2)	\$	<u>145,837,513</u>
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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, 2023

	General Fund	School Bond Funded Capital Fund	COVID-19 Relief Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 51,442,368	\$ -	\$ -	\$ 1,110,102	\$ 52,552,470
Other local taxes	45,284,135	-	-	1,341,203	46,625,338
Permits, privilege fees and regulatory licenses	833,795	-	-	48,813	882,608
Fines and forfeitures	487,441	-	-	-	487,441
Use of money and property	2,173,215	-	-	2,917,239	5,090,454
Charges for services	3,227,328	-	-	95,245	3,322,573
Miscellaneous	368,264	-	-	524,536	892,800
Recovered costs	431,659	-	-	425,966	857,625
Intergovernmental:					
Contribution from Component Unit School Board	-	3,400,376	-	-	3,400,376
Revenue from the Commonwealth	10,374,089	1,566,984	-	4,509,154	16,450,227
Revenue from the Federal Government	185,489	-	3,722,896	4,123,990	8,032,375
<b>Total revenues</b>	<b>\$ 114,807,783</b>	<b>\$ 4,967,360</b>	<b>\$ 3,722,896</b>	<b>\$ 15,096,248</b>	<b>\$ 138,594,287</b>
<b>Expenditures</b>					
Current:					
General government administration	\$ 9,807,435	\$ -	\$ 46,998	\$ -	\$ 9,854,433
Judicial administration	5,855,042	-	17,670	322,574	6,195,286
Public safety	28,331,212	-	641,981	590,422	29,563,615
Public works	9,250,260	-	133,771	553,123	9,937,154
Health and welfare	1,136,390	-	-	9,119,962	10,256,352
Education - local community college and other	34,291	-	-	-	34,291
Education - public school system	30,200,000	-	-	-	30,200,000
Parks, recreation and cultural	5,112,853	-	128,497	128,928	5,370,278
Community development	2,813,770	-	157,231	750,317	3,721,318
Capital projects	-	6,816,041	-	4,963,090	11,779,131
Nondepartmental	150,000	-	-	-	150,000
Debt service:					
Principal payments	117,981	-	-	6,329,150	6,447,131
Interest and fiscal charges	2,088	-	-	4,652,908	4,654,996
<b>Total expenditures</b>	<b>\$ 92,811,322</b>	<b>\$ 6,816,041</b>	<b>\$ 1,126,148</b>	<b>\$ 27,410,474</b>	<b>\$ 128,163,985</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ 21,996,461</b>	<b>\$ (1,848,681)</b>	<b>\$ 2,596,748</b>	<b>\$ (12,314,226)</b>	<b>\$ 10,430,302</b>
<b>Other financing sources (uses)</b>					
Issuance of bonds	\$ -	\$ 55,523,098	\$ -	\$ 12,521,902	\$ 68,045,000
Bond premium	-	2,479,000	-	800,770	3,279,770
Lease proceeds	-	-	-	231,013	231,013
Proceeds from the sale of capital assets	19,453	-	-	1,261,876	1,281,329
Transfers in	1,173,844	4,500,000	-	16,789,998	22,463,842
Transfers out	(21,409,822)	-	(2,596,748)	(180,176)	(24,186,746)
<b>Total other financing sources (uses)</b>	<b>\$ (20,216,525)</b>	<b>\$ 62,502,098</b>	<b>\$ (2,596,748)</b>	<b>\$ 31,425,383</b>	<b>\$ 71,114,208</b>
<b>Net change in fund balance</b>	<b>\$ 1,779,936</b>	<b>\$ 60,653,417</b>	<b>\$ -</b>	<b>\$ 19,111,157</b>	<b>\$ 81,544,510</b>
<b>Fund balances, beginning of year</b>	<b>39,394,417</b>	<b>-</b>	<b>-</b>	<b>21,409,952</b>	<b>60,804,369</b>
<b>Fund balances, end of year</b>	<b>\$ 41,174,353</b>	<b>\$ 60,653,417</b>	<b>\$ -</b>	<b>\$ 40,521,109</b>	<b>\$ 142,348,879</b>

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2023

Net change in fund balances - total governmental funds (Exhibit 5)	\$	81,544,510
<p>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.</p>		
Capital outlays	\$	12,357,883
Depreciation		<u>(9,823,854)</u>
		2,534,029
Transfer of joint tenancy assets and other capital assets from Primary Government to the Component Unit School Board		(1,735,965)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		(24,392)
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net position revenues are reported when earned. This requires adjustments to convert the revenues to the accrual basis.		1,707,103
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in joint venture investment		600,057
<p>Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Debt issued:		
General obligation bonds	\$	(68,045,000)
Lease		(231,013)
Premium on debt issued		(3,279,770)
Amortization of premium on long-term debt		724,564
Repayments of long-term debt:		
General obligation bonds		5,379,579
Lease liabilities		<u>1,067,552</u>
Net adjustment		(64,384,088)
<p>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:</p>		
Compensated absences	\$	(592,129)
OPEB expense		458,119
Pension expense		1,633,226
Accrued interest on bonds and loans		(658,950)
Amortization of deferred charge/gain on refunding		(12,580)
Accrued landfill post-closure costs		<u>(105,234)</u>
Net adjustment		722,452
Special contributions received from the Commonwealth for the OPEB cost sharing pools are not reported in governmental funds.		35,607
Internal service funds are used by the City to charge the cost of health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities.		<u>(563,598)</u>
Change in net position of governmental activities (Exhibit 2)	\$	<u>20,435,715</u>

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

Statement of Net Position  
 Proprietary Funds  
 At June 30, 2023

	Business-type Activities - Enterprise Funds					Governmental
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 17,452,177	\$ 15,658,271	\$ 10,510,926	\$ 669,501	\$ 44,290,875	\$ 860,185
Accounts receivable, net of allowance for uncollectibles	993,327	1,635,210	-	-	2,628,537	-
Accrued revenue	21,944	26,493	28,476	38,839	115,752	-
Leases receivable	38,888	-	-	40,528	79,416	-
Inventory, at cost	172,977	19,857	-	-	192,834	-
Prepaid items	1,106	3,299	32,565	17,304	54,274	-
Due from other governments	-	225,926	2,915,132	-	3,141,058	-
Restricted assets:						
Cash and cash equivalents	754,890	-	-	-	754,890	-
Total current assets	\$ 19,435,309	\$ 17,569,056	\$ 13,487,099	\$ 766,172	\$ 51,257,636	\$ 860,185
Noncurrent assets:						
Leases receivable	\$ 41,310	\$ -	\$ -	\$ 284,192	\$ 325,502	\$ -
Capital Assets:						
Land	701,345	114,880	858,573	782,125	2,456,923	-
Construction in progress	728,324	3,520,718	62,071	-	4,311,113	-
Land improvements	-	-	976,403	-	976,403	-
Dams and reservoirs	2,531,502	-	-	-	2,531,502	-
Buildings and systems	25,378,081	48,907,651	10,185,298	6,942,467	91,413,497	-
Furniture, machinery and equipment	821,973	5,544,616	5,205,415	374,252	11,946,256	-
Intangible assets	7,734,882	1,556,496	-	-	9,291,378	-
Total property, plant and equipment	\$ 37,896,107	\$ 59,644,361	\$ 17,287,760	\$ 8,098,844	\$ 122,927,072	\$ -
Accumulated depreciation	(13,975,380)	(27,876,851)	(6,148,587)	(2,622,418)	(50,623,236)	-
Capital assets, net	\$ 23,920,727	\$ 31,767,510	\$ 11,139,173	\$ 5,476,426	\$ 72,303,836	\$ -
Total noncurrent assets	\$ 23,962,037	\$ 31,767,510	\$ 11,139,173	\$ 5,760,618	\$ 72,629,338	\$ -
Total assets	\$ 43,397,346	\$ 49,336,566	\$ 24,626,272	\$ 6,526,790	\$ 123,886,974	\$ 860,185
<b>Deferred Outflows of Resources:</b>						
Pension related items	\$ 125,907	\$ 225,442	\$ 483,825	\$ 21,855	\$ 857,029	\$ -
OPEB related items	24,010	34,214	25,098	723	84,045	-
Deferred charge on refunding	9,283	169,418	-	19,862	198,563	-
Total deferred outflows of resources	\$ 159,200	\$ 429,074	\$ 508,923	\$ 42,440	\$ 1,139,637	\$ -
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	\$ 772,976	\$ 1,329,637	\$ 149,676	\$ 389	\$ 2,252,678	\$ 66,913
Accrued liabilities	778,723	513,190	77,921	4,956	1,374,790	-
Interest payable	100,135	112,666	-	-	212,801	-
Compensated absences, current portion	67,239	104,085	65,860	2,879	240,063	-
Claims payable	-	-	-	-	-	446,000
Unearned revenue, current portion	-	50,220	-	-	50,220	-
General obligation bonds, current portion	877,205	1,229,382	-	282,675	2,389,262	-
Current liabilities payable from restricted assets:						
Customer deposits	754,890	-	-	-	754,890	-
Total current liabilities	\$ 3,351,168	\$ 3,339,180	\$ 293,457	\$ 290,899	\$ 7,274,704	\$ 512,913
Noncurrent liabilities:						
Unearned revenue, noncurrent portion	\$ -	\$ 1,313,954	\$ -	\$ -	\$ 1,313,954	\$ -
Compensated absences, noncurrent portion	41,212	18,368	90,949	1,764	152,293	-
Net OPEB liability	284,558	375,800	156,507	2,080	818,945	-
Net pension liability	414,657	761,416	1,151,823	55,773	2,383,669	-
General obligation bonds, noncurrent portion	10,350,783	11,557,929	-	581,165	22,489,877	-
Total noncurrent liabilities	\$ 11,091,210	\$ 14,027,467	\$ 1,399,279	\$ 640,782	\$ 27,158,738	\$ -
Total liabilities	\$ 14,442,378	\$ 17,366,647	\$ 1,692,736	\$ 931,681	\$ 34,433,442	\$ 512,913
<b>Deferred Inflows of Resources:</b>						
Pension related items	\$ 112,717	\$ 152,117	\$ 191,187	\$ 275	\$ 456,296	\$ -
Leases related	103,835	-	-	295,803	399,638	-
OPEB related items	26,834	36,732	21,701	426	85,693	-
Total deferred inflows of resources	\$ 243,386	\$ 188,849	\$ 212,888	\$ 296,504	\$ 941,627	\$ -
<b>Net Position:</b>						
Net investment in capital assets	\$ 18,243,397	\$ 20,572,360	\$ 11,139,173	\$ 4,632,448	\$ 54,587,378	\$ -
Unrestricted	10,627,385	11,637,784	12,090,398	708,597	35,064,164	347,272
Total net position	\$ 28,870,782	\$ 32,210,144	\$ 23,229,571	\$ 5,341,045	\$ 89,651,542	\$ 347,272

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

Statement of Revenues, Expenses and Changes in Net Position  
 Proprietary Funds  
 Year Ended June 30, 2023

	Business-type Activities - Enterprise Funds					Governmental
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Operating revenues:						
Charges for services	\$ 4,509,099	\$ 7,664,481	\$ -	\$ 353,063	\$ 12,526,643	\$ 6,425,217
Operating expenses:						
Personal services	\$ 605,571	\$ 1,043,823	\$ 2,419,946	\$ 123,388	\$ 4,192,728	\$ -
Fringe benefits	233,614	399,145	735,378	35,443	1,403,580	6,373,608
Contractual services	2,809,191	1,536,234	518,354	40,927	4,904,706	-
Other operating expenses	353,007	804,449	894,487	68,611	2,120,554	915,207
Depreciation expense	937,818	1,389,020	545,188	179,865	3,051,891	-
Total operating expenses	\$ 4,939,201	\$ 5,172,671	\$ 5,113,353	\$ 448,234	\$ 15,673,459	\$ 7,288,815
Total operating income (loss)	\$ (430,102)	\$ 2,491,810	\$ (5,113,353)	\$ (95,171)	\$ (3,146,816)	\$ (863,598)
Nonoperating revenues (expenses):						
Interest income	\$ 34,086	\$ 34,086	\$ 34,086	\$ 34,086	\$ 136,344	\$ -
Gasoline tax receipts	-	-	131,553	298,497	430,050	-
Availability/connection fees	455,200	732,440	-	-	1,187,640	-
Miscellaneous	270,276	23,345	138,205	2,118	433,944	-
Gain (loss) on disposal of capital assets	-	-	40,313	-	40,313	-
Utility relief program	(733)	(1,264)	-	-	(1,997)	-
State and local grant funds	-	-	1,872,420	-	1,872,420	-
Federal grant funds	733	1,264	2,876,542	-	2,878,539	-
Interest expense	(335,025)	(404,324)	-	(33,659)	(773,008)	-
Total nonoperating revenues (expenses)	\$ 424,537	\$ 385,547	\$ 5,093,119	\$ 301,042	\$ 6,204,245	\$ -
Income (loss) before contributions and transfers	\$ (5,565)	\$ 2,877,357	\$ (20,234)	\$ 205,871	\$ 3,057,429	\$ (863,598)
Capital grants and contributions:						
State and local grant funds	\$ -	\$ 50,220	\$ 878,235	\$ -	\$ 928,455	\$ -
Federal grant funds	-	-	858,293	-	858,293	-
Total capital grants and contributions	\$ -	\$ 50,220	\$ 1,736,528	\$ -	\$ 1,786,748	\$ -
Transfers:						
Transfers in	\$ 21,374	\$ 2,575,374	\$ -	\$ -	\$ 2,596,748	\$ 300,000
Transfers out	(412,525)	(550,000)	(211,319)	-	(1,173,844)	-
Net transfers	(391,151)	2,025,374	(211,319)	-	1,422,904	300,000
Change in net position	\$ (396,716)	\$ 4,952,951	\$ 1,504,975	\$ 205,871	\$ 6,267,081	\$ (563,598)
Net position, beginning of year	29,267,498	27,257,193	21,724,596	5,135,174	83,384,461	910,870
Net position, end of year	\$ 28,870,782	\$ 32,210,144	\$ 23,229,571	\$ 5,341,045	\$ 89,651,542	\$ 347,272

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

Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2023

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Transit Fund	Parking Fund	Total	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers and users	\$ 4,412,543	\$ 7,467,455	\$ (12,938)	\$ 333,518	\$ 12,200,578	\$ 6,425,217
Other miscellaneous receipts	282,251	23,345	269,758	300,615	875,969	-
Payments to suppliers	(2,598,658)	(1,228,641)	(1,475,663)	(113,269)	(5,416,231)	(848,294)
Payments to and for employees	(868,642)	(1,473,598)	(3,143,836)	(162,210)	(5,648,286)	(6,410,608)
Net cash provided by (used for) operating activities	\$ 1,227,494	\$ 4,788,561	\$ (4,362,679)	\$ 358,654	\$ 2,012,030	\$ (833,685)
Cash flows from noncapital financing activities:						
Availability and connection fees	\$ 455,200	\$ 732,440	\$ -	\$ -	\$ 1,187,640	\$ -
State, federal and local grant funds	-	1,264	2,806,063	-	2,807,327	-
Transfers	(391,151)	2,025,374	(211,319)	-	1,422,904	300,000
Net cash provided by (used for) noncapital financing activities	\$ 64,049	\$ 2,759,078	\$ 2,594,744	\$ -	\$ 5,417,871	\$ 300,000
Cash flows from investing activities:						
Interest income	\$ 34,086	\$ 34,086	\$ 34,086	\$ 34,086	\$ 136,344	\$ -
Cash flows from capital and related financing activities:						
Purchase of capital assets	\$ (744,891)	\$ (4,193,054)	\$ (2,094,332)	\$ -	\$ (7,032,277)	\$ -
Disposal of capital assets	-	-	43,713	-	43,713	-
State, federal and local grant funds	-	-	1,736,528	-	1,736,528	-
Proceeds from issuance of debt	4,795,000	2,090,000	-	-	6,885,000	-
Premium on issuance of debt	408,924	178,238	-	-	587,162	-
Principal payment on debt	(415,753)	(1,125,246)	-	(274,768)	(1,815,767)	-
Interest paid on debt	(304,073)	(375,798)	-	(23,729)	(703,600)	-
Net cash provided by (used for) capital and related financing activities	\$ 3,739,207	\$ (3,425,860)	\$ (314,091)	\$ (298,497)	\$ (299,241)	\$ -
Increase (decrease) in cash and cash equivalents for the year	\$ 5,064,836	\$ 4,155,865	\$ (2,047,940)	\$ 94,243	\$ 7,267,004	\$ (533,685)
Cash and cash equivalents (including restricted), beginning of year	13,142,231	11,502,406	12,558,866	575,258	37,778,761	1,393,870
Cash and cash equivalents (including restricted), end of year	\$ 18,207,067	\$ 15,658,271	\$ 10,510,926	\$ 669,501	\$ 45,045,765	\$ 860,185
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ (430,102)	\$ 2,491,810	\$ (5,113,353)	\$ (95,171)	\$ (3,146,816)	\$ (863,598)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	937,818	1,389,020	545,188	179,865	3,051,891	-
Other miscellaneous receipts	270,276	23,345	269,758	300,615	863,994	-
Changes in assets and liabilities:						
Accounts receivable	(105,469)	(165,485)	-	-	(270,954)	-
Inventory	(28,905)	9,541	-	-	(19,364)	-
Accrued revenue	(12,416)	(16,965)	(12,938)	(6,325)	(48,644)	-
Leases receivable	80,177	-	-	36,080	116,257	-
Prepaid items	79	(2,239)	(6,735)	(2,280)	(11,175)	-
Due from other governments	-	(14,576)	-	-	(14,576)	-
Deferred outflows of resources - pension related items	20,956	20,251	74,404	(11,570)	104,041	-
Deferred outflows of resources - OPEB related items	48	(676)	(1,414)	(61)	(2,103)	-
Accounts payable	(95,958)	670,017	20,472	(1,451)	593,080	66,913
Accrued liabilities	688,324	434,723	(76,559)	(2,466)	1,044,022	-
Net OPEB liability	7,410	12,770	14,962	(318)	34,824	-
Net pension liability	135,656	293,901	467,140	36,168	932,865	-
Claims payable	-	-	-	-	-	(37,000)
Compensated absences	15,142	25,359	18,594	2,633	61,728	-
Deferred inflows of resources - pension related items	(192,617)	(360,784)	(550,016)	(27,250)	(1,130,667)	-
Deferred inflows of resources - OPEB related items	(16,052)	(21,451)	(12,182)	(515)	(50,200)	-
Deferred inflows of resources - leases related	(68,202)	-	-	(49,300)	(117,502)	-
Deposits payable from restricted assets	21,329	-	-	-	21,329	-
Net cash provided by (used for) operating activities	\$ 1,227,494	\$ 4,788,561	\$ (4,362,679)	\$ 358,654	\$ 2,012,030	\$ (833,685)

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

Statement of Fiduciary Net Position  
 Fiduciary Funds  
 At June 30, 2023

	<u>Custodial Funds</u>	<u>Other Postemployment Benefit Plan Fund</u>	<u>Private Purpose Trust Fund</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,806,558	\$ -	\$ 1,661,715
Accounts receivable	106,919	-	5,870
Prepaid items	103,770	-	-
Pension asset	404,082	-	-
Investments at fair value:			
Investment in pooled funds	-	2,475,104	-
Capital assets net of accumulated depreciation	<u>2,459,043</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,880,372</u>	<u>\$ 2,475,104</u>	<u>\$ 1,667,585</u>
<b>Deferred Outflows of Resources:</b>			
Pension related items	\$ 161,169	\$ -	\$ 20,635
OPEB related items	<u>15,867</u>	<u>-</u>	<u>2,428</u>
Total deferred outflows of resources	<u>\$ 177,036</u>	<u>\$ -</u>	<u>\$ 23,063</u>
<b>Liabilities:</b>			
Accounts payable	\$ 32,200	\$ -	\$ 40
Accrued liabilities	242,321	-	27,275
Notes payable	284,348	-	-
Lease liabilities	210,362	-	-
Net OPEB liability	58,871	-	25,234
Net pension liability	460,729	-	60,622
Amounts held for others	<u>560,127</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 1,848,958</u>	<u>\$ -</u>	<u>\$ 113,171</u>
<b>Deferred Inflows of Resources:</b>			
Pension related items	\$ 252,560	\$ -	\$ 10,714
OPEB related items	<u>21,989</u>	<u>-</u>	<u>2,549</u>
Total deferred inflows of resources	<u>\$ 274,549</u>	<u>\$ -</u>	<u>\$ 13,263</u>
<b>Net Position:</b>			
Net position restricted for OPEB and other purposes	<u>\$ 2,933,901</u>	<u>\$ 2,475,104</u>	<u>\$ 1,564,214</u>

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

Statement of Changes in Fiduciary Net Position  
 Fiduciary Funds  
 Year Ended June 30, 2023

	<u>Custodial Funds</u>	<u>Other Post-employment Benefit Plan Fund</u>	<u>Private Purpose Trust Fund</u>
Additions:			
Contributions:			
Contributions	\$ 1,487,504	\$ 157,003	\$ 99,400
Investment income:			
Interest earned on investments	-	164,399	28,925
Miscellaneous	3,044,598	-	160
Total additions	<u>\$ 4,532,102</u>	<u>\$ 321,402</u>	<u>\$ 128,485</u>
Deductions:			
Payments for property management	\$ -	\$ -	\$ 111,189
Other charges	4,171,375	2,729	-
Total deductions	<u>\$ 4,171,375</u>	<u>\$ 2,729</u>	<u>\$ 111,189</u>
Net increase (decrease) in plan assets	\$ 360,727	\$ 318,673	\$ 17,296
Net position held in trust for OPEB benefits and other purposes:			
Balance, beginning of year, as restated	<u>2,573,174</u>	<u>2,156,431</u>	<u>1,546,918</u>
Balance, end of year	<u><u>\$ 2,933,901</u></u>	<u><u>\$ 2,475,104</u></u>	<u><u>\$ 1,564,214</u></u>

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

Statement of Activities  
Component Units  
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	
<b>School Board</b>							
Education	\$ 65,885,163	\$ 137,804	\$ 38,729,542	\$ -	\$ (27,017,817)	\$ -	\$ (27,017,817)
Interest on long-term debt	36,869	-	-	-	(36,869)	-	(36,869)
Total School Board	\$ 65,922,032	\$ 137,804	\$ 38,729,542	\$ -	\$ (27,054,686)	\$ -	\$ (27,054,686)
<b>Economic Development Authority</b>							
Community development	\$ 801,044	\$ 158,045	\$ 110,742	\$ -	\$ -	\$ (532,257)	\$ (532,257)
Interest on long-term debt	16,470	-	-	-	-	(16,470)	(16,470)
Total Economic Development Authority	\$ 817,514	\$ 158,045	\$ 110,742	\$ -	\$ -	\$ (548,727)	\$ (548,727)
<b>Total Component Units</b>	<b>\$ 66,739,546</b>	<b>\$ 295,849</b>	<b>\$ 38,840,284</b>	<b>\$ -</b>	<b>\$ (27,054,686)</b>	<b>\$ (548,727)</b>	<b>\$ (27,603,413)</b>
<b>General revenues</b>							
Payment from/(to) City of Fredericksburg				\$ 28,535,589	\$ 744,864	\$ 29,280,453	
Interest and investment income				61,787	2,313	64,100	
Miscellaneous				1,370,074	6,045	1,376,119	
Total general revenues				\$ 29,967,450	\$ 753,222	\$ 30,720,672	
Change in net position				\$ 2,912,764	\$ 204,495	\$ 3,117,259	
Net position, beginning of year				824,476	1,455,051	2,279,527	
Net position, end of year				\$ 3,737,240	\$ 1,659,546	\$ 5,396,786	

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



# CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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## Note 1—Summary of Significant Accounting Policies:

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### Narrative Profile

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

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

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

#### Government-wide and Fund Financial Statements

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

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

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

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

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

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

Statement of Activities: (Continued)

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

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

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons. 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 both legally and substantively 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:

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

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

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

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

1. Component Units: (Continued)

b. Fredericksburg Economic Development Authority:

The Fredericksburg Economic Development Authority was created by a City Council resolution pursuant to state statute and is legally separate from the City. The Council appoints seven (7) board members; however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Authority is fiscally independent and there is no financial benefit or burden relationship with the City. However, the Authority performs economic development services exclusively to the City as an administrative entity for the City through the authorization of industrial development revenue bonds and recruitment of potential businesses for location in the City, and City Council must approve the issuance of all revenue bonds. 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 Finance, 715 Princess Anne Street, Fredericksburg, Virginia 22401.

**Exclusions from the Reporting Entity:**

1. Jointly Governed Organizations:

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

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

a. Rappahannock Security Center

The Rappahannock Security Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Center provides adult detention services for its participant localities. The Counties of Spotsylvania, Stafford and King George and the City provide the financial support for the Center and appoint its governing Board, in which is vested the ability to execute contracts and to budget and 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 \$4,518,656 in operating and other funds to the Center in 2023.

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

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

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

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

**b. Rappahannock Regional Library**

The Rappahannock Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The Counties of Westmoreland, Stafford and Spotsylvania and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and 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 \$1,400,000 in operating funds to the Library in 2023.

**c. Rappahannock Regional Solid Waste Management Board**

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

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

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The City's equity interest as of June 30, 2023 was \$9,033,941.

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

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

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

1. Jointly Governed Organizations: (Continued)

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

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$8.9 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2023 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and post-closure care in 2023. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

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

d. Rappahannock Area Community Services Board

The Board was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Mayor appoints the three (3) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the Board. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Board provides mental health, mental retardation and substance abuse services to residents of the participant localities. The City provided operating grants of \$302,359 to the Board in 2023.

e. Rappahannock Area Agency on Aging

The Agency was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Agency is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$7,880 in operating grants to the Agency in 2023.

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

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

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

1. Jointly Governed Organizations: (Continued)

f. George Washington Regional Commission

The Commission was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the four (4) commissioners; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City contributed \$25,113 in operating grants and \$10,000 in homelessness grants to the Commission in 2023.

g. Rappahannock Juvenile Detention Center

The Center was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The Center provides juvenile detention services for its participant localities. The City provided operating funds of \$188,688 to the Center in 2023.

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

The Home was created by City Council and other participant localities pursuant to state statute and it is legally separate from the City. The Council appoints the two (2) board members; however, the City cannot impose its will on the Board since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Board is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$88,951 in operating funds to the Home in 2023.

i. Stafford Regional Airport Commission

The Commission was created by City Council resolution pursuant to state statute and it is legally separate from the City. The Council appoints the only commissioner; however, the City cannot impose its will on the Commission since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioner. The Commission is fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, it is not included in the City's financial statements. The City provided \$21,430 in operating funds to the Commission in 2023.

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

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

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

1. Jointly Governed Organizations: (Continued)

Obtaining of Financial Statements for Jointly Governed Organizations

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

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

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

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

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

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

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

The City's fiduciary funds are presented in the fund financial statements by type (private purpose and custodial). 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 2023.

1. Governmental Funds:

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

- a. General Fund - The General Fund is the primary operating fund of the City and accounts for and reports all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds - Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds include the following funds:

COVID-19 Relief Fund - This fund accounts for revenues and expenditures of federal grants related to the COVID-19 pandemic. The COVID-19 Relief Fund is a major fund.

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

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



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

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

**1. Governmental Funds: (Continued)**

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

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

Stormwater Management Fund - This fund accounts for the revenues, expenditures, and other financing resources for stormwater management and other environmental purposes.

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

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

Fredericksburg Opportunity Fund - This fund accounts for the revenues, expenditures and other financing resources for economic development opportunities.

Multi Purpose Stadium Fund - This fund accounts for revenues, expenditures, and other financing resources related to the multi purpose stadium.

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

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

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

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

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

1. Governmental Funds: (Continued)

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

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

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

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

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

School Bond Funded Capital Fund - This fund accounts for construction, renovation, and improvements of the Component Unit School Board's buildings and facilities. Financing is provided primarily by bond proceeds. The School Bond Funded Capital Fund is a major fund.

2. Proprietary Funds:

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

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

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

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

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

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

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

2. Proprietary Funds: (Continued)

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

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

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

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

3. Fiduciary Funds (Trust and Custodial Funds):

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

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

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

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

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

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

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

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

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

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

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

4. Component Units:

a. Fredericksburg City School Board:

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

Governmental Funds:

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

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

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

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

School Activity Fund - This fund accounts for and reports funds collected at the schools in connection with student athletics, clubs, various fundraising activities, and private donations.

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

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

b. Economic Development Authority:

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

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

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**C. Basis of Accounting**

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

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

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

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

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

All operating budgets included proposed expenditures and the means of financing them. City Council must approve all budget revisions once the appropriation ordinance has been adopted. Budgets are approved and may not exceed appropriations at the department level. Budgeted amounts as presented in the financial statements reflect budget revisions through June 30, 2023. 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, 2023.

**E. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**F. Investments**

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

**G. Allowance for Uncollectible Accounts**

The City determines its allowances using historical collection data, specific account analysis and management's judgment. At June 30, 2023, the allowance totaled \$1,263,194 with \$812,205 in the General Fund and \$450,989 in the Enterprise Funds.

**H. Inventory**

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

**I. Prepaid Items**

Prepaid expenses are reported on the consumption method.

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

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**J. Capital Assets**

Capital outlays are recorded as expenditures of the governmental funds of the primary government and component unit School Board, and as assets in the government-wide financial statements to the extent the City’s and School Board’s capitalization threshold of \$10,000 is met. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Land improvements	20 to 50 years
Buildings and improvements	20 to 40 years
Furniture and other equipment	5 to 20 years
Infrastructure	10 to 50 years
Joint tenancy assets	40 years
Lease buildings and improvements	5 to 30 years
Lease equipment	3 to 5 years

To the extent the City’s capitalization threshold of \$10,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund basis and the government-wide basis using the following estimated useful lives:

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

All capital assets are valued at historical cost (except for intangible right-to-use assets (lease), the measurement of which is discussed in more detail below), or estimated historical cost if actual cost was not available. Donated capital assets are valued at their acquisition value on the date donated.

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

**K. Compensated Absences**

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

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

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

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources, represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Another item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30<sup>th</sup>, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup>, and amounts prepaid on the 2<sup>nd</sup> half installments and deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> half installments are reported as deferred inflows of resources. In addition, certain items related to pension, OPEB, opioid settlements, and leases. For more detailed information on these items, reference the related notes.

**M. Pensions**

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



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

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**N. Use of Estimates**

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

**O. Unbilled Revenue**

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

**P. Bond Premium**

Bond premiums are amortized over the life of the respective bond issues using the effective interest method. Bond premium amortization for fiscal year ended June 30, 2023 was \$724,564 and \$51,800 for the governmental and business-type activities, respectively.

**Q. Long-term Obligations**

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

**R. Net Position**

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

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**S. Net Position Flow Assumption**

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

**T. Fund Equity**

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

T. Fund Equity: (Continued)

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

	General Fund	School Bond Funded Capital Fund	COVID-19 Relief Fund	Other Governmental Funds	Total
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventory	\$ 24,351	\$ -	\$ -	\$ -	\$ 24,351
Leases	10,997	-	-	-	10,997
Prepays	400,838	-	4,000	1,938,670	2,343,508
<b>Total Nonspendable Fund Balance</b>	<b>\$ 436,186</b>	<b>\$ -</b>	<b>\$ 4,000</b>	<b>\$ 1,938,670</b>	<b>\$ 2,378,856</b>
<b>Restricted:</b>					
Housing initiatives	\$ -	\$ -	\$ -	\$ 95,250	\$ 95,250
Education construction projects	-	1,556,984	-	-	1,556,984
Opioid settlement	-	-	-	156,197	156,197
<b>Total Restricted Fund Balance</b>	<b>\$ -</b>	<b>\$ 1,556,984</b>	<b>\$ -</b>	<b>\$ 251,447</b>	<b>\$ 1,808,431</b>
<b>Committed:</b>					
Social services	\$ -	\$ -	\$ -	\$ 572,670	\$ 572,670
Comprehensive services	-	-	-	1,224,256	1,224,256
Cowan Boulevard debt service	-	-	-	35,611	35,611
Public safety construction projects	-	-	-	411,745	411,745
Public facilities construction projects	-	-	-	1,340,284	1,340,284
Public works construction projects	-	-	-	1,029,276	1,029,276
Blight abatement	-	-	-	241,903	241,903
Economic development opportunities	-	-	-	764,252	764,252
Grant related expenditures	-	-	-	1,172,604	1,172,604
Forfeited asset sharing program	-	-	-	103,221	103,221
Stormwater management	-	-	-	967,379	967,379
Education debt service	-	-	-	1,775,211	1,775,211
Debt service	-	-	-	3,036,787	3,036,787
Detention stabilization	2,071,004	-	-	-	2,071,004
City capital projects	8,628,926	-	-	-	8,628,926
School capital projects	1,000,000	-	-	-	1,000,000
Homelessness initiatives	2,000,000	-	-	-	2,000,000
Health insurance claims	1,200,000	-	-	-	1,200,000
Other purposes	1,863,429	-	-	27,483	1,890,912
<b>Total Committed Fund Balance</b>	<b>\$ 16,763,359</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,702,682</b>	<b>\$ 29,466,041</b>
<b>Assigned:</b>					
Public works construction projects	\$ -	\$ -	\$ -	\$ 11,854,368	\$ 11,854,368
Public facilities construction projects	-	-	-	9,551,920	9,551,920
Public safety construction projects	-	-	-	3,146,217	3,146,217
Education construction projects	-	59,096,433	-	-	59,096,433
Court facilities construction projects	-	-	-	1,075,805	1,075,805
Upfront capital costs	2,000,000	-	-	-	2,000,000
Economic development opportunities	75,000	-	-	-	75,000
Other purposes	206,009	-	-	-	206,009
<b>Total Assigned Fund Balance</b>	<b>\$ 2,281,009</b>	<b>\$ 59,096,433</b>	<b>\$ -</b>	<b>\$ 25,628,310</b>	<b>\$ 87,005,752</b>
<b>Unassigned</b>	<b>\$ 21,693,799</b>	<b>\$ -</b>	<b>\$ (4,000)</b>	<b>\$ -</b>	<b>\$ 21,689,799</b>
<b>Total Fund Balances</b>	<b>\$ 41,174,353</b>	<b>\$ 60,653,417</b>	<b>\$ -</b>	<b>\$ 40,521,109</b>	<b>\$ 142,348,879</b>

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

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**U. Other Postemployment Benefits (OPEB)**

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS HIC, GLI and Teacher HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**V. Leases and Subscription-Based IT Arrangements**

The City has various lease assets and subscription-based IT arrangements (SBITAs) requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

*Lessee*

The City recognizes lease liabilities and intangible right-to-use lease assets (lease assets) in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

*Lessor*

The City recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

*Subscriptions*

The City recognizes intangible right-to-use subscription assets (subscription assets) and corresponding subscription liabilities, in the government-wide financial statements. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

## CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

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#### V. Leases and Subscription-Based IT Arrangements: (Continued)

##### *Key Estimates and Judgments*

Lease and subscription-based IT arrangement accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease and subscription payments to present value, (2) lease and subscription term, and (3) lease and subscription payments.

- The City uses the interest rate stated in lease or subscription contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the City uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.
- The lease and subscription terms include the noncancellable period of the lease or subscription and certain periods covered by options to extend to reflect how long the lease or subscription is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease or subscription incentives and certain other payments are included in the measurement of the lease receivable (lessor), lease liability (lessee) or subscription liability.

The City monitors changes in circumstances that would require a remeasurement or modification of its leases and subscriptions. The City will remeasure the lease receivable and deferred inflows of resources (lessor), the lease asset and liability (lessee) or the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the lease receivable, lease liability or subscription liability.

### Note 2—Deposits and Investments:

---

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

Investments - Statutes authorize local governments and other public bodies 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 that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), 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, 2023 were held by the City or in the City’s name by the City’s custodial banks; except for U.S. Agency investments, U.S. Treasuries, Corporate Debt investments, municipal public bonds, and commercial paper, where the underlying securities were uninsured and held by an investment broker.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

**Credit Risk of Debt Securities**

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

The City’s rated debt investments as of June 30, 2023 were rated by Standard and Poor’s or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale.

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

Rated Debt Investments	Fair Quality Ratings			
	AAAm	AA+	AA	AA-
U.S. Agencies	\$ -	\$ 21,158,805	\$ -	\$ -
Corporate Debt	-	901,475	982,056	547,009
U.S. Treasuries	-	21,970,730	-	-
VML/VACO Pooled Trust	2,475,104	-	-	-
Virginia State Non-Arbitrage Program	78,281,516	-	-	-
Money Market Mutual Fund	43,159,963	-	-	-
<b>Total</b>	<b>\$ 123,916,583</b>	<b>\$ 44,031,010</b>	<b>\$ 982,056</b>	<b>\$ 547,009</b>

**Interest Rate Risk**

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

**Investment Maturities (in years)**

Investment Type	Fair Value	Within 1 Year	1-5 Years
U.S. Agencies	\$ 21,158,805	\$ 11,464,445	\$ 9,694,360
U.S. Treasuries	21,970,730	8,991,862	12,978,868
VML/VACO Pooled Trust	2,475,104	2,475,104	-
Virginia State Non-Abitrage Program	78,281,516	78,281,516	-
Corporate Debt	2,430,540	-	2,430,540
<b>Total</b>	<b>\$ 126,316,695</b>	<b>\$ 101,212,927</b>	<b>\$ 25,103,768</b>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

**External Investment Pool**

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

**Note 3—Fair Value Measurements:**

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

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

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

The City has the following recurring fair value measurements as of June 30, 2023:

<b>Investment</b>	<b>June 30, 2023</b>	<b>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</b>
U.S. Agencies	\$ 21,158,805	\$ 21,158,805
U.S. Treasuries	21,970,730	21,970,730
Money Market Mutual Fund	43,159,963	43,159,963
Corporate Debt	2,430,540	2,430,540
Total	\$ 88,720,038	\$ 88,720,038
Investments measured at NAV:		
Virginia Investment Pool	\$ 2,475,104	
Total investments measured at fair value	\$ 91,195,142	

At June 30, 2023, there were no withdraw limitations associated with investments held by the Virginia Investment Pool.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

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

	<u>Real Property</u>	<u>Personal Property</u>
Levy	July 1	January 1
Due Date	June 5/December 5 (50% each date)	June 5/December 5 (50% each date)
Lien Date	May 16/November 16	May 16/November 16

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

Receivables and accrued revenue at June 30, 2023 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	\$ 4,494,752	\$ 31,879	\$ -	\$ 4,526,631	\$ -
Water charges	-	-	-	-	1,176,780
Wastewater charges	-	-	-	-	1,902,746
EMS fees	125,928	-	-	125,928	-
Meals tax	1,652,954	-	-	1,652,954	-
Refuse disposal fees	224,001	-	-	224,001	-
Opioid settlements	-	484,424	-	484,424	-
Lodging tax	179,408	-	-	179,408	-
Investment earnings	87,775	-	263,324	351,099	87,776
Other	585,196	34,865	2,423	622,484	27,976
Total	\$ 7,350,014	\$ 551,168	\$ 265,747	\$ 8,166,929	\$ 3,195,278
Allowance for uncollectibles	(812,205)	-	-	(812,205)	(450,989)
Net receivables	<u>\$ 6,537,809</u>	<u>\$ 551,168</u>	<u>\$ 265,747</u>	<u>\$ 7,354,724</u>	<u>\$ 2,744,289</u>

**Component Units**

	<u>School Board</u>	<u>Economic Development Authority</u>
Other	\$ 147,275	\$ 124,469
Total	\$ 147,275	\$ 124,469
Allowance for uncollectibles	-	-
Net receivables	<u>\$ 147,275</u>	<u>\$ 124,469</u>



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 6—Due From Other Governmental Units:**

	Governmental Activities				Business-Type Activities	Component Unit School Board
	General	Special Revenue	Capital Projects	COVID-19 Relief		
<b>Primary Government:</b>						
Commonwealth of Virginia:						
Local sales taxes	\$ 2,478,660	\$ -	\$ -	\$ -	\$ 2,478,660	\$ -
Telecommunication sales tax	98,789	-	-	-	98,789	-
PPTRA	676,647	-	-	-	676,647	-
Children's Services Act	-	487,659	-	-	487,659	-
Shared expenses and grants	191,382	-	-	-	191,382	-
Virginia Department of Transportation	-	-	6,314	-	6,314	894,178
Virginia Department of Emergency Management	-	88,842	-	-	88,842	-
Virginia Department of Criminal Justice Services	-	5,160	-	-	5,160	-
Social services grants	-	655,341	-	-	655,341	-
Other	33,481	3,393	207,235	-	244,109	-
Federal government:						
Transit grants	-	-	-	-	-	2,020,954
Criminal justice grants	-	101,763	-	94,290	196,053	-
Department of Housing and Community Development	-	32,633	-	-	32,633	-
Other	2,611	87,992	-	-	90,603	-
Others:						
Other	73,562	8,212	-	-	81,774	-
Local government reimbursements:						
County of Spotsylvania	-	-	-	-	-	225,926
<b>Component Unit School Board:</b>						
Commonwealth of Virginia:						
State sales taxes	-	-	-	-	-	771,400
State school funds	-	-	-	-	-	10,705
Federal pass-through:						
School funds	-	-	-	-	-	7,699,864
Federal government:						
Head Start	-	-	-	-	-	80,012
<b>Total</b>	<b>\$ 3,555,132</b>	<b>\$ 1,470,995</b>	<b>\$ 213,549</b>	<b>\$ 94,290</b>	<b>\$ 5,333,966</b>	<b>\$ 3,141,058</b>
						<b>\$ 8,561,981</b>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

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**Primary Government:**

Balances due To/From other funds at June 30, 2023:

There were no interfund obligations in the primary government.

Transfers To/From Other Funds:

Transfers to the Virginia Public Assistance Fund for the local share of social services program costs	\$ 1,194,680
Transfers to the State, Federal and Local Grants Fund for the local share of grant programs	200,000
Transfer to the Children's Services Act Fund for the local share of the program costs	1,000,000
Transfer to the Fredericksburg Opportunity Fund for the local share of the program costs	500,000
Transfers to the Multi Purpose Stadium Fund for community development	193,968
Transfers to the General Obligation Bond Debt Service Fund to pay general obligation debt service and related costs	4,458,676
Transfers to the Education Debt Service Fund to pay school debt service and related costs	5,292,536
Transfers to the School Bond Funded Capital Fund to fund infrastructure and related capital projects	4,500,000
Transfers to the Public Works Capital Fund to fund infrastructure and related capital projects	1,363,640
Transfers to the Public Safety Capital Fund to fund capital projects	926,186
Transfers to the Public Facilities Capital Fund to fund building improvements and related costs	1,660,312
Transfer to the Internal Service Fund for insurance funding	300,000
Transfers to the Sewer Fund to reimburse grant expenditures	2,575,374
Transfers to the Water Fund to reimburse grant expenditures	<u>21,374</u>
Total transfers in - other governmental funds	<u>\$ 24,186,746</u>
Transfers to the General Fund for various programs	<u>\$ 1,173,844</u>
Total transfers	<u><u>\$ 25,360,590</u></u>
Reconciliation of transfers:	
Transfers out from governmental funds	\$ 24,186,746
Transfers from enterprise funds to governmental funds	<u>1,173,844</u>
Total transfers	<u><u>\$ 25,360,590</u></u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 8—Capital Assets:**

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

**Primary Government:**

**Governmental Activities:**

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 26,373,125	\$ 3,400	\$ 15,000	\$ 26,361,525
Construction in progress:				
Infrastructure	\$ 399,980	\$ 1,891,268	\$ -	\$ 2,291,248
Land improvements	55,293	29,082	-	84,375
Joint tenancy assets	-	6,816,041	-	6,816,041
Buildings	2,816,408	982,961	2,562,289	1,237,080
Total construction in progress	\$ 3,271,681	\$ 9,719,352	\$ 2,562,289	\$ 10,428,744
Total capital assets not being depreciated	\$ 29,644,806	\$ 9,722,752	\$ 2,577,289	\$ 36,790,269
Other capital assets:				
Land improvements	\$ 27,951,602	\$ 79,800	\$ -	\$ 28,031,402
Buildings and improvements	64,446,327	2,889,575	274,107	67,061,795
Lease buildings and improvements	24,762,624	231,013	-	24,993,637
Joint tenancy assets	31,630,000	-	2,765,000	28,865,000
Infrastructure	107,923,957	-	-	107,923,957
Lease equipment	461,293	-	-	461,293
Machinery, equipment and vehicles	31,616,239	2,027,112	266,426	33,376,925
Total other capital assets	\$ 288,792,042	\$ 5,227,500	\$ 3,305,533	\$ 290,714,009
Accumulated depreciation:				
Land improvements	\$ 6,996,655	\$ 745,425	\$ -	\$ 7,742,080
Buildings and improvements	25,305,838	1,678,876	241,039	26,743,675
Lease buildings and improvements	965,337	1,027,766	-	1,993,103
Joint tenancy assets	7,209,493	795,625	1,029,035	6,976,083
Infrastructure	59,840,759	3,570,541	-	63,411,300
Lease equipment	167,743	167,742	-	335,485
Machinery, equipment and vehicles	19,588,345	1,837,879	260,022	21,166,202
Total accumulated depreciation	\$ 120,074,170	\$ 9,823,854	\$ 1,530,096	\$ 128,367,928
Other capital assets, net	\$ 168,717,872	\$ (4,596,354)	\$ 1,775,437	\$ 162,346,081
Net capital assets	\$ 198,362,678	\$ 5,126,398	\$ 4,352,726	\$ 199,136,350
Depreciation is allocated to:				
General government administration		\$ 532,129		
Judicial administration		1,041,788		
Public safety		1,221,492		
Public works		4,372,321		
Health and welfare		99,558		
Education		795,625		
Parks and recreation		848,805		
Community development		912,136		
Total		\$ 9,823,854		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 8—Capital Assets: (Continued)**

**Primary Government: (Continued)**

**Business-type Activities:**

	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Capital assets not being depreciated:				
Land	\$ 2,159,036	\$ 297,887	\$ -	\$ 2,456,923
Construction in progress	848,713	4,715,127	1,252,727	4,311,113
Total capital assets not being depreciated	<u>\$ 3,007,749</u>	<u>\$ 5,013,014</u>	<u>\$ 1,252,727</u>	<u>\$ 6,768,036</u>
Other capital assets:				
Land improvements	\$ 976,403	\$ -	\$ -	\$ 976,403
Buildings and systems	90,139,451	1,274,046	-	91,413,497
Dams and reservoirs	2,531,502	-	-	2,531,502
Intangible assets	9,291,378	-	-	9,291,378
Furniture, machinery and equipment	11,125,741	1,997,944	1,177,429	11,946,256
Total other capital assets	<u>\$ 114,064,475</u>	<u>\$ 3,271,990</u>	<u>\$ 1,177,429</u>	<u>\$ 116,159,036</u>
Accumulated depreciation:				
Land improvements	\$ 287,896	\$ 35,987	\$ -	\$ 323,883
Buildings and systems	36,188,842	2,012,461	-	38,201,303
Dams and reservoirs	548,333	88,076	-	636,409
Intangible assets	3,620,146	308,577	-	3,928,723
Furniture, machinery and equipment	8,100,156	606,790	1,174,028	7,532,918
Total accumulated depreciation	<u>\$ 48,745,373</u>	<u>\$ 3,051,891</u>	<u>\$ 1,174,028</u>	<u>\$ 50,623,236</u>
Other capital assets, net	<u>\$ 65,319,102</u>	<u>\$ 220,099</u>	<u>\$ 3,401</u>	<u>\$ 65,535,800</u>
Net capital assets	<u>\$ 68,326,851</u>	<u>\$ 5,233,113</u>	<u>\$ 1,256,128</u>	<u>\$ 72,303,836</u>
Depreciation is allocated to:				
Water operations		\$ 937,818		
Wastewater operations		1,389,020		
Parking garage operations		545,188		
Transit operations		179,865		
Total		<u>\$ 3,051,891</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 8—Capital Assets: (Continued)

Component Unit School Board:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 472,679	\$ -	\$ -	\$ 472,679
Construction in progress	3,080,292	-	1,881,872	1,198,420
Total capital assets not being depreciated	<u>\$ 3,552,971</u>	<u>\$ -</u>	<u>\$ 1,881,872</u>	<u>\$ 1,671,099</u>
Other capital assets:				
Land improvements	\$ 873,540	\$ 255,642	\$ -	\$ 1,129,182
Buildings and improvements	53,892,596	4,729,574	-	58,622,170
Lease equipment	369,765	-	-	369,765
Machinery, equipment and vehicles	8,619,760	2,482,680	-	11,102,440
Total other capital assets	<u>\$ 63,755,661</u>	<u>\$ 7,467,896</u>	<u>\$ -</u>	<u>\$ 71,223,557</u>
Accumulated depreciation:				
Land improvements	\$ 128,552	\$ 40,967	\$ -	\$ 169,519
Buildings and improvements	28,531,916	2,681,443	-	31,213,359
Lease equipment	78,161	88,532	-	166,693
Machinery, equipment and vehicles	5,678,278	497,280	-	6,175,558
Total accumulated depreciation	<u>\$ 34,416,907</u>	<u>\$ 3,308,222</u>	<u>\$ -</u>	<u>\$ 37,725,129</u>
Other capital assets, net	<u>\$ 29,338,754</u>	<u>\$ 4,159,674</u>	<u>\$ -</u>	<u>\$ 33,498,428</u>
Net capital assets	<u>\$ 32,891,725</u>	<u>\$ 4,159,674</u>	<u>\$ 1,881,872</u>	<u>\$ 35,169,527</u>
Depreciation allocated to education		<u>\$ 3,308,222</u>		

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 9—Deferred/Unearned Revenue:**

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

	<u>Unearned Revenue</u>	
	<u>Government-wide</u>	
	<u>Statements</u>	
	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
County of Spotsylvania share of wastewater improvements in exchange for continued wastewater capacity.	\$ -	\$ 1,364,174
Unspent grant funds and other items	<u>7,983,318</u>	<u>-</u>
Total unearned revenue	<u>\$ 7,983,318</u>	<u>\$ 1,364,174</u>
	<u>Deferred/Unavailable Revenue</u>	
	<u>Balance</u>	<u>Government-wide</u>
	<u>Sheet</u>	<u>Statements</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Funds</u>	<u>Activities</u>
Deferred/unavailable revenue:		
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year.	\$ 581,296	\$ 581,296
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	<u>2,400,901</u>	<u>-</u>
Other unavailable revenues	<u>484,424</u>	<u>-</u>
Total deferred/unavailable revenue	<u>\$ 3,466,621</u>	<u>\$ 581,296</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 10—Long-term Obligations:**

A summary of long-term obligation transactions of the City for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2023	Current Portion
<b>Primary Government:</b>					
Long-term obligations payable from governmental activities:					
General obligation bonds	\$ 35,423,096	\$ 68,045,000	\$ 1,588,347	\$ 101,879,749	\$ 3,380,041
Direct borrowings and placements:					
General obligation bonds	3,574,102	-	766,232	2,807,870	792,925
General obligation school bonds	31,630,000	-	2,765,000	28,865,000	2,915,000
Revenue bonds	535,000	-	260,000	275,000	275,000
Add: Unamortized bond premium	4,726,905	3,279,770	724,564	7,282,111	842,789
Other liabilities:					
Lease liabilities	24,282,903	231,013	1,067,552	23,446,364	1,050,534
Landfill post-closure costs	1,482,161	105,234	-	1,587,395	90,000
Compensated absences	4,056,416	3,107,107	2,514,978	4,648,545	2,882,098
Net pension liability	13,300,047	12,741,716	4,697,862	21,343,901	-
Net OPEB liability	15,712,389	2,545,814	2,146,744	16,111,459	-
Total	<u>\$ 134,723,019</u>	<u>\$ 90,055,654</u>	<u>\$ 16,531,279</u>	<u>\$ 208,247,394</u>	<u>\$ 12,228,387</u>
Long-term obligations payable from business-type activities:					
General obligation bonds	\$ 11,426,904	\$ 6,885,000	\$ 641,653	\$ 17,670,251	\$ 1,084,959
Direct borrowings and placements:					
General obligation bonds	7,615,613	-	1,174,113	6,441,500	1,199,546
Add: Unamortized bond premium	232,026	587,162	51,800	767,388	104,757
Other liabilities:					
Compensated absences	330,628	261,406	199,678	392,356	240,063
Net pension liability	1,450,804	1,475,770	542,905	2,383,669	-
Net OPEB liability	784,121	177,605	142,781	818,945	-
Total	<u>\$ 21,840,096</u>	<u>\$ 9,386,943</u>	<u>\$ 2,752,930</u>	<u>\$ 28,474,109</u>	<u>\$ 2,629,325</u>
Total primary government	<u>\$ 156,563,115</u>	<u>\$ 99,442,597</u>	<u>\$ 19,284,209</u>	<u>\$ 236,721,503</u>	<u>\$ 14,857,712</u>
<b>Component Unit School Board:</b>					
Long-term obligations payable from component unit School Board activities:					
Energy performance contract	\$ 1,753,000	-	\$ 278,000	\$ 1,475,000	\$ 283,000
Lease liabilities	291,950	-	88,027	203,923	88,731
Compensated absences	1,337,039	1,295,509	695,260	1,937,288	1,007,390
Net pension liability	21,171,519	21,525,427	15,535,630	27,161,316	-
Net OPEB liability	10,711,935	2,481,212	1,697,074	11,496,073	-
Total component unit School Board	<u>\$ 35,265,443</u>	<u>\$ 25,302,148</u>	<u>\$ 18,293,991</u>	<u>\$ 42,273,600</u>	<u>\$ 1,379,121</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

The schedule below shows principal and interest annual requirements through maturity for all outstanding debt at June 30, 2023:

Year Ending June 30,	Governmental Activities							
	Direct Borrowings and Direct Placements				Lease			
	General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 3,707,925	\$ 1,358,022	\$ 275,000	\$ 7,047	\$ 3,380,041	\$ 4,219,429	\$ 1,050,534	\$ 272,780
2025	3,878,571	1,180,563	-	-	3,557,604	4,048,153	750,155	349,766
2026	4,065,277	998,862	-	-	3,725,011	3,868,310	711,757	338,243
2027	3,563,250	823,745	-	-	3,932,005	3,679,147	723,084	326,916
2028	3,732,850	652,098	-	-	4,119,559	3,487,214	734,592	315,408
2029	3,720,000	476,454	-	-	4,311,985	3,293,150	746,283	303,717
2030	3,904,997	295,592	-	-	4,469,701	3,088,821	758,160	291,840
2031	645,000	188,547	-	-	4,686,908	2,873,532	770,226	279,774
2032	670,000	159,100	-	-	4,914,096	2,647,182	782,484	267,516
2033	700,000	130,744	-	-	5,151,794	2,415,472	794,937	255,063
2034	730,000	103,525	-	-	4,784,548	2,212,042	807,589	242,411
2035	755,000	75,272	-	-	4,836,991	2,035,160	820,441	229,559
2036	785,000	45,959	-	-	4,920,750	1,851,969	833,499	216,501
2037	815,000	15,509	-	-	5,106,047	1,662,062	846,764	203,236
2038	-	-	-	-	5,291,634	1,477,748	860,240	189,760
2039	-	-	-	-	3,441,075	1,322,735	873,931	176,069
2040	-	-	-	-	2,940,000	1,196,269	887,839	162,161
2041	-	-	-	-	3,065,000	1,076,169	901,969	148,031
2042	-	-	-	-	3,185,000	951,169	916,324	133,676
2043	-	-	-	-	3,315,000	821,169	930,907	119,093
2044	-	-	-	-	3,455,000	685,769	945,722	104,278
2045	-	-	-	-	3,595,000	544,769	960,773	89,227
2046	-	-	-	-	3,745,000	397,969	976,064	73,936
2047	-	-	-	-	3,895,000	245,169	991,598	58,402
2048	-	-	-	-	4,055,000	83,634	1,007,379	42,621
2049	-	-	-	-	-	-	1,023,412	26,588
2050	-	-	-	-	-	-	1,039,701	10,299
	<u>\$ 31,672,870</u>	<u>\$ 6,503,992</u>	<u>\$ 275,000</u>	<u>\$ 7,047</u>	<u>\$ 101,879,749</u>	<u>\$ 50,184,212</u>	<u>\$ 23,446,364</u>	<u>\$ 4,082,490</u>



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 10—Long-term Obligations: (Continued)

Year Ending June 30,	Business-type Activities			
	Direct Borrowings and Direct Placements		General Obligation Bonds	
	General Obligation Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2024	\$ 1,199,546	\$ 126,489	\$ 1,084,959	\$ 643,342
2025	1,226,815	99,683	1,127,396	600,849
2026	1,252,592	72,217	1,174,989	556,450
2027	976,013	47,766	1,217,995	510,023
2028	997,320	26,360	1,270,441	461,559
2029	391,170	12,470	1,313,015	411,078
2030	398,044	6,289	1,370,299	361,014
2031	-	-	1,418,092	311,287
2032	-	-	1,465,904	259,442
2033	-	-	1,528,206	203,984
2034	-	-	965,452	160,404
2035	-	-	988,009	130,828
2036	-	-	404,250	100,347
2037	-	-	418,953	83,126
2038	-	-	438,366	66,268
2039	-	-	448,925	33,970
2040	-	-	95,000	39,669
2041	-	-	100,000	35,769
2042	-	-	105,000	31,669
2043	-	-	110,000	27,369
2044	-	-	115,000	22,869
2045	-	-	120,000	18,169
2046	-	-	125,000	13,269
2047	-	-	130,000	8,169
2048	-	-	135,000	2,784
	<u>\$ 6,441,500</u>	<u>\$ 391,274</u>	<u>\$ 17,670,251</u>	<u>\$ 5,093,707</u>

Year Ending June 30,	Component Unit School Board			
	Lease Liabilities		Energy Performance Contract	
	Lease Liabilities		Energy Performance Contract	
	Principal	Interest	Principal	Interest
2024	\$ 88,731	\$ 930	\$ 283,000	\$ 29,648
2025	58,226	384	289,000	23,959
2026	46,019	161	295,000	18,150
2027	10,947	30	301,000	12,221
2028	-	-	307,000	6,171
	<u>\$ 203,923</u>	<u>\$ 1,505</u>	<u>\$ 1,475,000</u>	<u>\$ 90,149</u>

The above schedule does not include premiums.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

At June 30, 2023, the City’s long-term obligations consisted of the following:

Details of Long-term Obligations:

	Issued	Due Date	Rate(s)	Amount Outstanding	Current Portion
<b>Primary Government:</b>					
General obligation bonds:					
2004A General Obligation School Bonds	2004	2030	4.85%-5.1%	\$ 19,985,000	\$ 2,450,000
2014A General Obligation Refunding Bonds	2015	2026	2.37%	2,185,000	715,000
2014B General Obligation Refunding Bonds	2015	2028	2.55%	3,790,000	720,000
2015A General Obligation Bonds	2015	2035	2.32%	7,485,000	545,000
2016A General Obligation Bonds	2016	2037	3.8%-5.125%	9,495,000	660,000
2018A General Obligation Bonds	2018	2039	3.125%-5.0%	13,120,000	630,000
2020 General Obligation Refunding Bonds	2020	2038	2.0%-5.0%	24,015,000	1,160,000
2020B General Obligation Refunding Bonds	2021	2030	1.58%	2,659,370	362,471
2022A General Obligation Bonds	2023	2048	4.0%-5.0%	74,930,000	2,130,000
Total general obligation bonds				\$ 157,664,370	\$ 9,372,471
Revenue bonds:					
Virginia Resources Authority Revenue Bonds	2016	2024	3.125-5.125%	\$ 275,000	\$ 275,000
Unamortized bond premium:					
2004A General Obligation School Bonds				\$ 181,614	\$ 46,450
2015D Virginia Resources Authority Revenue Bonds				4,511	4,511
2016A General Obligation Bonds				983,378	137,534
2018A General Obligation Bonds				640,731	80,601
2020 General Obligation Refunding Bonds				2,480,396	344,674
2022A General Obligation Bonds				3,758,869	333,776
Total unamortized bond premium				\$ 8,049,499	\$ 947,546
Lease liabilities:					
Warehouse space - Industrial Park	2019	2024	2.00%	\$ 47,429	\$ 47,429
Office space - visitors center	2023	2025	3.00%	116,715	67,166
Stadium lease	2021	2050	1.58%	23,127,024	780,743
Public works equipment	2021	2024	0.93%	155,196	155,196
Total lease liabilities				\$ 23,446,364	\$ 1,050,534
Other liabilities:					
Net pension liability				\$ 23,727,570	\$ -
Compensated absences				\$ 5,040,901	\$ 3,122,161
Net OPEB liability				\$ 16,930,404	\$ -
Landfill post-closure costs				\$ 1,587,395	\$ 90,000
Total primary government				\$ 236,721,503	\$ 14,857,712
<b>Component Unit School Board:</b>					
Lease liabilities:					
Copier leases	Various	2027	.32%-1.69%	\$ 203,923	\$ 88,731
Energy performance contract	2013	2028	2.0%	\$ 1,475,000	\$ 283,000
Compensated absences				\$ 1,937,288	\$ 1,007,390
Net pension liability				\$ 27,161,316	\$ -
Net OPEB liability				\$ 11,496,073	\$ -
Total component unit School Board				\$ 42,273,600	\$ 1,379,121

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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

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

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

**Conduit Debt.** There are several industrial development revenue bonds outstanding issued through the Economic Development Authority of Fredericksburg. The City has no responsibility for the repayment of these debt obligations.

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

**Note 11—Compensated Absences:**

The City and School Board record liabilities for accrued vacation pay and other compensated absences. The following describes the City and School Board policies.

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

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

	<u>Balance July 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2023</u>	<u>Current Portion</u>
Changes in compensated absences are as follows:					
Primary Government:					
Governmental activities	\$ 4,056,416	\$ 3,107,107	\$ 2,514,978	\$ 4,648,545	\$ 2,882,098
Business-type activities	<u>330,628</u>	<u>261,406</u>	<u>199,678</u>	<u>392,356</u>	<u>240,063</u>
Total primary government	\$ 4,387,044	\$ 3,368,513	\$ 2,714,656	\$ 5,040,901	\$ 3,122,161
Component Unit School Board	<u>1,337,039</u>	<u>1,295,509</u>	<u>695,260</u>	<u>1,937,288</u>	<u>1,007,390</u>
Total	<u>\$ 5,724,083</u>	<u>\$ 4,664,022</u>	<u>\$ 3,409,916</u>	<u>\$ 6,978,189</u>	<u>\$ 4,129,551</u>

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

**Note 12—Pension Plan:**

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***Plan Description***

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

***Benefit Structures***

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership date July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

**Note 12—Pension Plan: (Continued)**

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***Average Final Compensation and Service Retirement Multiplier***

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

***Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits***

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required employer contribution rate for the year ended June 30, 2023 was 16.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$4,681,859 and \$3,831,873 for the years ended June 30, 2023 and June 30, 2022, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 12—Pension Plan: (Continued)**

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***Net Pension Liability***

At June 30, 2023, the City reported a liability of \$23,727,570 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2022 and 2021 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2022 and 2021, the City's proportion was 97.85% and 97.81%, respectively.

***Actuarial Assumptions - General Employees***

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

**Mortality rates:**

All Others (Non-10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service-related

**Pre-Retirement:**

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

**Post-Retirement:**

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

**Post-Disablement:**

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

**Beneficiaries and Survivors:**

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

**Mortality Improvement:**

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Actuarial Assumptions - General Employees: (Continued)**

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits**

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City’s Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

All Others (Non-10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits: (Continued)**

Mortality rates:

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u><u>7.83%</u></u>

\*The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

\*\*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

**Note 12—Pension Plan: (Continued)**

***Discount Rate***

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2022, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the City’s proportionate share of the net pension liability using the discount rate of 6.75%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>Rate</b>		
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
City’s proportionate share of the City Retirement Plan Net Pension Liability (Asset)	\$ 43,593,943	\$ 23,727,570	\$ 7,418,272

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

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

For the year ended June 30, 2023, the City recognized pension expense of \$2,939,500. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

	<b>Primary Government</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 423,249	\$ 206,568
Change in assumptions	1,937,290	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	153,314	135,217
Net difference between projected and actual earnings on pension plan investments	-	3,974,980
Employer contributions subsequent to the measurement date	4,681,859	-
Total	<u>\$ 7,195,712</u>	<u>\$ 4,316,765</u>

\$4,681,859 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<b>Year ended June 30</b>	<b>Primary Government</b>
2024	\$ 365,865
2025	(1,341,570)
2026	(2,671,331)
2027	1,844,124

***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**Note 12—Pension Plan: (Continued)**

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**Component Unit School Board (nonprofessional)**

***Plan Description***

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

***Employees Covered by Benefit Terms***

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b><u>Component Unit School Board (nonprofessional)</u></b>
Inactive members or their beneficiaries currently receiving benefits	18
Inactive members:	
Vested inactive members	3
Non-vested inactive members	11
Inactive members active elsewhere in VRS	<u>5</u>
Total inactive members	19
Active members	<u>38</u>
Total covered employees	<u><u>75</u></u>

***Contributions***

The Component Unit School Board’s contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2023 was 3.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board’s nonprofessional employees were \$56,753 and \$42,139 for the years ended June 30, 2023 and June 30, 2022, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Component Unit School Board (nonprofessional): (Continued)**

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position.

The Component Unit School Board's (nonprofessional) net pension liability (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

***Changes in Net Pension Liability (Asset)***

	<b>Component School Board (nonprofessional)</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at June 30, 2021	\$ 5,767,170	\$ 6,859,505	\$ (1,092,335)
Changes for the year:			
Service cost	\$ 141,654	\$ -	\$ 141,654
Interest	390,616	-	390,616
Differences between expected and actual experience	(10,798)	-	(10,798)
Contributions - employer	-	41,801	(41,801)
Contributions - employee	-	73,369	(73,369)
Net investment income	-	(6,458)	6,458
Benefit payments, including refunds of employee contributions	(243,840)	(243,840)	-
Administrative expenses	-	(4,283)	4,283
Other changes	-	158	(158)
Net changes	<u>\$ 277,632</u>	<u>\$ (139,253)</u>	<u>\$ 416,885</u>
Balances at June 30, 2022	<u>\$ 6,044,802</u>	<u>\$ 6,720,252</u>	<u>\$ (675,450)</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Component Unit School Board (nonprofessional): (Continued)**

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

The following presents the net pension liability of the Component Unit School Board (nonprofessional) using the discount rate of 6.75%, as well as what the Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>Rate</u>		
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	\$ (1,127)	\$ (675,450)	\$ (1,237,227)

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

For the year ended June 30, 2023, the Component Unit School Board (nonprofessional) recognized pension expense of (\$14,383). At June 30, 2023, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Component Unit School Board (nonprofessional)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 35,213
Change in assumptions	88,214	-
Net difference between projected and actual earnings on pension plan investments	-	197,803
Employer contributions subsequent to the measurement date	<u>56,753</u>	<u>-</u>
Total	<u>\$ 144,967</u>	<u>\$ 233,016</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 12—Pension Plan: (Continued)**

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**Component Unit School Board (nonprofessional): (Continued)**

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

\$56,753 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2024	\$ (36,030)
2025	(68,079)
2026	(133,690)
2027	92,997

**Component Unit School Board (professional)**

***Plan Description***

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information related to the plan description is included in the first section of this note.

***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$4,621,451 and \$4,238,212 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$442.4 million to the VRS Teacher Retirement Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 12—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

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

At June 30, 2023, the school division reported a liability of \$27,161,316 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion was .2853% as compared to .2727% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized pension expense of \$1,298,562. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. Beginning with the June 30, 2022 measurement date, the difference between expected and actual contributions is included with the pension expense calculation.

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,872,880
Change in assumptions	2,560,765	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,196,815	912,037
Net difference between projected and actual earnings on pension plan investments	-	3,541,267
Employer contributions subsequent to the measurement date	4,621,451	-
Total	<u>\$ 8,379,031</u>	<u>\$ 6,326,184</u>



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 12—Pension Plan: (Continued)**

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**Component Unit School Board (professional): (Continued)**

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

\$4,621,451 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2024	\$ (980,891)
2025	(1,229,770)
2026	(2,235,002)
2027	1,877,059
2028	-

***Actuarial Assumptions***

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 12—Pension Plan: (Continued)**

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**Component Unit School Board (professional): (Continued)**

***Actuarial Assumptions: (Continued)***

Mortality rates:

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Component Unit School Board (professional): (Continued)**

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB Statement No. 67, less that system’s fiduciary net position. As of June 30, 2022, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	<u>Teacher Employee Retirement Plan</u>
Total Pension Liability	\$ 54,732,329
Plan Fiduciary Net Position	45,211,731
Employers' Net Pension Liability (Asset)	<u>\$ 9,520,598</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 82.61%

The long-term expected rate of return and discount rate information previously described also apply to this plan.

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

The following presents the school division’s proportionate share of the net pension liability using the discount rate of 6.75%, as well as what the school division’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>Rate</u>		
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	\$ 48,512,190	\$ 27,161,316	\$ 9,777,010

***Pension Plan Fiduciary Net Position***

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annualreport.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 12—Pension Plan: (Continued)**

**Aggregate Pension Information**

VRS Pension Plans:				
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
<b>Primary Government</b>				
Primary Government	\$ 7,195,712	\$ 4,316,765	\$ 23,727,570	\$ 2,939,500
Totals	<u>\$ 7,195,712</u>	<u>\$ 4,316,765</u>	<u>\$ 23,727,570</u>	<u>\$ 2,939,500</u>
<b>Component Unit School Board</b>				
School Board Nonprofessional	\$ 144,967	\$ 233,016	\$ (675,450)	\$ (14,383)
School Board Professional	8,379,031	6,326,184	27,161,316	1,298,562
Totals	<u>\$ 8,523,998</u>	<u>\$ 6,559,200</u>	<u>\$ 26,485,866</u>	<u>\$ 1,284,179</u>

**Note 13—Deferred Compensation Plan:**

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

**Note 14—Commitments and Contingencies:**

**State and Federal Programs**

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

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 14—Commitments and Contingencies: (Continued)**

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**Environmental Matters**

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

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

**Construction Commitments**

At June 30, 2023, the City has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$67,617,507 at June 30, 2023.

**Note 15—Litigation:**

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

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

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The City closed the Cool Springs Landfill in 1988 and is subject to post-closure monitoring. The estimated post-closure care cost for the next five years has been recorded as a liability at June 30, 2023. The \$1,587,395 reported as landfill post-closure liability at June 30, 2023 represents the estimated liability for post-closure monitoring as well as corrective action costs. All post-closure care and monitoring cost amounts are based on what it would cost to perform all post-closure care based on 2023 costs. These may change depending on the result of monitoring activities and future laws and regulations governing landfill monitoring.

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

Balance at July 1, 2022	\$	1,482,161
Increase/(Decrease) in estimate		<u>105,234</u>
Balance at June 30, 2023	\$	<u><u>1,587,395</u></u>

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

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 17—Surety Bonds:**

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

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

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

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

**Employee Health Insurance**

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

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

**CITY OF FREDERICKSBURG, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2023

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

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

Internal Service Fund: Liability for estimated claims incurred but not reported	\$ 446,000
City General Fund: Committed Fund Balance for estimated reserves	<u>1,200,000</u>
Total	<u>\$ 1,646,000</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
2021	\$ 485,637	\$ 5,791,210	\$ 5,753,491	\$ 523,356
2022	523,356	5,401,998	5,442,354	483,000
2023	483,000	6,336,608	6,373,608	446,000

**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 workers compensation coverages. In the event of a loss deficit and depletion of all assets and available insurance of a pool, members may be assessed in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan):**

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***Plan Description***

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Plan OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

***Eligible Employees***

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

***Benefit Amounts***

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,984 as of June 30, 2023.



**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

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***Contributions***

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the Primary Government were \$163,736 and \$152,689 for the years ended June 30, 2023 and June 30, 2022, respectively. Contributions to School Professional Plan were \$156,549 and \$143,592 for the years ended June 30, 2023 and June 30, 2022, respectively. Contributions to the School Nonprofessional Plan were \$11,504 and \$8,718 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Plan OPEB***

At June 30, 2023, the Primary Government, School Board (Professional) and School Board (Nonprofessional) reported liabilities of \$1,565,199, \$1,471,887, and \$89,344, for their proportionate share of the Net GLI OPEB Liability, respectively. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, School Board (Professional) and School Board (Nonprofessional)'s proportion were .12220% and .00740% respectively, as compared to .11670% and .00730% at June 30, 2021.

The City of Fredericksburg proportionate share was .13290% at June 30, 2022 compared to .12880% at June 30, 2021. However, there are other entities not reported in these financial statements which are included in the employer proportionate share. The Primary Government's proportionate share of the overall City share was 97.85% at June 30, 2022 compared to 97.81% at June 30, 2021.

For the year ended June 30, 2023, the Primary Government, School Board (Professional) and School Board (Nonprofessional) recognized GLI OPEB expense of \$62,820, \$45,352, and \$4,517, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

*GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Plan OPEB: (Continued)*

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		School Professional		School Nonprofessional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 123,944	\$ 62,793	\$ 116,555	\$ 59,049	\$ 7,075	\$ 3,584
Net difference between projected and actual earnings on GLI OPEB program investments	-	97,802	-	91,971	-	5,583
Change in assumptions	58,381	152,456	54,899	143,368	3,332	8,702
Changes in proportionate share	71,267	7,256	66,236	52,064	7,244	1,757
Employer contributions subsequent to the measurement date	163,736	-	156,549	-	11,504	-
Total	<u>\$ 417,328</u>	<u>\$ 320,307</u>	<u>\$ 394,239</u>	<u>\$ 346,452</u>	<u>\$ 29,155</u>	<u>\$ 19,626</u>

\$163,736, \$156,549, and \$11,504 reported as deferred outflows of resources related to the GLI OPEB resulting from the respective Primary Government, School Board (Professional) and School Board (Nonprofessional)'s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government	School Professional	School Nonprofessional
2024	\$ (12,061)	\$ (28,562)	\$ 97
2025	(11,829)	(26,238)	140
2026	(65,396)	(73,511)	(2,777)
2027	24,860	17,691	998
2028	(2,289)	1,858	(433)
Thereafter	-	-	-

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

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***Actuarial Assumptions***

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.50%
Salary increases, including inflation:	
Teachers	3.50%-5.95%
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

**Mortality Rates - Teachers**

**Pre-Retirement:**

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

**Post-Retirement:**

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

**Post-Disablement:**

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

**Beneficiaries and Survivors:**

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

**Mortality Improvement:**

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

**CITY OF FREDERICKSBURG, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2023

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

**Actuarial Assumptions: (Continued)**

**Mortality Rates - Teachers: (Continued)**

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

**Pre-Retirement:**

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

**Post-Retirement:**

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

**Post-Disablement:**

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

**Beneficiaries and Survivors:**

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

**Mortality Improvement Scale:**

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

**Actuarial Assumptions: (Continued)**

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees: (Continued)**

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees**

**Pre-Retirement:**

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

**Post-Retirement:**

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

**Post-Disablement:**

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

**Beneficiaries and Survivors:**

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

**Mortality Improvement Scale:**

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

**Actuarial Assumptions: (Continued)**

**Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)**

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**NET GLI OPEB Liability**

The net OPEB liability (NOL) for the GLI Plan represents the Plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

		<b>GLI OPEB Plan</b>
		<hr/>
Total GLI OPEB Liability	\$	3,672,085
Plan Fiduciary Net Position		2,467,989
GLI Net OPEB Liability (Asset)	\$	<hr/> <hr/> 1,204,096
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		67.21%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

***Long-Term Expected Rate of Return***

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
		Inflation	2.50%
		Expected arithmetic nominal return**	7.83%

\*The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

\*\*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 19—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

***Discount Rate: (Continued)***

Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

***Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate***

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Proportionate share of the GLI Plan Net OPEB Liability:			
Primary Government	\$ 2,277,548	\$ 1,565,199	\$ 989,523
School Professional	2,141,769	1,471,887	930,532
School Nonprofessional	130,006	89,344	56,484

***Group Life Insurance Plan Fiduciary Net Position***

Detailed information about the GLI Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.



**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan):**

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***Plan Description***

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Plan. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher HIC Plan OPEB, including eligibility, coverage, and benefits is described below:

***Eligible Employees***

The Teacher Employee Retiree HIC Plan was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

***Benefit Amounts***

The Teacher Employee HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

***HIC Plan Notes***

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

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***Contributions***

The contribution requirements for active employees are governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$350,287 and \$321,030 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$12 million to the VRS Teacher HIC Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

***Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB***

At June 30, 2023, the school division reported a liability of \$3,555,661 for its proportionate share of the VRS Teacher Employee HIC Net OPEB Liability. The Net VRS Teacher Employee HIC OPEB Liability was measured as of June 30, 2022 and the total VRS Teacher Employee HIC OPEB liability used to calculate the Net VRS Teacher Employee HIC OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net VRS Teacher Employee HIC OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC OPEB plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion of the VRS Teacher Employee HIC was .28467% as compared to .27222% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized VRS Teacher Employee HIC Plan OPEB expense of \$275,469. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Plan Net OPEB expense was related to deferred amounts from changes in proportionate share and differences between actual and expected contributions.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
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**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

*Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB: (Continued)*

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC Plan OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 144,934
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	3,569
Change in assumptions	103,879	9,080
Change in proportionate share and differences between actual and expected contributions	138,531	123,209
Employer contributions subsequent to the measurement date	<u>350,287</u>	<u>-</u>
Total	<u>\$ 592,697</u>	<u>\$ 280,792</u>

\$350,287 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ (19,544)
2025	(17,068)
2026	(14,164)
2027	1,692
2028	(1,104)
Thereafter	11,806

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

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***Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB: (Continued)***

***Actuarial Assumptions***

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation:	3.50%-5.95%
Investment rate of return	6.75%, net of investment expenses, including inflation

**Mortality Rates - Teachers**

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

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***Actuarial Assumptions: (Continued)***

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

***Net Teacher Employee HIC OPEB Liability***

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the Plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Teacher Employee HIC Plan is as follows (amounts expressed in thousands):

		<b>Teacher Employee HIC OPEB Plan</b>
Total Teacher Employee HIC OPEB Liability	\$	1,470,891
Plan Fiduciary Net Position		221,845
Teacher Employee net HIC OPEB Liability (Asset)	\$	<u>1,249,046</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		15.08%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

\*The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

\*\*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by each school

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 20—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Discount Rate: (Continued)***

division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

***Sensitivity of the School Division’s Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate***

The following presents the school division’s proportionate share of the VRS Teacher Employee HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the school division’s proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School division’s proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 4,007,270	\$ 3,555,661	\$ 3,172,843

***Teacher Employee HIC OPEB Fiduciary Net Position***

Detailed information about the VRS Teacher Employee HIC Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 21—Health Insurance - Pay-as-you-Go (OPEB Plan) - School Board:**

***Plan Description***

In addition to the pension benefits described in Note 12, the School Board administers a single-employer defined benefit healthcare plan, The Fredericksburg City Public Schools OPEB Plan. Retired employees, who were employed by Fredericksburg Public Schools with at least 26 years of service, who have attained the age of 50, and who retire under the VRS plan are eligible to receive a subsidy from the post-retirement medical plan. The plan has no separate financial report.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 21—Health Insurance - Pay-as-you-Go (OPEB Plan) - School Board: (Continued)**

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***Benefits Provided***

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

***Plan Membership***

At January 1, 2022 (valuation date), the following employees were covered by the benefit terms:

Total active employees with coverage	510
Total retirees and surviving spouses with coverage	<u>8</u>
Total	<u><u>518</u></u>

***Contributions***

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School for OPEB as the benefits came due during the year ended June 30, 2023 was \$140,678.

***Total OPEB Liability***

The School Board's total OPEB liability was measured as of June 30, 2023.

***Actuarial Assumptions***

The total OPEB liability in the January 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.50% to 5.95% based on years of service and position
Discount Rate	3.65% for accounting and funding disclosures as of June 30, 2023 3.54% for accounting and funding disclosures as of June 30, 2022



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 21—Health Insurance - Pay-as-you-Go (OPEB Plan) - School Board: (Continued)**

**Actuarial Assumptions: (Continued)**

Mortality rates for Active employees and healthy retirees were based on a RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related. Mortality rates for retired employees were based on RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; female’s setback 1 year with 1.5% increase compounded from ages 70 to 85.

The date of the most recent actuarial experience study for which significant assumptions were based was June 30, 2016.

**Discount Rate**

The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement dates. The final equivalent single discount rate used for this year’s valuation is 3.65% as of the end of the fiscal year with the expectation that the School Board will continue paying the pay-go cost.

**Changes in Total OPEB Liability**

<b>Changes in Net OPEB Liability - School Board</b>		<b>Component Unit School Board Total OPEB Liability</b>
Balances at June 30, 2022	\$	5,699,125
Changes for the year:		
Service cost		360,999
Interest		212,060
Changes in assumptions		167,626
Benefit payments		(140,678)
Net changes	\$	600,007
Balances at June 30, 2023	\$	6,299,132

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current discount rate:

<b>Rate</b>		
<b>1% Decrease (2.65%)</b>	<b>Current Discount Rate (3.65%)</b>	<b>1% Increase (4.65%)</b>
\$ 6,879,516	\$ 6,299,132	\$ 5,758,122

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 21—Health Insurance - Pay-as-you-Go (OPEB Plan) - School Board: (Continued)**

***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (1.70% increasing to an ultimate rate of 2.90%) or one percentage point higher (3.70% increasing to an ultimate rate of 4.90%) than the current healthcare cost trend rates:

<b>Rates</b>		
<b>1% Decrease (1.70% increasing to 2.90%)</b>	<b>Healthcare Cost Trend (2.70% decreasing to 3.90%)</b>	<b>1% Increase (3.70% decreasing to 4.90%)</b>
\$ 5,447,354	\$ 6,299,132	\$ 7,322,740

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources***

For the year ended June 30, 2023, the School Board recognized OPEB expense in the amount of \$653,872. At June 30, 2023, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 346,479
Changes in assumptions	867,976	827,780
<b>Total</b>	<b>\$ 867,976</b>	<b>\$ 1,174,259</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<b>Year Ended June 30</b>	
2024	\$ 44,291
2025	(40,929)
2026	(40,929)
2027	(40,929)
2028	(72,293)
Thereafter	(155,494)

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 22—Health Insurance - (OPEB Plan) - City:**

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***Plan Description***

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

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

**Plan Administration**

The City of Fredericksburg, Virginia administers the City of Fredericksburg, Virginia OPEB Plan (the Plan), a single-employer defined benefit plan that is used to provide post-employment benefits other than pensions (OPEB) for all employees who are eligible for retirement benefits of the City. Management of the Plan is vested in the Plan Trustees, which consists of the City Manager, City Treasurer, and a citizen of the City appointed by the City Manager and the City Treasurer.

***Benefits Provided***

Postemployment benefits are provided to eligible retirees include Medical, Dental, and Vision. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees.

***Plan Membership***

At January 1, 2022 (valuation date), the following employees were covered by the benefit terms:

Active plan members	453
Retirees and surviving spouses	167
Spouses of current retirees	9
Total	<u>629</u>

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 22—Health Insurance - (OPEB Plan) - City: (Continued)**

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***Contributions***

The City pre-funds benefits through contributions to the trust. The current funding policy is to contribute the Actuarially Determined Contribution as calculated by the actuary. The Actuarially Determined Contribution is the sum of the current year's normal cost plus an amount necessary to amortize the unfunded liability over a closed period. For FY 2023, the City contributed \$1,167,383 towards health plans.

***Investment Policy***

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2023:

<u>Asset Class</u>	<u>Target Percentage</u>
US Core Fixed Income	20.00%
Private Equity	10.00%
Large Cap US Equities	21.00%
Small Cap US Equities	10.00%
Developed Foreign Equities	13.00%
Emerging Market Equities	5.00%
Hedge FOF Strategic	6.00%
Private Real Estate Property	15.00%
Total	<u>100%</u>

***Rate of Return***

For the year ended June 30, 2023, the annual money-weighted rate of return of the City's OPEB investments, net of investment expense was 7.61%. The money weighted rate of return expresses investment performance, adjusted for the changing amounts actually invested.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 22—Health Insurance - (OPEB Plan) - City: (Continued)**

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***Net OPEB Liability***

The City's net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions***

The total OPEB liability in the January 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Varies based on years of service
Discount Rate	6.50%
Investment Rate of Return	6.50%

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

The Long-Term Expected Rate of Return on OPEB Plan investments is 6.50%.

***Discount Rate***

The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year tax-exempt municipal bond yield or index rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. The final equivalent single discount rate used for this year's valuation is 6.50% as of the end of the fiscal year with the expectation that the City will continue contributing the Actuarially Determined Contribution and paying the pay-go cost from the OPEB Trust.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 22—Health Insurance - (OPEB Plan) - City: (Continued)

*Changes in Net OPEB Liability*

	Changes in Net OPEB Liability - Total City Plan		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at June 30, 2022	\$ 17,208,741	\$ 2,156,431	\$ 15,052,310
Changes for the year:			
Service cost	155,651	-	155,651
Interest	1,091,342	-	1,091,342
Assumption changes or inputs	573,191	-	573,191
Contributions - employer	-	1,324,386	(1,324,386)
Net investment income	-	164,413	(164,413)
Administrative expenses	-	(2,743)	2,743
Benefit payments	(1,167,383)	(1,167,383)	-
Net changes	652,801	318,673	334,128
Balances at June 30, 2023	\$ 17,861,542	\$ 2,475,104	\$ 15,386,438

Note the Changes in Net OPEB Liability presented above is for the entire plan. The Primary Government's proportionate share at June 30, 2023 was 99.86% compared to 99.86% at June 30, 2022. The Primary Government's proportionate share of Net OPEB Liability at June 30, 2023 totaled \$15,365,205.

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

The following amounts present the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current discount rate:

	Rate		
	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Primary Government Porportionate Share of Net OPEB Liability	\$ 17,197,887	\$ 15,365,205	\$ 13,796,235

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 22—Health Insurance - (OPEB Plan) - City: (Continued)**

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the net OPEB liability of the City, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.50% decreasing to an ultimate rate of 2.90% for pre-65 benefits, 3.30% decreasing to an ultimate rate of 2.90% for post-65 benefits) or one percentage point higher (6.50% decreasing to an ultimate rate of 4.90%, 5.30% decreasing to an ultimate rate of 4.90% or post-65 benefits) than the current healthcare cost trend rates:

	<b>Rates</b>		
	<b>1% Decrease</b>	<b>Healthcare Cost Trend</b>	<b>1% Increase</b>
Primary Government Porportionate Share of Net OPEB Liability	\$ 13,670,705	\$ 15,365,205	\$ 17,351,615

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources***

For the year ended June 30, 2023, the City recognized OPEB expense in the amount of \$950,397. At June 30, 2023, the Primary Government reported deferred outflows of resources and deferred inflows of resources related to OPEB on its proportionate share from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 474,566	\$ 632,675
Changes in assumptions	457,920	619,360
Net difference between projected and actual earnings on OPEB plan investments	53,088	-
<b>Total</b>	<b>\$ 985,574</b>	<b>\$ 1,252,035</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<b>Year Ended June 30</b>	
2024	\$ (93,686)
2025	(104,083)
2026	(17,847)
2027	(50,845)
2028	-
Thereafter	-

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan):**

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***Plan Description***

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is described below:

***Eligible Employees***

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

***Benefit Amounts***

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

***HIC Plan Notes***

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.



CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

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***Employees Covered by Benefit Terms***

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>9</u>
Inactive members:	
Vested inactive members	1
Non-vested inactive members	-
Inactive members active elsewhere in VRS	-
Total inactive members	<u>10</u>
Active members	38
Total covered employees	<u><u>48</u></u>

***Contributions***

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The Fredericksburg City School Board's contractually required employer contribution rate for the year ended June 30, 2023 was .47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Fredericksburg City School Board to the HIC Plan were \$10,013 and \$7,588 for the years ended June 30, 2023 and June 30, 2022, respectively.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

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***Net HIC OPEB Liability***

The Fredericksburg City School Board’s net HIC OPEB liability was measured as of June 30, 2022. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

***Actuarial Assumptions***

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

*Actuarial Assumptions: (Continued)*

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees: (Continued)**

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

\*The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

\*\*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

*Discount Rate*

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

*Changes in Net HIC OPEB Liability*

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 82,973	\$ 8,108	\$ 74,865
Changes for the year:			
Service cost	\$ 1,443	\$ -	\$ 1,443
Interest	5,671	-	5,671
Differences between expected and actual experience	(5,332)	-	(5,332)
Assumption changes	10,814	-	10,814
Contributions - employer	-	7,588	(7,588)
Net investment income	-	(145)	145
Benefit payments	(808)	(808)	-
Administrative expenses	-	(31)	31
Net changes	\$ 11,788	\$ 6,604.00	\$ 5,184
Balances at June 30, 2022	\$ 94,761	\$ 14,712	\$ 80,049

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Sensitivity of the Fredericksburg City School Board’s HIC Net OPEB Liability to Changes in the Discount Rate***

The following presents the Fredericksburg City School Board’s HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the Fredericksburg City School Board’s net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Component Unit School Board's Net HIC OPEB Liability	\$ 88,937	\$ 80,049	\$ 72,371

***HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB***

For the year ended June 30, 2023, the Fredericksburg City School Board recognized HIC Plan OPEB expense of \$8,078. At June 30, 2023, the Fredericksburg City School Board reported deferred outflows of resources and deferred inflows of resources related to the Fredericksburg City School Board’s HIC Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,282
Net difference between projected and actual earnings on HIC OPEB plan investments	256	-
Change in assumptions	10,500	-
Employer contributions subsequent to the measurement date	10,013	-
<b>Total</b>	<b>\$ 20,769</b>	<b>\$ 4,282</b>

\$10,013 reported as deferred outflows of resources related to the HIC OPEB resulting from the Fredericksburg City School Board’s contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2024.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 23—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB: (Continued)***

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ 1,708
2025	1,708
2026	1,708
2027	1,263
2028	87
Thereafter	-

***HIC Plan Data***

Information about the VRS Political Subdivision HIC Plan is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 24—Summary of Net OPEB Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources:**

	<u>City OPEB Plans</u>			
	<u>Net OPEB Liability</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>OPEB Expense</u>
<b>Primary Government</b>				
City OPEB Plan (Note 22)	\$ 15,365,205	\$ 985,574	\$ 1,252,035	\$ 950,397
Group Life - City (Note 19)	1,565,199	417,328	320,307	62,820
Total	<u>\$ 16,930,404</u>	<u>\$ 1,402,902</u>	<u>\$ 1,572,342</u>	<u>\$ 1,013,217</u>
<b>Component Unit School Board</b>				
School Board Pay-as-you-go (Note 21)	\$ 6,299,132	\$ 867,976	\$ 1,174,259	\$ 653,872
Nonprofessional HIC Program (Note 23)	80,049	20,769	4,282	8,078
Teacher HIC Program (Note 20)	3,555,661	592,697	280,792	275,469
Group Life - School Professional (Note 19)	1,471,887	394,239	346,452	45,352
Group Life - School Nonprofessional (Note 19)	89,344	29,155	19,626	4,517
Total	<u>\$ 11,496,073</u>	<u>\$ 1,904,836</u>	<u>\$ 1,825,411</u>	<u>\$ 987,288</u>

**Note 25—Contributions-In-Aid of Construction:**

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During fiscal year 2017, the City and Stafford County, co-owners of the Rappahannock Regional Solid Waste Management Board (R-Board), each advanced \$1,175,535 to the R-Board for the purpose of closing three landfill cells and to finance the purchase of equipment. The R-Board has pledged to reimburse the City and County for the capital contributions with interest over a period of seven years. Although the intent of the R-Board is to reimburse these contributions, this amount is not shown as an asset of the City since repayment is not guaranteed. The outstanding balance of the City's advance as of June 30, 2023 is \$176,855.

**Note 26—Tax Abatement Disclosures - GASB Statement No. 77:**

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

**Technology Zones**

Virginia Code §58.1-3850 authorizes Virginia localities to establish, by ordinance, one or more technology zones for the purpose of granting incentives and providing regulatory flexibility to qualifying businesses. The Fredericksburg Technology Zone has been established and encompasses all of the land within the corporate limits, including new territory which comes within the city limits by annexation, boundary adjustment, or otherwise. The purpose of the technology zone is to attract new businesses and to encourage the expansion of existing businesses that will make a substantial investment and create new technology-related jobs for the benefit of City taxpayers, residents, and businesses. The eligibility requirements for the technology zone are as follows:

- Existing technology businesses in the City that are expanding: A minimum of five new jobs or at least a \$125,000 capital investment.
- New technology businesses locating in the City: a minimum of ten jobs or at least a \$250,000 capital investment.

An eligible technology business may be awarded tax incentives for up to ten years. The tax incentives may include, but not limited to, reduction of permit fees, reduction in user fees, and reduction of the business license tax. The extent and duration of such incentive proposals shall conform to the requirements of the Constitutions of Virginia and the United States.

The City Council may also provide for regulatory flexibility within the technology zone, which may include, but not limited to, special zoning, permit process reform, exemption from ordinances, and any other incentives adopted by the ordinance, which shall be binding upon the City for a period of up to 10 years.



## CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

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### **Note 26—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)**

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For the fiscal year ended June 30, 2023, the City's tax incentives totaled \$3,847 under the technology zone program.

#### **Tourism Zones**

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

#### **Eagle Village and Central Park/Celebrate Virginia South:**

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

#### **Downtown/Princess Anne Street:**

- Existing businesses in the City that are expanding: A minimum of five new jobs or at least a \$125,000 capital investment.
- New businesses locating in the City: A minimum of ten jobs or at least a \$250,000 capital investment.

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

**CITY OF FREDERICKSBURG, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2023

**Note 26—Tax Abatement Disclosures - GASB Statement No. 77: (Continued)**

**Tourism Zones: (Continued)**

For the fiscal year ended June 30, 2023, the City’s tax incentives totaled \$76,456 under the tourism zones, including the following tax incentive agreements that exceeded a threshold of \$10,000:

<b>Business/Zone/ Incentive Term/Opening Date</b>	<b>Performance Measures</b>	<b>Incentive/Cap Amount</b>	<b>2023 Incentive</b>	
New business locates to City Eagle Village Tourism Zone 10 yrs. from Opening, December 13, 2014	20 FTE Jobs \$130,000/yr. in Lodging, Meals, Sales and BPOL Taxes \$11M Capital Investment	100% Reimbursement of 1% Local Sales Tax and 1% State Sales Tax \$620,000 Limit (\$310K from city)	Sales Tax	\$ 35,109
			Total	\$ 35,109
New business locates to City Downtown Tourism Zone 6/10/19 - 6/10/29 (10 Years) Opening Date: TBD Delayed	Executed lease for at least 9,000 Sq Ft \$500,000 Capital Investment Obtain Certificate of Occupancy by 12/31/2020 Hold regular community-oriented events First annual report submitted 12 mos after Certificate of Occupancy issued	Years 1 - 5: 100% Reimbursement of 1% Local Sales Tax Years 6-10: 50% Reimbursement of 1% Local Sales Tax	Sales Tax	\$ 41,347
			Total	\$ 41,347

**Arts and Cultural District**

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

Qualifying business include visual arts, dance, media arts, music studios, places of instruction, museums, art galleries, and various performing arts venues. Available incentives include permit fee relief and a reduction to business license tax.

The City provided \$625,000 of incentive under other tax incentives agreements during the year ended June 30, 2023.

**Note 27—New Accounting Standards:**

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

CITY OF FREDERICKSBURG, VIRGINIA

Notes to Financial Statements  
As of June 30, 2023

**Note 27—New Accounting Standards: (Continued)**

Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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

**Note 28—Lease Receivable:**

The City leases property to third parties. The following summarizes the balances related to these leases for the year ended June 30, 2023:

<b>Governmental Activities</b>				
<b>Lease Description</b>	<b>Discount Rate</b>	<b>Lease Ends</b>	<b>Lease Receivable June 30, 2023</b>	<b>Deferred Inflow of Resources June 30, 2023</b>
Office Space	2.00%	2028	\$ 493,988	\$ 482,991
Rights of Way	Various	Various	182,255	182,255
Total			\$ 676,243	\$ 665,246

<b>Business-type Activities</b>				
<b>Lease Description</b>	<b>Discount Rate</b>	<b>Lease Ends</b>	<b>Lease Receivable June 30, 2023</b>	<b>Deferred Inflow of Resources June 30, 2023</b>
Cell Tower	3.00%	2026	\$ 80,198	\$ 80,574
Cell Tower	3.00%	2024	-	23,261
Parking Lease	2.75% - 6.00%	2029	324,720	295,803
Total			\$ 404,918	\$ 399,638

Lease revenue totaled \$109,356 and \$117,503 for the Governmental and Business-type Activities respectively for the year ended June 30, 2023. Lease interest revenue totaled \$11,025 and \$22,014 for the Governmental and Business-type Activities respectively for the year ended June 30, 2023.

**Note 29—COVID-19:**

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**ARPA Funding**

On March 11, 2021, the American Rescue Plan (ARPA) Act of 2021 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments were to receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2024, and unexpended by December 31, 2026, will be returned to the federal government. Unspent funds in the amount of \$7,241,531 from the initial allocation are reported as unearned revenue as of June 30.

**ESF Funding**

The CARES Act also established the Education Stabilization Fund (ESF) and allocated \$30.75 billion to the U.S. Department of Education. The ESF is composed of three primary emergency relief funds: (1) a Governor's Emergency Education Relief (GEER) Fund, (2) an Elementary and Secondary School Emergency Relief (ESSER) Fund, and (3) a Higher Education Emergency Relief (HEER) Fund. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act) was signed into law on December 27, 2020 and added \$81.9 billion to the ESF. In March 2021, the American Rescue Plan Act (ARP Act), in support of ongoing state and institutional COVID-19 recovery efforts, added more than \$170 billion to the ESF. The School Board is receiving this funding from the Virginia Department of Education on a reimbursement basis.

**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.

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Revenue from local sources:				
General property taxes:				
Real estate	\$ 38,303,000	\$ 38,303,000	\$ 38,554,004	\$ 251,004
Public service corporations	950,000	950,000	879,005	(70,995)
Personal property	10,723,000	10,723,000	11,319,213	596,213
Machinery and tools	125,000	125,000	103,982	(21,018)
Penalties	325,000	325,000	367,590	42,590
Interest	150,000	150,000	218,574	68,574
Total general property taxes	<u>\$ 50,576,000</u>	<u>\$ 50,576,000</u>	<u>\$ 51,442,368</u>	<u>\$ 866,368</u>
Other local taxes:				
Local sales and use taxes	\$ 14,800,000	\$ 14,800,000	\$ 15,781,634	\$ 981,634
Utility taxes	1,725,000	1,725,000	1,616,977	(108,023)
Business licenses and rental tax	7,200,000	7,200,000	8,283,896	1,083,896
Bank stock taxes	875,000	875,000	1,030,273	155,273
Recordation taxes	725,000	725,000	672,380	(52,620)
Tobacco tax	540,000	540,000	434,337	(105,663)
Amusement tax	375,000	375,000	531,782	156,782
Hotel/lodging taxes	1,400,000	1,400,000	1,746,141	346,141
Meals taxes	12,700,000	12,700,000	15,081,582	2,381,582
Gasoline taxes	150,000	150,000	21,430	(128,570)
Other	65,000	65,000	83,703	18,703
Total other local taxes	<u>\$ 40,555,000</u>	<u>\$ 40,555,000</u>	<u>\$ 45,284,135</u>	<u>\$ 4,729,135</u>
Permits, privilege fees and licenses:				
Permits and other licenses	\$ 898,565	\$ 898,565	\$ 827,745	\$ (70,820)
Animal licenses	8,500	8,500	6,050	(2,450)
Total permits, privilege fees and licenses	<u>\$ 907,065</u>	<u>\$ 907,065</u>	<u>\$ 833,795</u>	<u>\$ (73,270)</u>
Fines and forfeitures				
	<u>\$ 373,000</u>	<u>\$ 373,000</u>	<u>\$ 487,441</u>	<u>\$ 114,441</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 260,000	\$ 260,000	\$ 2,007,032	\$ 1,747,032
Revenue from use of property	16,000	16,000	166,183	150,183
Total revenue from use of money and property	<u>\$ 276,000</u>	<u>\$ 276,000</u>	<u>\$ 2,173,215</u>	<u>\$ 1,897,215</u>
Charges for services:				
Court costs	\$ 106,300	\$ 106,300	\$ 99,345	\$ (6,955)
Commonwealth's Attorney	8,000	8,000	6,281	(1,719)
Sanitation and waste removal	1,295,000	1,295,000	1,348,767	53,767
Parks and recreation	328,000	328,000	556,719	228,719
Fire and rescue services	980,000	980,000	1,074,602	94,602
Administrative charges	145,000	145,000	141,614	(3,386)
Total charges for services	<u>\$ 2,862,300</u>	<u>\$ 2,862,300</u>	<u>\$ 3,227,328</u>	<u>\$ 365,028</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Revenue from local sources: (continued)				
Miscellaneous:				
Payments in-lieu of taxes	\$ 31,000	\$ 31,000	\$ 41,284	\$ 10,284
Souvenir sales	17,000	17,000	31,412	14,412
Donations - parks and recreation	50,000	50,000	56,556	6,556
Other	33,000	200,368	239,012	38,644
Total miscellaneous	<u>\$ 131,000</u>	<u>\$ 298,368</u>	<u>\$ 368,264</u>	<u>\$ 69,896</u>
Recovered costs:				
Health department	\$ 115,000	\$ 115,000	\$ 137,115	\$ 22,115
Social services	110,000	110,000	118,070	8,070
Other	123,440	123,440	176,474	53,034
Total recovered costs	<u>\$ 348,440</u>	<u>\$ 348,440</u>	<u>\$ 431,659</u>	<u>\$ 83,219</u>
Total revenue from local sources	<u>\$ 96,028,805</u>	<u>\$ 96,196,173</u>	<u>\$ 104,248,205</u>	<u>\$ 8,052,032</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle rental tax	\$ 175,000	\$ 175,000	\$ 212,469	\$ 37,469
Communication sales tax	1,275,000	1,275,000	1,237,270	(37,730)
Personal property relief	1,728,800	1,728,800	1,728,833	33
Other	17,000	17,000	13,490	(3,510)
Total noncategorical aid	<u>\$ 3,195,800</u>	<u>\$ 3,195,800</u>	<u>\$ 3,192,062</u>	<u>\$ (3,738)</u>
Categorical aid - shared expenses:				
Commonwealth's Attorney	\$ 733,530	\$ 733,530	\$ 722,711	\$ (10,819)
Sheriff	635,565	635,565	716,994	81,429
Commissioner of Revenue	158,970	158,970	160,216	1,246
Treasurer	123,375	123,375	136,297	12,922
Registrar	95,810	95,810	73,301	(22,509)
Clerk of the Circuit Court	419,580	419,580	459,881	40,301
Total categorical aid - shared expenses	<u>\$ 2,166,830</u>	<u>\$ 2,166,830</u>	<u>\$ 2,269,400</u>	<u>\$ 102,570</u>
Categorical aid - other:				
Street and highway maintenance	\$ 3,297,606	\$ 3,297,606	\$ 3,768,994	\$ 471,388
Law enforcement assistance	883,247	883,247	951,964	68,717
Wireless E-911 grants	145,000	145,000	152,213	7,213
Other	-	-	39,456	39,456
Total categorical aid - other	<u>\$ 4,325,853</u>	<u>\$ 4,325,853</u>	<u>\$ 4,912,627</u>	<u>\$ 586,774</u>
Total revenue from the Commonwealth	<u>\$ 9,688,483</u>	<u>\$ 9,688,483</u>	<u>\$ 10,374,089</u>	<u>\$ 685,606</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues: (continued)</b>				
Intergovernmental: (continued)				
Revenue from the Federal Government:				
Categorical aid:				
Public safety grants	\$ -	\$ -	\$ 12,461	\$ 12,461
FEMA	-	-	71,195	71,195
Public assistance - cost allocation	95,000	95,000	101,833	6,833
Total revenue from the Federal Government	\$ 95,000	\$ 95,000	\$ 185,489	\$ 90,489
Total revenues	\$ 105,812,288	\$ 105,979,656	\$ 114,807,783	\$ 8,828,127
<b>Expenditures</b>				
General government administration:				
Legislative:				
City Council	\$ 235,392	\$ 226,852	\$ 226,825	\$ 27
Clerk of Council	161,476	158,877	158,840	37
Total legislative	\$ 396,868	\$ 385,729	\$ 385,665	\$ 64
General and financial administration:				
City manager	\$ 1,029,706	\$ 1,050,563	\$ 1,047,062	\$ 3,501
Insurance program	1,035,600	1,033,402	878,888	154,514
Risk management	120,154	115,599	106,531	9,068
Human resources	699,188	782,926	782,843	83
Independent auditor	98,050	98,050	85,890	12,160
Commissioner of the revenue	1,195,642	1,194,558	1,090,014	104,544
Board of Real Estate Assessors	350,000	525,000	126,575	398,425
Treasurer	1,005,550	1,008,261	945,224	63,037
Finance	1,015,437	1,023,978	922,658	101,320
Information technology	2,681,333	2,719,606	2,358,892	360,714
Public information	105,841	119,233	119,232	1
Diversity and training	135,643	128,215	72,088	56,127
Copying and postage	13,950	10,253	10,149	104
Legal services	476,190	481,324	481,323	1
Total general and financial administration	\$ 9,962,284	\$ 10,290,968	\$ 9,027,369	\$ 1,263,599
Board of elections:				
Registrar and electoral board	\$ 584,620	\$ 587,030	\$ 394,401	\$ 192,629
Total general government administration	\$ 10,943,772	\$ 11,263,727	\$ 9,807,435	\$ 1,456,292
Judicial administration:				
Courts:				
Circuit Court	\$ 124,117	\$ 124,117	\$ 114,564	\$ 9,553
General District Court	25,600	26,047	16,996	9,051
Special magistrate	3,000	3,000	-	3,000
Juvenile and Domestic Relations District Court	19,880	19,880	16,786	3,094
Clerk of the Circuit Court	908,498	889,402	861,245	28,157
Sheriff	3,012,079	3,119,254	3,109,232	10,022
JDR services	118,274	118,274	118,274	-
Juries	3,750	23,750	18,747	5,003
Drug Court	30,900	31,055	31,055	-
Court appointed attorney	10,000	10,000	-	10,000
Total courts	\$ 4,256,098	\$ 4,364,779	\$ 4,286,899	\$ 77,880



Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Judicial administration: (continued)				
Commonwealth Attorney:				
Commonwealth Attorney	\$ 1,620,175	\$ 1,603,195	\$ 1,568,143	\$ 35,052
Total judicial administration	\$ 5,876,273	\$ 5,967,974	\$ 5,855,042	\$ 112,932
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 10,395,800	\$ 11,011,512	\$ 10,707,778	\$ 303,734
Fire and rescue:				
Fire department	\$ 6,741,237	\$ 6,846,398	\$ 6,834,397	\$ 12,001
Rescue services	207,283	257,283	157,946	99,337
Emergency medical services	2,249,444	2,445,292	2,417,400	27,892
Hazardous materials	83,457	65,136	63,418	1,718
E-911 communications	1,897,728	1,795,846	1,779,687	16,159
Total fire and rescue	\$ 11,179,149	\$ 11,409,955	\$ 11,252,848	\$ 157,107
Correction and detention:				
Juvenile Detention Center	\$ 310,323	\$ 310,323	\$ 188,688	\$ 121,635
Rappahannock Security Center	4,518,656	4,518,656	4,518,656	-
Total correction and detention	\$ 4,828,979	\$ 4,828,979	\$ 4,707,344	\$ 121,635
Inspections:				
Building and development services	\$ 934,161	\$ 932,341	\$ 894,474	\$ 37,867
Other protection:				
Animal control	\$ 130,327	\$ 131,209	\$ 131,209	\$ -
Public safety radio system	647,436	687,708	636,879	50,829
Medical Examiner	510	680	680	-
Total other protection	\$ 778,273	\$ 819,597	\$ 768,768	\$ 50,829
Total public safety	\$ 28,116,362	\$ 29,002,384	\$ 28,331,212	\$ 671,172
Public works:				
Maintenance of streets, highways, bridges and sidewalks:				
Administration	\$ 1,243,683	\$ 940,333	\$ 784,743	\$ 155,590
Street maintenance	1,395,413	1,438,845	1,232,831	206,014
Street lights	409,646	473,153	473,153	-
Snow removal	192,372	119,026	40,290	78,736
Industrial park rail spur	15,500	21,457	-	21,457
Traffic engineering	993,075	986,742	789,371	197,371
Shop and garage	1,260,948	1,309,528	1,250,903	58,625
Total maintenance of streets, highways, bridges and sidewalks	\$ 5,510,637	\$ 5,289,084	\$ 4,571,291	\$ 717,793

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Public works: (continued)				
Sanitation and waste removal:				
Street sanitation	\$ 1,071,528	\$ 1,080,212	\$ 944,185	\$ 136,027
Urban forestry program	135,000	135,000	89,218	45,782
Refuse collection	607,326	627,326	556,958	70,368
Refuse disposal	412,150	407,150	398,729	8,421
Recycling collection	201,588	201,588	191,608	9,980
Total sanitation and waste removal	<u>\$ 2,427,592</u>	<u>\$ 2,451,276</u>	<u>\$ 2,180,698</u>	<u>\$ 270,578</u>
Maintenance of buildings and grounds:				
Public facilities	\$ 2,275,668	\$ 2,377,552	\$ 2,098,461	\$ 279,091
Courthouse maintenance	398,717	361,901	361,179	722
Commuter rail	109,350	77,470	38,631	38,839
Total maintenance of buildings and grounds	<u>\$ 2,783,735</u>	<u>\$ 2,816,923</u>	<u>\$ 2,498,271</u>	<u>\$ 318,652</u>
Total public works	<u>\$ 10,721,964</u>	<u>\$ 10,557,283</u>	<u>\$ 9,250,260</u>	<u>\$ 1,307,023</u>
Health and welfare:				
Health:				
Supplement to local health department	\$ 439,277	\$ 439,277	\$ 439,277	\$ -
Mental health and mental retardation:				
Rappahannock Area Community Services Board	\$ 302,359	\$ 302,359	\$ 302,359	\$ -
Social services:				
Other contributions	\$ 395,133	\$ 395,133	\$ 394,754	\$ 379
Total health and welfare	<u>\$ 1,136,769</u>	<u>\$ 1,136,769</u>	<u>\$ 1,136,390</u>	<u>\$ 379</u>
Education:				
Community colleges	\$ 34,291	\$ 34,291	\$ 34,291	\$ -
Appropriations to public school system	30,200,000	30,200,000	30,200,000	-
Total education	<u>\$ 30,234,291</u>	<u>\$ 30,234,291</u>	<u>\$ 30,234,291</u>	<u>\$ -</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 681,850	\$ 765,443	\$ 765,442	\$ 1
Supervision	752,852	692,826	692,825	1
Maintenance	1,511,129	1,515,009	1,500,784	14,225
Motts Run	142,363	149,145	149,133	12
Dixon Park swimming pool	207,793	223,308	223,307	1
Total parks and recreation	<u>\$ 3,295,987</u>	<u>\$ 3,345,731</u>	<u>\$ 3,331,491</u>	<u>\$ 14,240</u>
Library:				
Regional library	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ -
Downtown library	223,450	233,626	225,387	8,239
Total library	<u>\$ 1,623,450</u>	<u>\$ 1,633,626</u>	<u>\$ 1,625,387</u>	<u>\$ 8,239</u>
Cultural:				
Museums	\$ 105,975	\$ 155,975	\$ 155,975	\$ -
Total parks, recreation and cultural	<u>\$ 5,025,412</u>	<u>\$ 5,135,332</u>	<u>\$ 5,112,853</u>	<u>\$ 22,479</u>

Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures: (continued)</b>				
Community development:				
Planning and community development:				
Planning	\$ 805,403	\$ 807,210	\$ 783,447	\$ 23,763
Zoning Appeals Board	1,800	1,800	-	1,800
Transportation division	172,538	57,538	3,485	54,053
Community development	150,306	150,306	150,306	-
Historic resources	191,595	200,345	172,161	28,184
Clean and Green Commission	5,100	5,100	1,575	3,525
Economic development and tourism	1,627,559	1,890,840	1,700,796	190,044
Total planning and community development	<u>\$ 2,954,301</u>	<u>\$ 3,113,139</u>	<u>\$ 2,811,770</u>	<u>\$ 301,369</u>
Environmental management:				
Soil and water conservation district	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Total community development	<u>\$ 2,956,301</u>	<u>\$ 3,115,139</u>	<u>\$ 2,813,770</u>	<u>\$ 301,369</u>
Nondepartmental:				
OPEB trust contribution	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Debt service:				
Principal payments	\$ 117,981	\$ 117,981	\$ 117,981	\$ -
Interest and fiscal charges	2,088	2,088	2,088	-
Total debt service	<u>\$ 120,069</u>	<u>\$ 120,069</u>	<u>\$ 120,069</u>	<u>\$ -</u>
Total expenditures	<u>\$ 95,281,213</u>	<u>\$ 96,682,968</u>	<u>\$ 92,811,322</u>	<u>\$ 3,871,646</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ 10,531,075</u>	<u>\$ 9,296,688</u>	<u>\$ 21,996,461</u>	<u>\$ 12,699,773</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	\$ 27,500	\$ 27,500	\$ 19,453	\$ (8,047)
Transfers in	1,387,967	1,387,967	1,173,844	(214,123)
Transfers out	<u>(19,272,892)</u>	<u>(21,409,822)</u>	<u>(21,409,822)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (17,857,425)</u>	<u>\$ (19,994,355)</u>	<u>\$ (20,216,525)</u>	<u>\$ (222,170)</u>
Net change in fund balance	\$ (7,326,350)	\$ (10,697,667)	\$ 1,779,936	\$ 12,477,603
<b>Fund balance, beginning of year</b>	<u>7,326,350</u>	<u>10,697,667</u>	<u>39,394,417</u>	<u>28,696,750</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,174,353</u>	<u>\$ 41,174,353</u>

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

Budgetary Comparison Schedule  
 COVID-19 Relief Fund  
 Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Revenue from the Federal Government:				
Categorical aid:				
DCJS ARPA	\$ -	\$ 578,000	\$ 94,290	\$ (483,710)
American Rescue Plan Act	5,582,748	10,624,354	3,487,820	(7,136,534)
DOJ supplemental emergency funding	-	74,534	67,304	(7,230)
ARPA tourism recovery	-	210,000	-	(210,000)
Community development block grants	-	73,483	73,482	(1)
Total revenue from the Federal Government	<u>\$ 5,582,748</u>	<u>\$ 11,560,371</u>	<u>\$ 3,722,896</u>	<u>\$ (7,837,475)</u>
Total revenues	<u>\$ 5,582,748</u>	<u>\$ 11,560,371</u>	<u>\$ 3,722,896</u>	<u>\$ (7,837,475)</u>
<b>Expenditures</b>				
General government administration:				
ARPA city manager	\$ 992,638	\$ 163,580	\$ 21,951	\$ 141,629
ARPA finance	-	437,564	9,464	428,100
ARPA information technology	-	250,000	15,583	234,417
Total general government administration	<u>\$ 992,638</u>	<u>\$ 851,144</u>	<u>\$ 46,998</u>	<u>\$ 804,146</u>
Judicial administration:				
ARPA clerk of circuit court	\$ -	\$ 17,671	\$ 17,670	\$ 1
Total judicial administration	<u>\$ -</u>	<u>\$ 17,671</u>	<u>\$ 17,670</u>	<u>\$ 1</u>
Public safety:				
ARPA sheriff	\$ -	\$ 90,196	\$ 87,693	\$ 2,503
ARPA police	42,000	705,205	337,694	367,511
Sheriffs office supplemental emergency funding	-	48,670	41,709	6,961
ARPA law enforcement equipment	-	578,000	94,290	483,710
ARPA fire department	55,000	170,021	55,000	115,021
DOJ supplemental emergency funding	-	25,864	25,595	269
Total public safety	<u>\$ 97,000</u>	<u>\$ 1,617,956</u>	<u>\$ 641,981</u>	<u>\$ 975,975</u>
Public works:				
ARPA facilities	\$ 65,000	\$ 294,227	\$ 100,288	\$ 193,939
ARPA public works	180,110	180,110	17,365	162,745
ARPA building services	-	16,200	16,118	82
Total public works	<u>\$ 245,110</u>	<u>\$ 490,537</u>	<u>\$ 133,771</u>	<u>\$ 356,766</u>
Parks, recreation and cultural:				
ARPA parks maintenance	\$ 59,000	\$ 302,230	\$ 128,497	\$ 173,733
Total parks, recreation, and cultural	<u>\$ 59,000</u>	<u>\$ 302,230</u>	<u>\$ 128,497</u>	<u>\$ 173,733</u>
Community development:				
ARPA economic development	\$ -	\$ 108,350	\$ 68,459	\$ 39,891
ARPA planning	16,000	16,000	15,290	710
ARPA tourism recovery	-	210,000	-	210,000
CDBG	-	73,483	73,482	1
Total community development	<u>\$ 16,000</u>	<u>\$ 407,833</u>	<u>\$ 157,231</u>	<u>\$ 250,602</u>
Total expenditures	<u>\$ 1,409,748</u>	<u>\$ 3,687,371</u>	<u>\$ 1,126,148</u>	<u>\$ 2,561,223</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>\$ 4,173,000</u>	<u>\$ 7,873,000</u>	<u>\$ 2,596,748</u>	<u>\$ (5,276,252)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>\$ (4,173,000)</u>	<u>\$ (7,873,000)</u>	<u>\$ (2,596,748)</u>	<u>\$ 5,276,252</u>
Total other financing sources (uses)	<u>\$ (4,173,000)</u>	<u>\$ (7,873,000)</u>	<u>\$ (2,596,748)</u>	<u>\$ 5,276,252</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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.

Schedule of Employer's Proportionate Share of the Net Pension Liability  
Pension Plans  
For the Measurement Dates of June 30, 2014 through June 30, 2022

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
<b>Primary Government - City Retirement Plan</b>					
2022	97.85% \$	23,727,570 \$	28,260,614	83.96%	84.86%
2021	97.81%	14,750,851	25,927,730	56.89%	90.26%
2020	97.73%	30,510,469	25,561,127	119.36%	78.41%
2019	97.81%	26,169,703	24,262,627	107.86%	81.10%
2018	97.62%	20,408,343	24,252,928	84.15%	84.19%
2017	97.82%	19,534,142	23,232,269	84.08%	84.23%
2016	97.29%	26,367,292	22,977,066	114.75%	78.31%
2015	96.83%	20,719,184	22,635,550	91.53%	82.01%
2014	96.57%	22,917,333	21,420,920	106.99%	79.85%
<b>Component Unit School Board (professional)</b>					
2022	0.2853% \$	27,161,316 \$	26,531,395	102.37%	82.61%
2021	0.2727%	21,171,519	24,075,035	87.94%	85.46%
2020	0.2794%	40,665,858	24,356,562	166.96%	71.47%
2019	0.2832%	37,274,678	23,815,635	156.51%	73.51%
2018	0.2877%	33,837,000	23,210,637	145.78%	74.81%
2017	0.2887%	35,499,000	22,743,104	156.09%	72.92%
2016	0.2894%	40,555,000	22,065,166	183.80%	68.28%
2015	0.2883%	36,284,000	21,447,563	169.18%	70.68%
2014	0.2730%	32,995,000	19,966,621	165.25%	70.88%

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

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios  
Component Unit School Board (nonprofessional)  
Pension Plans  
For the Measurement Dates of June 30, 2014 through June 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>									
Service cost	\$ 141,654	\$ 135,157	\$ 131,151	\$ 120,840	\$ 124,345	\$ 133,150	\$ 125,309	\$ 130,660	\$ 132,328
Interest	390,616	351,881	339,026	319,835	309,215	303,206	283,678	273,318	255,208
Changes of assumptions	-	223,930	-	128,935	-	(96,351)	-	-	-
Differences between expected and actual experience	(10,798)	(50,728)	(75,974)	77,789	(51,746)	(62,000)	(17,054)	(143,981)	-
Benefit payments	(243,840)	(212,231)	(195,309)	(192,415)	(267,774)	(116,566)	(109,346)	(114,651)	(142,987)
<b>Net change in total pension liability</b>	\$ 277,632	\$ 448,009	\$ 198,894	\$ 454,984	\$ 114,040	\$ 161,439	\$ 282,587	\$ 145,346	\$ 244,549
<b>Total pension liability - beginning</b>	5,767,170	5,319,161	5,120,267	4,665,283	4,551,243	4,389,804	4,107,217	3,961,871	3,717,322
<b>Total pension liability - ending (a)</b>	\$ 6,044,802	\$ 5,767,170	\$ 5,319,161	\$ 5,120,267	\$ 4,665,283	\$ 4,551,243	\$ 4,389,804	\$ 4,107,217	\$ 3,961,871
<b>Plan fiduciary net position</b>									
Contributions - employer	\$ 41,801	\$ 38,993	\$ 31,753	\$ 29,680	\$ 48,893	\$ 50,600	\$ 85,248	\$ 84,468	\$ 76,354
Contributions - employee	73,369	69,057	70,262	61,523	60,950	62,163	60,997	60,507	59,538
Net investment income	(6,458)	1,494,736	104,257	346,765	364,338	549,409	79,053	191,424	567,330
Benefit payments	(243,840)	(212,231)	(195,309)	(192,415)	(267,774)	(116,566)	(109,346)	(114,651)	(142,987)
Administrator charges	(4,283)	(3,722)	(3,563)	(3,455)	(3,213)	(3,117)	(2,671)	(2,558)	(3,030)
Other	158	141	(123)	(218)	(324)	(491)	(33)	(41)	30
<b>Net change in plan fiduciary net position</b>	\$ (139,253)	\$ 1,386,974	\$ 7,277	\$ 241,880	\$ 202,870	\$ 541,998	\$ 113,248	\$ 219,149	\$ 557,235
<b>Plan fiduciary net position - beginning</b>	6,859,505	5,472,531	5,465,254	5,223,374	5,020,504	4,478,506	4,365,258	4,146,109	3,588,874
<b>Plan fiduciary net position - ending (b)</b>	\$ 6,720,252	\$ 6,859,505	\$ 5,472,531	\$ 5,465,254	\$ 5,223,374	\$ 5,020,504	\$ 4,478,506	\$ 4,365,258	\$ 4,146,109
<b>School Division's net pension liability(asset) - ending (a) - (b)</b>	\$ (675,450)	\$ (1,092,335)	\$ (153,370)	\$ (344,987)	\$ (558,091)	\$ (469,261)	\$ (88,702)	\$ (258,041)	\$ (184,238)
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	111.17%	118.94%	102.88%	106.74%	111.96%	110.31%	102.02%	106.28%	104.65%
<b>Covered payroll</b>	\$ 1,614,535	\$ 1,510,953	\$ 1,527,529	\$ 1,309,930	\$ 1,285,885	\$ 1,284,705	\$ 1,249,950	\$ 1,235,088	\$ 1,191,588
<b>School Division's net pension liability as a percentage of covered payroll</b>	41.84%	72.29%	10.04%	26.34%	43.40%	36.53%	7.10%	20.89%	15.46%

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

Schedule of Employer Contributions - Pension  
Pension Plans  
Years Ended June 30, 2013 through June 30, 2023

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2023	\$ 4,681,859	\$ 4,681,859	\$ -	\$ 30,316,636	15.44%
2022	3,831,873	3,831,873	-	28,260,614	13.56%
2021	3,351,421	3,351,421	-	25,927,730	12.93%
2020	3,045,310	3,045,310	-	25,561,127	11.91%
2019	2,921,413	2,921,413	-	24,262,627	12.04%
2018	2,983,944	2,983,944	-	24,252,928	12.30%
2017	2,915,650	2,915,650	-	23,232,269	12.55%
2016	3,662,544	3,662,544	-	22,977,066	15.94%
2015	3,608,107	3,608,107	-	22,635,550	15.94%
2014	3,138,165	3,138,165	-	21,420,920	14.65%
<b>Component Unit School Board (nonprofessional)</b>					
2023	\$ 56,753	\$ 56,753	\$ -	\$ 2,130,322	2.66%
2022	42,139	42,139	-	1,614,535	2.61%
2021	38,961	38,961	-	1,510,953	2.58%
2020	31,801	31,801	-	1,527,529	2.08%
2019	30,068	30,068	-	1,309,930	2.30%
2018	49,268	49,268	-	1,285,885	3.83%
2017	53,315	53,315	-	1,284,705	4.15%
2016	86,747	86,747	-	1,249,950	6.94%
2015	85,715	85,715	-	1,235,088	6.94%
2014	86,152	86,152	-	1,191,588	7.23%
<b>Component Unit School Board (professional)</b>					
2023	\$ 4,621,451	\$ 4,621,451	\$ -	\$ 28,949,361	15.96%
2022	4,238,212	4,238,212	-	26,531,395	15.97%
2021	3,858,174	3,858,174	-	24,075,035	16.03%
2020	3,713,243	3,713,243	-	24,356,562	15.25%
2019	3,628,291	3,628,291	-	23,815,635	15.23%
2018	3,717,961	3,717,961	-	23,210,637	16.02%
2017	3,334,139	3,334,139	-	22,743,104	14.66%
2016	3,100,340	3,100,340	-	22,065,166	14.05%
2015	3,526,396	3,526,396	-	21,447,563	16.44%

\* Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

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

Notes to Required Supplementary Information - Pension  
Pension Plans  
Year Ended June 30, 2023

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

All Others (Non-10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Component Unit School Board - Professional Employees:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change



Schedule of City of Fredericksburg, Virginia's Share of Net OPEB Liability  
 Group Life Insurance Program (GLI) Plan  
 For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
<b>Primary Government</b>					
2022	0.13290%	\$ 1,565,199	\$ 28,275,639	5.54%	67.21%
2021	0.12880%	1,464,972	26,242,152	5.58%	67.45%
2020	0.12719%	2,076,108	25,602,618	8.11%	52.64%
2019	0.12684%	2,014,936	24,262,627	8.30%	52.00%
2018	0.12771%	1,896,690	24,284,801	7.81%	51.22%
2017	0.12611%	1,856,586	23,262,335	7.98%	48.86%
<b>Component Unit School Board (nonprofessional)</b>					
2022	0.00740%	\$ 89,344	\$ 1,614,535	5.53%	67.21%
2021	0.00730%	85,225	1,510,953	5.64%	67.45%
2020	0.00745%	124,328	1,533,662	8.11%	52.64%
2019	0.00668%	108,701	1,309,930	8.30%	52.00%
2018	0.00676%	102,000	1,285,885	7.93%	51.22%
2017	0.00697%	105,000	1,284,705	8.17%	48.86%
<b>Component Unit School Board (professional)</b>					
2022	0.12220%	\$ 1,471,887	\$ 26,591,039	5.54%	67.21%
2021	0.11670%	1,358,588	24,092,530	5.64%	67.45%
2020	0.11850%	1,977,571	24,387,548	8.11%	52.64%
2019	0.12149%	1,976,966	23,815,635	8.30%	52.00%
2018	0.12232%	1,857,000	23,258,958	7.98%	51.22%
2017	0.12382%	1,863,000	22,839,725	8.16%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions  
 Group Life Insurance Program (GLI) Plan  
 Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2023	\$ 163,736	\$ 163,736	\$ -	\$ 30,321,328	0.54%
2022	152,689	152,689	-	28,275,639	0.54%
2021	140,284	140,284	-	26,242,152	0.54%
2020	133,135	133,135	-	25,602,618	0.52%
2019	125,933	125,933	-	24,262,627	0.52%
2018	126,281	126,281	-	24,284,801	0.52%
2017	120,964	120,964	-	23,262,335	0.52%
2016	110,329	110,329	-	22,985,223	0.48%
2015	108,783	108,783	-	22,663,195	0.48%
2014	102,914	102,914	-	21,440,512	0.48%
<b>Component Unit School Board (nonprofessional)</b>					
2023	\$ 11,504	\$ 11,504	\$ -	\$ 2,130,322	0.54%
2022	8,718	8,718	-	1,614,535	0.54%
2021	8,159	8,159	-	1,510,953	0.54%
2020	7,975	7,975	-	1,533,662	0.52%
2019	6,812	6,812	-	1,309,930	0.52%
2018	6,687	6,687	-	1,285,885	0.52%
2017	6,680	6,680	-	1,284,705	0.52%
2016	6,011	6,011	-	1,252,322	0.48%
2015	5,928	5,928	-	1,235,088	0.48%
2014	5,753	5,753	-	1,198,497	0.48%
<b>Component Unit School Board (professional)</b>					
2023	\$ 156,549	\$ 156,549	\$ -	\$ 28,990,497	0.54%
2022	143,592	143,592	-	26,591,039	0.54%
2021	130,100	130,100	-	24,092,530	0.54%
2020	126,815	126,815	-	24,387,548	0.52%
2019	123,841	123,841	-	23,815,635	0.52%
2018	120,947	120,947	-	23,258,958	0.52%
2017	118,767	118,767	-	22,839,725	0.52%
2016	106,165	106,165	-	22,117,662	0.48%
2015	103,319	103,319	-	21,524,745	0.48%
2014	96,002	96,002	-	20,000,385	0.48%

Notes to Required Supplementary Information  
 Group Life Insurance Program (GLI) Plan  
 Year Ended June 30, 2023

**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**Teachers**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**Non-Largest Ten Locality Employers - Hazardous Duty Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Schedule of Fredericksburg School Board's Share of Net OPEB Liability  
 Teacher Employee Health Insurance Credit (HIC) Plan  
 For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2022	0.28467% \$	3,555,661 \$	26,531,395	13.40%	15.08%
2021	0.27222%	3,494,132	24,075,035	14.51%	13.15%
2020	0.27783%	3,624,339	24,356,562	14.88%	9.95%
2019	0.28217%	3,693,880	23,667,736	15.61%	8.97%
2018	0.28700%	3,644,000	23,210,637	15.70%	8.08%
2017	0.28813%	3,655,000	22,738,901	16.07%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions  
 Teacher Employee Health Insurance Credit (HIC) Plan  
 Years Ended June 30, 2014 through June 30, 2023

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
2023	\$ 350,287	\$ 350,287	\$ -	\$ 28,949,361	1.21%
2022	321,030	321,030	-	26,531,395	1.21%
2021	291,308	291,308	-	24,075,035	1.21%
2020	292,279	292,279	-	24,356,562	1.20%
2019	284,013	284,013	-	23,667,736	1.20%
2018	285,491	285,491	-	23,210,637	1.23%
2017	252,402	252,402	-	22,738,901	1.11%
2016	233,891	233,891	-	22,065,166	1.06%
2015	227,198	227,198	-	21,433,776	1.06%
2014	221,629	221,629	-	19,966,618	1.11%

Notes to Required Supplementary Information  
 Teacher Employee Health Insurance Credit (HIC) Plan  
 Year Ended June 30, 2023

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios  
 Component Unit School Board  
 Years Ended June 30, 2018 through June 30, 2023

	2023	2022	2021	2020	2019	2018
<b>Total OPEB liability</b>						
Service cost	\$ 360,999	\$ 483,211	\$ 332,750	\$ 270,826	\$ 245,838	\$ 254,662
Interest	212,060	144,431	126,653	168,418	167,749	148,443
Changes in assumptions	167,626	(1,059,734)	1,033,472	544,980	174,653	(166,508)
Differences between expected and actual experience	-	(11,377)	(562,964)		-	-
Benefit payments	(140,678)	(121,076)	(128,076)	(125,897)	(145,591)	(123,551)
<b>Net change in total OPEB liability</b>	<b>\$ 600,007</b>	<b>\$ (564,545)</b>	<b>\$ 801,835</b>	<b>\$ 858,327</b>	<b>\$ 442,649</b>	<b>\$ 113,046</b>
<b>Total OPEB liability - beginning</b>	<b>5,699,125</b>	<b>6,263,670</b>	<b>5,461,835</b>	<b>4,603,508</b>	<b>4,160,859</b>	<b>4,047,813</b>
<b>Total OPEB liability - ending</b>	<b>\$ 6,299,132</b>	<b>\$ 5,699,125</b>	<b>\$ 6,263,670</b>	<b>\$ 5,461,835</b>	<b>\$ 4,603,508</b>	<b>\$ 4,160,859</b>
<b>Covered-employee payroll</b>	<b>\$ 27,583,676</b>	<b>\$ 27,583,676</b>	<b>\$ 25,675,085</b>	<b>\$ 27,400,642</b>	<b>\$ 27,400,642</b>	<b>\$ 27,400,642</b>
<b>School Board's total OPEB liability (asset) as a percentage of covered-employee payroll</b>	<b>22.84%</b>	<b>20.66%</b>	<b>24.40%</b>	<b>19.93%</b>	<b>16.80%</b>	<b>15.19%</b>

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Supplementary Information - Component Unit School Board Pay-As-You-Go OPEB Plan  
Year Ended June 30, 2023

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Valuation Date: 1/1/2022  
Measurement Date: 6/30/2023

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

*Methods and assumptions used to determine OPEB liability:*

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.65% as of June 30, 2023 and 3.54% as of June 30, 2022
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 2.70% and gradually increases to 3.90% by the year 2073
Salary Increase Rates	3.50% to 5.95% based on years of service and position
Retirement Age	Between 50 and 65 with a service requirement
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related.



Schedule of Changes in the City's Net OPEB Liability and Related Ratios  
 Years Ended June 30, 2017 through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017
<b>Total OPEB liability</b>							
Service cost	\$ 155,651	\$ 125,452	\$ 140,044	\$ 148,383	\$ 135,927	\$ 127,035	\$ 199,978
Interest	1,091,342	1,066,198	1,065,545	1,159,458	1,088,555	1,081,522	1,163,246
Effect of Economic/Demographic Gains or Losses	-	(966,995)	-	1,475,690	-	(1,432,111)	-
Effect of plan changes	-	1,481,587	-	-	-	-	-
Changes in assumptions	573,191	(197,878)	-	(1,523,352)	744,226	-	-
Benefit payments	(1,167,383)	(1,136,544)	(1,223,976)	(1,218,043)	(1,121,818)	(1,112,307)	(941,888)
<b>Net change in total OPEB liability</b>	<b>\$ 652,801</b>	<b>\$ 371,820</b>	<b>\$ (18,387)</b>	<b>\$ 42,136</b>	<b>\$ 846,890</b>	<b>\$ (1,335,861)</b>	<b>\$ 421,336</b>
<b>Total OPEB liability - beginning</b>	<b>17,208,741</b>	<b>16,836,921</b>	<b>16,855,308</b>	<b>16,813,172</b>	<b>15,966,282</b>	<b>17,302,143</b>	<b>16,880,807</b>
<b>Total OPEB liability - ending (a)</b>	<b>\$ 17,861,542</b>	<b>\$ 17,208,741</b>	<b>\$ 16,836,921</b>	<b>\$ 16,855,308</b>	<b>\$ 16,813,172</b>	<b>\$ 15,966,282</b>	<b>\$ 17,302,143</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 1,324,386	\$ 1,336,544	\$ 1,223,976	\$ 1,218,043	\$ 1,328,208	\$ 1,112,307	\$ 1,053,888
Net investment income	164,413	(221,250)	504,449	49,851	74,635	118,262	128,315
Benefit payments	(1,167,383)	(1,136,544)	(1,223,976)	(1,218,043)	(1,121,818)	(1,112,307)	(941,888)
Administrative expense	(2,743)	(2,846)	(2,401)	(2,313)	(2,009)	(1,857)	(1,347)
<b>Net change in plan fiduciary net position</b>	<b>\$ 318,673</b>	<b>\$ (24,096)</b>	<b>\$ 502,048</b>	<b>\$ 47,538</b>	<b>\$ 279,016</b>	<b>\$ 116,405</b>	<b>\$ 238,968</b>
<b>Plan fiduciary net position - beginning</b>	<b>2,156,431</b>	<b>2,180,527</b>	<b>1,678,479</b>	<b>1,630,941</b>	<b>1,351,925</b>	<b>1,235,520</b>	<b>996,552</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 2,475,104</b>	<b>\$ 2,156,431</b>	<b>\$ 2,180,527</b>	<b>\$ 1,678,479</b>	<b>\$ 1,630,941</b>	<b>\$ 1,351,925</b>	<b>\$ 1,235,520</b>
<b>City's net OPEB liability - ending (a) - (b)</b>	<b>\$ 15,386,438</b>	<b>\$ 15,052,310</b>	<b>\$ 14,656,394</b>	<b>\$ 15,176,829</b>	<b>\$ 15,182,231</b>	<b>\$ 14,614,357</b>	<b>\$ 16,066,623</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>13.86%</b>	<b>12.53%</b>	<b>12.95%</b>	<b>9.96%</b>	<b>9.70%</b>	<b>8.47%</b>	<b>7.14%</b>
<b>Covered payroll</b>	<b>\$ 28,104,978</b>	<b>\$ 28,104,978</b>	<b>\$ 24,140,303</b>	<b>\$ 24,140,303</b>	<b>\$ 23,337,048</b>	<b>\$ 23,337,048</b>	<b>\$ 22,344,600</b>
<b>City's net OPEB liability as a percentage of covered payroll</b>	<b>54.75%</b>	<b>53.56%</b>	<b>60.71%</b>	<b>62.87%</b>	<b>65.06%</b>	<b>62.62%</b>	<b>71.90%</b>

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

Schedule of Employer Contributions - OPEB  
 Years Ended June 30, 2016 through June 30, 2023

Date	Actuarially Determined Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Employee Payroll
2023	\$ 1,104,983	\$ 1,324,386	\$ (219,403)	\$ 28,104,978	4.71%
2022	1,072,799	1,336,544	(263,745)	28,104,978	4.76%
2021	1,056,781	1,223,976	(167,195)	24,140,303	5.07%
2020	1,115,988	1,218,043	(102,055)	24,140,303	5.05%
2019	1,074,816	1,328,208	(253,392)	23,337,048	5.69%
2018	1,035,412	1,112,307	(76,895)	23,337,048	4.77%
2017	1,195,200	1,053,900	141,300	22,344,600	4.72%
2016	1,148,800	1,888,000	(739,200)	22,344,600	8.45%

**Notes to Schedule**

Valuation date: January 1, 2022

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll, closed
Amortization period	23 years
Asset valuation method	Market Value
Inflation	2.50%
Healthcare cost trend rates	5.50% gradually decreasing to an ultimate rate of 3.90% by 2073
Salary increases	Varies based on years of service
Investment rate of return	6.50%
Retirement age	Varies based on service
Mortality	RP-2014 mortality tables

This schedule is intended to show information for 10 years. While 2016 is the first year for this presentation, additional years will be included as they become available.

Schedule of Investment Returns  
Years Ended June 30, 2016 through June 30, 2023

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	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	7.61%	-9.88%	30.08%	3.06%	5.14%	9.58%	12.78%

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

Schedule of Changes in the Fredericksburg City School Board's Net OPEB Liability and Related Ratios  
 Health Insurance Credit (HIC) Plan  
 For the Measurement Date of June 30, 2022

	2022	2021	2020
<b>Total HIC OPEB Liability</b>			
Service cost	\$ 1,443	\$ 1,573	\$ -
Interest	5,671	4,956	-
Changes in benefit terms	-	-	73,419
Differences between expected and actual experience	(5,332)	-	-
Changes of assumptions	10,814	3,025	-
Benefit payments	(808)	-	-
<b>Net change in total HIC OPEB liability</b>	<b>\$ 11,788</b>	<b>\$ 9,554</b>	<b>\$ 73,419</b>
<b>Total HIC OPEB Liability - beginning</b>	<b>82,973</b>	<b>73,419</b>	<b>-</b>
<b>Total HIC OPEB Liability - ending (a)</b>	<b>\$ 94,761</b>	<b>\$ 82,973</b>	<b>\$ 73,419</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 7,588	\$ 7,101	\$ -
Net investment income	(145)	1,039	-
Benefit payments	(808)	-	-
Administrator charges	(31)	(32)	-
<b>Net change in plan fiduciary net position</b>	<b>\$ 6,604</b>	<b>\$ 8,108</b>	<b>\$ -</b>
<b>Plan fiduciary net position - beginning</b>	<b>8,108</b>	<b>-</b>	<b>-</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 14,712</b>	<b>\$ 8,108</b>	<b>\$ -</b>
<b>CCT/ABC's net HIC OPEB liability - ending (a) - (b)</b>	<b>\$ 80,049</b>	<b>\$ 74,865</b>	<b>\$ 73,419</b>
<b>Plan fiduciary net position as a percentage of the total HIC OPEB liability</b>	<b>15.53%</b>	<b>9.77%</b>	<b>0.00%</b>
<b>Covered payroll</b>	<b>\$ 1,614,535</b>	<b>\$ 1,510,953</b>	<b>\$ 1,533,662</b>
<b>CCT/ABC's net HIC OPEB liability as a percentage of covered payroll</b>	<b>4.96%</b>	<b>4.95%</b>	<b>4.79%</b>

Schedule is intended to show information for 10 years. Information prior to the 2020 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions - Fredericksburg City School Board  
 Health Insurance Credit (HIC) Plan  
 Years Ended June 30, 2020 through June 30, 2023

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2023	\$ 10,013	\$ 10,013	\$ -	\$ 2,130,322	0.47%
2022	7,588	7,588	-	1,614,535	0.47%
2021	7,101	7,101	-	1,510,953	0.47%
2020	-	-	-	1,533,662	0.00%

Schedule is intended to show information for 10 years. The locality started participating in the plan in 2020. However, additional years will be included as they become available.

Notes to Required Supplementary Information - Fredericksburg City School Board  
 Health Insurance Credit (HIC) Plan  
 For the Year Ended June 30, 2023

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**Non-Largest Ten Locality Employers - Hazardous Duty Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**APPENDIX B**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of \_\_\_\_\_, 2024 (the “Disclosure Agreement”) is executed and delivered by the City of Fredericksburg, Virginia (the “City”) of the Commonwealth of Virginia (the “Commonwealth”) in connection with the issuance by the City of its \$ \_\_\_\_\_ General Obligation Public Improvement Bonds, Series 2024A (the “Bonds”). The Bonds are being issued pursuant to the provisions of an ordinance adopted by the City Council of the City on October 8, 2024 (the “Ordinance”). The proceeds of the Bonds are being used to fund certain public capital improvement projects of the City and to pay issuance costs of the Bonds. The City hereby covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

**Section 2. Definitions.** In addition to definitions in the Ordinance which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Dissemination Agent**” shall mean, initially, U.S. Bank Trust Company, National Association, paying agent for the Bonds, acting as Dissemination Agent hereunder, or any successor Dissemination Agent, including without limitation the City, designated in writing by the City and which has filed with the City and the paying agent with respect to the Bonds a written acceptance of such designation.

“**EMMA**” shall mean the MSRBs Electronic Municipal Market Access system, the internet address of which is <http://emma.msrb.org/>, and any successor thereto.

“**Fiscal Year**” shall mean the twelve-month period, at the end of which the financial position of the City and results of its operations for such period are determined. Currently, the City’s Fiscal Year begins July 1 and continues through June 30 of the next year.

“**Holder**” shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Bond.

“**Participating Underwriters**” shall mean any original underwriter initially purchasing the Bonds from the City that is required to comply with the Rule in connection with the offering of the Bonds.

“**Rule**” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**Section 3. Provision of Annual Reports: Audited Financial Statements.**

(a) Not later than 10 months following the end of each Fiscal Year of the City, commencing with the Fiscal Year ending June 30, 2024, the City shall, or shall cause the Dissemination Agent (if different from the City) to, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the City shall be prepared on the basis of generally accepted accounting principles and will be audited by a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be submitted to EMMA when they become publicly available.

(c) If the City fails to provide an Annual Report by the date required in subsection (a) hereof, or to file its audited annual financial statements when available as described in (b), the City shall send an appropriate notice to the Municipal Securities Rulemaking Board via EMMA in substantially the form attached hereto as Exhibit A or in such form as may be provided by the MSRB as the applicable form for filing such notice via EMMA.

**Section 4. Content of Annual Reports.** Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting the Participating Underwriters in complying with the Rule:

(a) audited financial statements of the City, prepared in accordance with generally accepted accounting principles; and

(b) the financial information and operating data with respect to the City for each fiscal year of the type described in the City's Official Statement dated \_\_\_\_\_, 2024, relating to the Bonds in the tables in Section Four of the Official Statement under the subsection "Tax Data".

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City, which have been filed with each of the Municipal Securities Rulemaking Board or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

**Section 5. Event Notices.** The City will provide, or cause the Dissemination Agent (if different from the City) to provide, in a timely manner not in excess of 10 business days after the occurrence thereof, to the Municipal Securities Rulemaking Board via EMMA, notice of the occurrence of any of the following events (listed in subsection (b)(5)(i)(c) of the Rule) with respect to the Bonds to which the City has actual knowledge:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event with respect to the City;
- (13) Consummation of a merger, consolidation or acquisition involving the City or sale of all or substantially all of the assets of the City, other than in the ordinary course of business, entry into a definitive agreement to undertake such an action or termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee under the Indenture or the change of name of a trustee under the Indenture, if material;
- (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect holders of the Bonds, if material;
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties; and
- (17) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the City, any of which reflect financial difficulties.

The term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

The City does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the official statement for the Bonds, (ii) the only open issue is when Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the bondholders under the terms of the Indenture, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the Securities and Exchange Commission, even if the originally scheduled amounts may be reduced by prior optional redemption or Bond purchases.

**Section 6. Termination of Reporting Obligation.** The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds.

**Section 7. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may

discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

**Section 8. Amendment.** Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

**Section 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice described in Section 5 above, in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

**Section 10. Default.** Any person referred to in Section 11 (other than the City) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the City to file its Annual Report or to give notice as described in Section 5 hereinabove. In addition, the holders of not less than a majority in aggregate principal amount of Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

**Section 11. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters, and holders from time to time of the Bonds, and shall create no rights in any other person or entity.

**Section 12. EMMA.** All filings made pursuant to the Rule under this Disclosure Agreement shall be made solely by transmitting such filings to the Municipal Securities Rulemaking Board via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

**IN WITNESS WHEREOF**, the City has caused this Continuing Disclosure Agreement to be executed in its corporate name by its duly authorized officer, all as of the date first written above.

CITY OF FREDERICKSBURG, VIRGINIA

By: \_\_\_\_\_  
City Manager

Attachment:

Exhibit A - Notice of Failure to File Annual Report [Audited Annual Financial Statements]

**NOTICE OF FAILURE TO FILE ANNUAL REPORT  
[AUDITED ANNUAL FINANCIAL STATEMENTS]**

City of Fredericksburg, Virginia  
General Obligation Public Improvement Bonds, Series 2024A  
CUSIP NOS. 355856 \_\_\_ to \_\_\_

Dated Date: \_\_\_\_\_, 2024  
Issue Date: \_\_\_\_\_, 2024

**NOTICE IS HEREBY GIVEN** that the City of Fredericksburg, Virginia (the “City”) has not provided an Annual Report [Audited Annual Financial Statements] for the fiscal year ended \_\_\_\_\_ as required by the Continuing Disclosure Agreement dated as of \_\_\_\_\_, 2024 (the “Disclosure Agreement”) as executed and delivered by the City.

The City anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_.

**CITY OF FREDERICKSBURG, VIRGINIA**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**APPENDIX C**

**INFORMATION REGARDING THE  
DEPOSITORY TRUST COMPANY  
AND ITS BOOK-ENTRY SYSTEM**

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**INFORMATION REGARDING  
THE DEPOSITORY TRUST COMPANY  
AND ITS BOOK-ENTRY SYSTEM**

**The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of, premium, if any, and interest on the Bonds to The Depository Trust Company, New York, New York (“DTC”), its nominee, Participants or Beneficial Owners (each as hereinafter defined), confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information available on [www.dtcc.com](http://www.dtcc.com).**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

**The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.**

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**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

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\_\_\_\_\_, 2024

City of Fredericksburg, Virginia  
715 Princess Anne Street  
Fredericksburg, Virginia 22401

**City of Fredericksburg, Virginia**  
**\$ \_\_\_\_\_ General Obligation Public Improvement Bonds, Series 2024A**

Ladies and Gentlemen:

We have acted as bond counsel to the City of Fredericksburg, Virginia (the “City”) in connection with issuance by the City of its \$ \_\_\_\_\_ General Obligation Public Improvement Bonds, Series 2024A (the “Bonds”). We have examined applicable law and certified copies of such proceedings and other papers, including an ordinance adopted by the City Council of the City on October 8, 2024 (“Ordinance”) and the Public Finance Act of 1991 (Chapter 26, Title 15.2, Code of Virginia of 1950, as amended). Reference is made to the Bonds for their terms, including payment and redemption provisions.

As to questions of fact material to our opinion and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), we have relied upon certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The City is a political subdivision of the Commonwealth of Virginia (the “Commonwealth”) and has all necessary power and authority to enter into and perform its obligations under the Ordinance and the Bonds.
2. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth, including the Public Finance Act of 1991, as amended, and constitute valid and legally binding general obligations of the City, for the payment of which the City's full faith and credit have been irrevocably pledged. The City is authorized and required, unless other funds are lawfully available and appropriated for timely payment of the Bonds, to levy and collect annually on all locally taxable property in the City an ad valorem tax over and above all the taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay the principal of and interest on the Bonds when due.
3. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum

City of Fredericksburg, Virginia  
\_\_\_\_\_, 2024

Page 2

tax for individuals. Interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations. The opinion set forth above regarding the exclusion of interest is subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is exempt from income taxation by the Commonwealth.

The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors' rights generally, heretofore or hereafter enacted, and by equitable principles, whether considered at law or in equity.

Our services as bond counsel to the City have been limited to a review of the legal proceedings required for the authorization of the Bonds and to deliver the opinions set forth above. We express no opinion herein as to the financial resources of the City, its ability to provide for payment of the Bonds or the accuracy, adequacy or completeness of any information, including the City's Preliminary Official Statement dated October 15, 2024 and its Official Statement dated October \_\_\_\_\_, 2024 relating to the Bonds, that may have been relied upon by anyone in making the decision to purchase Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds or any other matter except as expressly set forth herein.

Our opinions set forth above are based upon statutes, regulations, rulings and court decisions in effect on the date hereof. We undertake no obligation to update, revise or supplement this letter to reflect any facts or circumstances that hereafter may come to our attention, or any changes in law that hereafter may occur or become effective.

Very truly yours,



**APPENDIX E**  
**NOTICE OF SALE**

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**NOTICE OF SALE**  
**\$31,680,000\***  
**CITY OF FREDERICKSBURG, VIRGINIA**  
**GENERAL OBLIGATION**  
**PUBLIC IMPROVEMENT BONDS**  
**SERIES 2024A**

Electronic Bids, via IPREO's BiDCOMP/Parity Competitive Bidding System ("BiDCOMP/Parity") only, for the purchase of all, and not less than all, of the \$31,680,000\* City of Fredericksburg, Virginia General Obligation Public Improvement Bonds Series 2024A (the "2024A Bonds"), will be received until 10:45 A.M., FREDERICKSBURG, VIRGINIA TIME, on Tuesday, October 22, 2024 (unless postponed as described herein), by the City of Fredericksburg, Virginia (the "City").

**Preliminary Official Statement**

*The City has authorized the preparation and distribution of a Preliminary Official Statement dated October 15, 2024 (the "Preliminary Official Statement") containing information relating to the 2024A Bonds. The Preliminary Official Statement and the information contained therein have been deemed final by the City as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions but is subject to change without notice and to completion or amendment in the final Official Statement. This Notice of Sale and the Preliminary Official Statement referred to above are available on the Internet at [finpressllc.com](http://finpressllc.com). Additional information concerning the 2024A Bonds may be obtained by contacting the City's Financial Advisor, PFM Financial Advisors LLC, 4350 North Fairfax Drive, Suite 590, Arlington, Virginia 22203, at (571) 527-5128.*

***The 2024A Bonds***

**Security; Authorization and Purpose**

The 2024A Bonds will be general obligations of the City for the payment of which the City's full faith and credit are irrevocably pledged. The City Council of the City (the "Council") is authorized and required by law, unless funds are lawfully available and appropriated for timely payment of the 2024A Bonds, to levy and collect, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, an ad valorem tax, over and above all other taxes authorized or limited by law and unlimited as to rate or amount, upon all property subject to taxation by the City sufficient to pay the principal of and premium, if any, and interest on the 2024A Bonds, which tax shall be in addition to all other taxes authorized to be levied in the City.

The 2024A Bonds will be issued pursuant to Article VII of the Constitution of the Commonwealth of Virginia, the Public Finance Act of 1991 (Chapter 26 of Title 15.2 of the Code of Virginia, 1950, as amended), and an ordinance adopted by the Council on October 8, 2024 (the "Bond Ordinance").

The proceeds of the 2024A Bonds will be used to fund certain public capital improvement projects of the City, and to pay the costs of issuing the 2024A Bonds.

**Details of 2024A Bonds; Book Entry Only**

The 2024A Bonds will be dated their date of issuance, which is expected to be November 6, 2024 (the "Dated Date"). Interest on the 2024A Bonds from the Dated Date will be calculated on a 30/360 basis and will be payable semiannually on April 1 and October 1, commencing April 1, 2025. The 2024A Bonds will be issued only as fully registered bonds in book entry form

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\* Preliminary, subject to change as described "Changes to Bid Date, Closing Date, Principal Amounts"

payable to a nominee of The Depository Trust Company, New York, New York (“DTC”), as securities depository for the 2024A Bonds. Reference is made to the Preliminary Official Statement relating to the 2024A Bonds for the applicable provisions relating to the transfer of beneficial ownership, manner of redemption, the responsibilities of DTC participants and the right of the City to discontinue the book entry only system.

### **Maturity Schedule**

Principal of the 2024A Bonds will be paid (subject to the right of prior redemption, if any, as hereinafter set forth) through serial maturities and/or term maturities with annual sinking fund redemptions on the following dates and in the following amounts:

<u>October 1</u>	<u>Preliminary Annual Principal Amount*</u>	<u>October 1</u>	<u>Preliminary Annual Principal Amounts*</u>
2025	\$875,000	2038	\$1,135,000
2026	930,000	2039	1,195,000
2027	980,000	2040	1,250,000
2028	1,030,000	2041	1,305,000
2029	1,080,000	2042	1,355,000
2030	1,140,000	2043	1,410,000
2031	1,195,000	2044	1,465,000
2032	1,250,000	2045	1,525,000
2033	1,325,000	2046	1,590,000
2034	1,390,000	2047	1,655,000
2035	975,000	2048	1,725,000
2036	1,030,000	2049	1,790,000
2037	1,080,000		

\*Preliminary, subject to change.

### **Serial and/or Term Bonds**

All of the 2024A Bonds will be serial bonds unless the successful bidder shall designate consecutive principal maturities to be combined into one or more term bonds. Any such term bond shall be subject to mandatory sinking fund redemption commencing on October 1 of the first year which has been combined to form such term bond and continuing on October 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for each such year set forth in the appropriate amortization schedule. 2024A Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the 2024A Bonds of the same maturity, as described in the Preliminary Official Statement relating to the 2024A Bonds.

### **Redemption Provisions**

The 2024A Bonds maturing on or before October 1, 2034, are not subject to redemption prior to maturity. The 2024A Bonds maturing on and after October 1, 2035, are subject to optional redemption by the City on or after October 1, 2034, from any money available for such purpose, in whole or in part (if in part, in multiples of \$5,000), at any time, upon payment of the principal amount of the 2024A Bonds to be redeemed, plus accrued interest to the redemption date.

The 2024A Bonds are also subject to mandatory sinking fund redemption (if term bonds are selected by the successful bidder as described above in “Serial and/or Term Bonds”).

## ***Changes to Bid Date, Closing Date, Principal Amounts***

### **Change of Bid Date and Closing Date**

The City reserves the right to postpone, from time to time, the date established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on [www.tm3.com](http://www.tm3.com) (“TM3”). Prospective bidders may request notification of any such changes in the date or time for the receipt of bids by so advising to PFM Financial Advisors at (571) 527-5128 by 12 NOON, FREDERICKSBURG, VIRGINIA TIME, on the day prior to the announced date for receipt of bids.

A postponement of the bid date will be announced via TM3 not later than one hour prior to the announced date and time for receipt of bids, and an alternative bid date and time will be announced via TM3 by 12 NOON, FREDERICKSBURG, VIRGINIA TIME, at least one business day prior to such alternative date for receipt of bids.

On any such alternative date and time for receipt of bids, the City will accept electronic bids for the purchase of the 2024A Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and time for receipt of bids and any other changes announced via TM3 when the date and time for receipt of bids are announced.

The City may change the scheduled delivery date for the 2024A Bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids. See “Delivery of the 2024A Bonds” below.

### **Changes to Preliminary Principal Amounts Before Bid Receipt**

The preliminary aggregate principal amount of the 2024A Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the “Preliminary Aggregate Principal Amount” and the “Preliminary Annual Principal Amounts,” respectively; collectively, the “Preliminary Amounts”) may be revised before the viewing of electronic bids for the purchase of the 2024A Bonds. Any such revisions (the “Revised Aggregate Principal Amount” and the “Revised Annual Principal Amounts,” respectively; collectively, the “Revised Amounts”) WILL BE ANNOUNCED ON TM3 NOT LATER THAN ONE HOUR PRIOR TO THE ANNOUNCED DATE AND TIME FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification of any revisions in Preliminary Amounts by so advising and furnishing, in writing, the name of the contact person and both their telephone and telecopier numbers or email address to PFM Financial Advisors LLC at (571) 527-5128 by 12 NOON, FREDERICKSBURG, VIRGINIA TIME, at least one day prior to the announced date for receipt of bids.

### **Adjustment of Principal Amount After Award**

The City reserves the right, after the award of the 2024A Bonds to the successful bidder, to increase or decrease, by up to ten percent (10%), the principal amount of the 2024A Bonds being offered hereby. Any such increase or decrease in the principal amount of particular maturities of the 2024A Bonds will be communicated to the successful bidder by 5:00 p.m., Fredericksburg, Virginia Time, on the date of the award. The dollar amount bid for the principal of the 2024A Bonds by the successful bidder will be adjusted, as necessary, to reflect any increase or decrease in the principal amount of the applicable maturities of the 2024A Bonds so adjusted, but the interest rates specified by the successful bidder for each maturity will not be altered. Such adjusted dollar amount bid will not change the successful bidder’s compensation per \$1,000 of par amount of the 2024A Bonds from that which would have resulted from the bid submitted. The successful bidder may not withdraw its bid as a result of any change made within the foregoing limits.

## ***Electronic Bidding and Bidding Procedures***

### **Bidding Procedures**

Bids must be submitted electronically for the purchase of the 2024A Bonds (all or none) via BiDCOMP/Parity. Bids must be communicated electronically to BiDCOMP/Parity not later than 10:45 A.M., FREDERICKSBURG, VIRGINIA TIME, on October 22, 2024 unless postponed as described herein (see “Change of Bid Date and Closing Date”). Once final bids are communicated electronically via BiDCOMP/Parity each bid will constitute an irrevocable offer to purchase the 2024A Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the City represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above.

*ALL MEMBERS OF ANY UNDERWRITING GROUP MUST BE LISTED AS PART OF THE BID.*

**Bid Specifications and Award of 2024A Bonds**

<b>INTEREST</b>		<b>PRICING</b>	
Coupon Multiples:	1/8 or 1/20 of 1%	Max. Aggregate Bid Price:	119.0%
Zero Coupons:	Not Allowed	Min. Aggregate Bid Price:	100.0%
Split Coupons:	Not Allowed	Max. Price per Maturity:	No Limit
		Min. Price per Maturity:	No Limit
<b>PRINCIPAL</b>			
Post-bid Principal Increases in Aggregate:	10.0%	Maximum Coupon:	5.0%
			10/1/2025-10/1/2034: No Limit
Post-bid Principal Reduction in Aggregate:	10.0%	Minimum Coupon:	10/1/2035-10/1/2049: 4.0%
Term Bonds:	Permitted	Maximum Coupon Differential:	No Limit
		Maximum True Interest Cost	5.0%

Unless all bids are rejected, the 2024A Bonds will be awarded to the bidder complying with the terms of this Notice of Sale and submitting a bid which provides the lowest “true” interest cost to the City for the 2024A Bonds. True interest cost shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Dated Date and to the bid price for the 2024A Bonds, such bid price excluding interest accrued to the date of settlement. If more than one bidder offers the same lowest true interest cost, the successful bidder will be selected by the City Manager by lot. The City reserves the right to reject any or all bids and to waive any irregularity or informality with respect to any bid.

As promptly as reasonably possible after the bids are received, the City will notify the bidder to whom the 2024A Bonds will be awarded, if and when such award is made. Such bidder, upon such notice, shall advise the City of the initial offering prices or yields to the public of each maturity of the 2024A Bonds. All bids will remain firm until 5:00 P.M. FREDERICKSBURG TIME.

**Registration to Bid**

All prospective bidders must be contracted customers of the BiDCOMP/Parity. By submitting a bid for the 2024A Bonds, a prospective bidder represents and warrants to the City that such bidder’s bid for the purchase of the 2024A Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the 2024A Bonds. By registering to bid for the 2024A Bonds, a prospective bidder is not obligated to submit a bid in connection with the sale.

If any provisions of this Notice of Sale shall conflict with information provided by BiDCOMP/Parity as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about IPREO and BiDCOMP/Parity, including customer contract information, qualification, registration, rules and any fee charged, may be obtained from BiDCOMP/Parity, (212) 849-5023, or [www.ipreo.com](http://www.ipreo.com).

## **Disclaimer**

Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the City nor BiDCOMP/Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the City nor BiDCOMP/Parity shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by BiDCOMP/Parity. The City is using BiDCOMP/Parity as a communication mechanism, and not as the City's agent, to conduct the electronic bidding for the bonds. The City is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" set forth herein. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and the City is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the 2024A Bonds, it should telephone BiDCOMP/Parity and notify the City's financial advisor, PFM Financial Advisors LLC at (703) 741-0175. After receipt of bids is closed, the City, through BiDCOMP/Parity will indicate the apparent successful bidder. Such message is a courtesy only for viewers, and does not constitute the award of the 2024A Bonds. Each bid will remain subject to review by the City to determine its true interest cost and compliance with the terms of this Notice of Sale and subject to award by the City.

## **Good Faith Deposit**

A good faith deposit (the "Deposit") by wire transfer to the City equal to \$316,800 will be required of the successful bidder. The award to the successful bidder is contingent upon receipt of the Deposit and the 2024A Bonds will not be awarded to such bidder until the City has confirmation of receipt of the Deposit.

The Deposit of the successful bidder will be deposited and credited to the purchase price and no interest will be allowed thereon. Proceeds of the Deposit will be retained by the City as liquidated damages in case the successful bidder fails to comply with the terms of its bid or this Notice of Sale. Wire instructions for the Deposit will be provided by the Financial Advisor.

### *Undertakings of the Successful Bidder*

## **Offering Information**

The successful bidder shall promptly advise the City in writing (via facsimile or other electronic transmission) of the initial public offering prices or yields to the public of each maturity of the 2024A Bonds (the "Expected Offering Prices"). The successful bidder must provide the Expected Offering Prices, as the City will not include in the Official Statement an "NRO" ("not reoffered") designation of any maturity of the 2024A Bonds. The successful bidder will be responsible to the City in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such offering. The successful bidder must by facsimile, electronic or other delivery within 24 hours after notification of the final amount of the 2024A Bonds, furnish the following information to the City to complete the Official Statement in final form, as described below:

- A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all 2024A Bonds are sold at the Expected Offering Prices).
- B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.
- C. Any other material information that the City determines is necessary to complete the Official Statement in final form.

## **Issue Price Certificate**

The successful bidder shall assist the City in establishing the issue price of the 2024A Bonds and shall execute and deliver to the City on or prior to the date of delivery of the 2024A Bonds an "issue price" or similar certificate setting forth the reasonably expected initial offering prices to the public or the sales price or prices of the 2024A Bonds, together with the supporting pricing wires or equivalent communications, substantially in the applicable form attached hereto as Exhibit A, with such modifications as may be appropriate or necessary, in the reasonable judgment of the successful bidder, the City and bond counsel to the City.

The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the 2024A Bonds) will apply to the initial sale of the 2024A Bonds (“competitive sale requirements”) because:

- i) the City has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- ii) all bidders shall have an equal opportunity to bid;
- iii) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- iv) the City anticipates awarding the sale of the 2024A Bonds to the bidder who submits a firm offer to purchase the 2024A Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

In the event that the competitive sale requirements are not satisfied, the City shall so advise the successful bidder. In such case, the City shall treat the first price at which 10% of a maturity of the 2024A Bonds (the “10% test”) is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis. The successful bidder shall advise the City if any maturity of the 2024A Bonds satisfies the 10% test as of the date and time of the award of the 2024A Bonds.

**Any bid submitted pursuant to this Notice of Sale shall be considered a firm bid for the purchase of the 2024A Bonds. By submitting a bid for the 2024A Bonds, a bidder represents and warrants to the City that the bidder has an established industry reputation for underwriting new issuances of municipal bonds and such bidder’s bid is submitted for and on behalf of such bidder by an officer or agent who is duly authorized to bind the bidder to a legal, valid and enforceable contract for the purchase of the 2024A Bonds. Once the bids are communicated electronically via BiDCOMP/Parity to the City, each bid will constitute an irrevocable offer to purchase the 2024A Bonds on the terms herein and therein provided.**

**The City will not require bidders to comply with the “hold-the-offering-price rule” set forth in Treasury Regulation Section 1.148-1(f)(2)(ii).**

**Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied.**

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the 2024A Bonds, the successful bidder agrees to promptly report to the City the prices at which the unsold 2024A Bonds of each maturity have been sold to the public. That reporting obligation shall continue, whether or not the date of delivery has occurred, until the 10% test has been satisfied for each maturity or until all 2024A Bonds of that maturity have been sold.

By submitting a bid and if the competitive sale requirements are not met, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the 2024A Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the public the unsold 2024A Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the 2024A Bonds of that maturity or all 2024A Bonds of that maturity have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the 2024A Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the 2024A Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the public the unsold 2024A Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the 2024A Bonds of that maturity or all 2024A Bonds of that maturity have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires.

Sales of any 2024A Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (i) “public” means any person other than an underwriter or a related party,
- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract (i.e. this Notice of Sale) with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2024A Bonds to the



public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the 2024A Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2024A Bonds to the public),

- (iii) a purchaser of any of the 2024A Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (a) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (b) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (c) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

“sale date” means the date that the 2024A Bonds are awarded by the City to the successful bidder. See “Bid Specifications and Award of 2024A Bonds” above.

### *Closing; Miscellaneous*

#### **Delivery of the 2024A Bonds**

The 2024A Bonds are expected to be delivered on or about November 6, 2024 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN ONE HOUR PRIOR TO THE TIME FOR RECEIPT OF BIDS), through the facilities of DTC against payment of the purchase price therefor (less the amount of the Deposit) in Federal Funds.

There will also be furnished the usual closing papers, including an opinion of the City Attorney and a certificate signed by one or more of the officials who signed the 2024A Bonds stating that no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2024A Bonds or in any manner questioning the proceedings and authority under which the 2024A Bonds are issued, or affecting the validity of the 2024A Bonds.

#### **Legal Opinion of Bond Counsel**

The approving opinion of Kutak Rock LLP, Richmond, Virginia, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished without cost to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income of interest on the 2024A Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion.

#### **Federal and State Securities Laws**

No action has been taken to register the 2024A Bonds under the federal and Commonwealth of Virginia securities laws.

#### **CUSIP Numbers**

CUSIP numbers for the 2024A Bonds will be applied for by the City’s Financial Advisor at the time of publication of the notice of sale, but the City will assume no obligation for the assignment or printing of such numbers on the 2024A Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any of the 2024A Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2024A Bonds. The successful bidder will be obligated to pay the fee of the CUSIP Bureau for assigning the CUSIP numbers to the 2024A Bonds.

#### **Official Statement**

The City, at its expense, will furnish up to 5 copies of the final official Statement for 2024A Bonds to the successful bidder within seven (7) business days of the award of the 2024A Bonds, and will include therein such additional information concerning the offering of the 2024A Bonds as the successful bidder may reasonably request; provided that the successful bidder cooperates in a timely manner in providing the information required to complete the final Official Statement. As stated herein, the City will not include in the Official Statement a “NRO” (not reoffered”) designation with respect to any maturity of the 2024A Bonds.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board (“MSRB”), including an obligation, if any, to update the final Official Statement. The City expects the successful bidder to deliver copies of such Official Statement in final form (the “Final Official Statement”) to persons to whom such bidder initially sells

the 2024A Bonds and the Municipal Securities Rulemaking Board ("MSRB") via the MSRB's Electronic Municipal Market Access System ("EMMA") as required by MSRB rules and to otherwise comply with the rules of the MSRB in connection with the award and sale of the 2024A Bonds. The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to the MSRB via EMMA, to acknowledge that the City expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the 2024A Bonds and to certify that the 2024A Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal. The successful bidder shall notify the City as soon as practicable of (1) the date which is the end of the underwriting period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with the MSRB or its designee.

### **Continuing Disclosure**

To assist the successful bidder in complying with the Rule 15c2-12, the City has covenanted in the Bond Ordinance, and will further agree pursuant to a separate continuing disclosure undertaking, to provide certain annual financial information and operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement for the 2024A Bonds and will also be set forth in the final Official Statement for the 2024A Bonds (See Appendix C of the Preliminary Official Statement).

### **Additional Information**

For further information relating to the 2024A Bonds, reference is made to the Preliminary Official Statement, prepared for and authorized by the City. Additional information concerning the 2024A Bonds may be obtained from the City's financial advisor, PFM Financial Advisors LLC, (571) 527-5128.

**Dated: October 15, 2024**

**City of Fredericksburg, Virginia**  
By: Timothy J. Baroody, City Manager

**Form of Issue Price Certificates**

§ \_\_\_\_\_  
**CITY OF FREDERICKSBURG, VIRGINIA**  
**GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS**  
**SERIES 2024A**

**ISSUE PRICE CERTIFICATE**

*[Competitive Safe Harbor Met]*

The undersigned, on behalf of \_\_\_\_\_ (the "Initial Purchaser"), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "2024A Bonds").

**1. Reasonably Expected Initial Offering Price.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the 2024A Bonds to the Public by the Initial Purchaser are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the 2024A Bonds used by the Initial Purchaser in formulating its bid to purchase the, 2024A Bonds. Attached as Schedule B is a true and correct copy of the bid provided by the Initial Purchaser to purchase the 2024A Bonds.

(b) The Initial Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Initial Purchaser constituted a firm offer to purchase the 2024A Bonds.

**2. Defined Terms.**

(a) "Issuer" means the City of Fredericksburg.

(b) "Maturity" means 2024A Bonds with the same credit and payment terms. 2024A Bonds with different maturity dates, or 2024A Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(d) "Sale Date" means the date that the 2024A Bonds are awarded by the Issuer to the successful bidder. The Sale Date of the 2024A Bonds is October 22, 2024.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2024A Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the 2024A Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2024A Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Initial Purchaser's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as

amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Certificate as to Arbitrage and Other Tax Matters and with respect to compliance with the federal income tax rules affecting the 2024A Bonds, and by Kutak Rock LLP in connection with rendering its opinion that the interest on the 2024A Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the City of Fredericksburg time to time relating to the Bonds.

[INITIAL PURCHASER]

By: \_\_\_\_\_  
Name: \_\_\_\_\_

Dated: [ISSUE DATE]

*[Alternate 2 - Competitive Sale Requirements Not Met – General Rule to Apply]*

The undersigned, on behalf of \_\_\_\_\_ (the "Initial Purchaser") [and other Underwriters, as defined below], hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "2024A Bonds").

1. Sale of the 2024A Bonds. As of the date of this certificate, for each Maturity of the 2024A Bonds, the first price at which at least 10% of such Maturity of the 2024A Bonds was sold to the Public is the respective price listed in Schedule A. Each maturity of the 2024A Bonds of which at least 10% of such maturity has not yet been sold to the public is also identified in Schedule A.

**2. Defined Terms.**

(a) "Issuer" means the City of Fredericksburg.

(b) "Maturity" means 2024A Bonds with the same credit and payment terms. 2024A Bonds with different maturity dates, or 2024A Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(d) "Sale Date" means the date that the 2024A Bonds are awarded by the Issuer to the successful bidder. The Sale Date of the 2024A Bonds is October[ 22], 2024.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2024A Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the 2024A Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2024A Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Initial Purchaser's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Certificate as to Arbitrage and Other Tax Matters and with respect to compliance with the federal income tax rules affecting the 2024A Bonds, and by Kutak Rock LLP in connection with rendering its opinion that the interest on the 2024A Bonds is excluded from gross income for federal income tax purposes, the

preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the Issuer from time to time relating to the 2024A Bonds.

[INITIAL PURCHASER]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Dated: [ISSUE DATE]

[SCHEDULE A]

[EXPECTED OFFERING PRICES – COMPETITIVE SAFE HARBOR MET]

[SCHEDULE A]

[SALE PRICES OF THE GENERAL RULE MATURITIES]

*(To Be Attached)*

**SCHEDULE B**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

*(To Be Attached)*

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